BANKINSURANCE.com NEWS

OCTOBER 2012

VOLUME XIII

ISSUE 10

Michael White Associates is pleased to distribute BankInsurance.com News, a monthly publication that distills the most important news stories in the bank insurance and investment marketplace. Visit BankInsurance.com regularly for timely industry news and analysis, as well as up-to-date information about MWA consulting products and services. No other site offers as much information, knowledge and understanding of the bank insurance and investment market as www.BankInsurance.com.

Unbanked, Underbanked and Underinsured

UNBANKED & UNDERBANKED U.S. HOUSEHOLDS GROW TO 34 MILLION

Over a quarter (28.3%) of U.S. households are either unbanked or underbanked, according to the *2011* National Survey of Unbanked and Underbanked Households conducted by the U.S. Census Bureau on behalf of the Federal Deposit Insurance Corporation. Among this group, 8.2%, or 10 million households including 17 million adults, are unbanked, up nearly 9% from three years ago. The other 20.1%, or 24 million households with 51 million adults, are underbanked, with most having at best a checking account. In line with these statistics, 25% of U.S. households in the past year have used at least one alternative financial service, such as payday loans or non-bank check cashing, and almost 10% have used two or more of these services.

With a growing unbanked and underbanked population, including FDIC Acting Chairman Martin Gruenberg said, “Insured financial institutions have an important chance to grow their customer base … bringing unbanked and underbanked individuals into the mainstream.” Additionally, Gruenberg said, at an FDIC-insured bank, these households can “conduct basic financial transactions, build wealth, save for emergency and long-term security needs and access credit on fair and affordable terms.”

U.S. FAMILIES PERILOUSLY UNDERINSURED

According to a recent Swiss Re study, in the past decade, the protection gap (the difference between the resources needed and the resources available to maintain dependents' living standards after the death of the primary breadwinner) has risen 10% to $20 trillion (135% of GDP). On average, the study said, U.S. families whose primary earner is under age 55 were $377,900 short of the resources they would need to maintain their dependents’ living standards should that primary earner die.

Swiss Re describes this protection gap as "a worrisome trend for individuals and society" and a "unique value proposition" for life insurers. To close the gap, Swiss Re Life and Health North America CEO Neil Spreckling said life insurers need to "educate people on the benefits and affordability of life insurance" (actually 0.4% of household income), "simplify the underwriting process, align distribution methods to changing consumer preferences and abandon industry jargon."
Click here to read Swiss Re's publication, The Mortality Protection Gap in the U.S.

NAIFA CEO TRUMPETS ROLE OF LIFE INSURANCE IN U.S. ECONOMY

National Association of Insurance and Financial Advisors (NAIFA) CEO Robert Miller is urging all insurance and financial professionals to trumpet the important role life insurance plays in the U.S. economy. At its very basic level, Miller told attendees at NAIFA's annual conference in Las Vegas last week, "Life insurance products create 20% of all long-term savings in the United States and pay out $1.5 billion per day of benefit," *Insurancenewsnet.com* reports.

MICHAEL WHITE-PRUDENTIAL REPORT BANK INSURANCE BROKERAGE INCOME SLIPS FROM RECORD HIGH

Despite attaining their second highest aggregate first-quarter results, banking companies reported first-quarter insurance brokerage fee income of $1.81 billion was down 10.7% from the current record of $2.03 billion set in first quarter 2011, according to the *Michael White - Prudential Bank Insurance Fee Income Report*. First quarter insurance brokerage fee income was little affected by the presence of new reporters in the form of thrift holding companies (THCs) and new bank holding company (BHC) Raymond James Financial, which contributed, respectively, $49.5 million and $8.4 million. Thus far in 2012, 56.7% of large top-tier holding companies engaged in insurance brokerage activities.

Compiled by Michael White Associates (MWA) since 2001 and sponsored by The Prudential Insurance Company of America's Individual Life Insurance business, a proud member of the American Bankers Insurance Association (ABIA), the report measures and benchmarks the banking industry's performance in generating insurance brokerage and underwriting fee income. Results are based on data from all 7,307 commercial banks, FDIC-supervised savings banks and savings associations (thrifts), and 1,074 large top-tier BHCs and THCs operating on March 31, 2012. Thrifts and THCs began reporting annuity fee income for the first time in first quarter 2012. Several THCs and a BHC that are historically and traditionally insurance underwriting operations have been excluded from the report.

"As we saw in 2011, we are seeing real progress in first quarter 2012 in the number of holding companies that expanded their insurance revenues. We examined 224 holding companies in first quarter that are on track to earn $250,000 in annualized insurance brokerage income. At quarter's end, 145 of these holding companies showed positive growth in their insurance brokerage income, up 34.3% from 108 holding companies with positive growth at the end of first quarter 2011. Sixty-five percent (64.7%) of these holding companies registered increases in their first quarter 2012 insurance brokerage income versus 47% in first quarter 2011," said Michael White, President of MWA. "The number of big winners, i.e., those holding companies with double-digit increases in insurance brokerage compared to last year, rose by 25.3% from 75 at the end of first quarter 2011 to 94 this year so far. These changes signal meaningful improvement among HC-owned insurance agencies."

Excluding traditional life-health insurers and property-casualty insurers, Citigroup Inc. (NY) topped the leader board in first quarter 2012 with insurance brokerage earnings of $509.0 million. Wells Fargo & Company (CA) ranked second nationally with $453.0 million in insurance brokerage fee income. BB&T Corporation (NC), which owns more agencies than any other holding company, ranked third with $244.1 million in insurance brokerage revenue in first quarter 2012.

Holding companies over $10 billion in assets continued to have the highest participation (80.7%) in insurance brokerage activities. These holding companies produced $2.32 billion in insurance fee income in first quarter 2012, 8.9% LESS than the $2.54 billion

TOP 12 BANK HOLDING COMPANIES IN INSURANCE BROKERAGE FEE INCOME YEAR-END DECEMBER 31, 2011 - NATIONALLY

RANK	INSURANCE BROKERAGE FEE INCOME 2011	2010	% CHANGE 2010 - 2011	BANK HOLDING COMPANY		ASSETS	% OF NONINT. INCOME
(ALL DOLLAR AMOUNTS IN THOUSANDS)							
1	$509,000	$552,000	-7.79%	Citigroup Inc.	NY	$1,944,058,000	7.41%
2	$453,000	$455,000	-0.44%	Wells Fargo & Company	CA	$1,333,693,000	4.29%
3	$244,085	$222,356	9.77%	BB&T Corporation	NC	$174,749,856	29.76%
4	$49,000	$54,000	-9.26%	American Express Company	NY	$150,369,000	0.84%
5	$33,000	$36,000	-8.33%	The Goldman Sachs Group	NY	$950,297,000	0.37%
6	$32,267	$36,173	-10.80%	Discover Financial Services	IL	$71,208,923	7.26%
7	$28,218	$29,033	-2.81%	Regions Financial Corp.	AL	$128,281,787	5.55%
8	$25,000	$17,000	47.06%	JPMorgan Chase & Co.	NY	$2,318,722,000	0.17%
9	$23,269	$22,660	2.69%	BancorpSouth, Inc.	MS	$13,313,732	35.51%
10	$22,000	$25,000	-12.00%	Ally Financial Inc.	MI	$186,350,000	1.42%
11	$20,000	$84,000	-76.19%	Morgan Stanley	NY	$781,030,000	0.29%
12	$19,419	N/A	N/A	First Command Financial Svcs.	TX	$834,673	38.70%

SOURCE: Michael White-Prudential Bank Insurance Fee Income Report
Prudential is a proud Platinum member of the American Bankers Insurance Association (ABIA)

they produced in first quarter 2011. These large holding companies accounted for 87.1% of all HC insurance brokerage fee income earned in first quarter 2012.

Bank insurance income continues to be a useful addition to the income statement. "Next to banking, insurance is the most common financial service," said Joan H. Cleveland, senior vice president, Business Development with Prudential's Individual Life Insurance business. "Offering life insurance products can help banks expand the relationship they have with customers and strengthen their retention efforts. With life insurance applications up 3% in the first six months of 2012, Internet-based simplified issue products offer an easy way to help increase bank revenue."

Among holding companies with between $1 billion and $10 billion in assets, leaders in insurance brokerage income in first quarter 2012 included Eastern Bank Corporation (MA), Stifel Financial Corp. (M0), Old National Bancorp (IN), Johnson Financial Group, Inc. (WI), and Trustmark Corporation (MS). holding companies of this size boosted insurance brokerage income to $173.9 million in first quarter 2012, up 6.4% from first quarter 2011.

Among holding companies with assets between $500 million and $1 billion, leaders were First Command Financial Services, Inc. (TX), Two Rivers Financial Group (IA), Oneida Financial Corp. (NY), 473 Broadway Holding Corporation (NY), and Texas Independent Bancshares (TX). Holding companies of this size registered a 76.3% increase in insurance brokerage income to $60.8 million, up from $34.5 million in first quarter 2011. More than 90% of the increase, however, was due to the influx of newly reporting THCs. Without the thrifts, the holding companies would have registered an approximately 6.5% increase in first quarter 2012 insurance brokerage fee income.

The smallest community banks, those with assets less than $500 million, were used as "proxies" for the smallest holding companies, which are not required to report insurance brokerage income. Leaders among bank proxies for small holding companies were Soy Capital Bank and Trust Company (IL), Industry State Bank (TX), Hoosac Bank (MA), First State Bank (IA), and Midwest Heritage Bank, FSB (IA). These small banks, representing small holding companies, also registered an increase in insurance brokerage income of 6.7%, from $38.2 million in first quarter 2011 to $40.8 million in first quarter 2012.

Among the top 50 holding companies nationally in insurance brokerage concentration (i.e., insurance brokerage income as a percent of noninterest income), the median Insurance Brokerage Concentration Ratio was 38.4%. Among the top 50 small banks in insurance brokerage concentration that are serving as proxies for small holding companies, the median Insurance Brokerage Concentration Ratio was 68.7% of noninterest income.

Among the top 50 HC leaders in insurance brokerage productivity (i.e., insurance brokerage income per HC employee), the median Insurance Brokerage Productivity Ratio was $5,109 per employee (or an annualized Productivity Ratio of $20,434). Among the top 50 small banks in insurance brokerage productivity, the median Insurance Brokerage Productivity Ratio was $5,682 per employee (or an annualized Productivity Ratio of $22,728).

For more about the *Michael White - Prudential Bank Insurance Fee Income Report*, click here.

INDIVIDUAL INDEXED UNIVERSAL LIFE PREMIUMS CLIMB 37%

U.S. individual life insurance new annualized premium rose 4% in the second quarter compared to second quarter 2011, while the number of policies sold remained flat, according to Windsor, CT-based LIMRA. A 37% climb in indexed universal life premium drove the overall premium increase, followed by 9% growth in whole life premium, while term life premium slid 3%.

New annualized universal life premium increased 6%, as the number of universal life policies sold rose 1%. Again, indexed universal life premium (which accounted for 25% of universal life premium) drove the overall premium increase, countering an 8% drop in lifetime guarantee universal life premium (which accounted for 35% of universal life premium) and a 6% decline in variable universal life premium.

Whole life products showed the greatest growth in individual life insurance policies sold in the second quarter (+3%) followed by universal life policies (+1%). In contrast, the number of term life policies sold declined 3% compared to second quarter 2011, LIMRA found.

SECOND QUARTER INDEXED ANNUITY SALES UP 6%

U.S. indexed annuity sales increased 6% in the second quarter to $8.7 billion, up from $8.2 billion in second quarter 2011, according to *AnnuitySpecs.com's Indexed Sales and Market Report*. Allianz Life remained the top indexed annuity provider with a 16% market share, followed, respectively, by American Equity, Security Benefit Life and Great American.

Guaranteed lifetime withdrawal benefit indexed annuities comprised 53% of total indexed annuity sales in the second quarter, but Security Benefit Life's Secure Income Annuity ranked as the number one indexed annuity sold, Pleasant Hill, IA-based AnnuitySpecs.com found.

U.S. EMPLOYERS PREPARE FOR 7% HIKE IN HEALTH INSURANCE COSTS

U.S. employers expect their health insurance costs to grow 7% in 2013, according to a recent survey conducted by Washington, DC-based National Business Group in Health. To cope with climbing health insurance costs, 60% of employers plan to increase the percentage of premium paid by employees; 40% plan to increase in network deductibles; 33% plan to increase out-of-network deductibles, and 32% intend to increase out-of-pocket maximums.

Commenting on the climbing expenses tied to mandates in U.S. health insurance law, National Business Group on Health President and CEO Helen Darling said, "The cost increases … are simply not sustainable, especially when our nation's economy and workers' wages are virtually flat and everybody is struggling." Darling advised employers "to stay on top of the ever changing regulatory environment and adapt the design of their health plans as necessary."

U.S. COMMERCIAL P&C RATES UP

U.S. commercial property and casualty rates in July were up 4% compared to July 2011, led by a 6% increase in commercial property rates and followed closely by a 5% rise in business owner policy (BOP) and commercial auto insurance rates, according to Dallas, TX-based MarketScout.

General liability, umbrella excess and workers compensation rates mirrored the average 4% rate increase, followed by directors and officers (D&O) liability, employment practices liability (EPLI) and business interruption insurance (+3%), inland marine (+2%) and professional liability, fiduciary, surety and crime insurance rates (+1%).

Rate by account size also rose across the board, with small accounts (up to $25,000) up 5%, median accounts ($25,001-$250,000) up 4%, large accounts ($250,001-$1,000,000) up 3% and jumbo accounts over $1 million up 2%.

All industry classes received rate increases, led by the transportation, habitational and contracting industries (+5%) and followed by the manufacturing, service and energy industries (+4%) and public entities (+3%), MarketScout found based on an industry survey conducted by the National Alliance for Insurance Education and Research.

CATALINA HOLDINGS TO ACQUIRE HSBC RUN-OFF BUSINESSES

Hamilton, Bermuda-based Catalina Holdings has agreed to acquire the run-off businesses of HSBC Reinsurance Ltd. and HSBC Insurance (Ireland) Ltd. from London, England-based HSBC Holdings plc. Commenting on the acquisition, Catalina Holdings CEO Christ Fagan said, "We continue to see an increase in transaction activity in the run-off market, and we expect to build our portfolio further over the course of 2012." The to-be-acquired $273 million-asset businesses predominantly wrote creditor, property, travel and auto insurance and will be renamed when the deal closes, pending Central Bank of Ireland regulatory approval.

GROWING INSURANCE & FIDUCIARY REVENUE DOMINATE 54.5% OF ARROW'S NONINTEREST INCOME

Glens Falls, NY-based, $1.97 billion-asset Arrow Financial reported the August 2011 acquisition of the McPhillips Insurance agencies helped drive second quarter insurance brokerage earnings up 15.9% to $2.11 million from $1.82 million in second quarter 2011, enough to top all other sources of noninterest income. Additionally, income from fiduciary activities rose 4.9% to $1.60 million, up from $1.53 million, as assets under trust administration and investment management ticked up 0.3% to $1.02 billion. Insurance brokerage and fiduciary income comprised, respectively, 31.0% and 23.5% of noninterest income, which increased 9.3% to $6.81 million, up from $6.23 million in second quarter 2011, driven by insurance brokerage, fiduciary and loan sale earnings.

Net interest income, in contrast, slipped 2.3% to $14.25 million, down from $14.58 million in second quarter 2011, reflecting a $2.02 million drop in interest income, which was not compensated for by a $1.70 million cut in interest expense. Net interest income after a $70,000 increase in loan loss provisions to $240,000, slid 2.8% to $14.01 million, down from $14.41 million in second quarter 2011. Net income, impacted by decreased net interest income, declined 4.4% to $5.59 million from $5.85 million in second quarter 2011. Arrow Financial Chairman, President and CEO Thomas Hoy touted the company's "increase in our noninterest income for the second quarter, reflecting primarily growth in insurance commissions." He added, however, "We, like all banks, face challenges, particularly the threat to earnings posed by the Federal Reserve's determination to maintain interest rates at historically low levels."

In 2011, Arrow Financial reported $7.4 million in insurance brokerage fee income, which comprised 31.9% of the company's noninterest income and 9.1% of its net operating revenue. The company ranked 20th in insurance brokerage earnings among banks with assets between $1 billion and $10 billion, according to the *Michael White - Prudential Bank Insurance Fee Income Report*.

RISING INSURANCE INCOME ACCOUNTS FOR 54% OF EVANS' NONINTEREST EARNINGS

Hamburg, NY-based, $778 million-asset Evans Bancorp reported insurance brokerage fee income in the second quarter continued to dominate noninterest earnings, rising 2.5% to $1.64 million, up from $1.60 million in second quarter 2011. Additionally, income from bank-owned life insurance (BOLI) climbed 21.8% to $134,000, up from $110,000. Insurance brokerage and BOLI income comprised, respectively, 53.9% and 4.4% of noninterest earnings, which rose 3.9% to $3.04 million, up from $2.93 million in second quarter 2011, representing 30.6% of total second quarter revenue.

Net interest income on a 3.85% net interest margin increased 9.4% to $6.88 million, up from $6.29 million in second quarter 2011, benefiting from increased interest income and decreased interest expense. Net interest income after a $708,000 drop in loan loss provisions to $301,000, grew 24.6% to $6.58 million, up from $5.28 million, bolstering net income, which surged 54% to $1.50 million, up from $972,000 in second quarter 2011. Evans Bancorp President and CEO David Nasca pointed to the success of the company's diversified community – oriented business model and said, "Retail and business clients in Western New York have rediscovered the value of a local, solutions-based financial institution whose products, services and lending capacity can meet their financial needs."

In 2011, Evans Bancorp earned $6.9 million in insurance brokerage fee income, which comprised 55.6% of its noninterest income and 18.0% of its net operating revenue. The company ranked 4th in insurance brokerage earnings among BHCs with assets between $500 million and $1 billion, according to the *Michael White - Prudential Bank Insurance Fee Income Report*.

GROWING INSURANCE & CONSULTING FEE INCOME DRIVE RECORD EARNINGS AT ONEIDA FINANCIAL

Oneida, NY-based, $676 million-asset Oneida Financial reported insurance brokerage and benefits consulting fee income in the second quarter grew 6.7% to $5.42 million, up from $5.08 million in second quarter 2011 and dominated 82.9% of noninterest earnings, driving that revenue up 3.6% to $6.54 million from $6.31 million in second quarter 2011, despite a decline in deposit fee income.

Net interest income on a 3.32% net interest margin slipped 1.8% to $4.92 million, down from $5.01 million in second quarter 2011, reflecting a $294,000 decline in interest income, which could not be covered by the $201,000 cut in interest expense. Net interest income after a $400,000 drop in loan loss provisions to $150,000, however, rose 7.0% to $4.77 million, up from $4.46 million. Net income increased 11.8% to a record $1.90 million, up from $1.70 million in second quarter 2011, "primarily the result of an increase in noninterest income," the company said. Oneida Financial President and CEO Michael Kallet said, "The success of our insurance and financial services subsidiaries continues to position Oneida Financial as a diversified banking and financial services company. The result is a strong and vital financial institution fully prepared to meet the economic challenges of the future."

In 2011, Oneida Savings Bank earned $11.6 million in insurance brokerage fee income, which comprised 47.3% of its noninterest income and 26.2% of its net operating revenue. The company ranked 1st in insurance brokerage earnings among banks with assets between $500 million and $1 billion, according to the *Michael White - Prudential Bank Insurance Fee Income Report*.

CLIMBING TRUST & INVESTMENT MANAGEMENT EARNINGS COMPRISE 39% OF SALISBURY'S NONINTEREST INCOME

Lakeville, CT-based, $600 million-asset Salisbury Bancorp reported trust and investment management (TIM) fee income in second quarter 2012 climbed 23.3% to $735,000, up from $596,000 in second quarter 2011, and comprised 38.9% of noninterest income, which grew 53.7% to $1.89 million, up from $1.23 million in second quarter 2011, when fees on deposit accounts were higher, but gains on mortgage loan sales were lower.

Net interest income on a 3.53% net interest margin ticked up 1.5% to $4.69 million from $4.62 million in second quarter 2011, driven by a $323,000 cut in interest expense, which more than made up for a $234,000 decline in interest revenue. Net interest income, after a $270,000 drop in loan loss provisions to $180,000, rose 5.6% to $4.51 million, up from $4.27 million. Net income available to common shareholders grew 39.7% to $1.07 million, up from $766,000 in second quarter 2011. Salisbury Bancorp President and CEO Richard Cantele said, "We continue to consider our Trust and Wealth Advisory business to be an area of expertise which distinguishes Salisbury from its competition and we look to the continued growth of this business as a future source of noninterest revenue to enhance and diversify our revenue stream."

In 2011, Salisbury Bancorp reported $2.5 million in fiduciary income, which comprised 47.0% of the company's noninterest income and 10.7% of its net operating revenue. The company ranked 23rd in fiduciary or trust earnings among bank holding companies with assets between $500 million and $1 billion, according to the *Michael White - IPI Bank Wealth Management Fee Income Report*.

RISING INSURANCE EARNINGS CONTRAST WITH DECLINING DEPOSIT FEES AT SOUTHWEST GEORGIA

Moultrie, GA-based, $315.5 million-asset Southwest Georgia Financial reported insurance brokerage fee income in the second quarter of 2012 rose 5.8% to $328,000, up from $310,000 in second quarter 2011, and income from retail securities brokerage services ticked up 1.0% to $106,000 from $105,000, while income from trust services declined 7.3% to $51,000, down from $55,000. Insurance brokerage and wealth management (combined securities and trust) earnings comprised, respectively, 20.2% and 9.7% of noninterest earnings, which rose 12.5% to $1.62 million, up from $1.44 million in second quarter 2011, driven by increased insurance revenue and net gains on securities sales, which more than made up for decreased deposit fees and mortgage sales.

Net interest income on a 4.24% net interest margin in second quarter 2012 rose 1.4% to $2.90 million, up from $2.86 million in second quarter 2011, driven by an almost $100,000 cut in interest expense. Net interest income, after a $45,000 decline in loan loss provisions to $105,000, rose 3.0% to $2.79 million, up from $2.71 million. Net income, after an $850,000 contribution to the company's frozen pension plan, dropped 48.4% to $305,000, down from $591,000 in second quarter 2011. Southwest Georgia Financial President and CEO DeWitt Drew warned, "The discount rate used in funding calculations [for the company's pension plan] continues to drop dramatically, causing large increases in future plan liabilities." He said, however, "We remain steadfast in our commitment to increasing our presence in growing communities like Valdosta, which is central to our growth and diversification strategy."

In 2011, Southwest Georgia Bank earned $1.3 million and $538,000, respectively, in insurance brokerage and wealth management income, which comprised, respectively, 26.6% and 11.2% of its noninterest income. The company ranked 13th in insurance brokerage earnings and 62nd in wealth management income among banks with assets between $300 million and $500 million, according to the *Michael White - Prudential Bank Insurance Fee Income Report* and the *Michael White - IPI Bank Wealth Management Fee Income Report*.

INVESTMENT BROKERAGE FEES CLIMB 30% AT STURGIS BANCORP

Sturgis, MI-based, $312 million-asset Sturgis Bancorp reported investment brokerage fee income in second quarter 2012 climbed 29.9% to $417,000, up from $321,000 in second quarter 2011, and income from bank-owned life insurance (BOLI) ticked up 1.4% to $70,000 from $69,000, while trust fee earnings fell 15.8% to $80,000, down from $95,000. Investment brokerage, BOLI and trust income comprised, respectively, 35.3%, 5.9% and 6.8% of noninterest earnings, which climbed 22.9% to $1.18 million, up from $960,000 in second quarter 2011, driven by growth in investment brokerage and mortgage banking income, which made up for a drop in deposit fees.

Net interest income on a 3.55% net interest margin declined 0.8% $2.39 million, down from $2.41 million in second quarter 2011, despite a $297,000 cut in interest expense. Net interest income, after an $11,000 recovery of loan loss provisions compared to a $974,000 set aside of those provisions in 2011, surged 66.7% to $2.40 million, up from $1.44 million. Net income, after a $698,000 cut in noninterest expense, reached $502,000 and compared with a net loss of $734,000 in second quarter 2011. Sturgis President and CEO Eric Eishen said, "Interest income continues to be suppressed by sustained loan interest rates and poor loan demand." He added, "Bank management continues to focus on building our franchise … [and] controlling expenses as evidenced in our performance."

In 2011, Sturgis Bancorp earned $1.2 million in investment program income, which comprised 30.6% of its noninterest income and 8.4% of its net operating revenue. The company ranked 4th in investment program income among BHCs with assets between $300 million and $500 million, according to the *Michael White - Securities America Report: Community Bank Investment Programs*.

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U.S. BANKS REPORT 21% CLIMB IN SECOND QUARTER NET INCOME AS NET INTEREST INCOME SLIPS

U.S. commercial banks and savings institutions (banks) insured by the Federal Deposit Insurance Corporation (FDIC) reported aggregate net income in the second quarter climbed 21.1% to $34.5 billion, up from $28.5 billion in second quarter 2011. A 26% drop in loan loss provisions to $14.2 billion, a 24% cut in interest expense to $17.1 billion; a 3% rise in noninterest income to $59.8 billion and a 208% spike in securities gains to $2.6 billion drove the increased earnings, as interest income on an average 3.49% net interest margin declined 4.5% to $122.7 million, resulting in a 0.3% slip in net interest income to $105.6 billion.

Almost two-thirds (62.7%) of banks reported improvements in second quarter net income compared to second quarter 2011, while earnings at 26.4% remained flat and 10.9% reported net losses, down from 15.7% a year ago. At the same time, the average return on assets (ROA) rose to 0.99% from 0.85% in second quarter 2011.

The number of problem banks in the second quarter totaled 772, while fifteen banks failed. Thus far in the third quarter, another 9 banks have failed, bringing bank failures year-to-date to 40, down from 68 during the same period in 2011, according to the FDIC.

Commenting on U.S. bank performance in the second quarter FDIC Acting Chairman Martin Gruenberg said, "Levels of troubled assets and troubled institutions remain high, but they are continuing to improve … consistent with the moderate pace of economic activity."

To access the *FDIC's Quarterly Banking Profile*, click here.

U.S. FIXED ANNUITY SALES FALL 17.2% IN SECOND QUARTER

U.S. fixed annuity sales in the second quarter fell 17.2% to $17.1 billion, down from $20.7 billion in second quarter 2011, driven by a 42.3% tumble in non-market value adjusted annuity (MVA) sales to $4.78 billion and a 28.4% drop in MVA sales to $1.19 billion. In contrast, fixed indexed annuity sales rose 4.8% to $8.85 billion, and fixed income annuity sales ticked up 0.3% to $2.29 billion, according to Beacon Research's *Fixed Annuity Premium Study*.

Second quarter fixed annuity sales compared to first quarter fixed annuity sales of $16.9 billion, however, rose 1%, led by 8.3% growth in indexed annuity sales and a 6.1% increase in income annuity sales, while non-MVA and MVA sales fell, respectively 8.9% and 12.9%.

Indexed annuities ($8.85 billion) remained the most popular fixed annuities sold, followed by non-MVAs ($4.78 billion), income ($2.29 billion) and fixed MVAs ($1.19 billion). New York Life's Lifetime Income annuity remained the most popular single product sold.

Allianz Life continued to lead all other providers in annuity sales ($1.44 billion), followed by New York Life ($1.27 billion), Aviva USA ($1.13 billion), American Equity ($917.3 million) and Great American ($876.6 million), Evanston, IL-based Beacon Research found.

Looking ahead, Beacon Research CEO Jeremy Alexander said, "Indexed and income annuities should continue to do well. But much will depend on the interest rate environment and collective decisions by carriers to expand or pull bank on sales."

U.S. COMPOSITE COMMERCIAL P&C RATES CONTINUE UP IN AUGUST

U.S. composite commercial property and casualty insurance rates continued up in August, rising 5% over August 2011, led by a 7% climb in property rates, according to Dallas, TX-based MarketScout. Additionally, general liability and workers compensation rates rose 6%, followed by business owner policies (+5%); directors and officers (D&O) liability, commercial auto and business interruption (+4%); employment practices liability (EPLI), professional liability, and umbrella excess (+3%); inland marine (+2%), and fiduciary, surety and crime insurance rates (+1%).

Rates for small accounts (up to $25,000) and median accounts ($25,001-$250,000) increased 5%, while rates for large accounts ($250,001-$1,000,000) and jumbo accounts (over $1 million) rose, respectively, 4% and 3%.

Rates according to industry class also rose across the board, led by manufacturing and contracting (+6%), and followed by the service, habitational and transportation industries (+5%), energy (+4%), and public entities (+3%), MarketScout found based on pricing surveys conducted by the National Alliance for Insurance Education and Research.

ALLIANZ LIFE & STATE INSURANCE REGULATORS REACH ANNUITY SALES SETTLEMENT

Golden Valley, MN-based Allianz Life Insurance Company has reached a settlement with 44 state insurance commissioners regarding its sale of fixed annuity products in those states from 2001-2008. Allianz has agreed to review new and previously filed customer complaints regarding possibly unsuitable product sales and offer retroactive cancellation and full refund of unsuitable policies sold during the designated time period. Additionally, Alliance has agreed to correct any unsuitable sales procedures and has agreed to pay a $10 million penalty to be shared among the 44 states involved in the settlement, with Florida receiving over $1 million of that amount.

THE HARTFORD TO SELL RETIREMENT PLAN BUSINESS TO MASS MUTUAL

Hartford, CT-based The Hartford has agreed to sell its Retirement Plan business to Springfield, MA-based Massachusetts Mutual Life Insurance Company (MassMutual) for $400 million in cash. The Hartford Chairman, President and CEO Liam McGee described the move as "the second of three planned business sales" that will enable the company to focus on insurance underwriting in its property-casualty and group benefits businesses.

MassMutual Chairman, President and CEO Roger Crandall said the acquisition underscores MassMutual's "long-standing commitment" to the retirement market. Crandall said, "Our Retirement Services Division has experienced record growth in recent years and is an important contributor to MassMutual's overall profitability and success."

The Hartford's Retirement Plan business currently manages $54.9 billion in assets and serves more than 33,000 plans with over 1.5 million participants. The unit is expected to add complementary distribution capabilities and MassMutual's retirement plan participants, when the deal closes by the end of 2012, pending regulatory approval.

BANK OF AMERICA EXITS PAYMENT PROTECTION BUSINESS

Charlotte, NC-based, $2.16 trillion-asset Bank of America Corporation (BofA) has stopped offering payment protection plans to credit card customers. BofA informed its online customers: "Credit Protection Plus is no longer available. As a result, your account is not enrolled in this plan, and you are not eligible for any benefits under this plan."

BofA's Credit Protection Plus and Credit Protection Deluxe products had been administered by a third party, Omaha, NE-based Central State Indemnity, a unit of Omaha, NE-based Berkshire Hathaway. Last month, the Consumer Financial Protection Bureau fined Capital One $210 million and other remedial expenses for alleged abuses in payment protection plan sales administered by a third party.

NEW YORK LIFE TO SELL NYL TAIWAN TO TAISHIN FINANCIAL

New York, NY-based New York Life Insurance Company has agreed to sell Taipei, Taiwan-based New York Life Taiwan Insurance Corp. to Taipei-based Taishin Financial Holding Co. for NT$100 million ($3.35 million). New York Life said the sale fits with its plan to concentrate on its "market-leading life insurance operations in the United States and Mexico."

In 2011, New York Life Taiwan reported premiums rose 1.7% to NT$10.99 billion ($290.8 million), primarily through bancassurance sales, which accounted for 47% of all business. The insurer has historically partnered in bancassurance deals with Taishin Financial, which expects its acquisition "to create more business and cost synergies" through cross selling insurance and other products, *BestNews* reports.

HSBC TO SELL HOUSEHOLD LIFE & HSBC INSURANCE CO. OF DELAWARE TO ENSTAR

Wilmington, DE-based Household Insurance Group Holding Company, a unit of London-based HSBC Holding's subsidiary New York City-based HSBC Financial Corp, has agreed to sell New Castle, DE-based Household Life Insurance Company of Delaware and HSBC Insurance Company of Delaware to Hamilton, Bermuda-based Enstar Group for $181 million.

The deal for the insurers, which provide annuities, credit life, long-term care, and unemployment insurance to HSBC Group companies in North America, is expected to close in first quarter 2013, pending regulatory approval.

ING SELLS ITS STAKE IN CAPITAL ONE

Amsterdam-based ING Group has agreed to sell its 54 million shares in McLean, VA-based Capital One Financial Corp. ING obtained the shares, which are currently valued at $3 billion (€2.4 billion), in February 2012 as part of Capital One's purchase of ING Direct USA. B of A Merrill Lynch, Morgan Stanley and Citigroup Global Markets are book-running managers for the share offer that is expected to settle on September 10, 2012.

INDIA'S INSURANCE REGULATORY BOARD APPROVES 30% BANK STAKE IN METLIFE INDIA

India's Board of Insurance and Regulatory and Development Authority (IRDA) has approved MetLife India Insurance Company's (MMLIC) request to allow Punjab National Bank to acquire a 30% stake in MLIC. The approval requires that MLIC reduce the equity stakes held in the company by certain existing shareholders, maintain an IRDA-directed solvency margin, and allow Punjab National Bank to name directors to MLIC's board of directors.

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U.S. APPLICATIONS FOR INDIVIDUALLY UNDERWRITTEN LIFE INSURANCE DIP IN AUGUST

U.S. applications for individually underwritten life insurance slid 1.9% in August compared to August 2011, according to the MIB Life Index. Applications among individuals aged 0-44 and 45-59 slumped, respectively, 1.9% and 3.3%, while applications among individuals aged 60 and older ticked up a slight 0.2%.

Year-to-date applications are up 1.7% compared to the same period in 2011, led by a 5.7% increase among individuals aged 60 and older, as applications among individuals aged 0-44 and 45-59 rose just short of 1% (0.9% and 0.8%), Braintree, MA-based MIB Group found.

CITIGROUP AGREES TO SELL 49% STAKE IN MORGAN STANLEY SMITH BARNEY

New York City-based Morgan Stanley has agreed to purchase Citigroup's 49% stake in Morgan Stanley Smith Barney for $13.5 billion. The purchase will occur in stages beginning with a 14% stake now, another 15% by June 2013, and the remaining 20% by the end of 2015. When the transactions are completed, pending regulatory approval, Morgan Stanley will own 100% of the one-time joint venture.

The joint venture was formed in 2009 when Citigroup sold a 51% stake in its Smith Barney brokerage to Morgan Stanley as Citigroup sought to raise cash during the financial crisis. Commenting on the agreement to sell all of Citigroup's interest in its one-time totally owned brokerage unit, Citigroup CEO Vikram Pandit said, "The more we put the past behind us, the more we can focus on our future, *Bloomberg.com* reports.

FIFTH THIRD ASSET MANAGEMENT MOVES $4.4 BILLION IN MONEY MARKET ASSETS TO FEDERATED INVESTORS

Cincinnati, OH-based, $118 billion-asset Fifth Third Bancorp subsidiary Fifth Third Asset Management has agreed to move $4.4 billion in assets from four of its money market funds into four Federated Investors funds with similar investment objectives. Pittsburgh, PA-based Federated currently manages $355.9 billion-assets held in mutual funds and separate accounts. Federated Investors President and CEO J. Christopher Donahue said, “This transaction builds on Federated’s long-term relationship with Fifth Third.” He added, “We continue to consider and evaluate future opportunities for similar agreements with banks, insurers and broker dealers.”

U.S. TITLE INSURERS REPORT CLIMBING PREMIUMS & PROFITS

U.S. title insurance premium in the second quarter climbed 20% to $2.76 billion, up from $2.3 billion in second quarter 2011, according to the American Land Title Association (ALTA). At the same time, aggregate operating income for title insurers grew 18% to $2.98 billion; loss expense fell 17% to $219.7 million, and operating expense increased 16% to $2.68 billion, resulting in a nearly twenty-fold spike in net operating gains to $138 million, up from $7 million in second quarter 2011.

Four states reported 35% or greater growth in title insurance premium in the quarter compared to second quarter 2011, led by Hawaii (36.2%), Nebraska (36.2%), Illinois (35.2%) and Utah (35%). California with 29.8% growth in title insurance premiums to $415.1 million remained the top generator of those premiums. Texas ranked second (+16.6% to $333.7 million) followed by Florida (+17.4% to $218.1 million), New York (+14.8% to $193.6 million) and Pennsylvania (+16.8% to $113.2 million).

Jacksonville, FL-based Fidelity Family dominated the title insurance market with a 34.5% market share, followed by Santa Anna, CA-based First American Family (26.1%), Houston, TX-based Stewart Family (13.6%), and Minneapolis, MN-based Old Republic Family (13.3%). At the same time, regional underwriters increased their market share to 12.5%, up from 10.8% in second quarter 2011.

Commenting on second quarter industry performance, ALTA CEO Michelle Korsmo said, “After a string of quarterly premiums fluctuating up and down with no discernible pattern since the third quarter of 2009, the second quarter was the second consecutive quarter with an increase over the equivalent 2011 quarter.

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PA COMMISSIONER BLASTS HHS FOR LACK OF GUIDANCE ON HEALTH INSURANCE IMPLEMENTATION

Pennsylvania Insurance Commissioner Michael Consedine told members of the U.S. House of Representatives Sub-Committee on Health last week that the U.S. Department of Health and Human Services (HHS) needs to provide Pennsylvania and all other states with clear rules and guidance on how to implement U.S. healthcare legislation and set up mandated health insurance exchanges.

Consedine said, “The lack of detailed information from HHS has put Pennsylvania and other states in a very difficult position. We are traveling down a road directionless … knowing January 2014 is right around the bend.” Consedine warned of increasingly “higher costs” that could “impact the lives of millions” if the HHS continues to fail to provide clear direction and remains “silent on how it intends to pay for a federal exchange and what costs states should expect to incur,” *BestNews* reports.

P&C CFO'S RANK PRINCIPAL PRESERVATION AS THEIR TOP GOAL

Chief financial officers at U.S. property and casualty insurers rank principal preservation as their top goal in portfolio management (75%), according to Towers Watson's *Property and Casualty Insurance CFO Survey*. Total return ranks second (69%), followed by liquidity and ability to pay claims (63%), book income (53%), capitalization targets (19%) and liability consideration (3%). With these goals in mind, 100% of these CFOs are very satisfied that they are meeting their capitalization targets; 85% are very satisfied with their performance regarding their liquidity and ability to pay claims; and 75% are very satisfied with their preservation of principal. Yet less than one-quarter are very satisfied with their book income (24%) and total return (23%).

At the same time, more than three-fourths of property-casualty insurance CFOs are very satisfied with their firms' investment management governance (78%) and risk control management (75%). Over half are very satisfied with their firms' investment management costs (63%) and portfolio construction process (59%), and about half are very satisfied with their firms' asset allocation (50%) and investment diversification (47%).

Interestingly, last year, most property-casualty insurers outsourced their investments in hedge funds (83%), high-yield fixed income (71%), bank loans (71%), common stock (64%), core fixed income (63%) and private equity (59%). In contrast, only a small percentage outsourced investments in preferred stock (36%), real estate (29%) and cash and cash equivalents (19%), Towers Watson found.

LIFE REMAINS TOP SELLER WHILE STD SHOWS GREATEST GROUP SALES GROWTH

New U.S. group life annualized sales premium ticked up 1% in the first half from the same period last year to $1.49 billion, despite a 3% decline in the number and employers offering the product. In contrast, 4% more employers offered long-term disability insurance, helping new premium up 7% to $857 million, and 6% more offered short-term disability insurance helping drive new premiums up 11% to $419 million, according to Gen Re's *2012 U.S. Group Disability and Group Life Mid-Year Market Survey*.

DISCOVER FINANCIAL AGREES TO REFUND $200 MILLION IN CREDIT PROTECTION SALES

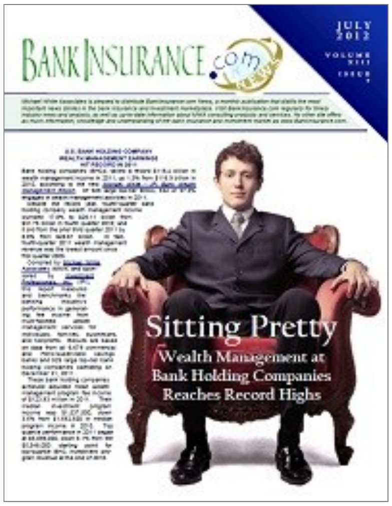
Riverwoods, IL-based, $73.3 billion-asset Discover Financial Services has reached an agreement with the Federal Deposit Insurance Corporation (FDIC) and the Consumer Financial Protection Bureau (CFPB) to refund about $200 million to Discover Card holders who purchased certain credit protection products over the phone. Discover also agreed to enhance its marketing practices and pay $14 million in civil penalties to be split between the FDIC and the CFPB. Discover CEO David Nelms said, "We are committed to marketing our products responsibly."

FDIC DIRECTOR URGES "SIMPLER ALTERNATIVE" TO BASEL III

FDIC Director Thomas Hoenig is urging the Basel Committee and the international regulatory community to "rethink the Basel capital standards." In an address to the American Banker Regulatory Symposium in Washington, DC on September 14, Hoenig noted that Basel risk weights have snowballed from 5 to thousands. Basel III, he said, not only adds to these weights, but also uses "highly complex modeling tools that rely on a set of subjective, simplifying assumptions … [and] central planners' determination of risks."

The banking community needs to find "a simpler alternative that takes us back to the basics," Hoenig said, relying more on market driven tangible capital requirements and less on complex Basel rules and safety nets.

<u>*To read Hoenig's comments in their entirety, click here*</u>.


JULY 2012
Sitting Pretty
Wealth Management at Bank Holding Companies Reaches Record Highs


MAY 2012
Banks Boost Insurance Income to Record High
U.S. BHC Annuity Earnings Reach $2.84 Billion
SPECIAL BONUS ARTICLE
Precious Metals as an Alternative Investment Portfolio Offering


SEPTEMBER 2012
JUGGLING Fee Income
Community Banks Enjoy Gains in Investment Program Income
Banks' BOLI Assets Grow
3 Big Players Buy Wealth Management Businesses