



ABIA Insurance News



Volume 11: January 25, 2012

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Assistant Editor, Renee Galbraith, Health Policy and Legislative Affairs Manager

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Mark Your Calendars

ABIA Executive Issues Forum May 14 – 15, 2012 JW Marriott Hotel Washington, DC

Join Us in Bringing Bank-Insurance Issues to Capitol Hill!

The first-ever ABIA Executive Issues Forum will offer bank-insurance CEOs, senior executives, General Counsels and their Government Relations counterparts the opportunity to speak with a united voice to lawmakers on Capitol Hill.

The purpose of the ABIA Executive Forum is to provide attendees an exclusive opportunity to leverage their collective thinking and experience on how to manage the unique regulatory and legislative challenges of operating insurance businesses within banks.

During the Forum, attendees will:

- receive a thorough briefing from ABIA and American Bankers Association staff experts;
- interact with US legislators and regulators to express ABIA's viewpoints to those in Washington; and
- participate in networking opportunities

By attending the Forum, you will learn more about the issues impacting the bank-insurance market, including:

- FIO implementation: what it means to banks and insurance companies;
- The Volcker Rule;
- CFPB authority over insurance; and
- NAIC and federal issues such as flood insurance, life settlements, certificate of insurance, and credit and debt protection products.

Please continue to watch this space and check the [ABIA website](#) to register and for additional information.

With special thanks to our Platinum Premier Members for sponsoring this event:



■ Free Webinar Series: New Fee Income Opportunities through Bank- Insurance

Mark your calendars to participate in this series of informative briefings. Whether you are a new member to ABIA, or are interested in expanding your current operation, these free webinars will help you grow your bank-insurance business.

Series 1

Buy, Build or Rent – Options for Entering the Bank-Insurance Business

February 29, 2012
2:00 p.m. – 4:00 p.m.

This session will explore the current status of mergers and acquisitions in the industry as well as how banks and insurance agencies are joining forces through multiple entrance points to distribute insurance products in the financial institutions channel.

Moderator: Jeffrey Chesky, President and Chief Executive Officer, Insuritas, Inc.

Panelists: Jim Campbell, Senior Vice President, Reagan Consulting, Inc.
Louis Caltavuturo, Partner, Dowling Hales
John Wepler, President, MarshBerry

Series 2

Leading Solutions for Life Insurance Sales in Banks

March 15, 2012
2:00 p.m. – 4:00 p.m.

In this session, life insurance experts will discuss leadership solutions for life insurance sales in the bank channel. This interactive discussion will focus on current trends for products and marketing, as well as the everyday regulatory challenges. Future trends will also be discussed.

Moderator: Joan Cleveland, Senior Vice President Business Development, Prudential Financial

Panelists: Christopher P. Funk, Sales Director, Great West Life & Annuity Insurance Company
Tony Ianni, National Sales Director, Financial Institutions, OneAmerica
Craig Simms, Senior Vice President – Marketing, Vantis Life Insurance Company

Series 3

Key Decision Points for Entering and Succeeding in the Bank-Insurance Business

April 24, 2012
2:00 p.m. – 4:00 p.m.

This session highlights one community bank and the key decisions made on how and why to get into the insurance agency business. Hear a senior bank executive's perspective on their evaluation methods and due diligence.

Speaker: David S. DeMarco, Executive Vice President, Glens Falls National Bank & Trust Company

Please contact a member of the ABIA team if you have any questions.

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Compliance and Regulation News

■ Compliance Corner: Developments in Lender-Placed Insurance

A lender or mortgage servicer typically purchases “lender-placed insurance” on behalf of a borrower who has failed to prove the existence of a current insurance policy, such as flood or other hazard insurance, that is required by the terms of the underlying loan agreement. This insurance is described as “lender-placed” because the lender / mortgage servicer “places” the insurance, although the borrower is required to pay for it.

Mortgage servicers have been criticized in the past for allegedly imposing high lender-placed insurance premiums on unsuspecting borrowers and purchasing policies from affiliated companies that generate commissions for the servicer’s affiliates. Class action lawsuits have been filed against mortgage servicers, and New York is apparently conducting an investigation into lender-placed insurance.

The Dodd-Frank Act imposed new requirements on mortgage servicers placing insurance on behalf of borrowers. For example, a mortgage servicer must: have a “reasonable basis” to purchase coverage; charge only fees that are “bona fide and reasonable”; timely respond if a borrower notifies the servicer of an error; and provide two disclosures over a period of at least 45 days before placing a policy. The Consumer Financial Protection Bureau (CFPB) also was given authority to issue additional rules with respect to lender-placed insurance.

In response to pervasive problems in the mortgage industry that precipitated the 2008 financial crisis, regulators, consumer groups and industry have promoted the idea of new mortgage servicing standards. State attorneys general have been investigating allegations of “robo-signing” – that foreclosure documents were not sufficiently reviewed before being signed – and negotiating a settlement with mortgage servicers. Early on, those talks produced a set of draft mortgage servicing standards that included provisions affecting lender-placed insurance, and although it would only be applicable to the parties subject to the settlement, the final product could be seen as a template for new regulatory requirements from the CFPB. The settlement is not without controversy, and several AGs have pulled out of the talks altogether to pursue their own investigations and enforcement actions.

In 2011 the Office of the Comptroller of the Currency also conducted an investigation of alleged improper servicing and foreclosure practices at large banks, resulting in several consent orders that required deficiencies to be addressed and foreclosures to be independently reviewed. The OCC consent orders did not affect lender-placed insurance.

The ABIA is following this matter.

Do you have further questions about this compliance issue? Other compliance questions you would like to see addressed? Please send your comments or questions to Valerie Barton at vbarton@aba.com.

Articles in the Compliance Corner are provided for informational purposes only by ABIA’s outside counsel McIntyre & Lemon, PLLC. They are not intended to be legal guidance. Readers should consult with legal counsel before implementing any requirements that are addressed.

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News Releases

■ Bank Insurance Agencies Report Increased Acquisition Growth and Contingent Income, Staff Payrolls Increase

Despite slight growth from acquisition and increased contingent income, issues relating to staffing efficiency lead to weaker profits for bank insurance agencies, according to the latest [Bank-Insurance Viability Index](#), a quarterly report compiled by MarshBerry and sponsored by the American Bankers Insurance Association. An analysis of bank-owned agencies showed that profits fell an average 2.8 percent, even though contingent income grew 7.4 percent.

The report found that profits were not helped by organic growth. While producer payroll was flat and support payroll was down 1 percent, service payroll increased 2 percent for the year. The report also noted that fewer than 15 percent of bank-owned agencies completed an acquisition during the year, which means increased payroll is coming from salaries of existing staff. This suggests that agencies must improve staffing efficiencies to retain profits.

The Bank-Insurance Viability Index provides benchmarking statistics to help bank-insurance platforms realize equity enhancing change. The quarterly report dissects the financial and operational performance of banks, independent agents and brokers, and high performers. It focuses on the retail brokerage platform and covers topics such as organic growth, new business production, acquired growth, earnings margins, expense ratios, staff investment and staff productivity.

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■ **Michael White/Meyer-Chatfield Report 3Q YTD BOLI Assets Continue to Climb, Favoring Hybrid Accounts**

Separate account life insurance (SALI) assets continued to constitute the majority (\$64.47 billion or 52.2%, up from 51.4% at midyear) of total bank-owned life insurance (BOLI) assets in three quarters of 2011, according to the [Michael White/Meyer-Chatfield BOLI Holdings Report™](#). Among the biggest banks, those over \$10 billion in assets, SALI assets of \$59.80 billion constituted even more of their BOLI assets of \$99.23 billion, reaching more than \$3 of every \$5 (60.3%) of total BOLI assets.

BOLI is used to recover costs of employee benefits and offset the liabilities of retirement benefits, helping banks to keep up with the rising benefit costs. Information about separate account life insurance (SALI) assets, general account life insurance (GALI) assets and hybrid account life insurance (HALI) assets held by commercial banks and FDIC-supervised savings banks became available for the first time at the end of first quarter 2011. Savings associations, i.e., thrifts, consolidate these types of BOLI assets when reporting.

Separate account life insurance assets are the cash surrender values (CSVs) associated with separate account insurance policies whose CSVs are supported by assets segregated from the general assets of the insurance carrier. 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; but they do assume all investment and price risk so that 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.

Compiled by Michael White Associates, LLC (MWA) and sponsored by Meyer-Chatfield, the *Michael White/Meyer-Chatfield BOLI Holdings Report™* measures and benchmarks the cash surrender values of life insurance and ratios of CSV to capital possessed by banks and bank holding companies (BHCs). All 6,740 commercial banks and FDIC-supervised savings banks operating on September 30, 2011, reported the data here.

Among the study's most significant findings through three quarters are:

- Of all banks, 3,416 or 50.7% reported holding BOLI assets of \$123.51 billion in the first three quarters. This represents an increase of 4.3% from \$118.47 billion in the first nine months of 2010.
- Of special note were changes from first to second quarter in the use of different types of BOLI assets. The number of banks using hybrid accounts increased 7.2% from 713 in first quarter to 764 banks in second quarter. Banks employing separate account or SALI assets decreased by 26 (4.5%).
- Separate account CSV assets totaled \$64.47 billion among banks, representing 52.2% of all BOLI assets. At the same time, only 542 or 15.9% of all banks reporting BOLI held separate account assets. Thus, among all banks holding BOLI assets, SALI assets, the largest portion of BOLI assets, were held by the fewest number of banks. Separate account life insurance assets are the cash surrender values (CSVs) associated with separate account insurance policies whose CSVs are supported by assets segregated from the general assets of the insurance carrier. 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. They do assume all investment and price risk so 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.
- The largest banks with assets greater than \$10 billion dominated the ownership of both total BOLI assets and separate account life insurance assets at September 30, 2011. Yet, the least commonly held BOLI policies were SALI policies, as the fewest banks (542) with BOLI assets held SALI assets so far this year.
- These largest banks reported the most in BOLI assets, as 61 of 87 large banks or 70.1% reported having \$99.23 billion in BOLI assets or 80.3% of the industry's total of \$123.51 billion. These large banks held

\$59.80 billion or 92.8% of the \$64.47 billion in SALI assets held by all banks in the first three quarters of 2011. The SALI assets held by these large banks alone constituted 48.4% of the industry's total BOLI assets of \$123.51 billion.

- Ninety-three percent (93.4%) or 3,192 of the 3,416 institutions reporting BOLI assets had \$48.31 billion in general account life insurance assets, representing 39.1% of total BOLI assets at the end of three quarters. The most commonly held policies were GALI policies. In GALI policies, the general assets of the insurance company issuing the policies support their CSV. This reporting category also includes the portion of the carrying value of separate account policies that represents general account claims on the insurance company, such as realizable deferred acquisition costs and mortality reserves.
- Eight hundred ten (810) or 23.7% of the 3,416 institutions reporting BOLI assets held \$10.73 billion in hybrid account life insurance assets, representing 8.7% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. 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 the investment strategies in which the insurance premiums are invested.
- Separate account life insurance assets were heavily concentrated (92.8%) among the largest banks. But, GALI and HALI types of BOLI assets were much less concentrated among the big banks. Smaller banks held 34.8% of general account life insurance assets and 26.3% of hybrid account life insurance assets in the first three quarters of 2011.
- Most banks are subsidiaries of bank holding companies and account for most BOLI assets. But 1,352 banks (20.1%) are stand-alone banks that are not part of BHCs. Of those banks, 444 or 32.8% recorded \$3.28 billion of BOLI holdings at September 30. Of that amount, \$2.59 billion or 79.0% resided in general account life insurance (GALI) policies, and only \$406.4 million or 12.4% of stand-alone banks' BOLI assets were in separate account life insurance (SALI) policies.
- Of 1,333 national banks, 660 or 49.5% held two-thirds (\$83.47 billion) of total BOLI assets; those 660 banks represented 9.9% of all banks operating at the end of third quarter 2011. Only 117 of those national banks reported separate account life insurance assets, but they possessed \$53.45 billion or 82.9% of the industry's total SALI assets of \$64.47 billion, making national banks of all banking charters the leading owner of SALI. Indeed, SALI assets represented 64.0% of national bank's total BOLI assets of \$81.83 billion.
- According to federal banking regulators, it is generally not prudent for a bank to hold BOLI assets with an aggregate cash surrender value (CSV) that exceeds 25 percent of the sum of the institutions total capital. (Depending on the banks 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 slightly from 14.51% in the first nine months of 2010 to 14.81% in the same period in 2011.

[Learn More](#)

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Best Practices Panels (BPP)

■ Sign up online for 2012 ABIA Best Practice Panels!

You can now sign up from your desk to participate in any or all of the nine ABIA Best Practice Panels by following this link: https://www.aba.com/perseus/surveys/abia_bpp.htm

Alternatively, you can sign up by going to the ABIA website and clicking on the online registration link on the [Best Practice Panel page](#).

It is easy and convenient, so register today!

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■ 2012 Best Practices Panel Schedule

Agency Integration and Marketing Panel

Chair: Valerie Jordan, Jordan and Jordan Associates

The teleconference calls will be every other month on the 1st Monday of the month (except for February) at 4:00 p.m. Eastern according to the following schedule:

February 28 - Marketing Compliance for 2012, Joint call with Direct Marketing and Compliance

April 2

June 4

No call in August

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 1

Annuities Panel

Chairs: Jim Rensel, Sales Quality Research

The teleconference calls will be every other month on the 3rd Tuesday of the month (except for April) at 3:30 p.m. Eastern according to the following schedule:

February 21 – Where are We on Annuities for 2012?

April 24

June 19

No call in August

September 24 -26 (Phoenix, AZ) - Annual Conference Presentation

October 16

Community Bankers Panel

Chair: Brian Duffy, RSI Insurance

The teleconference calls will be held quarterly on the 2nd Thursday of the month (except for February) at 2:00 p.m. Eastern according to the following schedule:

February 16 – Producer Compensation Planning for 2012

April 12

June 14

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 11

Compliance Panel

Chairs: Doug Harrison, BB&T Insurance

The teleconference calls will be held quarterly on a Tuesday or Thursday of the middle-of-the-quarter-month at 2:00 p.m. Eastern according to the following schedule:

February 28 – Marketing Compliance for 2012, Joint call with Direct Marketing

May 8

July 12

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

November 1

Credit Insurance and Debt Cancellation Panel

Co-Chairs: Phil Von Mann, US Bank and Ellen Myers, Xybernet, Inc.

The teleconference calls will be held quarterly on the 4th Thursday of the month (except April and May) at 4:00 p.m. Eastern according to the following schedule:

February 23 – Credit Insurance and Debt Cancellation for 2012, where are we Going?

April 19

May 31

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 25

Direct Marketing Panel

Co-Chairs: Sara Webb, BB&T Insurance and Robert Dudacek, Wells Fargo Insurance

The teleconference calls will be held every other month on the 4th Tuesday of the month at 3:00 p.m. Eastern according to the following schedule:

February 28 – Marketing Compliance for 2012, Joint call with Compliance

April 24

June 26

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 30

Life Coverages Panel

Chair: Chris Funk, Great West Life & Annuity

The teleconference calls will be held quarterly on the 3rd Thursday of the month (except for February) at 3:00 p.m. Eastern according to the following schedule:

February 23 - Life Insurance: What do your Customers want? What are you doing?

April 19

July 19

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 18

P& C Panel

Co-Chairs: Chris Boone, BancorpSouth Insurance and R. Michael Hedden, Bankers Insurance LLC

The teleconference calls will be held every other month on the 2nd Thursday of the month at 1:00 p.m. Eastern according to the following schedule:

February 9 – System Solutions to Streamline Operations and Marketing

May 10

July 12

No call in August

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 11

Reinsurance/Risk Management Panel

Co-Chairs: Brian Casey, Lock Lord Bissell & Liddell

The teleconference calls will be held quarterly on the 2nd Wednesday of the month at 11:30 a.m. Eastern according to the following schedule:

February 8 – Social Media Compliance

April 11

June 13

September 24-26 (Phoenix, AZ) - Annual Conference Presentation

October 10

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Member News

■ BB&T Reports Growth for the 4Q Insurance Broking Earnings

BB&T Corporation reports a 4 percent increase over last year in its fourth-quarter insurance-brokerage net income. Most of the growth is attributed to acquisitions and strong property and casualty sales.

Those acquisitions completed in the fourth-quarter included:

- Precept Group, a full-service employee benefits consulting and administrative solutions firm;
- Liberty Benefit Insurance Services, a full-service employee benefits broker; and
- Atlantic Risk Management Corporation, a commercial property and casualty and employee benefits broker.

BB&T reported a net income from insurance in the fourth-quarter of \$26 million, an increase of \$1 million over fourth-quarter 2010. For all of 2011, insurance net income increased by less than 1 percent, to \$104 million.

[Learn More from BB&T](#)

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■ IMAC Acquires Insurance Brokerage Firm

International Marketing and Administration Company (IMAC) has purchased the insurance brokerage firm Specialty Service Solutions, LLC.

IMAC, an ABIA member, specializes in creating direct response marketing programs for financial institutions, associations, and brokers that want to reward customers, members, and clients with discounted insurance products. .

According to Edward Klayman, president of IMAC, the acquisition of Specialty Services Solutions provides IMAC with “a proven distribution track for newly written P&C business for our clients.”

Among the products that Specialty Services Solutions distributes is coverage for schools, camps, pro and amateur sports, and E&O and roadside assist packages.

[Learn More about IMAC](#)

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Resources

For Information on **Government Relations** Contact Kevin McKechnie at kmckechn@aba.com

For Information on **Insurance News** Contact Renee Galbraith at rgalbrai@aba.com

For Information on **Conference Questions** Contact Valerie Barton at vbarton@aba.com

For Information on **Dues and Publications** Contact Valerie Barton at vbarton@aba.com

For Information on **ABIA Best Practices Panel** Contact Mike Polychrones at mpolychr@aba.com

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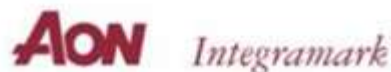
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