Insurance Companies' Earnings Credit Rates Lag Market

Second quarter results are in, and NDepth Bank Fee Analysis revealed that Insurance companies are earning well below market rate on their cash balances.

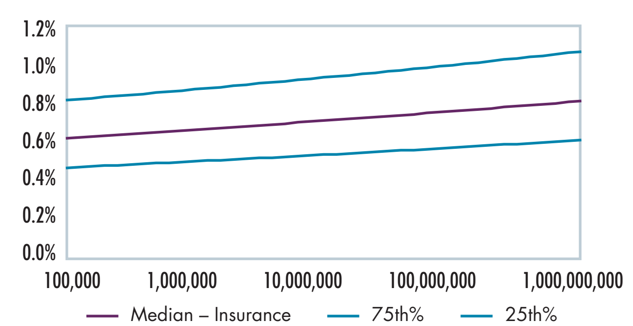
Key findings include:

- Insurance company net earnings credit rates were more than 1.25% below other investment options, resulting in an annual opportunity cost of $127,000 for every $10 million in deposit balances.
- ECRs varied widely among Insurance companies, even at identical balance levels.
- ECRs for Insurance companies were higher than for other companies, but still below market.
- Balance Assessment Fees further depressed Insurance company returns.

Earnings Credit Rates are the balance-based allowances banks give their corporate customers to offset fees on treasury management services. Balance assessment fees represent insurance and other regulatory charges which bank assess against those balances. In netting the two, the effective rate earned by Insurance Companies was just 0.53% on deposit balances of $10 million, as shown below.

Within the industry, ECRs varied widely among Insurance companies, even at identical balance levels.

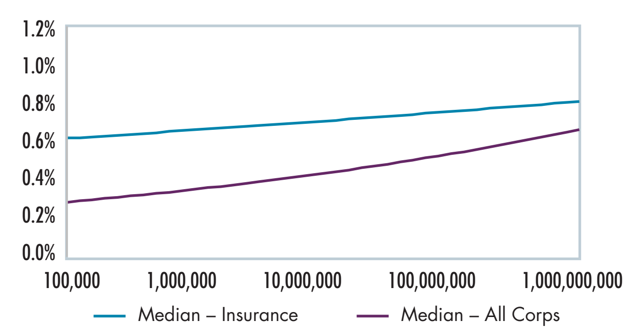
INSURANCE COMPANY ECRs 2Q18



- On DDA balances of $100,000, the range of ECRs between the 25th and 75th percentiles was 35 bps (0.35%).
- On balances of $10,000,000, the range widened to 40 bps.
- On balances of $100,000,000, the range between the 25th and 75th percentiles was an eye popping 43 bps.

ECRs for Insurance companies were higher than for other companies.

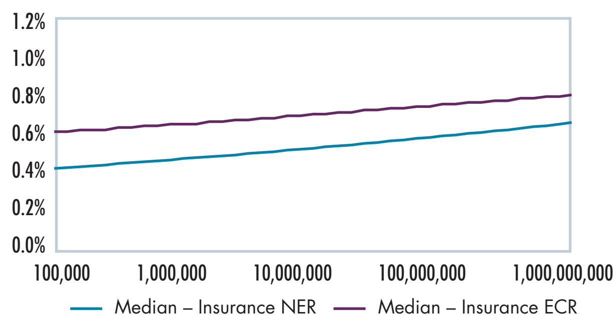
INSURANCE COMPANY ECRs VS MARKET ECR 2Q18



- Insurance company ECR were higher than other companies, especially at lower balance levels.
- On DDA balances of $1,000,000, Insurance ECRs led by 31 bps.
- On balances of $10,000,000, Insurance led by 28 bps.
- On balances of $100,000,000, the difference fell to 22 bps.

Balance Assessment Fees depressed Insurance returns.

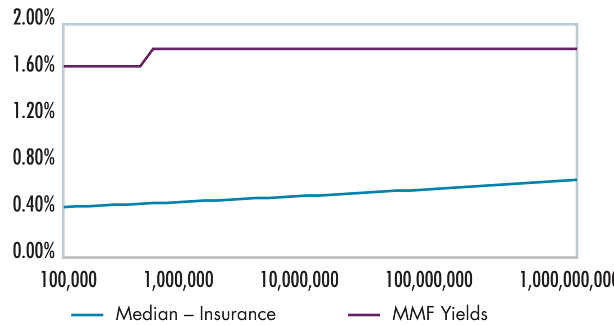
INSURANCE NET EFFECTIVE RATES VS ECRS 2Q18



- Banks charge a Balance Assessment Fee on ledger balances to recoup FDIC insurance and other regulatory costs.
- During 2Q, these fees disproportionately impacted lower balance Insurance accounts, depressing the net effective rate earned by Insurance companies.
- The Net Effective Rate for Insurance on a $10,000,000 DDA balance was 53 bps after adjusting for the 18 bps average balance assessment fee.

Insurance net earnings credits were more than 1.25 percentage points below other investment options.

INSURANCE NET EFFECTIVE RATES VS MONEY FUNDS



- During a period in which institutional money market funds were yielding over 1.8%, Insurance Net Effective rates (ECR — BAF) barely averaged 0.53% on a $10 million balance level.
- **That's a full 1.27% below money funds resulting in $127,000 in lost income on a $10M deposit.**

CONCLUSION

As rates continue to rise, it is imperative that Insurance treasuries sharpen their pencils and take full advantage of market opportunities.

Lack of cash visibility, weak cash forecasting capability, restrictive loan covenants and investment policies, poor treasury technology and inadequate staffing all contribute to a bias in favor of convenient but low yielding bank demand deposits. Treasurers must carefully evaluate improving these functions in the current rising interest rate environment. And NDepth is the place to start.

We invite you to learn how our NDepth solution can help you solve this problem. Please contact Jill Selgrad at jill_selgrad@treasurystrategies.com.

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