

N E W S R E L E A S E

**Equias Alliance/Michael White Report
BOLI Assets Reached Nearly \$144 Billion in 2013**

FOR IMMEDIATE RELEASE – Radnor, PA, and Memphis, TN, March 24, 2014 – Bank-owned life insurance (BOLI) assets reached nearly \$143.84 billion in 2013, reflecting a 4.3% increase from \$137.95 billion in BOLI assets held in 2012 by commercial banks, savings banks and savings associations, according to the 2014 edition of the *Equias Alliance/Michael White BOLI Holdings Report*[™].

BOLI is used to recover costs of employee benefits and offset liabilities for retirement benefits, helping banks to keep up with ever-rising benefit costs. BOLI may be differentiated by three types of assets: separate account life insurance or SALI assets, also referred to as variable separate account life insurance assets; general account life insurance (GALI) assets; and hybrid account life insurance (HALI) assets, also referred to as hybrid separate account life insurance assets. Commercial banks and FDIC-supervised savings banks began reporting their BOLI assets by type in 2012, while savings associations began reporting them by type in 2013.

Co-produced by Equias Alliance and Michael White Associates, LLC (MWA), the *Equias Alliance/Michael White BOLI Holdings Report*[™] measures and benchmarks the cash surrender values (CSV) of life insurance and ratios of CSV to capital attained by commercial banks, savings banks, and savings associations (the “banks”)¹. The data in this report were submitted to regulators by all 6,812 banks operating on December 31, 2013, down 271 banks from 2012. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 6,812 banks and savings associations, 3,840 or 56.4% reported holding BOLI assets in 2013, increasing their BOLI holdings by 4.3% from \$137.95 billion in 2012 to \$143.84 billion in 2013. (See Tables 1 and 2.)

Table 1. Total BOLI Assets (in billions) Held by Banks			
Asset Size	2013	2012	Percent Change
Over \$10 billion	\$111.50 billion	\$107.93 billion	3.3%
\$1 billion - \$10 billion	\$ 16.95 billion	\$ 15.65 billion	8.3%
\$500 million - \$1 billion	\$ 5.82 billion	\$ 5.39 billion	8.1%
\$300 million - \$500 million	\$ 3.81 billion	\$ 3.53 billion	7.9%
\$100 million - \$300 million	\$ 4.84 billion	\$ 4.58 billion	5.7%
Under \$100 million	\$ 914.3 million	\$ 874.4 million	4.6%
Total BOLI Assets	\$143.84 billion	\$137.95 billion	4.3%
Source: <i>Equias Alliance/Michael White BOLI Holdings Report</i> [™] – 2014 edition			

- Of 1,153 national banks, 632 or 54.8% recorded \$91.01 billion in BOLI holdings, up 2.8% from \$88.51 billion in 2012.
- Of 382 savings banks, 282 or 73.8% recorded \$5.12 billion in BOLI holdings, up 9.7% from \$4.66 billion in 2012.
- Of 554 savings associations, 279 or 50.4% recorded \$4.27 billion in BOLI holdings, down 2.7% from \$4.38 billion in 2012.
- Of 850 state-chartered member commercial banks, 569 or 66.9% of them reported holding \$21.40 billion in BOLI assets in 2013, up 6.2% from \$20.15 billion in 2012.
- Of the 3,873 state-chartered non-member banks, 2,078 or 53.7% of them reported holding \$22.04 billion in BOLI assets in 2013, up 8.9% from \$20.24 billion in 2012.
- Overall, the number of banks reporting holding BOLI assets increased by 1.5% between 2012 and 2013.

Table 2. Number of Banks Reporting BOLI Assets				
Asset Size	2013	2012	Variance	Percent Change
Over \$10 billion	74	73	1	1.4%
\$1 billion - \$10 billion	446	427	19	4.4%
\$500 million - \$1 billion	492	485	7	1.4%
\$300 million - \$500 million	581	556	25	4.5%
\$100 million - \$300 million	1,494	1,483	11	0.7%
Under \$100 million	753	758	-5	-0.7%
All Banks reporting BOLI Assets	3,840	3,782	58	1.5%
Percentage of Banks Holding BOLI Assets	56.4%	53.4%		5.6%

Source: *Equias Alliance/Michael White BOLI Holdings Report*™ – 2014 edition

By Type of BOLI Assets:

- The largest portion of BOLI assets was found to be held in what banking regulators call separate account life insurance and the marketplace also refers to as variable separate account life insurance. SALI CSV assets totaled \$70.43 billion among banks, representing 49.0% of all BOLI assets. (See Table 3.) At the same time, only 597 or 15.5% of all 3,840 banks reporting BOLI held separate account assets. (See Table 4.) Thus, although SALI assets account for the largest portion of total BOLI assets, SALI assets were actually held by the fewest number of banks. SALI assets are the CSVs associated with separate account insurance policies whose CSVs are supported by assets segregated from the general assets of the insurance carrier. While under such arrangements, the policyholders neither own the underlying separate account created by the insurance carrier on its behalf, nor control investment decisions in the underlying account, however, they do assume all investment and price risk. Accordingly, the investment income and investment gains and losses generally accrue directly to the policyholders and are not accounted for in the general account of the insurer, nor are values guaranteed by the general account of the insurer.
- The type of BOLI assets most widely held by banks in 2013 was GALI policies. (See Table 4.) Ninety-three percent (93.4%) or 3,585 of the 3,840 banks reporting BOLI assets had \$58.78 billion in general account life insurance assets, representing 40.9% of total BOLI assets in 2013. (See Tables 3 and 4.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.

- Nearly twelve hundred (1,188) or 30.9% of the 3,840 institutions reporting BOLI assets held \$14.63 billion in what bank regulators call hybrid account life insurance assets and the market also knows as hybrid separate account life insurance assets. HALI represented 10.2% of total BOLI assets in 2013, making it the smallest reporting category of BOLI assets. (See Tables 3 and 4.) Hybrid account insurance policies combine features of both general and separate account insurance products. Similar to general account life insurance policies, the general assets of the insurance company issuing hybrid account policies support the policies' cash surrender values. However, like separate account policies, the assets of hybrid accounts are protected from claims on the insurer. Additionally, the banks holding hybrid account life insurance policies are able to select from among certain investment strategies in which the insurance premiums are invested.

Table 3. Total BOLI Assets (in billions) Held by Banks in 2013				
Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$36.33	\$65.58	\$ 9.59	\$111.50
\$1 billion - \$10 billion	\$10.48	\$ 3.78	\$ 2.68	\$16.95
\$500 million - \$1 billion	\$ 4.35	\$ 0.56	\$ 0.92	\$ 5.82
\$300 million - \$500 million	\$ 3.03	\$ 0.18	\$ 0.60	\$ 3.81
\$100 million - \$300 million	\$ 3.83	\$ 0.26	\$ 0.76	\$ 4.84
Under \$100 million	\$ 0.76	\$ 0.07	\$ 0.09	\$ 0.91
Total BOLI Assets	\$58.78	\$70.43	\$14.63	\$143.84
Percentage Growth since 2012	6.1%	1.9%	9.1%	4.3%
Source: <i>Equias Alliance/Michael White BOLI Holdings Report</i> TM – 2014 edition				

- Separate account life insurance (SALI) assets were most heavily concentrated (93.1%) among the largest banks with assets greater than \$10 billion. But, while significant amounts of BOLI assets are also held by the big banks, GALI and HALI types of BOLI assets are less concentrated among bigger banks. Smaller banks held 38.2% (up 3.5 points from 34.7% in 2012) of general account life insurance assets and 34.5% (up 4.5 points from 30.0% in 2012) of hybrid account life insurance assets in 2013, compared to their much lower 6.9% of SALI assets. (See Table 3.)
- The fastest growing type of BOLI assets in 2013, in terms of the number of banks holding them, was hybrid assets. Over the last year, the number of banks using hybrid accounts increased 10.3% from 1,077 in 2012 to 1,188 banks in 2013. Banks employing separate account or SALI assets decreased by 0.7% from 593 to 597.
- Hybrid account assets grew 9.1%, general account assets grew 6.1% and separate account assets grew 1.9% from 2012 to 2013.

By Size of Institution:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 446 of 559 banks and thrifts or 79.8% reported having them in 2013. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 753 of 2,056, or 36.6%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$3.57 billion) in BOLI. Institutions with assets between \$1 billion and \$10 billion attained the largest percentage increase (8.3%) in BOLI assets. (See Table 1.)

- Five of six bank asset-size classes experienced increases in 2013 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 4.5% among depository institutions with assets between \$300 million and \$500 million. The largest numerical increase was 25 and also occurred among banks and thrifts with assets between \$300 million and \$500 million. (See Table 2.)
- According to federal banking regulators, it is generally not prudent for a banking company to hold BOLI assets with an aggregate cash surrender value (CSV) that exceeds 25 percent of the sum of the institution’s total capital. (Depending on an institution’s charter, total capital is defined either as Tier 1 capital or the sum of Tier 1 capital and the allowance for loan and lease losses). Nationally, mean bank BOLI assets as a percent of the sum of Tier 1 capital and the loss allowances increased (2.0%) from 15.60% in 2012 to 15.92% in 2013. Nationally, median BOLI assets as a percent of total capital increased (1.9%) from 15.51% in 2012 to 15.81% in 2013.

Table 4. Number of Banks Reporting BOLI Assets in 2013				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	68	62	39	74 (of 107)
\$1 billion - \$10 billion	416	167	203	446 (of 559)
\$500 million - \$1 billion	475	92	212	492 (of 678)
\$300 million - \$500 million	554	61	204	581 (of 833)
\$100 million - \$300 million	1,380	146	423	1,494 (of 2,579)
Under \$100 million	692	69	107	753 (of 2,056)
All Banks	3,585	597	1,188	3,840 (of 6,812)
Percentage Increase since 2012	2.0%	0.7%	10.3%	1.5%

Source: *Equias Alliance/Michael White BOLI Holdings Report™ – 2014 edition*

About the *Equias Alliance/Michael White BOLI Holdings Report™*

The *Equias Alliance / Michael White BOLI Holdings Report™* measures and benchmarks the cash surrender values (CSV) of life insurance held by commercial banks, savings banks, and savings associations and their ratios of CSV to capital. It is one of several reports dealing with bank fee and other noninterest income activities published by Equias Alliance / Michael White Associates, LLC (MWA).

Equias Alliance, LLC (“Equias”), through its group of nationwide consultants, has assisted over 800 community banks in the design and implementation of bank-owned life insurance (“BOLI”) as well as nonqualified benefit plans for selected executives. These plans help institutions increase earnings and shareholder value as well as recruit, retain and reward key officers and directors. If a bank should decide to implement a BOLI or nonqualified benefit plan, Equias has the experienced and professional staff (including attorneys and CPAs) needed to properly administer and oversee these plans. As evidence of its leadership position in the market, Equias has the exclusive endorsement of the ABA (through its subsidiary, the Corporation for American Banking) and 11 state banking associations for BOLI. Equias (www.equiasalliance.com) is headquartered in Memphis, Tennessee with 18 consultants located in 14 offices throughout the U.S.

Michael White Associates is a bank insurance consulting firm headquartered in Radnor, PA and published reports can be obtained at www.BankInsurance.com. Other reports include the *MWA BOLI Capital Concentration Report™*. This report assists with the regulatory requirement that each banking company must conduct a peer analysis of their BOLI holdings relative to capital and statistically assess whether its BOLI program is an outlier. Additionally, *MWA Fee Income Ratings4Reports™* compare, rank and rate a particular

financial institution's insurance or other noninterest fee income program nationally, regionally, statewide and by asset-peer group.

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