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Paperwork Clearance Officer
Room MB-3064
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Consolidated Reports of Condition and Income, 3064-0052

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Consolidated Reports of Condition and Income, 7100-0036

Public Information Room
Office of the Comptroller of the Currency
250 E Street, SW
Mailstop 1-5
Washington, DC 20219
Attention: Docket Number 1557-0081

Re: Consolidated Reports of Condition and Income

Dear Sir or Madam:

This comment letter is submitted in response to the request for public comment issued by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency (collectively, the "Agencies") regarding proposed revisions to the Consolidated Reports of Condition and Income (Call Report), published in the *Federal Register*, Vol. 70, No. 162, Tuesday, August 23, 2005, pages 49363-49372. If finally approved, these revisions would take effect as of March 31, 2006.

Michael White Associates (MWA) publishes the *BankInsurance.com Newsletter*, annual *Bank* and *Bank Holding Company Insurance & Investment Fee Income Reports*, *MWA Fee Income Ratings Reports*, annual *BOLI Holdings Report*, and *MWA BOLI Capital Concentration Report*. MWA also provides consulting and advisory services to a wide variety of banking organizations, including bank trade associations. Thus, we have extensive knowledge of Call Reports and gather considerable input about them on a regular basis from bankers, third-party marketers, and product providers involved in bank insurance and investment fee income activities.

In particular, MWA wishes to comment on proposed revisions of three existing items, namely "8. Income Statement Reclassification of Income From Annuity Sales," "9. Investment Banking, Advisory, Brokerage, and Underwriting Income," and "11. Life Insurance Assets." Also, MWA is recommending additional new items to augment, amplify and enhance the revisions proposed.

"8. INCOME STATEMENT RECLASSIFICATION OF INCOME FROM ANNUITY SALES"

The first proposed change about which MWA is commenting is the change in the category of noninterest income in which banks report income from certain sales of annuities – that is, a change from "Income from other insurance activities" (Schedule RI, item 5.h.(2)) to "Investment banking, advisory, brokerage, and underwriting fees and commissions" (Schedule RI, item 5.d). This revision of the instructions for item 5.h.(2) and item 5.d moves the references to annuities in the former item to the latter item.

Benefits of this proposed change

This proposed change is a welcome one. While some banks currently report some commissions and fees from sales of annuities and related referral and management fees as a component of item 5.h.(2), many banks do not report revenue from sales of annuities in this item. In fact, they already report commissions and fees from the sale of annuities to bank customers by securities brokerage firms as part of item 5.d. As proposed, it makes sense to finally treat income from the sale of all annuities not executed in a fiduciary capacity as investment fee income and to account for all of it in item 5.d. "Investment banking, advisory, brokerage, and underwriting fees and commissions."

This proposed revision eliminates confusion over when and where to report annuity fee income. It establishes consistency and uniformity in reporting, provides greater clarity in instructions to those whose responsibility it is to compile these data from bank departments and subsidiaries, and furthers the goal of error-free Call Reports.

Another benefit of relocating annuity commissions and fees from 5.h.(2) to 5.d. is that "Income from other insurance activities" in item 5.h.(2) will finally contain only insurance-related income derived from insurance activities other than underwriting and reinsurance, such as sales and referrals, not income from what have come to be deemed financial investment products rather than insurance.

MWA recommends an amendment to this proposed change – Split "Income from other insurance activities" into "Income from property-casualty insurance activities" and "Income from life-health insurance activities"

In addition to this very positive, proposed revision to the Call Reports, the Agencies can significantly enhance their ability to distinguish, measure and assess risks relating to the distribution of insurance products if they further separate item 5.h.(2) "Income from other insurance activities" into two sub-items, i.e., "Income from property-casualty insurance activities" and "Income from life-health insurance activities."

These two lines of insurance business require different insurance licenses, insure widely different kinds of risk, have significantly different compensation structures for agencies and agents, and carry their own business-related risks as activities undertaken by banks. Understanding the degree to which an individual bank's revenue is derived from property-casualty insurance activities versus life-health insurance activities is a first step to evaluating their different risks as activities within a bank. Aggregating this information enables regulators to measure the relative dimensions and attendant risks of the contribution the banking industry is making to the property-casualty and life-health business segments of the insurance industry. With this knowledge, regulators can measure the market share banks are attaining and determine the degree to which the liberalization of authorities to conduct nonbank activities under the Gramm-Leach-Bliley Act (GLBA) has paid off.

Indeed, lots of banks are engaged, to one degree or another, in these "other insurance activities." At the end of 2004, 3,879 banks or 48 percent (and 1,408 or 63 percent of the largest top-tier bank holding companies) reported some "Income from other insurance activities." These insurance sales activities have significantly expanded as insurance agency acquisitions by banks (and bank holding companies) have approached 500 in number, following the U.S. Supreme Court's 1996 decision in the *Barnett Banks* case and enactment of GLBA in late 1999. Total insurance income has risen among banks from $2.98 million in 2001 to $4.33 billion in 2004.[1] ("Income from other insurance activities" among bank holding companies has grown from $4.90 billion in 2001 to $9.63 billion in 2004.)

Given the size, growth and complexities of the bank insurance business, it behooves the Agencies to separate the reporting of these quite different forms of insurance income (property-casualty and life-health) so as to measure the proportionate share these activities represent within individual banks and aggregately within the banking industry. Among representatives of the bank insurance industry, this separation of "Income from other insurance activities" into "Income from life-health insurance activities" and "Income from property-casualty insurance activities" ranks among the most desired, sought-after data for placement in call reports.

"9. INVESTMENT BANKING, ADVISORY, BROKERAGE, AND UNDERWRITING INCOME"

The second proposed change MWA wishes to address is the splitting of the income statement item for "Investment banking, advisory, brokerage, and underwriting fees and commissions" (Schedule RI, item 5.d) into separate items for "Fees and commissions from securities brokerage," "Fees and commissions from annuity sales," and "Investment banking, advisory, and underwriting fees and commissions."

Benefits of this proposed change

This proposed revision, too, should be a welcome change for the 2,304 or 28.5 percent of banks[2] that reported "Investment banking, advisory, brokerage, and underwriting fees and commissions" (Schedule RI, item 5.d) as of December 31, 2004. As the Agencies recognize, the smaller banks that report income in Schedule RI, item 5.d, generally are not involved in investment banking and securities underwriting, but generate fees and commissions from sales to customers of investment products such as annuities, mutual funds or individual securities.

It makes sense to include all commissions and fees earned from sales of annuities in 5.d. It also makes sense to better understand the sources of banks' noninterest income by distinguishing between banks' investment banking (dealer) activities and their sales (brokerage) activities by splitting item 5.d – after moving annuity sales commissions and fees and related income into this income statement category from item 5.h.(2) – into three separate items.

It especially makes sense to split 5.d into "Fees and commissions from securities brokerage" and "Fees and commissions from annuity sales," especially since the Agencies are going to continue asking for "Income from

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[1] In 2001, bank Call Reports did not segregate "income from other insurance activities" from "underwriting income from insurance and reinsurance activities." That segregation first occurred in 2003. So, the figure of $2.98 billion in 2001 represents total insurance revenues, including those from both "other insurance activities" and "insurance and reinsurance activities." In 2004, banks earned total insurance revenues of $4.33 billion, of which $3.63 billion were "income from other insurance activities" and $0.7 billion were "underwriting income from insurance and reinsurance activities." *Michael White's Bank Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 13. This report is based on bank Call Report data.

[2] *Michael White's Bank Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 68.

the sale and servicing of mutual funds and annuities" in Schedule RI, Memorandum item 2. "Income from the sale and servicing of mutual funds and annuities" is existing Call Report data that continues to be critical and useful to warrant its continued collection from all banks (and bank holding companies). Continued inclusion of that data in the Call Report and the proposed separation of fees and commissions from both annuity sales and from securities brokerage enable regulators and the public to understand and measure the proportions of income from packaged-product sales (i.e., mutual funds and annuities, separately and together) versus that from individual securities. They aid in determining whether a bank has a full-service securities brokerage operation, or just an annuity-mutual fund sales program, or a mixture, whether it is Series 6 or Series-7 licensed or a hybrid program – and they help in evaluating the relative types and degrees of risk involved in those sales program.

Since most banks do not engage in dealer activities, i.e., investment banking, advisory activities or securities underwriting, it is also a good idea to identify those banks that do. These activities, like others previously mentioned, carry different kinds of risks and rewards to each institution. Thus, it is appropriate to measure them separately from retail activities like securities brokerage, mutual fund sales, and annuity sales where the bank is acting as agent.

MWA recommends an amendment to this proposed change – Split "Fee and commissions from annuity sales" into three sub-items: (1) "Fees and commissions from fixed annuity sales," (2) "Fees and commissions from variable annuity sales," and (3) "Fees and commissions from equity-indexed annuity sales"

This proposed change is good, but it does not go far enough. The Agencies can improve both their proposed revisions and their subsequent supervision deriving from this information by further splitting "Fees and commissions from annuity sales" into three sub-items: "Fees and commissions from fixed annuity sales," "Fees and commissions from variable annuity sales," and "Fees and commissions from equity-indexed annuity sales."

Variable annuities frequently contribute more revenues to the typical bank broker/dealer than do mutual funds.[3] Often, fixed annuity sales might exceed variable annuity sales. And, sales of equity-indexed annuities have been growing faster than any others the last two years. In order to examine a bank's risk management and internal controls over its annuity sales practices and assess the types and levels of risk arising from those practices,[4] it is important and useful to know what types of products represent sources of revenue to a bank and in what proportion and significance.[5] So, the splitting of annuity revenue into "fixed," "variable," and "equity-

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[3] Andrew Singer, "A Chill Regulatory Wind Dampens Variable Annuity Sales," *Bank Insurance & Securities Marketing*, 2004, BISM Online at http://www.bisanet.org/bism/2004/chill_reg.html.

[4] "The insurance sales and annuity line of business should not be run on autopilot, even though this may be convenient simply because the business line is new and likely unfamiliar to bank management and the board, is managed by the 'business line experts,' and is already being reviewed by the insurance underwriter and the functional regulator. As required in the GLB Act, the Federal Reserve generally does not examine insurance underwriters or insurance agencies owned by a bank holding company. Instead, we defer to the appropriate state insurance authorities. However, we do review, at the bank or holding company level, the appropriateness of risk management and internal controls over a banking organization's insurance and annuity sales activities, and assess the level of risk arising from such activities." Federal Reserve Board Governor Mark W. Olson, "Regulatory Update: Banking Industry, Insurance, and Securities Activities," Remarks at the Bank Insurance and Securities Association Legislative, Regulatory, and Compliance Seminar, Washington, DC, June 10, 2004, at http://www.federalreserve.gov/boarddocs/speeches/2004/20040610/default.htm.

[5] In a press release announcing that an affiliate securities broker-dealer of Citizens Bank will pay a $3 million civil fine for unethical and dishonest conduct in pushing the sale of variable annuities, the Secretary of the Commonwealth of Massachusetts took pains to note that "at least half of one financial consultant's variable annuity sales since January, 2003…had been to elderly clients." Secretary of the Commonwealth, "Secretary

indexed" categories makes sense, especially given the recent bad press about, and regulatory scrutiny of, sales of annuities, particularly variable and equity-indexed annuities. In the bank nondeposit investment product sales arena, knowledge of product-mix or business-mix is an essential ingredient to sound supervision.

Variable annuities (VAs)

The NASD says that complaints about variable annuity sales practices increased 50 percent from 1999 to 2003.[6] Annuities were the product at issue in about 600 arbitration cases in 2004, more than twice the number from three years earlier. Last year, annuities were the third most common security involved in arbitrations, behind stocks and mutual funds.[7] According to the Financial Research Corporation in Boston, 60 percent of variable annuity sales came from exchanges in 2003, a substantial increase from the 15 percent of VA sales in 1996.[8] As a result, the NASD has not only taken action against a number of companies and brokers, but it has also issued several warning letters to investors.[9]

State regulators have also been investigating incidents of abuse in the sale of variable annuities. In the spring of 2004, Alabama and Mississippi state regulators fined the investment services subsidiary of AmSouth Bank $225,000 for "failure to adequately protect investors in two states" in cases involving sales of variable annuities.[10] In February 2005, the Securities Division of the State of Massachusetts issued subpoenas to a dozen banks and brokers seeking information about their variable annuity sales. The firms included Sovereign Bancorp, Citizens Financial Group, Century Bancorp Inc., Banknorth Group Inc., Eastern Bank Corp., Medford Co-operative Bank, now owned by Brookline Bancorp Inc., Wachovia Securities, and Infinex Investment Inc., a third-party marketer and brokerage that provides investment product services to approximately 85 community banks and is owned by some of its bank clients and bank trade associations.[11]

In July 2005, the Secretary of the Commonwealth of Massachusetts announced, "Bank of America has agreed to offer customers who were 78 or older when they bought variable annuities the opportunity to get out of the annuity penalty free. The agreement ... applies to Massachusetts' customers who bought variable annuities in 2003 and 2004. Bank of America will extend the offer to customers across the country."[12] "Bank of America's agreement is poised to have far-reaching implications for variable annuity providers, who have been subject to numerous lawsuits and regulatory fines."[13]

Galvin Fines Citizens Bank Affiliate $3 Million for Improper Variable Annuity Sales," press release, July 22, 2005.

[6] Matt Ackermann and Jenna Gottlieb, "NASD Sees Broad Abuses in Annuity Sales," *American Banker*, February 16, 2005.

[7] Gretchen Morgenson, "Who's Preying on Your Grandparents?" *The New York Times*, May 15, 2005.

[8] Andrew Singer, "A Chill Regulatory Wind Dampens Variable Annuity Sales," *Bank Insurance & Securities Marketing*, 2004, BISM Online at http://www.bisanet.org/bism/2004/chill_reg.html.

[9] Matt Ackermann and Jenna Gottlieb, "NASD Sees Broad Abuses in Annuity Sales," *American Banker*, February 16, 2005.

[10] Mississippi Secretary of State, "Mississippi, Alabama Regulators Assess $225,000 Fine and Penalties Against AmSouth Investment Services," press release, March 26, 2004.

[11] Andrew Caffrey, "15 firms now face annuities inquiries, Regulators look at ties between insurers, brokers," Boston Globe, February 18, 2005

[12] Secretary of the Commonwealth, "Secretary Galvin Reaches Agreement with Bank of America on Variable Annuities," press release, July 13, 2005.

[13] Angela Pruitt, "Bank of Amer, Mass. Agree on Annuities Sales," *Dow Jones Newswires*, July 13, 2005. This article continues: "'This is earth-shaking news to the variable annuity industry,' said John Duval, president of John Duval Associates, a securities litigation and consulting firm. He said it could compel other providers to rethink the parameters under which some of their annuities were sold."

A few days later, the Secretary of the Commonwealth announced that an affiliate securities broker-dealer of Citizens Bank will pay a $3 million civil fine for unethical and dishonest conduct in pushing the sale of variable annuities to elderly bank customers and failing to maintain internal e-mails.[14]

VA sales practices clearly have attracted the attention of federal and state securities regulators, consumer groups and the press. Although the Gramm-Leach-Bliley Act mandates functional regulation, the Agencies also have a role to play in overseeing these activities. As a part of their risk assessment procedures in examining a bank, the Agencies need to know which banks are selling VAs and in what magnitude in order to assess the appropriateness of VA sales practices. "...Some reps believe that VAs will be the next big financial investigation."[15] That could subject banks (and bank holding companies) to damaging transaction/operational risk, reputation risk, and compliance/legal risk.

Equity-indexed annuities (EIAs)

Equity-indexed annuities are a complex type of annuity. They offer the potential for variable rates of return, but they are not considered a security. Thus, they are regulated by state insurance commissioners, not the SEC or NASD.[16,17]

> An equity-indexed annuity is a type of annuity that grows at the greater of a) an annual, guaranteed minimum rate of return; or b) the return from a specified stock market index (such as the S&P 500), reduced by certain expenses and formulas. At the time the contract is opened, a term is chosen, which is the number of years that the principal is guaranteed. Technically speaking, equity-indexed annuities are a type of fixed annuity. But an equity-indexed annuity is different than a standard fixed annuity in the way that earnings are credited to the annuity. For a standard fixed annuity, the issuing insurance company guarantees a minimum interest rate. The focus is on safety of principal and stable, predictable investment returns. With equity-indexed annuities, the contract return is the greater of a) an annual minimum rate, or b) the return of a stock market index (such as the S&P 500), reduced by certain expenses and formulas. If the chosen index rises sufficiently during a specified period, a greater return is credited to the owner's account for that period. If the stock market index does not rise sufficiently, or even declines, the lower minimum rate is credited. The owner is guaranteed to receive back at least all principal (provided of course that the owner has held the contract for the minimum period of time specified in the contract).[18]

Sales of EIAs have been growing rapidly recently. "More than 30% of annuities sold in 2004 were EIAs, a market share increase of almost 500% since 2002, according to a recent report from Financial Research Corp. and Beacon Research, both of Boston."[19] According to LIMRA International, EIA sales totaled $6.4 billion in the first quarter of 2005, up 56 percent from year-earlier levels. Banks sold $300 million worth of EIAs in the first quarter of 2005, up 79 percent from $168 million in first quarter 2004. EIAs represented 5.4 percent of all fixed

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[14] Secretary of the Commonwealth, "Secretary Galvin Fines Citizens Bank Affiliate $3 Million for Improper Variable Annuity Sales," press release, July 22, 2005.
[15] Chris O'Leary, "The Trouble with Annuities," *Registered Rep*, Sept. 1, 2005, p. 63 and at http://enews.insurancemail.biz/print.asp?a=1&1nid=307126321.
[16] "Some EIAs are registered with the Securities and Exchange Commission (SEC) as securities. Many are not, based on a determination that they are insurance products that qualify for exemption under the Securities Act of 1933." From NASD, News Release, "NASD Issues Guidance Regarding Equity Indexed Annuity Sales – Concerns About Marketing, Supervision and Investor Protection Cited," August 8, 2005.
[17] John Waggoner and Kathy Chu, "An annuity with complexities," USA Today, August 11, 2005, at http://www.usatoday.com/money/industries/insurance/2005-08-11-annuity-info-usat_x.htm.
[18] http://www.annuityfyi.com/equity_index_description.html.
[19] Trevor Thomas, "SEC Contacting Companies on Indexed Annuity Sales Practices," National Underwriter's Registered e-Report, Vol. 4, No. 7, August 2005

annuity sales in banks during the quarter, up from 4.9 percent in 2004.[20] And, EIAs sold in banks represented 4.7 percent of all EIAs sold in the first quarter of this year. Because EIAs combine a minimum guaranteed interest rate with a variable rate linked to the performance of the stock market, "they may be replacing VAs [variable annuities] among customers who don't want to miss out on a market rally," but fear the potential volatility of the stock market.[21]

"The runaway success of index-linked annuities and their many complexities is [sic] raising some concerns among regulators."[22] In early August 2005, the Securities and Exchange Commission asked a number of insurance companies for information about how they market equity indexed annuity products.[23] Despite having no regulatory authority over EIAs, the NASD issued an Investor Alert entitled "Equity Indexed Annuities – A Complex Choice," on June 30, 2005.

Then, expressing concerns about marketing, supervision, disclosure and investor protection issues, the NASD issued formal guidance to registered firms selling EIAs.[24] While NASD asserts that it does not take a position on whether a particular EIS is a security, NASD says: "Nevertheless, this uncertainty over whether a particular unregistered EIA may be a security complicates a broker-dealer's supervisory responsibilities." This, I believe, holds true in the case of a bank, bank holding company, and any affiliated securities brokerage. Given the growing concern about EIAs, it seems a wise policy for the Agencies to know if a bank is selling them and, then, to examine the scope and scale of that activity.

In light of these concerns and developments, it seems an appropriate time to split "Fees and commissions from annuity sales" into three sub-items: "Fees and commissions from fixed annuity sales," "Fees and commissions from variable annuity sales," and "Fees and commissions from equity-indexed annuity sales." Banks that sell these products should readily possess the information about earned revenues by product line, because product mix, increases in the sales volumes of a particular product, related compensation, and customer suitability are criteria that are supposed to have been monitored since the release of the Interagency Statement on Nondeposit Investment Product Sales Programs in 1994. And, if the Agencies think it is too much to have three categories of annuity revenues, MWA urges the Agencies, at a bare minimum, to have two categories, i.e., income from fixed annuities (which would include income from EIAs until such time as regulators may redefine EIAs as variable annuities) and income from variable annuities.

"11. LIFE INSURANCE ASSETS"

The third and last proposed change to the bank Call Report about which MWA wishes to comment entails adding an item to Schedule RC-F, "Other Assets" for the carrying value of the bank's life insurance assets, which would replace the item in this schedule for reporting such assets if they exceed 25 percent of "All other assets."

As the Agencies note, the Interagency Statement on the Purchase and Risk Management of Life Insurance issued in December 2004 provides guidance to help ensure that banks' risk management processes for bank-owned life insurance (BOLI) are consistent with safe and sound banking practices. Therefore, the Agencies are,

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[20] "Indexed Annuity Sales Soar in Banks in First Quarter," NU Online News Service, July 12, 2005.
[21] Andrew Singer, "A Chill Regulatory Wind Dampens Variable Annuity Sales," *Bank Insurance & Securities Marketing*, 2004, BISM Online at http://www.bisanet.org/bism/2004/chill_reg.html.
[22] "A big seller comes under scrutiny," Life Insurance International, August 31, 2005, page 11, and at http://enews.insurancemail.biz/print.asp?a=1&1nid=307075937..
[23] Trevor Thomas, "SEC Contacting Companies on Indexed Annuity Sales Practices," National Underwriter's Registered e-Report, Vol. 4, No. 7, August 2005
[24] NASD, News Release, "NASD Issues Guidance Regarding Equity Indexed Annuity Sales – Concerns About Marketing, Supervision and Investor Protection Cited," August 8, 2005.

correctly, concerned that many banks may not be reporting the aggregate cash surrender value (CSV) of their BOLI holdings because they do not meet the reporting threshold of being greater than $25,000 and more than 25 percent of the banks' "all other assets."[25] Thus, the Agencies are uncertain as to the total number of banks (or bank holding companies[26]) that hold BOLI assets in the form of life insurance CSV. This lack of reporting is especially critical since the Agencies advise institutions that it is generally not prudent for an institution's aggregate CSV of BOLI holdings to exceed 25 percent of its capital as measured in accordance with its primary Federal regulator's concentration guidelines.[27]

Benefits of this proposed change

Of the 8,089 commercial and FDIC-supervised savings banks operating on December 31, 2004, 41.5 percent did report holding BOLI assets during the year.[28] Of these 3,360 banks that reported having BOLI holdings in the form of life insurance CSV, over 500 had aggregate CSV that exceeded 25 percent of Tier 1 Capital.[29] Over 300 banks had aggregate CSV that exceeded the sum of Tier 1 Capital and the Allowance for Loan and Lease Losses. This is known because these banks report their BOLI holdings. What is not known is, among banks that do not report their BOLI holdings because they do not meet the current reporting threshold, how many and which ones specifically exceed the guidance of BOLI holdings as 25 percent or less of capital.

Eliminating the reporting threshold that BOLI assets exceed $25,000 and 25 percent of its "All other assets" properly requires all banks with BOLI assets to report their aggregate CSV. This way the Agencies can monitor whether all banks holding life insurance assets are approaching or have exceeded the 25 percent of capital concentration threshold.

MWA RECOMMENDS THAT THE SAME REVISIONS BE MADE TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR BANK HOLDING COMPANIES (FORM FR Y-9C)

It appears that the proposed revisions published in the *Federal Register* are not intended to be similarly made to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). We certainly hope that

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[25] Three in five banks did not report the cash surrender value of their bank-owned life insurance holdings because either they did not own and hold BOLI, or they did not meet the reporting threshold. Currently, according to the FDIC, BOLI holdings in the form of cash surrender value (CSV) are to be reported when the amount of CSV is greater than $25,000 and exceeds 25 percent of the amount reported in Schedule RC-F, item 5, i.e. "Other (other assets)."

[26] One in two bank holding companies did not report the cash surrender value of their bank-owned life insurance holdings because either they or their subsidiaries did not own and hold BOLI, or they did not meet the reporting threshold. According to the FRB, BOLI holdings in the form of cash surrender value (CSV) are to be reported when the amount of CSV exceeds 25 percent of the amount reported in Schedule HC-F, item 5, i.e. "Other (other assets)."

[27] Each regulatory agency's definition of a concentration differs slightly. In the case of the OCC and Fed, for purposes of calculating levels of concentrations of credit, the term "bank's capital structure" means Tier 1 capital plus the Allowance for Loan and Lease Losses. For the FDIC, a generally imprudent BOLI holding has an aggregate CSV that exceeds 25 percent of a bank's Tier 1 capital.

[28] *Michael White's Bank-Owned Life Insurance (BOLI) Holdings Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 16.

[29] In the spirit of consistency and in the belief that, with regard to these proposed changes and MWA's suggestions for amending them, each one should also apply to bank holding companies, MWA notes the following: Of the 2,247 top-tier bank holding companies (BHCs) operating on December 31, 2004, 1,067 or 47.5 percent reported holding, either directly or through their bank subsidiaries, bank-owned life insurance (BOLI) assets during the year.

is not the case, especially since many of the activities covered by the proposed revisions to the bank Call Reports occur not in banks or direct subsidiaries of banks, but rather in non-bank affiliates owned by a bank holding company. These same changes (including removal of the BOLI reporting threshold) need to be made to the Form FR Y-9C, where the activities accounting for these forms of commissions and fee income are larger and more widespread.

For instance, in 2004, 48.0 percent of 8,089 banks generated $3.63 billion in "Fees and commissions from other insurance activities." Banks that were subsidiaries of bank holding companies earned the vast majority of these fees and commissions. In contrast, 62.7 percent of 2,247 top-tier bank holding companies reported earning $9.63 billion in "Fees and commissions from other insurance activities." Thus, banks accounted for less than 38 percent of the fees and commissions earned from other insurance activities by the banking industry, as reflected in the amount earned by bank holding companies. A higher proportion of bank holding companies (62.7 percent) than banks (48.0 percent) reported earning an amount of income from other insurance activities nearly 2.7 times that of banks.[30]

The same is true with regard to "Income from the sale and servicing of mutual funds and annuities." In 2004, 25.6 percent of banks reported earning $5.62 billion in mutual fund and annuity commissions and fee income. But, 49.1 percent of top-tier bank holding companies reported revenue of $17.22 billion from these sales activities. In the case of mutual fund and annuity income, banks produced less than 33 percent of the industry's total, as reflected in the amount earned by bank holding companies. A higher proportion of bank holding companies (49.1 percent), nearly double the rate of banks (25.6 percent), reported earning an amount of income from mutual fund and annuity activities more than 3 times that of banks.[31]

While 28.5 percent of all banks reported $9.79 billion in "Investment banking, advisory, brokerage, and underwriting fees and commissions" (Schedule RI, item 5.d), 55.9 percent of top-tier bank holding companies reported earning $45.69 billion. Again, banks accounted for only 21.4 percent of the total "Investment banking, advisory, brokerage, and underwriting fees and commissions" reported by bank holding companies in 2004. A higher proportion of bank holding companies (55.9 percent), nearly double the rate of banks (28.5 percent), reported earning an amount of investment banking, advisory, brokerage, and underwriting fees and commissions nearly 4.7 times that of banks.[32]

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[30] *Michael White's Bank Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 17; and *Michael White's Bank Holding Company Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 19. In 2004, stand-alone banks, i.e., banks that are not part of a holding company, accounted for only $119.7 million or 3.3 percent of all bank revenue from other insurance activities. Stand-alone banks accounted for only 1.2 percent of the banking industry's $9.75 billion in other insurance revenue; all the rest, 98.8 percent, was generated within the holding company structure.

[31] *Michael White's Bank Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 114; and *Michael White's Bank Holding Company Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 119. In 2004, stand-alone banks, i.e., banks that are not part of a holding company, accounted for only $43.3 million or 0.8 percent of all bank revenue from mutual fund and annuity activities. Stand-alone banks accounted for only 0.25 percent of the banking industry's $17.26 billion in mutual fund and annuity revenue; all the rest, 99.7 percent, was generated within the holding company structure.

[32] *Michael White's Bank Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 68; and *Michael White's Bank Holding Company Insurance & Investment Fee Income Report*, Year-end 2004 edition (Radnor, PA: 2005), p. 73. In 2004, stand-alone banks, i.e., banks that are not part of a holding company, accounted for only $128.0 million or 1.3 percent of all bank income from investment banking, advisory, brokerage, and underwriting activities. Stand-alone banks accounted for only 0.28 percent of the banking industry's $45.82 billion in investment banking, advisory, brokerage, and underwriting revenue; all the rest, 99.7 percent, was generated within the holding company structure.

In short, most commissions and fees earned by banks are reported up, through and by parent or top-tier bank holding companies. And, most bank holding companies earn far more of these commissions and fees than their subsidiary banks. In other words, a significant majority of these commissions and fees are earned by nonbank subsidiaries of the holding companies.

MWA realizes bank Call Report data are important in determining "the amount of attention that examiners initially direct to the various risk areas of the bank under examination…"[33] As the Agencies noted in the *Federal Register*:

> These data, and analytical reports generated from Call Report data…, assist examiners in making their preliminary assessments of risks and in scoping efforts during the planning phase of the examination process. The more risk-focused the information available to examiners from a bank's Call Report, the better the job examiners can do before the start of their on-site work in making their preliminary assessments as to whether each of the risk areas of the bank presents greater than normal, normal, or less than normal risk. The degree of perceived risk determines the extent of the examination procedures, and the resultant regulatory burden, that are initially planned for each risk area.[34]

The same must presumably be true of Federal Reserve examinations of holding companies. Therefore, given the magnitude of the activities within the nonbank subsidiaries of bank holding companies, it is essential to make certain that these proposed revisions to the bank Call Report, and the additional ones MWA has suggested herein, apply not only to banks' Consolidated Reports of Condition and Income, but also to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C). Similar application of these data-reporting requirements among banks and bank holding companies creates a consistency and uniformity in the use and effectiveness of such required data items.

Thank you for the opportunity to comment on this very important subject. If you have any questions concerning these comments or need additional information, please do not hesitate to contact me at (610) 254-0440 or mwa@bankinsurance.com.

Sincerely yours,

Michael D. White
President

[33] *Federal Register*, Vol. 70, No. 162, Tuesday, August 23, 2005, pages 49364
[34] *Federal Register*, Vol. 70, No. 162, Tuesday, August 23, 2005, pages 49364-49365.