BankInsurance.com NEWS

JULY 2011
VOLUME XII
ISSUE 7

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.

JUNE 13 - 19, 2011

TOMPKINS FINANCIAL EXPANDS HOMETOWN AGENCY WITH OLVER ACQUISITION

Ithaca, NY-based, $3.28 billion-asset Tompkins Financial Corp, through Tompkins Insurance Agencies, has acquired Ithaca-based Olver & Associates Insurance. Neil Olver will serve as a senior vice president on the Tompkins Insurance leadership team; Lisa Olver will continue to manage commercial lines, and the remaining three members of the Olver group will move with the acquired agency into Tompkins Insurance Agencies' Ithaca offices in August.

Tompkins Financial President and CEO Stephen Romaine said the acquisition "brings more valued customers into the expanded Tompkins Financial family in central New York," a move that Tompkins Insurance Agencies President and CEO David Boyce said "will also enhance our ability to grow our business."

Tompkins Insurance Agencies operates six offices in central New York and 15 offices in western New York, and in 2010 enabled Tompkins Financial to report $12.74 million in insurance brokerage income, which comprised 27.7% of its noninterest earnings and 8.1% of its net operating revenue. The company ranked 13th in insurance brokerage income among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

B OF A COMPLETES SALE OF CERTAIN BALBOA INSURANCE ASSETS & LIABILITIES TO QBE

Charlotte, NC-based, $2.3 trillion-asset Bank of America Corp (B of A) has completed its sale of Newport Beach, CA-based Balboa Insurance and its affiliated companies' lender-placed and voluntary property and casualty insurance assets and liabilities to Sydney, Australia-based QBE Insurance Group. To complete the transaction, QBE forged a reinsurance agreement with Balboa equal to the cash and other asset values of the deal. In addition, QBE and B of A agreed to a long-term distribution arrangement whereby B of A will offer its customers QBE's lender-placed and voluntary consumer insurance lines and associated services. QBE the Americas CEO John Rumpler said, "The acquisition supports QBE's commitment to growing its business through product diversification and new distribution channels."

U.S. FIXED ANNUITY SALES UP IN FIRST QUARTER

U.S. fixed annuity sales in the first quarter rose 6% to $18.9 billion, up from $17.8 billion in first quarter 2010, led by 12% growth in book value sales to $8.6 billion and a 7% increase in market value adjusted (MVAs) sales to $1.4 billion, while indexed and income sales remained basically flat at, respectively, +0.2% to $7.1 billion and +0.8% to $1.8 billion, according to Evanston, IL-based Beacon Research. Compared to the fourth

In This Issue

quarter, first quarter results were even more stunning. Book value sales jumped 42%, and MVAs grew 7%, while indexed annuity sales dropped 15% and income sales fell 7% for an overall fixed annuity sales rise of 7% from $17.7 billion in fourth quarter 2010, Beacon's *Fixed Annuity Premium Study* shows. "Higher rates in the first quarter" drove the results, Beacon Research CEO Jeremy Alexander said, "as the steep yield curve made longer-term rates particularly attractive."

Houston, TX-based Western National's Flex 7 book value product ranked as the number one annuity sold in the bank channel and the fifth most popular fixed annuity product overall. Looking ahead, Alexander said, "Falling interest rates are likely to dampen fixed rate annuity sales in the near term but may help indexed annuities." He added, "Income annuity results are likely to strengthen gradually due to growing demand for lifetime income and that will support indexed products with guaranteed lifetime withdrawal benefits."

PRUDENTIAL COVERS PENSION ACCOUNT VALUES WITH FIRST LONGEVITY REINSURANCE SALE

Newark, NJ-based Prudential has completed its first longevity reinsurance sale. New York City-based The Goldman Sachs Group unit United Kingdom-based Rothesay Life purchased the product in order to cover £100 million ($160 million) in pension account values. Prudential Senior Vice President Amy Kessler said, "Plan sponsors face significant uncertainty and exposure to pension risk. Prudential's role as a reinsurer of longevity risk," she said, "helps increase the security of the promise pension plans offer to participants around the world." Rothesay Life provides annuity and other longevity products to corporate defined benefit pension plans.

MEDICARE & MEDICAID DRIVE LTC COSTS & RETIREMENT SECURITY RISKS UP

Long-term care costs have continued up in 2011, according to Genworth's *2011 Cost of Care Study*. Thus far this year, the median annual cost for a private room in a nursing home has grown 3.4% to $77,745, up from $75,189 in 2010, and the median annual cost for an assisted living facility has risen 2.4% to $39,135. In-home homemaker and health aid costs, however, have remained steady at $18 and $19 per hour, respectively.

The rising cost of nursing home care, Genworth found, reflects "the effect of Medicare/Medicaid on their overall business plans." With this in mind, Genworth U.S. Life Insurance Products President Buck Stinson said, "The cost of long-term care remains one of the biggest risks to one's retirement security, especially with ever-increasing healthcare costs."

ARROW FINANCIAL'S INSURANCE EARNINGS MORE THAN DOUBLE ON AGENCY ACQUISITIONS

Glens Falls, NY-based, $1.98 billion-asset Arrow Financial reported the second quarter 2010 acquisition of property-casualty insurance agency Loomis & LaPann and the first quarter 2011 acquisition of Upstate Agency drove insurance brokerage earnings up 136.7% in the first quarter to $1.47 million from $621,000 in first quarter 2010, when only Capital Financial Group, an insurance agency specializing in the sale and servicing of group health plans, contributed insurance revenue. Insurance brokerage earnings comprised 26.2% of noninterest income, which climbed 39.8% to $5.62 million, up from $4.02 million in first quarter 2010.

Net interest income on a 3.39% net interest margin in the first quarter declined 6.6% to $14.33 million, down from $15.34 million in first quarter 2010, despite a $603,000 cut in interest expense and a $155,000 decrease in loan loss provisions to $220,000. Net income, impacted by decreasing interest earnings, slipped 2.1% to $5.28 million, down from $5.42 million in first quarter 2010. Arrow Financial President and CEO Thomas Hoy attributed the "solid earnings" to "a substantial increase in our noninterest income," including "significantly expanded fee income from insurance commissions."

In 2010, Arrow Financial reported $3.0 million in insurance brokerage income, which comprised 17.0% of its noninterest income and 3.8% of its net operating revenue. The company ranked 51st in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

TRUST & INVESTMENT MANAGEMENT EARNINGS COMPRISE 44.2% OF S. Y. BANCORP'S NONINTEREST INCOME

Louisville, KY-based, $1.92 billion-asset S. Y. Bancorp, parent of Stock Yards Bank & Trust and S. Y. Capital Trust, reported trust and investment management (TIM) income in the first quarter rose 8.6% to $3.54 million, up from $3.26 million in first quarter 2010; brokerage commissions and fees increased 12.5% to $513,000, up from $456,000, and bank-owned life insurance (BOLI) income rose 2.5% to $249,000, up from $243,000. TIM, brokerage fees and BOLI earnings comprised, respectively, 44.2%, 6.4%

and 3.1% of noninterest income, which inched ahead 0.4% to $8.01 million, up from $7.98 million.

Net interest income on a 4% net interest margin grew 10.8% to $14.52 million, up from $13.10 million, driven by a $1.09 million cut in interest expense, as loan loss provisions rose by $105,000 to $2.80 million. Net income grew 10% to $5.49 million, up from $4.98 million, as the company "continue[d] to enjoy solid revenue diversification," S. Y. Bancorp Chairman and CEO David Heintzman said. Heintzman added, "We know the economy continues to be uncertain, the real estate market remains stressed, and unemployment levels are troubling."

In 2010, S. Y. Bancorp reported $2.1 million in securities brokerage income, which comprised 6.1% of its noninterest income and 2.1% of its net operating revenue. The company ranked 37th in securities brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *MWA Fee Income Ratings Reports*.

GROWING INSURANCE EARNINGS COMPRISE 34% OF NONINTEREST INCOME AT OHIO'S PEOPLES

Marietta, OH-based, $1.8 billion-asset Peoples Bancorp reported "annual performance-based insurance revenues" and "relatively stable pricing margins within the insurance industry" helped drive first quarter insurance brokerage earnings up 17.4% to $2.83 million from $2.41 million in first quarter 2010. In contrast, trust and investment management (TIM) income fell 14.7% to $1.33 million, down from $1.56 million, and bank-owned life insurance (BOLI) income dropped 53.0% to $87,000, down from $185,000. Insurance, TIM and BOLI earnings comprised, respectively, 33.8%, 15.9% and 1.0% of noninterest income, which rose 4.5% to $8.37 million, up from $8.01 million in first quarter 2010, lifted by insurance earnings.

Net interest income fell 8.5% in the first quarter to $8.18 million, down from $8.94 million in first quarter 2010, despite a $2.19 million cut in interest expense and a $1.19 million decrease in loan loss provisions to $5.31 million. Net income, however, jumped 68.3% to $1.35 million, up from $802,000 in first quarter 2010, when the company recorded $986,000 in other than temporary net impairment losses. Peoples Director David Mead said, "First quarter 2011 results were generally in line with our expectations, especially considering the interest rate environment and general economic conditions remained challenging for financial institutions."

In 2010, Peoples Bancorp reported $8.8 million in insurance brokerage income, which comprised 31.2% of its noninterest income and 10.0% of its net operating revenue. The company ranked 17th in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

INSURANCE CLIMBS 22%, TIP GROWS 19% & COLI JUMPS 75% AT GERMAN AMERICAN

Jasper, IN-based, $1.8 billion-asset German American Bancorp reported insurance brokerage fee income in the first quarter climbed 22% to $2.05 million, up from $1.69 million in first quarter 2010, bolstered by more than a doubling of contingency fee income to $784,000. Trust and investment product (TIP) fees grew 18.7% to $464,000, up from $391,000, and company-owned life insurance (COLI) income jumped 74.8% to $353,000, up from $202,000. Insurance brokerage, TIP fees and COLI earnings comprised, respectively, 34.1%, 7.7% and 5.9% of noninterest income, which climbed 31.2% to $6.01 million, up from $4.58 million in first quarter 2010, reflecting increased insurance, TIP and COLI income and $1.05 million in net securities gains.

Net income climbed 47.6% to $4.65 million, up from $3.15 million in first quarter 2010, driven by noninterest earnings, organic growth in net interest income and additional interest earnings tied to the January acquisition of Evansville, IN-based, $340.3 million-asset American Community Bancorp, parent of the Bank of Evansville. German American Bancorp Chairman and CEO Mark Schroeder said, "We have seen a strong resurgence in our non-banking lines of business within insurance, investment and trust services."

He added, "We are excited about the opportunities the Evansville market will offer us, not only within banking but also relative to the expansion of our insurance, investment and trust lines of business."

In 2010, German American Bancorp reported $1.6 million in wealth management income, which comprised 9.3% of its noninterest income and 2.4% of its net operating revenue. The company ranked 143rd in wealth management earnings among BHCs with assets between $1 billion and $10 billion, according to *Michael White's Wealth Management Fee Income Report*.

In 2010, German American reported $5.3 million in insurance brokerage income, which comprised 31.2% of its noninterest income and 8.1% of its net operating revenue. The company ranked 31st in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

FIRST M&F REPORTS GROWING FIDUCIARY AND STEADY INSURANCE EARNINGS

Kosciusko, MS-based, $1.61 billion-asset First M&F Corp. reported insurance brokerage earnings in first quarter 2011 slipped 0.7% to $892,000, down from $898,000 in first quarter 2010, while fiduciary and brokerage earnings grew 9.9% to $133,000, up from $121,000. Insurance brokerage and fiduciary earnings comprised, respectively, 15.6% and 2.3% of noninterest income, which rose 2.3% to $5.73 million, up from $5.60 million in first quarter 2010, driven by a $345,000 increase in AFS securities gains.

Net interest income on a 3.59% net interest margin climbed 13.3% to $10.15 million, up from $8.96 million, driven by a $1.93 million cut in interest expense, as loan loss provisions increased by $300,000 to $2.58 million. After increased expenses largely tied to foreclosed property, net income grew 24.7% to $515,000, up from $413,000 in first quarter 2010. First M&F Chairman and CEO Hugh Potts said, "The national economy and real estate values have not allowed for a quick or robust recovery, but we are making progress."

In 2010, First M&F reported $3.8 million in insurance brokerage income, which comprised 22.0% of its noninterest income and 5.9% of its net operating revenue. The company ranked 44th in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

POSITIVE INSURANCE EARNINGS CONTRAST WITH NONINTEREST LOSS AT SUMMIT FINANCIAL

Moorefield, WV-based, $1.48 billion-asset Summit Financial Group reported insurance brokerage earnings in the first quarter rose 2.7% to $1.24 million, up from $1.21 million in first quarter 2010, but could not compensate for $3.44 million in other real estate owned (OREO) write downs and $1.23 million in other than temporary impairment of securities, which drove a $612,000 noninterest loss compared to $2.52 million in noninterest earnings in first quarter 2010.

Net interest income on a 3.11% net interest margin, however, jumped 45.5% to $7.10 million, up from $4.88 million in first quarter 2010, reflecting a $2.32 million cut in interest expense and a $2.35 million drop in loan loss provisions to $3.00 million. With what Summit Financial President and CEO H. Charles Maddy III described as "our portfolio of nonperforming assets," the company reported a first quarter net loss of $322,000 compared to net income of $46,000 in first quarter 2010. Maddy said, "Progress with the disposition of foreclosed real estate has been difficult to achieve as the return of our real estate markets to more normal activity levels is progressing more slowly than we had hoped."

In 2010, Summit Financial reported $4.7 million in insurance brokerage income, which comprised 68.3% of its noninterest income and 10.1% of its net operating revenue. The company ranked 36th in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

INSURANCE EARNINGS DOMINATE 63% OF VIST FINANCIAL'S NONINTEREST INCOME, DESPITE SLIDE

Wyomissing, PA-based, $1.41 billion-asset VIST Financial reported insurance brokerage fee income dominated first quarter 2011 noninterest earnings, despite a 7.8% slide in that revenue to $2.84 million, down from $3.08 million in first quarter 2010. In contrast, securities brokerage earnings climbed 33.3% to $180,000, up from $135,000, and bank-owned life insurance (BOLI) income grew 25.6% to $98,000, up from $78,000. Insurance brokerage, securities brokerage and BOLI earnings comprised, respectively, 62.7%, 4.0% and 2.2% of noninterest income, which fell 25.6% to $3.37 million, down from $4.53 million in first quarter 2010, driven by $166,000 in decreased customer service fees and $804,000 in net losses on the sale of other real estate owned (OREO).

Net interest income on a 3.73% net interest margin climbed 31.4% to $9.29 million, up from $7.07 million in first quarter 2010, helped by a $754,000 cut in interest expense and a $370,000 decline in loan loss provisions to $2.23 million. After $400,000 in integration expenses tied to the November 2010 acquisition of Allegiance Bank of North America, net income in the first quarter dropped 29.0% to $506,000, down from $713,000 in first quarter 2010. VIST Financial President and CEO Robert Davis said, "Elevated asset quality costs and potential OTTI charges will remain an influence on our results through 2011." He added, "We continue to be cautiously optimistic about the future opportunities for VIST Financial."

In 2010, VIST Financial reported $11.9 million in insurance brokerage income, which comprised 62.3% of its noninterest income and 19.9% of its net operating revenue. The company ranked 14th in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

INSURANCE COMPRISES 57% OF SHORE BANCSHARES' NONINTEREST EARNINGS

Easton, MD-based, $1.13 billion-asset Shore Bancshares reported a decline in contingency commissions based on overall insurance sales performance in 2010 drove first quarter insurance brokerage earnings down 13.1% to $2.51 million from $2.89 million in first quarter 2010. Still, insurance revenue remained the largest contributor to noninterest income, comprising 57.0% of those earnings, which fell 10% to $4.40 million, down from $4.88 million in first quarter 2010, as trust and investment fee income also declined, falling 9.6% to $376,000 from $416,000 to comprise 8.5% of noninterest earnings.

Net interest income on a 3.79% net interest margin in the first quarter climbed 25% to $3.47 million, up from $2.79 million in first quarter 2010, reflecting a $577,000 cut in interest expense and a $1.23 million drop in loan loss provisions to $6.39 million. With $3.1 million in net charge-offs, the company reported a net loss of $1.1 million compared with a net loss of $1.6 million in first quarter 2010. Shore Bancshares CEO W. Moorhead Vermilye said, "Declining property values are largely driving credit quality. We are moving as aggressively as possible to resolve and work out troubled credits and to eventually dispose of them."

In 2010, Shore Bancshares reported $10.1 million in insurance brokerage income, which comprised 58.2% of its noninterest income and 16.8% of its net operating revenue. The company ranked 16th in insurance brokerage earnings among BHCs with assets between $1 billion and $10 billion, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

JUNE 20 - 26, 2011

INDEXED ANNUITIES AMBIGUOUSLY CATEGORIZED AS SECURITIES IN ILLINOIS ORDER

A May 24, 2011, Order by Illinois Secretary of State Jesse White revoking the Investment Advisor Representative registrations of Thomas and Susan Cooper, prohibiting each from offering or selling securities in Illinois and fining both $10,000, has been appealed to the Circuit Court for the Seventh Judicial Circuit in Illinois for a stay and Administrative

Review. Both the order and Administrative Review are important relative to the classification of indexed annuities as securities or insurance products.

The Order arose after husband and wife clients of the Coopers filed a complaint with Illinois Secretary of State Securities Department in January 2008 alleging the Coopers "through negligence and lack of oversight as well as a breach of fiduciary duty, caused the complainants to suffer a $27,092.43 reduction in life insurance death benefits." The Securities Department took on the complaint, with the Secretary of State attesting: "The Hearing Officer and the Secretary of State Securities Department have jurisdiction over the parties and the subject matter dealt with herein."

The Order describes each of the Coopers as "an Investment Advisor registered in the State of Illinois" and "licensed to sell insurance in the State of Illinois." The complaint the Order addresses regards reduced life insurance benefits. In describing the complaint, the Order refers only to products "approved by the Illinois Department of Insurance" and to life insurance companies "AvivaUSA aka Amerus Life Insurance Company, Aviva Life & Annuity Company and EquiTrust Life Insurance Company," the provider of the Illinois Insurance Department-approved indexed annuity product AvivaUSA EIA and Lincoln Benefit Life, the provider of the variable annuity product, that the Coopers' clients partially surrendered in order to purchase the Aviva indexed annuity.

After the statement of these facts and a listing of other indexed annuity transactions handled for other clients by the Coopers, the Order focuses on the Coopers' status as registered investment advisors, refers to "Section 2.1 of the Act," defines "Security" based on Section 2.1, lists requirements of various other sections of "the Act," and concludes that the Coopers "when acting as investment advisor representatives … have violated Sections 12.A, F, G, H, I and J of the Act … [and] are subject to suspensions or revocations pursuant to Section 8.E.1(b), (f), (g) and (m) of the Act." The Order describes the indexed annuity transactions as "investment plans" and concludes, "Each of the above referenced investment plans is an investment contract and therefore is a security as the term is defined pursuant to Section 2.1 of the Act." In other words, the order categorized indexed annuity transactions as security transactions.

In appealing the Order, Thomas Kelty, attorney for the Coopers, said, "The findings and conclusions of law in the Order are not supported by the record," and "the use of the term 'investment plans' in the Order is vague and undefined." The Secretary of State Securities Department has 35 days to respond to the complaint for Administrative Review.

To read the entire Order, click here.

CAPITAL ONE TO ACQUIRE ING DIRECT

McLean, VA-based, $199.3 billion-asset Capital One Financial has agreed to acquire Wilmington, DE-based ING Direct from Amsterdam, Netherlands-based ING Group in an approximately 3:1 cash and stock deal valued at $9 billion. Capital One Chairman and CEO Richard Fairbanks described the purchase a "a game-changing transaction that delivers attractive deal economics immediately and compelling long-term strategic value." Capital One plans to leverage the combined strength of ING Direct's nationwide direct deposit franchise with Capital One's asset access and branch banking network as it cross-sells ING Direct online brokerage products and Capital One products.

When the deal closes in late 2011 or early 2012, pending regulatory approval, Capital One will acquire "7 million young, high-income, loyal customers" and "become the 5th largest depository institution and leading direct bank in the U.S.," Capital One said. In addition, ING Group will own a 9.9% stake in the company and the right to name a Director to Capital One's board.

U.S. INDIVIDUALLY UNDERWRITTEN LIFE INSURANCE APPLICATIONS DOWN IN MAY

U.S. applications for individually underwritten life insurance were down 2.6% in May compared to May 2010 and off 8.4% from April, the month before. While applications among individuals aged 60 and older continued up (+5.7%), albeit at the lowest rate since February 2008, applications among individuals aged 45-59 slid 3.3% and applications among individuals aged 0-44 fell 4.7%, according to the MIB Life Index compiled by Braintree, MA-based MIB Group.

U.S. TITLE INSURANCE PREMIUMS RISE IN FIRST QUARTER

U.S. title insurance premiums rose 8.7% in first quarter 2011 compared to first quarter 2010, enough to decrease the title insurance industry's overall first quarter loss to $11 million, an improvement over the first quarter 2010 loss of $124 million, according to the Washington, DC-based American Land Title Association (ALTA).

Over 80% of states (41) reported title insurance premium increases, with Alaska, Kansas and West Virginia recording 30%+ jumps over first quarter 2010 numbers. California recorded the highest title insurance premiums written (+2% to $307 million), followed by Texas (+22.2% to $246 million), New York (+17.7% to $165 million), Florida (+6% to $159 million) and Pennsylvania (25.3% to $110 million). But ATLA CEO Kurt Pfotenhauer noted, "Since third quarter 2009, quarterly premiums written have fluctuated up and down in no discernible pattern." Despite this, Pfotenhauer said, "The [title insurance] industry remains in a strong financial position."

EMPLOYEES ASSUMING MORE BENEFITS' COSTS

Nearly 50% of U.S. employers have increased employee contributions to their company benefits offerings, and 33% have increased the deductibles attached to those benefits in response to U.S. healthcare reform and other economic pressures, according to Chattanooga, TN-based Unum's *Buyers Study 2011*. At the same time, 90% of businesses with 1,000 or more employees offer combined employer and employee-paid benefits, with employee-paid benefits on the rise.

To read the 28-page Unum study, click here.

EXECUTIVES' OUTLOOK ON U.S. ECONOMY DIMS

U.S. business leaders are changing their outlooks on the U.S. economy, according to Chicago-based Grant Thornton's Business Optimism Index. While in February 72% believed the economy would improve in six months, in May that percentage had dropped to 61%. While in February only 3% believed the economy would get worse, in May 8% saw worse economic times ahead.

In contrast to these executives' views of the overall economy, however, their assessments of the future performance of their own businesses improved. In February 85% had a very or somewhat optimistic outlook on their company's future, but by May that percentage had grown to 92%.

Still, confidence in government remains tepid, as 58% of financial services executives agree that the Dodd Frank Act will not improve accountability and transparency in the U.S. financial system. Grant Thornton Leader Nichole Jordan said, "As we approach the one-year anniversary of Dodd-Frank, firms are still trying to get a handle on how they are going to meet the increased compliance burden while still executing their plans for growth." For more on the Grant Thornton survey results, click here.

RBC WEALTH MANAGEMENT-US RANKS FIRST IN CUSTOMER SATISFACTION

Minneapolis, MN-based RBC Wealth Management-US ranks first in investor satisfaction among full-service brokerage firms, according to Westlake Village, CA-based J.D. Power & Associates. After surveying 4,200 investors who primarily invest with one of the 13 investment firms considered in its *2011 U.S. Full Service Investor Satisfaction Study*, J.D. Power found that investors believe RBC Wealth Management-US excels in investment advisors, account information, investment performance, portfolio performance, account offerings, commissions and fees, website and problem resolution.

Commenting on the first-place distinction, RBC Wealth Management-US CEO John Taft said, "Our goal is to be the best possible stewards of our clients' assets, and these results validate our longstanding commitment to providing superior service to all our valued clients."

RBC Wealth Management-US offers high net worth individuals and corporate and institutional clients trust and estate planning, tax advice, discretionary investment management and investment advisory services, structured solutions, banking, lending and global custody and has over $560 billion in assets under administration and $315 billion in assets under management.

AMERICANS PREFER COMMISSIONS OVER FEES

Americans prefer to pay commissions (47%) for financial advice rather than pay a fee based on assets (27%), but in 2010, 66% of financial advice providers charged only or primarily fees for their services, according to Boston, MA-based Cerulli Associates. Cerulli based its findings on August and December 2010 surveys of U.S. households with more than $50,000 in annual income or more than $250,000 in investible assets, *investmentnews.com* reports.

COMMENTS SOUGHT ON FINRA'S AMENDED PROPOSED RULE TO REGISTER OPERATIONS PERSONNEL

The Securities and Exchange Commission (SEC) has published for comment the Financial Industry Regulatory Authority's (FINRA) amended proposed Rule 1230(b)(6). The original proposed rule was published in the *Federal Register* in March and received 17 comments in opposition and none in support. The current proposed rule reflects the minor changes FINRA made in response to those comments.

Proposed FINRA Rule 1230(b)(6) establishes a registration category and qualification exam requirements for operations personnel with "covered" responsibilities, and requires these personnel to meet continuing education requirements as set forth in proposed FINRA Rule 1250 (currently to-be-amended NASD Rule 1120).

The SEC is soliciting comments on the amended proposed FINRA Rule 1230(b)(6) and plans to approve it "on an accelerated basis."

To read the proposed rule, click here.

IRDA SEEKS COMMENT ON BANCASSURANCE PROPOSALS

India's Insurance Regulatory and Development Authority (IRDA) is asking for comments on the Committee on Bancassurance's recommendations to the IRDA following the Committee's study of that distribution channel mandated in 2009.

The Committee on Bancassurance notes in its report that India's banks, with their network of over 80,000 branches across the country, "have the necessary potential to make bancassurance the most efficient way to achieve financial inclusion in the insurance sector." The ease of access reduces servicing costs and policy lapses and facilitates claims payments, among other positives, the Committee found.

Currently, bancassurance in its infant stage in India is responsible for 7.31% of total life and non-life insurance premiums sold. The Committee recommends that, with the growing unmet need for insurance coverage throughout the country, India's banks be encouraged to expand their insurance programs. Specifically, the Committee recommends that each bank be permitted to partner with any two life insurers, non-life insurers, health insurers and ECGC/AIC insurers and continue to "operate on principles of tied agency preserving the current legal status of the bank as an agent of the insurer."

Comments on the Committee report are due July 10, 2011. *To access the full report, click here*.

INSURANCE EARNINGS DOMINATE 60.4% OF EVANS' NONINTEREST INCOME, DESPITE 7% SLIDE

Hamburg, NY-based, $700 million-asset Evans Bancorp reported a "soft" personal and commercial property and casualty insurance market undermined "strong retention rates" and drove first quarter insurance brokerage fee income down 7.1% to $2.09 million from $2.25 million in first quarter 2010. At the same time, bank-owned life insurance (BOLI) income slipped 4.6% to $103,000 from $108,000. Insurance brokerage and BOLI earnings comprised, respectively, 60.4% and 3.0% of noninterest income, which decined 6.5% to $3.46 million from $3.70 million in first quarter 2010, impacted additionally by a 25% drop ($725,000) in deposit service fees.

Net interest income on a 4.05% net interest margin grew 19.5% to $5.81 million, up from $4.86 million in first quarter 2010, bolstered by a $726,000 decrease in loan loss provisions to $488,000. Net income climbed 30% to $1.9 million, up from $1.4 million in first quarter 2010, with noninterest income, dominated by insurance brokerage earnings, comprising 36% of total revenue. Commenting on overall results, Evans Bancorp President and CEO David Nasca said, "Our favorable results speak to the strength of our business model as we address the challenge of increased regulatory burden, requirements of increased capital, margin compression and an increasingly competitive marketplace."

In 2010, Evans Bancorp reported $7.0 million in insurance brokerage income, which comprised 56.4% of its noninterest income and 18.8% 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*.

RECORD INSURANCE & FINANCIAL SERVICES EARNINGS COMPRISE 82% OF ONEIDA'S NONINTEREST INCOME

Oneida, NY-based, $683.2 million-asset Oneida Financial President and CEO Michael Kallet said, "Our insurance and financial services subsidiaries, Bailey & Haskell Associates and Benefit Consulting Group, once again posted record first quarter revenue," up 4.3% to $4.9 million from $4.7 million in first quarter 2010, helped by the first quarter acquisition of Utica, NY-based Holmes Agency. Insurance and financial services earnings comprised 81.7% of noninterest income, driving it up 3.6% to $6.0 million from $5.8 million in first quarter 2010, compensating for a $22,000 drop in mortgage loan sales to $121,000.

Net interest income on a 3.3% net interest margin increased 12.8% to $4.4 million, up from $3.9 million in first quarter 2010, as loan loss provisions remained steady at $400,000. Net income, despite increased noninterest expenses, jumped 123.3% to a record $1.4 million, up from $627,000 in first quarter 2010. Kallet said, "Oneida Financial Corp. is pleased to report record first quarter net income while continuing to grow our banking and insurance businesses."

In 2010, The Oneida Savings Bank reported $10.5 million in insurance brokerage income, which comprised 46.4% of its noninterest income and 25.8% 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*.

INSURANCE REVENUE COMPRISES 43% OF NORTHEAST BANCORP'S NONINTEREST EARNINGS

Lewiston, ME-based, $607.4 million-asset Northeast Bancorp reported insurance brokerage fee income in first quarter 2011 fell 16.1% to $1.46 million, down from $1.74 million in first quarter 2010, but remained the largest contributor to noninterest earnings, comprising 43.1% of that revenue, which grew 11.1% to $3.39 million, up from $3.05 million in first quarter 2010, helped by a $296,000 bargain purchase gain and increased investment commissions. Investment brokerage commissions jumped 51.8% to $709,000 from $467,000 and bank-owned life insurance (BOLI) earnings rose 0.9% to $126,000 from $125,000 to comprise, respectively, 20.9% and 3.7% of noninterest income.

Net interest income climbed 24.7% to $4.95 million, up from $3.97 million in first quarter 2010, reflecting a $1.65 million cut in interest expense and a $579,000 drop in loan loss provisions to $49,000. Net income available to shareholders, however, dropped 87.7% to $58,000, down from $470,000 in first quarter 2010, impacted by $2.09 million in increased noninterest expenses. Northeast Bancorp President and CEO Richard Wayne said, "Over the past three months, we've invested in positioning Northeast for future growth."

In 2010, Northeast Bancorp reported $5.9 million in insurance brokerage income, which comprised 20.9% of its noninterest income and 12.9% of its net operating revenue. The company ranked 5th 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*.

TRUST EARNINGS RISE AT STURGIS, WHILE INSURANCE BROKERAGE SLIPS

Sturgis, MI-based, $379.6 million-asset Sturgis Bancorp reported investment brokerage fee income in the first quarter slipped 2.8% to $278,000, down from $286,000 in first quarter 2010. Bank-owned life insurance (BOLI) income decreased 8.0% to $69,000, down from $75,000, while trust fee income rose 1.1% to $91,000, up from $90,000 in first quarter 2010. Investment brokerage, BOLI and trust fee income comprised, respectively, 26.2%, 6.5% and 8.6% of noninterest income, which fell 16.5% to $1.06 million, down from $1.27 million in first quarter 2010.

Net interest income on a 3.02% net interest margin dropped 17.1% to $1.55 million, down from $1.87 million in first quarter 2010, despite $391,000 cut in interest expense, as loan loss provisions grew by $292,000 to $882,000. A first quarter net loss of $117,000 compared with net income of $253,000 in first quarter 2010. Sturgis President and CEO Eric Eishen said, "Provisions to the Allowance for Loan and Lease Losses (ALLL) resulted in our loss…. As economic conditions improve, we believe many of the credits we have analyzed and provided for in our ALLL will improve." He added, "The Bank continues to be in the 'Well Capitalized' category as defined by Regulators."

In 2010, Sturgis reported that trust and

BankInsurance.com News

investment brokerage earnings grew 10.6% to $1.56 million, up from $1.41 million in 2009, and comprised 27.6% of noninterest income, according to *Michael White's Wealth Management Fee Income Report*.

COMBINED INVESTMENT & INSURANCE COMMISSIONS RISE AT OAK RIDGE FINANCIAL

Oakridge, NC-based, $352 million-asset Oak Ridge Financial reported investment and insurance commissions in the first quarter rose 5.2% to $202,000, up from $192,000 in first quarter 2010, while bank-owned life insurance (BOLI) earnings declined 14% to $37,000 and service charges on deposit accounts fell 22% to $157,000. Combined investment and insurance commissions and BOLI earnings comprised, respectively, 24.6% and 4.5% of noninterest income, which dropped over 31% to $820,000 from $1.20 million in first quarter 2010, when the company recorded a $386,000 gain on the sale of securities.

Net interest income rose 5.3% to $3.50 million, up from $3.32 million and total revenue increased 4.4% to $4.32 million, but net income available to shareholders tumbled 93.8% to $30,000, down from $484,999 in first quarter 2010. Oak Ridge President Ron Black said, "Nonperforming assets were up as our region continues to experience the negative effects of the weak economy. We continue to devote substantial efforts to servicing and reducing these assets."

INSURANCE, SECURITIES BROKERAGE & TRUST FEES UP AT SOUTHWEST GEORGIA

Moultrie, GA-based, $314 million-asset Southwest Georgia Financial reported insurance brokerage fee income in the first quarter grew 10.7% to $353,000, up from $319,000 in first quarter 2010; securities brokerage fee income increased 14.8% to $70,000, up from $61,000; and trust services fee income remained steady at $55,000. Insurance brokerage, securities brokerage and trust fee income comprised, respectively, 28.9%, 5.7% and 4.5% of noninterest earnings, which increased 6.1% to $1.22 million, up from $1.15 million in first quarter 2010, driven by the aforementioned gains.

Net interest income on a 3.81% net interest margin rose to $2.42 million, up 3.0% from first quarter 2010, reflecting a $190,000 cut in interest expense, as loan loss provisions remained flat at $150,000. Net income after increased employee benefit and salary expenses, however, fell 7.9% to $375,000, down from first quarter 2010. Southwest Georgia Financial President and CEO Drew DeWitt said, "We continue to see high levels of loan defaults resulting in more problem assets and poor financial performance for many financial institutions across the state. Our industry is also burdened by increased overhead caused by the current regulatory environment."

In 2010, Southwest Georgia reported insurance brokerage fee income rose 5.6% to $1.13 million, up from $1.07 million in 2009, and comprised 22.2% of noninterest income, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

SECURITIES BROKERAGE & BOLI INCOME COMPRISE 34% OF NONINTEREST EARNINGS AT NORTHEAST INDIANA BANCORP

Huntington, IN-based, $255.6 million-asset Northeast Indiana Bancorp, parent of First Federal Savings Bank, reported securities brokerage fee income in the first quarter fell 12.9% to $96,555, down from $110,875 in first quarter 2010, while bank-owned life insurance (BOLI) income rose 2.4% to $64,866 from $63,319. Securities brokerage fees and BOLI earnings comprised, respectively, 20.4% and 13.7% of noninterest income, which slid 3.0% to $473,844, down from $488,502 in first quarter 2010, impacted by an almost $30,000 drop in deposit account fees.

Net interest income on a 3.58% net interest margin fell 43.7% to $945,284, down from $1.68 million in first quarter 2010, as an $850,000 jump in loan loss provisions to $1.2 million dwarfed a $292,464 cut in interest expense. With additional noninterest expenses, the company reported a net loss of $14,000 compared to net income of $452,000 in first quarter 2010. First Federal Savings Bank CEO Michael Zahn said, "With the economic recovery slower than expected, we felt it was prudent to bolster our allowance for loan losses this quarter."

WELLS FINANCIAL REPORTS 29.4% DROP IN INSURANCE BROKERAGE EARNINGS

Wells, MN-based, $242.5 million-asset Wells Financial reported insurance brokerage fee income in the first quarter dropped 29.4% to $144,000, down from $204,000 in first quarter 2010, and comprised 15.9% of noninterest income, which grew 15.0% to $905,000, up from $787,000 in first quarter 2010, driven by gains on loan sales.

Net interest income on a 4.05% net interest margin rose 4.6% to $2.03 million, up from $1.94 million in first quarter 2010, reflecting a $547,000 cut in interest expense and despite a $91,000 increase in loan loss provisions to $216,000. Net income increased 5.4% to $370,000, up from $351,000 in first quarter 2010. Wells Financial President Louie Trasamar referenced what he described as "challenging times for banks" and said, "Challenging times often result in additional opportunities for organizations that position themselves to take advantage of those opportunities. The Board of Directors of Wells Financial Corp feel there will be opportunities available that will allow our company to expand and diversify."

In 2010, Wells Financial reported that insurance brokerage fee income increased 6.8% to $679,000, up from $636,000 in 2009, and comprised 15.0% of noninterest income, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

JUNE 27 - JULY 4, 2011

SEPARATE ACCOUNTS HOLD LARGEST SHARE OF BOLI ASSETS; GENERAL ACCOUNT POLICIES MOST POPULAR

Separate account life insurance (SALI) assets constituted the majority ($62.56 billion or 51.5%) of total bank-owned life insurance (BOLI) assets in the first quarter 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 $57.92 billion constituted even more of their BOLI assets of $97.88 billion, reaching nearly $3 of every $5 (59.2%).

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 or 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, do not currently report these types of BOLI assets.

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 on the general accounts of the insurer.

Compiled by Michael White Associates, (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). The data here were reported by 6,850

TABLE 1. TOTAL BOLI ASSETS (IN BILLIONS) HELD BY BANKS IN FIRST QUARTER 2011

BANKS BY ASSET SIZE	GENERAL ACCOUNT LIFE INSURANCE ASSETS (GALI)	SEPARATE ACCOUNT LIFE INSURANCE ASSETS (SALI)	HYBRID ACCOUNT LIFE INSURANCE ASSETS (HALI)	TOTAL
Over $10 billion	$33.18	$57.92	$6.78	$97.88
$1 billion - $10 billion	$7.40	$3.66	$1.18	$12.24
$500 million - $1 billion	$3.28	$0.44	$0.54	$4.25
$300 million - $500 million	$2.09	$0.19	$0.34	$2.62
$100 million - $300 million	$3.04	$0.29	$0.39	$3.73
Under $100 million	$0.70	$0.06	$0.04	$0.81
All	$49.70	$62.56	$9.27	$121.53

SOURCE: *Michael White-Meyer-Chatfield Bank-Owned Life Insurance (BOLI) Holdings Report* commercial banks and FDIC-supervised savings banks operating on March 31, 2011. Among the study's most significant findings in the first quarter are these:

- Of 6,850 commercial and FDIC-supervised savings banks, 3,409 or 49.8% reported holding BOLI assets of $121.53 billion in first quarter 2011, a slight decline of 1.6% from $123.52 billion in first quarter 2010.
- Separate account CSV assets totaled $62.56 billion among banks and represented 51.5% of total BOLI assets. At the same time, only 582 or 17.1% of all banks reporting BOLI assets held separate account assets. Of banks holding BOLI assets, the fewest number held SALI assets, which were the largest portion of BOLI assets.
- The largest banks, i.e., those with assets greater than $10 billion, reported the most in BOLI assets, as 62 of 88 large banks or 70.5% reported having $97.88 billion in BOLI assets or 80.5% of the industry's total of $121.53 billion. These large banks held $57.92 billion or 92.6% of the $62.56 billion in SALI assets held by all banks in first quarter 2011. The SALI assets held by these large banks alone constituted 47.7% of the industry's total BOLI assets of $121.53 billion.
- In other words, the largest banks dominated the ownership of both total BOLI assets and separate account life insurance assets in first quarter 2011. Yet, the least commonly held BOLI policies were SALI policies, as the fewest banks (582) with BOLI assets in first quarter held SALI assets.
- Ninety-three percent (93.0%) or 3,170 of the 3,409 institutions reporting BOLI assets had $49.70 billion in general account life insurance assets, representing 40.9% of total BOLI assets at the end of first quarter. Thus, 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.
- Seven hundred thirteen (713) or 20.9% of the 3,409 institutions reporting BOLI assets held $9.27 billion in hybrid account life insurance assets, representing 7.6% 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 (92.6%) among the largest banks. But, GALI and HALI types of BOLI assets were much less concentrated among the big banks. Smaller banks held 33.2% of general account life insurance assets and 26.9% of hybrid account life insurance assets in first quarter 2011.
- Most banks are subsidiaries of bank holding companies and account for most BOLI assets. But approximately 20% of banks are stand-alone, i.e., not part of BHCs. Of $3.10 billion in BOLI assets owned by stand-alone banks, $2.42 billion or 78% resided in general account life insurance (GALI) policies, and only 15% of stand-alone banks' BOLI assets were in separate account life insurance (SALI) policies.
- Of 1,366 national banks, 661 or 48.4% held two-thirds ($81.45 billion) of total BOLI assets; those 661 banks represented 9.6% of all banks operating at the end of first quarter 2011. Only 122 of those national banks reported separate account life insurance assets, but they possessed $52.33 billion or 83.6% of the industry's total SALI assets of $62.56 billion, making national banks of all banking charters the leading owner of SALI. Indeed, SALI assets represented 64.2% of national bank's total BOLI assets of $81.45 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 institution's total capital. (Depending on the bank'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 very slightly from 14.69% in first quarter 2010 to 14.80% in first quarter 2011.

Click here to read more about the Michael White / Meyer-Chatfield BOLI Holdings Report.

TABLE 2. NUMBER OF BANKS REPORTING BOLI ASSETS IN FIRST QUARTER 2011

BANKS BY ASSET SIZE	GENERAL ACCOUNT LIFE INSURANCE ASSETS (GALI)	SEPARATE ACCOUNT LIFE INSURANCE ASSETS (SALI)	HYBRID ACCOUNT LIFE INSURANCE ASSETS (HALI)	TOTAL
Over $10 billion	59	49	28	62 *(of 88)*
$1 billion - $10 billion	342	150	112	365 *(of 482)*
$500 million - $1 billion	411	83	139	438 *(of 610)*
$300 million - $500 million	427	63	124	451 *(of 725)*
$100 million - $300 million	1,216	162	254	1,318 *(of 2,589)*
Under $100 million	715	75	56	775 *(of 2,356)*
All	3,170	582	713	3,409 *(of 6,850)*

SOURCE: *Michael White-Meyer-Chatfield Bank-Owned Life Insurance (BOLI) Holdings Report*

ING U.S. TO OFFER 401(K)S THROUGH BANKS

Windsor, CT-based ING U.S. plans to expand its presence in the bank channel by offering 401(k) retirement plans to small and mid-sized corporations. Heading this effort is newly hired Jim Bailey, former Sheboygan, WI-based, $579 million-asset Community Bank & Trust Director of Business Development for trusts and commercial lending, with 18 years of previous banking experience emphasizing retirement plan development.

ING's Banking Relationships team expects to establish "a network of key relationships with local and regional banks, credit unions and [retirement] plan intermediaries who work within the banking industry." ING U.S. National Distribution Management for Small and Mid-Corporate Markets Head Ginger Brennan said, "With our localized field support, fiduciary service offerings and best-in-class tools and platforms, ING can be an attractive plan provider for many of these institutions across the country."

IOWA ISSUES BULLETINS ON PERMISSIBLE & PROHIBITED INSURANCE & SECURITIES SALES

Iowa Insurance Commissioner Susan E. Voss has issued two bulletins designed to clarify the permissible and prohibited activities of individuals licensed to sell only insurance and individuals licensed to sell only securities in Iowa. The bulletins also detail what limited and defined insurance-only advice unlicensed individuals or entities are permitted to give, and both set out the permissible activities, responsibilities and risks faced by individuals both licensed to sell insurance and licensed face as investment advisors or investment advisor representatives.

Insurance Bulletin 11-4 and Securities Bulletin 11-S-1 contain identical information on both matters, with both clarifying that dual licensing is required to sell variable annuities in Iowa, where these products are classified as insurance products, in contrast to federal law, which classifies them as securities.

To access the very detailed information contained in Insurance Bulletin 11-4 or Securities Bulletin 11-S-1, click on the preferred source.

CUNA MUTUAL & LIVERPOOL VICTORIA PARTNER IN BUILDING SOCIETY SALES

Madison, WI-based CUNA Mutual Group and Bournemouth, United Kingdom-based Liverpool Victoria (LV+) have partnered to offer life insurance through building societies in the United Kingdom (UK). LV+ underwrites the policies and expects to benefit from CUNA Mutual's already established relationships with 20% of UK building societies. Those relationships bore fruit in the first week of the partnership when two building societies signed up to offer their products to their combined 80,000 customers.

CUNA Mutual CEO Paul Walsh said, "We've identified that there is a clear need for a simple term life assurance product…. Less than 16% of mortgages completed in building societies in Britain have a term life insurance linked to it." At the same time, Walsh noted, mortgage volume at building societies has plummeted to 9% to 10% of 2007 levels, incentivizing the building societies to boost their revenues by serving as life insurance distribution channels for their customers, according to BestDay Audio.

PNC TO ACQUIRE RBC BANK (USA)

Pittsburgh, PA-based, $260 billion-asset PNC Financial Services Group (PNC) has agreed to acquire Toronto-based Royal Bank of Canada's U.S. retail banking subsidiary, Raleigh, NC-based $25 billion-asset RBC Bank (USA) and the bank's related credit card assets for, respectively, $3.45 billion and $165 million, with up to $1 billion of the total $3.62 billion in PNC stock. The acquisition adds approximately $19 billion in deposits, $16 billion in loans and 424 branches in Alabama, Florida, Georgia, North Carolina, South Carolina and Virginia to PNC Bank's retail operations.

PNC Chairman and CEO James Rohr said, "The addition of RBC Bank provides PNC a great opportunity to enter attractive southeast markets … and represents an outstanding growth opportunity for PNC."

Royal Bank of Canada President and CEO Gordon Nixon said, "This transaction allows us to focus our U.S. efforts on continuing to grow our two largest U.S. businesses, RBC Wealth Management and RBC Capital Markets."

PNC expects to incur $322 million in merger and integration costs but reduce annual noninterest expense through consolidation by $230 million, after the deal closes in March 2012, pending regulatory approval.

GENWORTH TO SELL MEDICARE BUSINESS TO AETNA

Richmond, VA-based, $100 billion-asset Genworth Financial has agreed to sell its Medicare supplement business and related blocks of in-force business to Hartford, CT-based Aetna for $290 million in cash. The deal includes the sale of Brentwood, TN-based Continental Life Insurance Co. and American Continental Life Insurance Company and includes reinsurance agreements between affected Genworth life insurance subsidiaries and Aetna. Genworth Financial Chairman and CEO Michael Fraizer said the sale enables Genworth to focus on its Retirement and

Protection businesses, where Genworth holds leadership positions. The deal is expected to close in fourth quarter 2011, pending regulatory approval.

REGIONS FINANCIAL CREATES NEW WEALTH MANAGEMENT GROUP

Birmingham, AL-based, $132 billion-asset Regions Financial has created a new Wealth Management Group, consolidating its Trust, Private Banking and Insurance operations in to one unit to be led by former Central Region President Bill Ritter. Regions President and CEO Grayson Hall said, "This new business line will help us advance our strategic plan by focusing on a key, profitable customer segment with the goal of increasing our noninterest revenue and deepening customer relationships."

REGIONS' MORGAN UNITS SETTLE WITH SEC, FINRA & STATES

Memphis, TN-based units Morgan Keegan & Company and Morgan Asset Management, both units of Birmingham, AL-based, $132 billion-asset Regions Financial, have agreed to a $210 million settlement with the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and state securities regulators in Alabama, Kentucky, Mississippi, South Carolina and Tennessee. To resolve findings that the companies engaged in improper fund-valuation practices, the companies agreed to pay $100 million into each of two Fair Funds, separately administered by the SEC and the states and pay $10 million in penalties to be divided among the states.

The investors who lost $1.5 billion due to Morgan Keegan and Morgan Asset Management's improper valuations still have the right to litigate and/or arbitrate to recoup their losses beyond money allotted in the Fair Funds.

After terms of the settlement were announced, Regions said it had retained Goldman Sachs "to explore potential strategic alternatives for Morgan Keegan." Morgan Asset Management and Region's Morgan Keegan Trust are not included in that exploration.

U.S. PROPERTY-CASUALTY INSURERS REPORT 12.2% DROP IN FIRST QUARTER EARNINGS

U.S. property and casualty insurers saw their aggregate net income in the first quarter fall 12.2% to $7.81 billion, down from $8.89 billion in first quarter 2010, according to the ISO (Insurance Services Office) and Property Casualty Insurers Association of America (PCI). While net written premiums rose 3.5% to $108.59 billion, up from $104.89 billion, and net earned premiums rose 2% to $104.83 billion, up from $102.74 billion, incurred loss and loss adjustment expenses grew 5.4% to $78.46 million, and statutory underwriting losses climbed to $4.01 billion from $1.27 billion, driving net underwriting losses to $4.46 billion, up from $1.78 billion in first quarter 2010.

The industry's consolidated surplus, however, reached a record $564.66 billion, and its loss and loss adjustment expense reserves rose 1.6% to $560.80 billion, up from $551.71 billion in first quarter 2010.

Despite declining earnings and a deteriorating combined ratio to 103.3%, from 101.1% in first quarter 2010, PCI President and CEO David Sampson said, "Insurers should have the financial resources necessary to cover claims even if this year's hurricane season is as bad as the experts predict." The $564.7 billion in record policyholder surplus plus $560.8 billion in loss and loss adjustment expense reserves plus $202.7 billion in unearned premium reserves combined to provide $1.3 trillion in resources to pay claims and meet other contingencies, Sampson said.

U.S. COMMERCIAL PROPERTY-CASUALTY RATES FALL 4% IN MAY

U.S. commercial property and casualty insurance rates dropped a composite 4% in May, according to Dallas, TX-based MarketScout. Inland marine and general liability rates fell 3%, commercial property, business interruption and umbrella/excess rates and declined 2%; BOP, commercial auto, workers compensation, fiduciary and surety rates slid 1%; while professional liability, directors and officers liability, EPLI and crime insurance rates remained flat, according to the MarketScout survey conducted by the National Alliance for Insurance Education and Research.

Rates by account size suffered as well. Large-account ($250,000-$1 million) rates dropped 5%; jumbo-account (over $1 million) rates fell 4%; medium-account ($25,000-$250,000) rates declined 3%, and small-account ($25,000 or less) rates remained flat.

All industry classes received rate reductions led by a 6% drop in rates for the energy sector and followed by a 4% decline for manufacturers. Companies in the contracting, service, public services and transportation industries saw rates decline 2%, while those in the habitational business received 1% rate reductions.

Commenting on the continuing soft commercial property and casualty insurance market, MarketScout CEO Richard Kerr said, "Financial and economic metrics may support a market turn but real life situations have a considerable influence on the actual pricing set forth by underwriters." In the energy sector, for example, two large insurers are engaged in an "egos"-involved price war for dominance, Kerr said.

U.S.P.S. SUSPENDS CONTRIBUTIONS TO RETIREMENT SYSTEM

The U.S. Postal Service (USPS), which was mandated by Congress in 2006 to prefund its retiree health benefits, suspended its employer contributions to the Federal Employees Retirement System (FERS) on June 24. the FERS, which includes defined benefit and defined contribution components, covers 85% of career postal workers. By suspending its annual $800 million contribution to the FERS, the USPS hopes to find the mandated $5.8 billion in cash to pay into the USPS retiree health benefits fund. Since finding this money within the USPS is highly unlikely, the USPS has (1) asked Congress to rescind its health benefit prefunding rule, (2) asked the Civil Service Retirement System (CSRS) to return $50 billion to $75 billion in USPS overpayments, and (3) asked FERS to return $6.9 billion in overpayments.

U.S. Congressman Dan Issa commented on what he described as the USPS's "unprecedented action to suspend FERS payments" noting the suspension "will only offer USPS an additional $800 million through the end of the year in liquidity, not even 10% of their projected deficit of $8.3 billion." He added, "The nation's second largest employer is now past the brink of insolvency," *nuonline* reports.

7% OF HEALTH INSURANCE AGENTS SUPPORT OBAMACARE

Only 7% of health insurance agents support the health insurance legislation passed by Congress and signed into law by President Obama last year, according to the *2011 Health Insurance Market Study*. Since the legislation was passed, agents say more of their clients believe they cannot afford health insurance; rates have increased; the underwriting process has become increasingly difficult; clients are hesitant to purchase health insurance because they are uncertain about what health care reform might offer them; and commissions tied to health insurance sales have decreased substantially due to the medical loss ratio mandate in the healthcare bill.

The results of the *2011 Health Insurance Market Study* were published in the June issue of *Agents' Sales Journal*. Commenting on the results, magazine editor Andy Stonehouse said, "As the fallout from the Obama health care initiatives continues, agents say they are being kept on their toes." He added, "The continuing drop in commissions is leading many agents to consider new products."

55% OF INSURERS SEE BANKS AS LEAD VARIABLE ANNUITY CHANNEL

More than half (55%) of insurers believe that over the next two years, the bank channel will become the leading distribution system for growing variable annuity sales, a recent Insured Retirement Institute (IRI) and Cerulli Associates survey found. IRI President and CEO Cathy Weatherford said, "With the need for guaranteed lifetime income at an all time high, there is a great incentive for the industry to ensure that advisors have the necessary tools and information to help alleviate client retirement concerns and provide the financial safety and security investors seek." *For more on the survey, which emphasizes the need for "increased retirement income training," click here*.

INSURANCE EARNINGS DOMINATE 60.4% OF EVANS' NONINTEREST INCOME, DESPITE 7% SLIDE

Hamburg, NY-based, $700 million-asset Evans Bancorp reported a "soft" personal and commercial property and casualty insurance market undermined "strong retention rates" and drove first quarter insurance brokerage fee income down 7.1% to $2.09 million from $2.25 million in first quarter 2010. At the same time, bank-owned life insurance (BOLI) income slipped 4.6% to $103,000 from $108,000. Insurance brokerage and BOLI earnings comprised, respectively, 60.4% and 3.0% of noninterest income, which declined 6.5% to $3.46 million from $3.70 million in first quarter 2010, impacted additionally by a 25% drop ($725,000) in deposit service fees.

Net interest income on a 4.05% net interest margin grew 19.5% to $5.81 million, up from $4.86 million in first quarter 2010, bolstered by a $726,000 decrease in loan loss provisions to $488,000. Net income climbed 30% to $1.9 million, up from $1.4 million in first quarter 2010, with noninterest income, dominated by insurance brokerage earnings, comprising 36% of total revenue. Commenting on overall results, Evans Bancorp President and CEO David Nasca said, "Our favorable results speak to the strength of our business model as we address the challenge of increased regulatory burden, requirements of increased capital, margin compression and an increasingly competitive marketplace."

In 2010, Evans Bancorp reported $7.0 million in insurance brokerage income, which comprised 56.4% of its noninterest income and 18.8% 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*.

RECORD INSURANCE & FINANCIAL SERVICES EARNINGS COMPRISE 82% OF ONEIDA'S NONINTEREST INCOME

Oneida, NY-based, $683.2 million-asset Oneida Financial President and CEO Michael Kallet said, "Our insurance and financial services subsidiaries, Bailey & Haskell Associates and Benefit Consulting Group, once again posted record first quarter revenue," up 4.3% to $4.9 million from $4.7 million in first quarter 2010, helped by the first quarter acquisition of Utica, NY-based Holmes Agency. Insurance and financial services earnings comprised 81.7% of noninterest income, driving it up 3.6% to $6.0 million from $5.8 million in first quarter 2010, compensating for a $22,000 drop in mortgage loan sales to $121,000.

Net interest income on a 3.3% net interest margin increased 12.8% to $4.4 million, up from $3.9 million in first quarter 2010, as loan loss provisions remained steady at $400,000. Net income, despite increased noninterest expenses, jumped 123.3% to a record $1.4 million, up from $627,000 in first quarter 2010. Kallet said, "Oneida Financial Corp. is pleased to report record first quarter net income while continuing to grow our banking and insurance businesses."

In 2010, The Oneida Savings Bank reported $10.5 million in insurance brokerage income, which comprised 46.4% of its noninterest income and 25.8% of its net operating revenue. The company ranked 1sr 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*.

INSURANCE REVENUE COMPRISES 43% OF NORTHEAST BANCORP'S NONINTEREST EARNINGS

Lewiston, ME-based, $607.4 million-asset Northeast Bancorp reported insurance brokerage fee income in first quarter 2011 fell 16.1% to $1.46 million, down from $1.74 million in first quarter 2010, but remained the largest contributor to noninterest earnings, comprising 43.1% of that revenue, which grew 11.1% to $3.39 million, up from $3.05 million in first quarter 2010, helped by a $296,000 bargain purchase gain and increased investment commissions. Investment brokerage commissions jumped 51.8% to $709,000 from $467,000 and bank-owned life insurance (BOLI) earnings rose 0.9% to $126,000 from $125,000 to comprise, respectively, 20.9% and 3.7% of noninterest income.

Net interest income climbed 24.7% to $4.95 million, up from $3.97 million in first quarter 2010, reflecting a $1.65 million cut in interest expense and a $579,000 drop in loan loss provisions to $49,000. Net income available to shareholders, however, dropped 87.7% to $58,000, down from $470,000 in first quarter 2010, impacted by $2.09 million in increased noninterest expenses. Northeast Bancorp President and CEO Richard Wayne said, "Over the past three months, we've invested in positioning Northeast for future growth."

In 2010, Northeast Bancorp reported $5.9 million in insurance brokerage income, which comprised 20.9% of its noninterest income and 12.9% of its net operating revenue. The company ranked 5th 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*.

TRUST EARNINGS RISE AT STURGIS, WHILE INSURANCE BROKERAGE SLIPS

Sturgis, MI-based, $379.6 million-asset Sturgis Bancorp reported investment brokerage fee income in the first quarter slipped 2.8% to $278,000, down from $286,000 in first quarter 2010. Bank-owned life insurance (BOLI) income decreased 8.0% to $69,000, down from $75,000, while trust fee income rose 1.1% to $91,000, up from $90,000 in first quarter 2010. Investment brokerage, BOLI and trust fee income comprised, respectively, 26.2%, 6.5% and 8.6% of noninterest income, which fell 16.5% to $1.06 million, down from $1.27 million in first quarter 2010.

Net interest income on a 3.02% net interest margin dropped 17.1% to $1.55 million, down from $1.87 million in first quarter 2010, despite $391,000 cut in interest expense, as loan loss provisions grew by $292,000 to $882,000. A first quarter net loss of $117,000 compared with net income of $253,000 in first quarter 2010. Sturgis President and CEO Eric Eishen said, "Provisions to the Allowance for Loan and Lease Losses (ALLL) resulted in our loss…. As economic conditions improve, we believe many of the credits we have analyzed and provided for in our ALLL will improve." He added, "The Bank continues to be in the 'Well Capitalized' category as defined by Regulators."

In 2010, Sturgis reported that trust and investment brokerage earnings grew 10.6% to $1.56 million, up from $1.41 million in 2009, and comprised 27.6% of noninterest income, according to *Michael White's Wealth Management Fee Income Report*.

COMBINED INVESTMENT & INSURANCE COMMISSIONS RISE AT OAK RIDGE FINANCIAL

Oakridge, NC-based, $352 million-asset Oak Ridge Financial reported investment and insurance commissions in the first quarter rose 5.2% to $202,000, up from $192,000 in first quarter 2010, while bank-owned life insurance (BOLI) earnings declined 14% to $37,000 and service charges on deposit accounts fell 22% to $157,000. Combined investment and insurance commissions and BOLI earnings comprised, respectively, 24.6% and 4.5% of noninterest income, which dropped over 31% to $820,000 from $1.20 million in first quarter 2010, when the company recorded a $386,000 gain on the sale of securities.

Net interest income rose 5.3% to $3.50 million, up from $3.32 million and total revenue increased 4.4% to $4.32 million, but net income available to shareholders tumbled 93.8% to $30,000, down from $484,999 in first quarter 2010. Oak Ridge President Ron Black said, "Nonperforming assets were up as our region continues to experience the negative effects of the weak economy. We continue to devote substantial efforts to servicing and reducing these assets."

INSURANCE, SECURITIES BROKERAGE & TRUST FEES UP AT SOUTHWEST GEORGIA

Moultrie, GA-based, $314 million-asset Southwest Georgia Financial reported insurance brokerage fee income in the first quarter grew 10.7% to $353,000, up from $319,000 in first quarter 2010; securities brokerage fee income increased 14.8% to $70,000, up from $61,000; and trust services fee income remained steady at $55,000. Insurance brokerage, securities brokerage and trust fee income comprised, respectively, 28.9%, 5.7%

and 4.5% of noninterest earnings, which increased 6.1% to $1.22 million, up from $1.15 million in first quarter 2010, driven by the aforementioned gains.

Net interest income on a 3.81% net interest margin rose 3.0% to $2.42 million, up from $2.35 million in first quarter 2010, reflecting a $190,000 cut in interest expense, as loan loss provisions remained flat at $150,000. Net income after increased employee benefit and salary expenses, however, fell 7.9% to $375,000, down from $407,000 in first quarter 2010. Southwest Georgia Financial President and CEO Drew DeWitt said, "We continue to see high levels of loan defaults resulting in more problem assets and poor financial performance for many financial institutions across the state. Our industry is also burdened by increased overhead caused by the current regulatory environment."

In 2010, Southwest Georgia reported insurance brokerage fee income rose 5.6% to $1.13 million, up from $1.07 million in 2009, and comprised 22.2% of noninterest income, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

SECURITIES BROKERAGE & BOLI INCOME COMPRISE 34% OF NONINTEREST EARNINGS AT NORTHEAST INDIANA BANCORP

Huntington, IN-based, $255.6 million-asset Northeast Indiana Bancorp, parent of First Federal Savings Bank, reported securities brokerage fee income in the first quarter fell 12.9% to $96,555, down from $110,875 in first quarter 2010, while bank-owned life insurance (BOLI) income rose 2.4% to $64,866 from $63,319. Securities brokerage fees and BOLI earnings comprised, respectively, 20.4% and 13.7% of noninterest income, which slid 3.0% to $473,844, down from $488,502 in first quarter 2010, impacted by an almost $30,000 drop in deposit account fees.

Net interest income on a 3.58% net interest margin fell 43.7% to $945,284, down from $1.68 million in first quarter 2010, as an $850,000 jump in loan loss provisions to $1.2 million dwarfed a $292,464 cut in interest expense. With additional noninterest expenses, the company reported a net loss of $14,000 compared to net income of $452,000 in first quarter 2010. First Federal Savings Bank CEO Michael Zahn said, "With the economic recovery slower than expected, we felt it was prudent to bolster our allowance for loan losses this quarter."

WELLS FINANCIAL REPORTS 29.4% DROP IN INSURANCE BROKERAGE EARNINGS

Wells, MN-based, $242.5 million-asset Wells Financial reported insurance brokerage fee income in the first quarter dropped 29.4% to $144,000, down from $204,000 in first quarter 2010, and comprised 15.9% of noninterest income, which grew 15.0% to $905,000, up from $787,000 in first quarter 2010, driven by gains on loan sales.

Net interest income on a 4.05% net interest margin rose 4.6% to $2.03 million, up from $1.94 million in first quarter 2010, reflecting a $547,000 cut in interest expense and despite a $91,000 increase in loan loss provisions to $216,000. Net income increased 5.4% to $370,000, up from $351,000 in first quarter 2010. Wells Financial President Louie Trasamar referenced what he described as "challenging times for banks" and said, "Challenging times often result in additional opportunities for organizations that position themselves to take advantage of those opportunities. The Board of Directors of Wells Financial Corp feel there will be opportunities available that will allow our company to expand and diversify."

In 2010, Wells Financial reported that insurance brokerage fee income increased 6.8% to $679,000, up from $636,000 in 2009, and comprised 15.0% of noninterest income, according to the *Michael White-Prudential Bank Insurance Fee Income Report*.

Who's Minding The BOLI Store?

SPECIAL BONUS ARTICLE

Many banks understand that Bank Owned Life Insurance (BOLI) can make a substantial contribution to their income, even though it represents a relatively small percentage of overall assets. However, many of these same banks fail to realize that their BOLI portfolio may not provide the expected financial benefits unless it is properly managed and monitored. Here are some questions that will help determine if your BOLI provider is delivering the services and expertise you need and deserve.

Is your BOLI provider giving your BOLI portfolio the attention it deserves?

Financial conditions can change quickly. If your BOLI provider is not paying proper attention to the environment, the insurance carriers and their impact on BOLI, your BOLI portfolio may fail to perform as expected. Today, banks need performing assets that will produce a direct, positive impact to the bottom line. If carriers make changes as a result of financial conditions, the bank needs to know sooner rather than later. A quality BOLI consulting and administration team will maintain a constant vigil of all aspects of a BOLI purchase, including the economic environment, carrier financials and ratings, product changes, regulatory changes and other eventsthat may impact the performance of the bank's BOLI portfolio. Good synergy between the consultant and administration helps ensure that proper action will be taken when changes to the portfolio need to be made.

Is your BOLI provider proactive with carriers to maximize BOLI performance?

When a BOLI provider has a good relationship with the insurance carriers, they are in a much better position to help the bank keep its policies up to date. You should expect your BOLI consultant and administration team to review the bank's portfolio on a regular basis to determine if new product designs or investment approaches would benefit your portfolio.

Your BOLI provider should be proactive and drive this process. However, a collaborative approach that encourages open dialogue among the bank, the carrier, the BOLI consultant and the service associate is the most reliable way to leverage product improvements for your BOLI portfolio.

Do you have an updated BOLI Investment Policy in place?

Regulations require that banks develop and maintain a BOLI Investment Policy that will guide the BOLI purchase decision. Since BOLI providers must keep up with changes in the regulatory environment, they can be a tremendous resource for maintaining a comprehensive BOLI Investment Policy.

In addition, your BOLI provider should have an established relationship with the regulatory agencies. Such relationships help ensure that information provided to the bank is current and accurate relative to its situation. Annual reviews of the BOLI investment specifically and BOLI program generally are critical. When those reviews are conducted in concert by your BOLI consultant and service associate, the bank will receive a more comprehensive review, which in turn will help the bank maintain an up-to-date BOLI Investment Policy. This can be extremely helpful when regulators come to visit.

What other aspects of BOLI servicing should you know about?

For good, comprehensive BOLI servicing, there must be a close relationship between the BOLI consultant and administrator. Even though the BOLI consultant may "hand off" the servicing to a service associate, there should never be a true separation of the two. When the administration service is disconnected from the consulting service, a fragmented process occurs, which can result in key elements of the annual review not being delivered or essential follow-up items not being completed.

Other aspects of BOLI servicing that a bank should look for include: the alignment of the bank's investment philosophy with that of the carrier; periodic review of the bank's goals and objectives relative to BOLI; periodic benefit reviews for the bank by the BOLI servicer; maintenance of the BOLI compliance manual; secure back-ups of all of the bank's BOLI documents; and SAS 70 compliance and, now, SSAE16 compliance.

In addition, the bank should make appropriate inquiries to satisfy itself about the provider's ability to honor its long-term commitments. One indicator of such commitment is the extent of investment in the operational infrastructure necessary to support BOLI over the long run.

Summary

BOLI regulations provide clear guidance for a bank about the purchase of BOLI as well as its ongoing risk management. Thus, it is prudent for the bank to evaluate its BOLI provider regularly to identify potential risks.

If your BOLI consultant and administrator are not providing the level of service you expect, maybe it's time for a change.


APRIL 2011
LIKE MAGIC
Which products sell best?
SALES
SALES