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BankInsurance.com News

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Consumers Regulators
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KEY PLAYERS FOCUS ON LENDER PLACED INSURANCE

ALSO INSIDE

Confidence in U.S. Banks Rises | Banks Report Record Q1 Earnings
Title Insurance Volume Climbs | Fixed Annuity Sales Drop
Variable Annuity Sales Slide | Indexed Life Sales Climb

U.S. BANKS REPORT RECORD Q1 EARNINGS, WHILE NET INTEREST INCOME CONTINUES TO FALL

U.S. commercial banks and savings institutions (collectively, banks) reported first quarter net income climbed 15.8% to a record $40.3 billion, up from $34.8 billion in first quarter 2012, driven by 8.3% growth in noninterest income, a 23.2% drop in loan loss provisions and a 3.9% slide in noninterest expense, according to the Federal Deposit Insurance Corporation (FDIC).

More than half (53.1%) of banks reported declines in loan and lease loss provisions, generating the 23.2% drop in those set asides to $11 billion. In contrast, one large bank accounted for more than half of the $4.2 billion decrease in noninterest expense, benefiting from a reduction in legal costs and the proceeds from a legal settlement. In fact, only 39.9% of banks reported reduced noninterest expense, while 59.4% reported increases in those costs.

Interest income, in contrast to increased noninterest income, declined 4.8% ($6 billion) to $125 billion despite 4.9% growth ($589 billion) in interest earning assets to $12.02 trillion, as the average net interest margin slid to 3.27%, its lowest level since fourth quarter 2006. Net interest income, despite decreased interest expense, declined 2.2% ($2.4 billion) to $109.1 billion, down from $111.5 billion in first quarter 2012.

Domestic office deposits slipped 0.2% ($20.5 billion), but a 1.6% ($22.3 billion) rise in foreign office deposits drove total deposits up .02% ($1.8 billion) to $9 trillion. At the same time, total assets slid 0.2% ($26.3 billion) to $13.15 trillion.

Overall, the average return on assets at U.S. banks reached 1.12%, up from 1% in first quarter 2012. Half the banks reported increased net income; earnings remained static at 41.6%, and 8.4% reported losses. Four banks failed; 55 were absorbed in mergers, and the number of banks on the problem list fell 6.0% to 612 from 651 at the beginning of the quarter.

Commenting on U.S. bank first quarter performance, FDIC Chairman Martin J. Gruenberg said, "We saw … a continued increase in the number of profitable institutions and further declines in the number of problem banks and bank failures. However, tighter net interest margins and slow loan growth create an incentive to reach for yield, which is a matter of ongoing supervisory attention."

U.S. TITLE INSURANCE VOLUME CLIMBS

U.S. title insurance premium volume climbed 24% in first quarter 2013 to $2.9 billion, up from $2.3 billion in first quarter 2012, according to the American Land Title Association (ALTA). California remained the top premium volume state, with premiums rising 8.4% to $377.4 million. Texas ranked a relatively close second with a 21.4% climb in premiums to $347.9 million. Florida ranked third (+32.5% to $235.4 million), followed by New York (+24.3% to $216.3 million) and Pennsylvania (+37.6% to $138.1 million).

Five states reported a 48% or more spike in title insurance premium volume, led by North Dakota (+73.9%). Iowa (+54.4%) and Minnesota (+54.1%) ranked a close second and third, followed by Wisconsin (+49.1%) and Tennessee (+48.5%).

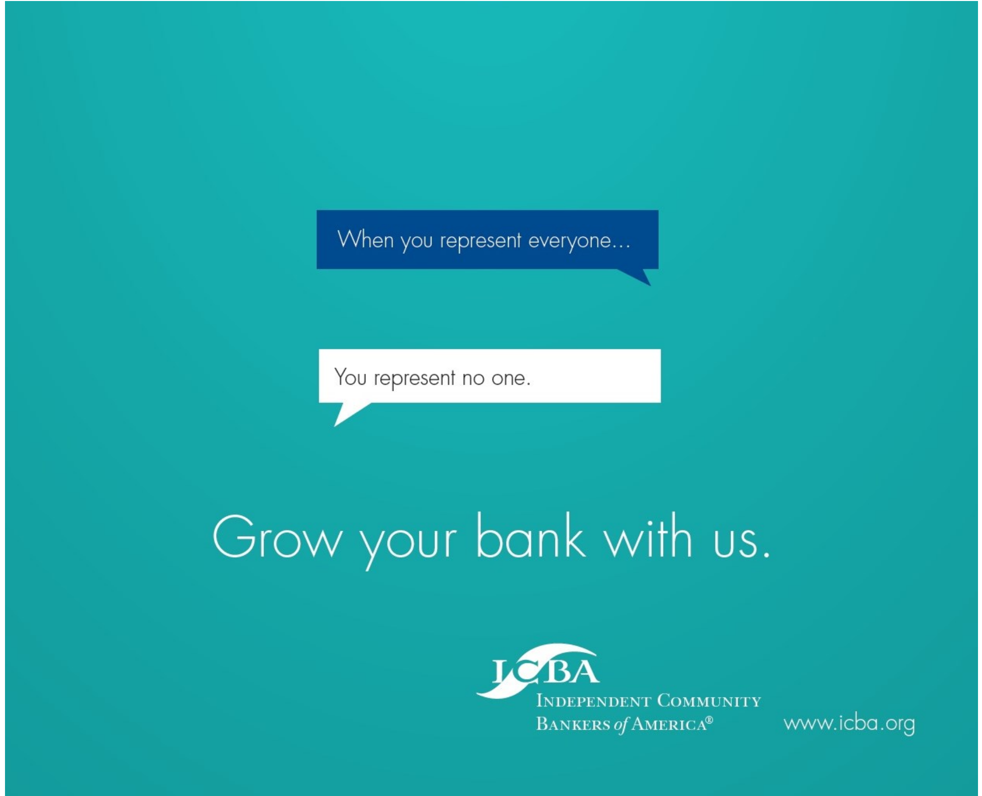
Jacksonville, FL-based Fidelity Family continued as the number one title insurance provider, underwriting 32.7% of the market. Santa Anna, CA-based First American Family ranked second (26.7%), followed by Minneapolis, MN-based Old Republic Family (15%), and Houston, TX-based Stewart Family (11.5%). All regional underwriters combined underwrote the remaining 14.2%, up from 13.5% in 1Q 2012.

Commenting on title insurance sales as a reflection of the real estate market, ALTA CEO Michelle Korsmo said, "Our market analysis for the first quarter of 2013 shows improvement in all 50 states and Washington, DC." Korsmo added, "Our industry continues to rebound and remains dependent on a strong housing economy."

TAKEOVERS DOMINATE NEW WORKSITE VOLUNTARY SALES

Takeover sales — replacing one carrier plan with a similar plan issued by a different carrier — accounted for 45% of new worksite voluntary sales premium in 2012, according to Avon, CT-based Eastbridge's *U.S. Worksite / Voluntary Sales Report*. The percentage continues a trend begun in 2008, when takeover sales jumped from 17% to 29%, then climbed to 38% in 2009, 41% in 2010, 42% in 2011 and reaching 45% last year.

Eastbridge Vice President Bonnie Brazell pointed to benefits brokers' larger role in voluntary worksite sales as a reason for the trend, saying, "As more companies move to a group platform product and [brokers] sell a higher portion of voluntary, we know that competition will increase and more takeovers will occur."



Currently, about a third (32%) of employees are covered by at least one voluntary product, leaving 68%, or a bout 78 million, as potential new customers. Eastbridge President Gil Lowerre said, "There is still a significant amount of virgin business in the market." He added, "Employees often have the need for more than one voluntary product, and many employers continue to be open to adding more types of voluntary products, so brokers do not have to be content with just takeover plans."

COMPETITION & TRANSPARENCY KEY TO FIXING LENDER-PLACED INSURANCE MARKET

The lender placed insurance (LPI) market suffers from three major systemic limitations, according to Kennesaw, GA-based Breckenridge Insurance Group, parent of lender-placed insurer OSC. Those limitations include lack of competition, inflated premiums, and the inadequate availability of such data as premiums, claims, refunds and deductibles, Breckenridge wrote in its response letter to Federal Housing Finance Agency (FHFA) *Notice 2013-N-05: Lender Placed Insurance, Terms and Conditions*.

Breckenridge Insurance Group CEO Tracey Carragher said, "We believe the solution for the LPI industry includes increased competition greater transparency, and allowing GSEs [Government Sponsored Enterprises] to exercise control over their own portfolios." Carragher warned, "Ending inappropriate commissions and reinsurance agreements alone will not produce the market pressures necessary to bring homeowners and taxpayers the saving they deserve."

"Market forces," Carragher said, "will help correct any misalignment between premium rates and actual claim/loss ratios." An industry-driven framework, he said, "is the best path to market reform and positive outcomes for all stakeholders."

To read FHFA's Notice 2013-N-05: Lender Placed Insurance, Terms and Conditions, click here.

JUNE 10 - 16, 2013

OHIO'S FARMERS NATIONAL TO ACQUIRE RETIREMENT PLAN AGENCY

Canfield, OH-based, $1.1 billion-asset Farmers National Banc Corp has agreed to acquire Rocky River, OH-based National Associates, Inc. (NAI), a retirement plan consultancy that offers actuarial, plan design, compliance and administrative services. Farmers National Banc President and CEO John Gulas described the acquisition as "complementing the synergies of our Wealth Management division" and said, "We have plans for a smooth transition followed by a multi-year growth plan of fee revenues."

National Associates administers approximately $500 million in assets for over 200 retirement plan accounts. The company will retain its name, location, 17 employees and management team, when the deal closes in the second quarter. National Associates President Gerrit said, "By partnering with Farmers, NAI is able to offer continued stability while introducing additional value-added services to our clientele."

U.S. FIXED ANNUITY SALES SLIDE

U.S. fixed annuity sales in the first quarter fell to $14.96 billion, down 11.7% from $16.94 billion in first quarter 2012 and down 7.7% from $16.20 billion in fourth quarter 2012, according to Evanston, IL-based Beacon Research. Indexed annuities remained the top selling fixed annuity, but those sales slid 4.6% compared to first quarter 2012 to $7.79 billion. Fixed rate non-market value annuities (non-MVAs) ranked second, but dropped 23.5% to $4.02 billion. Income annuities ranked third and were the only fixed annuity to show sales growth, rising 1.4% to $2.19 billion, up from $2.16 billion in first quarter 2012, driven by a 150% spike in deferred income annuity sales. Fixed rate MVA sales trailed in fourth place, tumbling 28.9% to $972 million, down from $1.37 billion in first quarter 2012.

Minneapolis, MN-based Allianz Life remained the top fixed annuity provider with $1.16 billion in sales, followed closely by Topeka, KS-based Security Benefit Life ($1.14 billion) and New York City-based New York Life ($1.08 billion). Des Moines, IA-based American Equity ranked fourth ($929.9 million) and Lansing, MI-

BankInsurance.com News

based Jackson National Life Insurance Company ranked fifth ($743.7 million).

Houston, TX-based Western National Life led in bank channel sales with its fixed rate non-MVA annuities. Security Benefit Life's Total Value Indexed annuity was the top selling product overall, followed by New York Life's Lifetime Income Annuity, Security Benefit Life's Secure Income Annuity (indexed), American Equity's Bonus Gold (indexed) and Allianz Life's Endurance Plus (indexed).

Commenting on the prospects for the fixed annuity market, Beacon Research CEO Jeremy Alexander said, "Sales may increase slightly coming off from a record year for indexed and income annuities, but low interest rates will continue to hamper significant growth in the future."

VARIABLE ANNUITY SALES SLIDE, NET ASSETS HIT RECORD

U.S. variable annuity sales (i.e., new sales plus new premiums from existing contract owners) in the first quarter slid 4.4% to $34.6 billion, down from $36.2 billion in first quarter 2012, but up 0.6% from $34.4 billion in fourth quarter 2012, according to Chicago, IL-based Morningstar, Inc. Qualified sales dominated $22.77 billion of first quarter variable annuity sales, almost double the $11.86 billion in non-qualified sales.

U.S. variable annuity net sales (i.e., total premium sales minus surrenders, withdrawals, inter- and intro-company exchanges and benefit payments) plummeted to $900 million, down from $3.82 billion in first quarter 2012, and comprised just 2.6% of total first quarter sales, down from 10.6% in first quarter 2012.

Just short of 40% (38.9%) of the record $1.72 trillion in variable annuity net assets were held in equity accounts. Another 30.3% were held in allocation accounts followed by 18.4% in fixed accounts, 10.7% in bonds and 1.8% in money market accounts. Morningstar Product Manager Frank O-Connor said, "What we find striking in the asset class breakdown is the extent to which variable annuity assets are invested in allocation funds, a trend driven by the common requirement to invest in such funds when electing an income guarantee." He added, "Five years ago, allocation funds represented just 12% of VA assets."

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U.S. INDEXED LIFE SALES CLIMB

U.S. indexed life insurance sales climbed 37.2% in the first quarter to $351.2 million, up from $256.0 million in first quarter 2012, but down 19.5% from $436.3 million in fourth quarter 2012, according to *Wink's Sales & Market Report*.

Cedar Rapids, IA-based AEGON Companies ranked as the top provider of indexed life insurance products with a 12% market share. Newport Beach, CA-based Pacific Life ranked second, followed by Austin, TX-based National Western, New York City-based AXA Equitable and Montpelier, VT-based National Life Group.

AXA Equitable's Athena Indexed Universal Life (IUL) remained the top selling indexed life insurance product for the eighth consecutive quarter. Additionally, the average indexed universal life premium in the first quarter rose 1% from the prior quarter to $11,508, Pleasant Hill, IA-based Moore Market Intelligence found in its Wink, Inc. report.

Commenting on the prospects for indexed life sales, Moore Market Intelligence and Wink, Inc. President and CEO Sheryl Moore said, "We have a couple of new companies that have just entered the indexed life market, and yet a few others that are about to enter the IUL space. Once these companies' distributions feel comfortable with their product, I anticipate that sales of IUL will increase exponentially."

U.S. COMPOSITE COMMERCIAL P&C RATES CLIMB

U.S. composite commercial property and casualty insurance rates rose over 5% in May, compared to May 2012, according to Dallas, TX-based MarketScout.

Commercial property, workers' compensation and general liability insurance led the rate increase by coverage class, with each up 6%. Umbrella excess and commercial excess rates followed, rising 5%. Business owners policies (BOPs), directors and officers liability and employment practices liability insurance (EPLI) rose 4%, followed by business interruption, inland marine and professional liability (+3%), and fiduciary, crime and surety (+2%).

Rates by account size increased 5% for small (up to $25,000) and medium ($25,001-$250,000) accounts and were up 4% for large accounts ($250,001-$1 million), while jumbo accounts over $1 million were hit with 3% rate increases.

Rates by industry class were also up across the board, led by the manufacturing and transportation industries (+6%), followed by contracting, service and habitational (+5%), energy (+4%) and public entities (+3%), MarketScout found.

In contrast to the year over year increases, May rates were down from April rates for crime, fiduciary and BOPs; medium and large accounts; manufacturers and public entities. However, MarketScout CEO Richard Kerr said, "The commercial P&C market in the U.S. is continuing its steady trend of rate increases. There is ample capacity, but the underwriters continue to increase rates as appropriate."

FSOC PROPOSES 'SYSTEMICALLY IMPORTANT' STATUS FOR AIG & PRUDENTIAL

The U.S. Financial Stability Oversight Council (FSOC) has made proposed determinations that New York City-based American International Group (AIG) and Newark, NJ-based Prudential Financial, Inc. are systemically important financial institutions (SIFI).

If each company is ultimately designated as a SIFI, it will be regulated and supervised by the Board of Governors of the Federal Reserve System and subject to stricter prudential standards under the Dodd-Frank Act, including those regarding risk-based capital and leverage, liquidity, stress-testing, overall risk management, resolution plans, early remediation, credit concentration, capital, public disclosure, short-term debt limits and more.

AIG and Prudential Financial have the right to request a nonpublic evidentiary hearing before the FSOC to contest the proposed determination. In order for the FSOC to make a final determination and designate a financial company as systemically important, two-thirds of the Council and the Council Chairperson must vote in favor of the designation. That same voting requirement applied to the FSOC's proposed determinations regarding AIG and Prudential.

FINRA FINES WELLS FARGO AND BANK OF AMERICA FOR UNSUITABLE FLOATING-RATE BANK LOAN SALES

The Financial Institution Regulatory Authority (FINRA) has fined Wells Fargo Advisors $1.25 million and ordered it to

reimburse 239 customers approximately $2 million for losses tied to unsuitable sales of floating-rate bank loan funds. FINRA has additionally fined Bank of America (BofA) unit Merrill Lynch, Pierce, Fenner & Smith $900,000 and ordered it to reimburse 214 customers approximately $1.1 million for losses tied to the same type of unsuitable sales.

FINRA said Wells Fargo and BofA failed to train their sales forces regarding the characteristics and risks associated with floating rate bank loan funds and failed to reasonably supervise the sales of those funds. Because of these failures, brokers at both firms inappropriately sold these potentially risky and illiquid funds to customers with conservative risk tolerances and desire for principal preservation. FINRA Chief of Enforcement Brad Bennett said, "Brokers and their firms need to ensure that investment recommendations are consistent with customers' investment objectives and risk tolerances."

Wells Fargo and BofA neither admitted nor denied the charges but consented to the entry of FINRA's findings.

JUNE 17 - 23, 2013

CONSUMER GROUPS, BIG BANKS, INSURERS & BROKERS ATTEND FHFA'S PRIVATE MEETINGS ON LENDER PLACED INSURANCE

The U.S. Federal Housing Finance Agency (FHFA) held two days of private meetings last week on lender-placed insurance (LPI) attended by representatives from consumer groups, big banks, insurers and insurance brokers.

According to the published agenda, the Lender-Placed Insurance Regulatory Work Group Outreach Sessions began with a 60-minute overview of LPI products, markets, and regulatory issues presented by Center for Economic Justice President Birny Burnbaum. New York State Department of Financial Services representatives then led a 30-minute discussion.

Mortgage sellers and servicers followed with a 90-minute panel discussion, led by Wells Fargo's 30-minute outline of investor/owner/GSE insurance requirements, methods of meeting those requirements, criteria for selecting provider, sources of servicing fee income and more. Other mortgage sellers and servicers, not yet named at the time the agenda was released, added their comments on these issues for the next 60 minutes.

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President
Dowling Hales
bseda@dowlinghales.com
206.236.6153

John Kraska
Chief Executive Officer
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212.592.5709

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An insurance carrier panel, including representatives from Assurant, QBE First, Lloyd's America and Zurich used their 90 minutes to describe their LPI products and services; their criteria and processes for selecting reinsurers; vendor functions; differences between LPI hazard and LPI flood insurance; insurance tracking costs; LPI rate-setting criteria; seller/servicer arrangements; the roles of agents and brokers; marketing tactics; LPI competition; and suggestions for improvement.

Managing general agents, including representatives from Proctor Financial, OSC Loan Protector Insurance Services (Willis North America), then led a 90-minute panel describing their activities, services, product development and marketing tactics; the differences between LPI hazard and LPI flood insurance; their association with insurers and reinsurers; and the nature of competition in the LPI market.

Representatives from consumer advo-

cacy groups, including the Center for Economic Justice, the Neighborhood Economic Development Advocacy Project and the National Associations for Consumer Advocates, opened the second day of meetings with a 75-minute discussion of their key issues of concern; ideas for addressing reverse competition; regulatory cooperation and coordination; and their experiences with state and federal regulations regarding LPI.

FHFA Regulatory Working Group (RWG) members then were given 90 minutes to outline their LPI responsibilities, recent actions and issues of concern.

The meeting ended with a two-hour RWC-led discussion of specific issues gleaned from survey responses and the meeting's presentations and panel discussions. The goal of the final discussion was to "develop next steps for specific issues" and determine "whether to convene a public hearing where stakeholders may hear directly from each other."

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U.S. APPLICATIONS FOR INDIVIDUALLY UNDERWRITTEN LIFE INSURANCE SLIP

U.S. applications for individually underwritten life insurance slipped 1.9% in May compared to May 2012 and were down 5.1% compared to April, according to the *MIB Life Index*. A 3.4% decline in applications among individuals aged 45-59 led the year over year decrease, followed by a 2.2% slide among individuals aged 0-44, while applications among individuals aged 60 and older rose 1.6%.

Year-to-date applications are down 2% compared to the same period in 2012, with applications off 3.4% among individuals aged 45-59, down 1.9% among those aged 0-44 and flat for those aged 60 and older, Braintree, MA-based MIB Group found.

HARTFORD MANDATES CHANGES IN LEGACY VARIABLE ANNUITY ALLOCATIONS

Hartford, CT-based Hartford Life and Annuity Insurance Co. is placing investment restrictions on its legacy variable annuities with living benefits and has given the owners of those products until October 4, 2013, to change their allocations to include 40% in fixed income funds or up to 40% in bonds or lose their living benefit rider.

Legacy variable annuity holders whose riders are terminated have 15 days to reinstate the rider as long as they do not make a premium payment, take a partial surrender or make a covered life change within that time frame.

As of October 4, 2013, The Hartford will additionally end its dollar-cost-averaging plus program, end contract reinstatements after clients have made full or partial surrenders, and disallow contract owners from pushing out the date of their annuity payments, requiring them to annuitize on the 10th anniversary of the contract or at age 90, whichever is later, *investmentnews.com* reports.

PENDING HOUSE BILL SEPARATES AGENT COMPENSATION FROM HEALTHCARE MEDICAL LOSS RATIO REQUIREMENTS

The Access to Professional Health Insurance Advisors Act (H.R. 2328) has been introduced into the U.S. House of Representatives. The bill makes clear that agent compensation is not to be considered as part of the medical loss ratio (MLR) formula included in healthcare legislation. The MLR in Obamacare requires that 80% of individual and small group health insurance premiums and 85% of large group premiums be spent on claims and "healthcare quality improvement." Only the remaining 20% to 15% can go towards administrative costs, advertising or profits.

Independent Insurance Agents and Brokers of America (Big I) Senior Vice President Charles Symington said, "The legislative fix in the bill … would clarify that agent compensation is not an insurance company administrative expense, thereby providing much-needed relief to health agents and brokers across the country." He added, "Enactment of this bill would go a long way to ensuring that the professional, licensed guidance of insurance agents remains available to consumers during this great time of change in the health insurance market."

In 2011, a similar bill failed to be considered by the full House. Earlier this year similar legislation (S. 650) was introduced in the Senate, but has yet to be brought to the floor.

OVERDRAFT COVERAGE COSTLY FOR CONSUMERS

U.S. bank and credit union customers that opt in for overdraft coverage pay more in overdraft and non-sufficient fund (NSF) fees and are more likely to have

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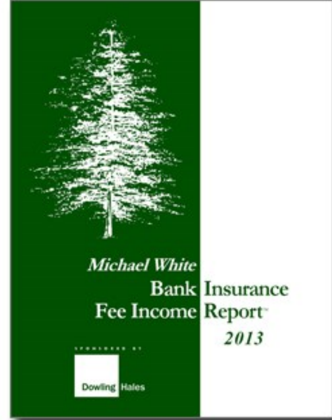

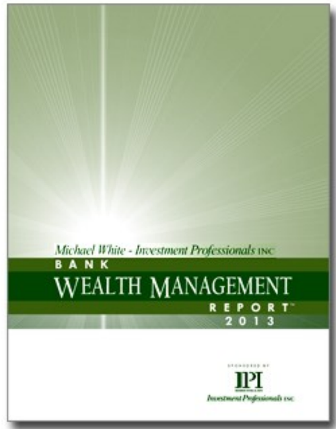

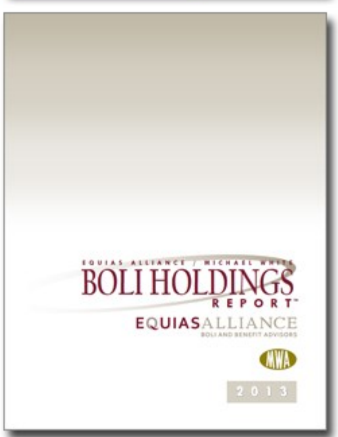

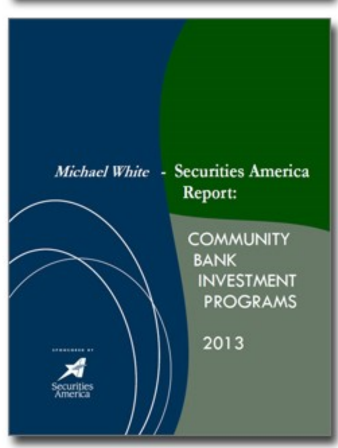

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their accounts involuntarily closed, than are customers who opt out, according to the U.S. Consumer Financial Protection Bureau (CFPB).

The CFPB found that previous heavy overdrafters that opted out of overdraft coverage, reduced their overdraft and NSF fees by more than $450 in the second half of 2010. Whether customers opt in or opt out of overdraft coverage, overdraft and NSF fees account for 60% or more of consumer checking account fee income, the CFPB estimates.

SUCCESSFUL P&C AGENTS MASTER MULTI-CHANNEL MARKETING

The role of traditional property and casualty insurance agents is changing as carriers use technology to increase direct interaction with their customers, lower their costs and deliver more consistent service, according to a recent McKinsey & Company report.

McKinsey estimates that within 5 to 10 years, most personal lines and small commercial customers will use mobile devices, phones, the Internet and video conferencing to interact with both agents and carriers. Successful agents will excel at multi-channel marketing, deliver tailored and relevant expertise, and be compensated "only for the unique value they deliver to the customer and the carrier," according to the report. "Local agents are not in danger of extinction. Those that can adapt to a new set of circumstances will thrive," McKinsey concludes in its *Agents of the Future* report.

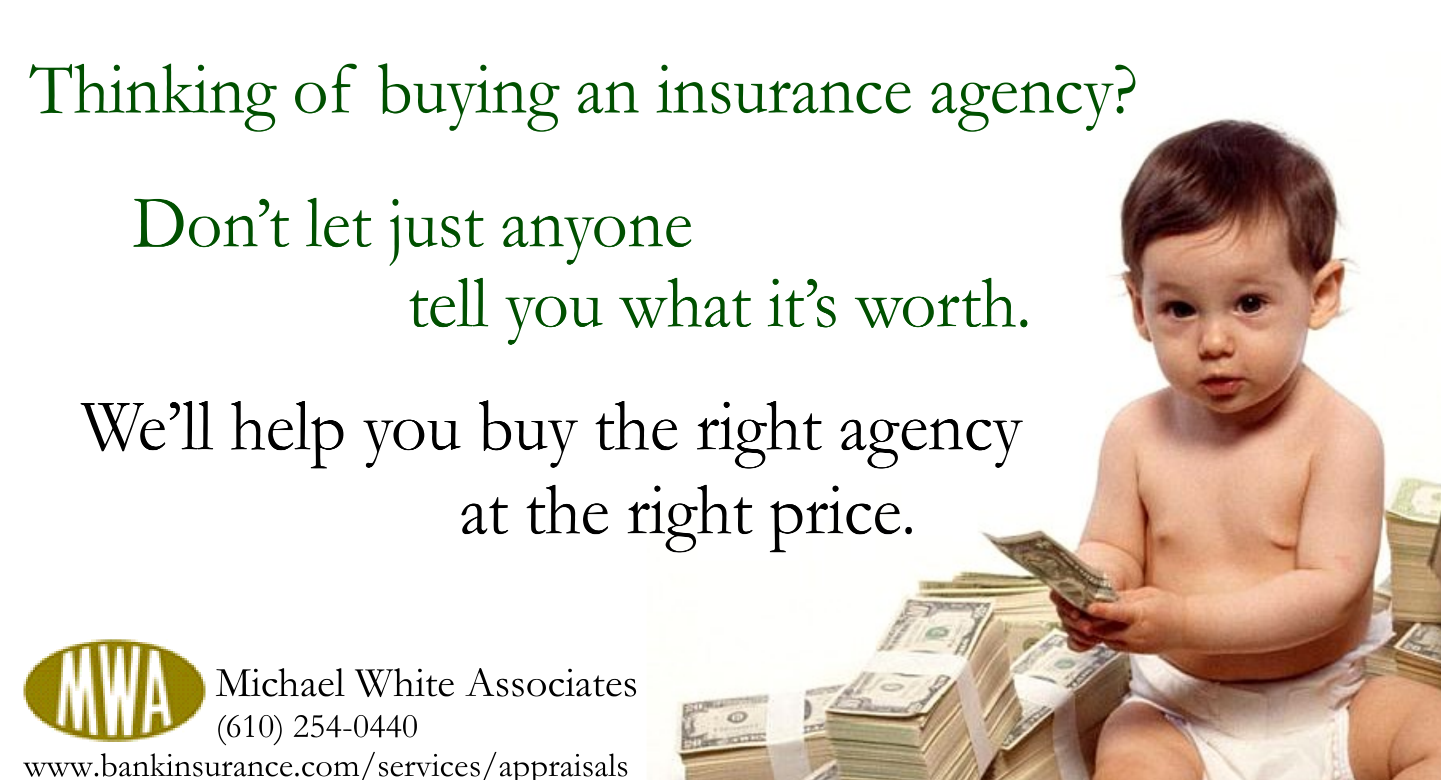
To read the McKinsey & Company Agents of the Future report, click here.

JUNE 24 - 30, 2013

FDIC SEEKS COMMENTS ON INSURANCE SALES CONSUMER PROTECTION RENEWAL

The U.S. Federal Deposit Insurance Corporation (FDIC) is seeking comments on its intention to obtain Office of Management & Budget (OMB) approval to renew its Insurance Sales Consumer Protections (ISCP) requirements.

The ISCP requires nonmember banks



that sell insurance products and persons who sell insurance products in or on behalf of nonmember banks to disclose to consumers that these products are not FDIC-insured. It further requires that banks provide evidence that the customer acknowledged awareness of that fact before purchasing an insurance product in connection with an extension of credit.

Comments on whether the FDIC's collection of this information is necessary, and the collection process improved and its burden reduced are due August 19, 2013. *To read the FDIC Notice on Insurance Sales Consumer Protections (OMB No. 3064-0140), click here*.

CONFIDENCE IN U.S. BANKS CLIMBS

Over one-quarter (26%) of Americans say they have "a great deal" or "quite a lot" of confidence in U.S. banks, up from a low point of 21% in June 2012, according to a Gallup survey conducted in the first week of June 2013. Still, an even higher percentage (28%) say they have "little" or "no confidence" in banks, but that percentage is down from 35% a year ago.

These confidence levels are in marked contrast to the levels recorded in 1979 when Gallup began doing bank-confidence surveys. At that time, 60% of Americans had "a great deal" or "quite a lot" of confidence in U.S. banks, second only to their confidence in the channel. Apart from a drop to 30% in October 1991, 50% of Americans on average retained a high level of confidence in their banks through 2006. By 2008, that percentage dropped to 32% and lingered below 25% from 2009 to 2012.

Gallup said, "It's not clear exactly what's driving Americans' improved confidence in banks." The rise to 26% in June of this year may reflect the fact that U.S. banks did well on their stress tests, and their balance sheets and earnings are improving, Gallup said.

INDIVIDUAL LIFE PREMIUMS INCREASE AS SALES DECLINE

The number of individual life insurance policies sold in first quarter 2013 fell 5%, led by an 18% drop in the number of universal life policies sold, while the number of whole life policies sold declined 5%. In contrast, the number of term life policies sold ticked up 1%, according to Windsor, CT-based LIMRA.

Individual life sales premium growth defied the slump in policy sales. Universal life (UL) premium grew 8%, driven by a 23% jump in indexed universal life premium, a 10% climb in variable UL premium, and 9% growth in lifetime guarantee universal life, which comprised 35% of all UL premiums. Additionally, whole life premium increased 7%, and term life premium, the only product with increased policy sales, rose 3%, LIMRA found.

NEW YORK DFS REINS IN FINANCIAL INSTITUTION CONSULTANTS WITH DELOITTE DEAL

The New York State Department of Financial Services (NYDFS) and New York City-based Deloitte Financial Advisory Services (Deloitte) have reached an agreement regarding what the NYDFS described as Deloitte's "misconduct, violations of law, and lack of autonomy during its consulting work at Standard Chartered on anti-money laundering issues."

The NYDFS found that Deloitte, in

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response to Standard Chartered's objections, removed from its final written report a recommendation "aimed at rooting out money laundering," including a discussion showing how wire messages and cover payments can be used to evade money laundering controls.

NYDFS additionally found that a Deloitte senior employee sent Standard Chartered employees emails containing confidential supervisory information included in two reports on anti-money laundering issues at other Deloitte client banks. In response to these charges, Deloitte agreed to voluntarily suspend consulting at NYDFS-regulated financial institutions for one year; pay the State of New York $10 million; and implement new NYDFS conflict of interest reforms and code of conduct.

The code of conduct requires each consultant working with DFS-regulated financial institutions to disclose to the DFS: (a) the work it has done for that financial institution over the prior three years, (b) disagreements with the financial institution over material matters, and (c) records of consultant recommendations that the financial institution did not adopt. Each consultant must (1) state in its engagement letter that its conclusions and recommendations will be based on its independent judgment, not that of the financial institution; (2) list in its final report all financial institution personnel who reviewed or commented on the findings, conclusions and recommendations included in the final report; (3) have policies in place to maintain the confidentiality of bank supervisory material; and (4) meet at least monthly with the DFS and may do so "outside the presence of the financial institution."

New York Governor Andrew Cuomo said, "The State's agreement with Deloitte will serve as a new model for reforming the financial services consulting industry in New York as well as across the country." NYDFS Superintendent Benjamin Lawsky added, "Our aggressive work investigating and reforming the consulting industry is far from over and will continue in the days, weeks and months ahead."

NY DFS CALLS FOR NATIONAL MORATORIUM ON CAPTIVE TRANSACTIONS, ACLI BALKS

The New York State Department of Financial Services (NYDFS) has called for a national moratorium on captive insurance transactions based on its findings that state-based insurers and affiliates earned at least $48 billion in what it described as "shadow insurance" transactions tied to their out-of-state and offshore captives. According to the NYDFS, insurers formed these captives to reinsure their policy claims and thereby free up otherwise required reserves to improve their balance sheets and risk-based capital figures.

The Washington, DC-based American Council of Life Insurance (ACLI) called the NYDFS's proposed moratorium "unrealistic and unnecessary." ACLI Vice President Jack Nolan said, "Most jurisdictions would not agree with New York on the captive transaction issue. Most states see them as useful financing tools for life insurers, with the caveat that they are fully regulated. A moratorium on useful financing tools makes no sense," *bestnews.com* reports.

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NY DFS DELAYS DELAWARE LIFE'S ANNUITY DEAL WITH SUN LIFE

Wilmington, DE-based Delaware Life Holdings' pending acquisition of Toronto, Canada-based Sun Life Financial's U.S. annuity business and certain of its U.S. life insurance businesses has been delayed by the New York Department of Financial Services' review of "private investor groups as owners of annuity businesses." The Delaware Life-Sun Life deal had been expected to close at the end of the second quarter, pending regulatory approvals.

The Delaware Department of Insurance and the Financial Institution Regulatory Authority (FINRA), among "a number of other regulators," have approved the purchase agreement, Sun Life said. Sun Life added that both parties to the purchase agreement "have made substantial progress in preparing for the close and for the transition of employees and operations to support the business going forward."

LIFE INSURANCE OWNERS ARE MORE POSITIVE

The vast majority of Americans who own life insurance believe they have enough money to protect their family against life's uncertainties (92%) and believe that being self-sufficient in retirement is important to living life as a "good person" (91%). More than half believe their quality of life is better than that of the average American (64%) and that their quality of life is better than it was five years ago (51%). Short of half, however, believe they are on track in terms of living life as a "good person" (43%), a higher percentage than those without life insurance (37%), however, according to the *Keep Good Going Report* sponsored by New York Life.

Commenting on the report results, Greenwald & Associates Partner Brian Perlman said, "Life insurance ownership generally reveals a more financially prepared person, but the interesting twist here is that this financial preparedness also permeates a person's positive outlook and feeling of overall goodness in their lives." Greenwald & Associates conducted the survey on which the report was based.

PRIVATE INSURER DISABILITY CLAIMS DWARFED BY GOV'T. DISABILITY PAYMENTS

U.S. long-term disability claim payments paid by private insurers ticked up 0.4% in 2012 to $9.4 billion, according to the Council for Disability Awareness (CDA). Over 600,000 (662,000) individuals received private insurer disability payments in 2012 with 154,000 of that number collecting disability for the first time. More than half (54%) of new disability claims were paid to women, as pregnancy-related claims jumped 24% to comprise 12% of those payments.

In addition to private disability insurance claims, over 5% of Americans received a record 8.8 million Social Security Disability Insurance (SSDI) payments averaging $1,130 each month in 2012. That works out to an aggregate of $9.94 billion per month and $119.33 trillion each year. CDA President Barry Lundquist said, "Given the current trends, analysts predict that the SSDI trust fund will be depleted in 2016."

REGISTERED REPS PARTNER WITH LIFE INSURANCE AGENTS

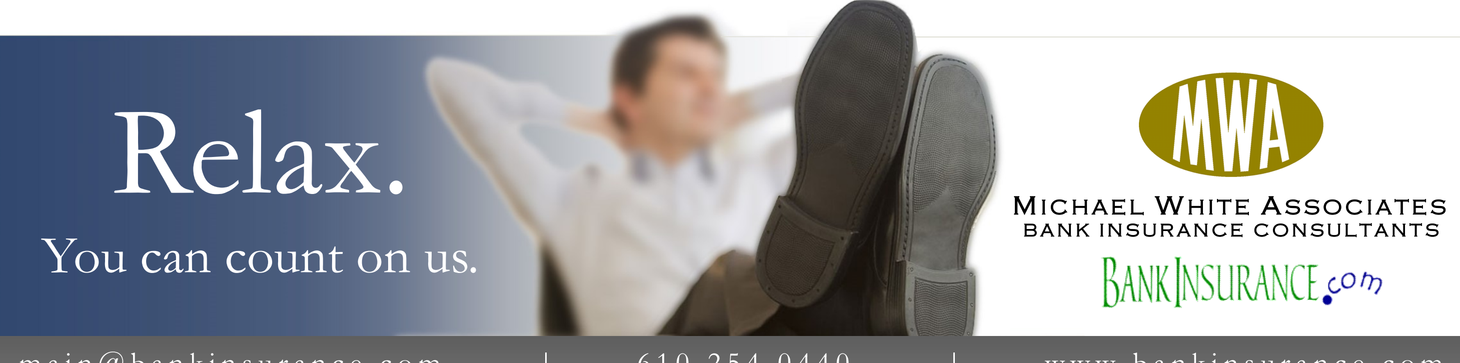
Close to half (42%) of broker-dealer registered representatives, registered investment advisors and dually registered advisers would be interested in either working with a life insurance specialist who can help them identify solutions for their clients or attending a life insurance seminar aimed specifically at financial advisors, according to a Saybrus Partners' survey conducted earlier this month.

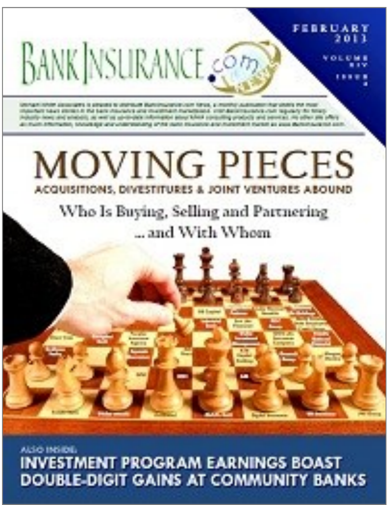
Saybrus Partners National Sales Manager Kevin Kimbrough said, "Many advisers find it hard to stay current on life insurance product types, riders and combination offerings. As a result, they may not feel equipped to confidently advise their clients on life insurance." In order to meet the important need for income replacement, wealth transfer, succession planning, supplemental retirement income and more, Kimbrough said, "Some advisers have formed partnerships with life insurance professionals, who can provide information, recommendations and sales assistance."

MORGAN STANLEY TO FINISH BUYING OUT CITIGROUP'S INTEREST IN MSSBH

New York City-based, $781 billion-asset Morgan Stanley has received all regulatory approvals to acquire Citigroup's remaining 35% interest in Morgan Stanley Smith Barney Holdings (MSSBH). Morgan Stanley will pay $4.7 billion in cash to complete the purchase, and it will pay another $2.03 billion to redeem Citigroup's Class A Preferred Interests in the company.

When the deal closes on or about June 28, 2013, Morgan Stanley will own 100% of the former joint partnership, which has been operating under the name Morgan Stanley Wealth Management since Morgan Stanley acquired majority interest in MSSBH. Morgan Stanley Chairman and CEO James Gorman said, "Immediately upon closing, we expect to start seeing the benefits of 100% ownership – including an expanded deposit base, unique syndication and distribution capabilities and enhanced opportunities for both our wealth management and institutional clients." He added, "Today the power of Morgan Stanley's platform – a premier investment bank and one of the world's preeminent wealth and asset management franchises – is clearer than ever before.





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