# The FINANCIAL SERVICES FACT BOOK

Insurance Information Institute

The Financial Services Roundtable

# 2005

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## TO THE READER

The Financial Services Fact Book, a partnership of the Insurance Information Institute and The Financial Services Roundtable, has become an indispensable resource for executives, public officials, researchers and others seeking a better understanding of financial services.

In this, our fourth edition, we also identify important trends emerging post Gramm-Leach-Bliley that affect financial services as a whole. We have put these together in a separate chapter. We now see, for example, that more than 50 percent of bank holding companies are reporting income from sales of insurance, mutual funds and annuities, and from investment banking activities. And the number of financial holding companies involved in insurance underwriting more than doubled from 2000 to 2003. Early data for 2004 suggest these trends will continue upward.

In addition to these trends, other features that have been added to this edition include:

- Percentage of workers with retirement benefits
- Remittances (money transfers from immigrants to their families in other countries)
- Information technology spending in the insurance industry
- New charts on finance companies and e-commerce and more details on bank loans.

This endeavor to integrate information on trends with basic facts on major industry sectors could not succeed without the help of many organizations, consultants and others who collect industry data and who have generously given permission to use their data in this book. However, the bulk of the work involved in collecting, integrating and interpreting the material was done by the Insurance Information Institute, which accepts editorial responsibility for the book.

The Financial Services Roundtable and the Insurance Information Institute actively seek your advice, comments and suggestions for next year's edition.

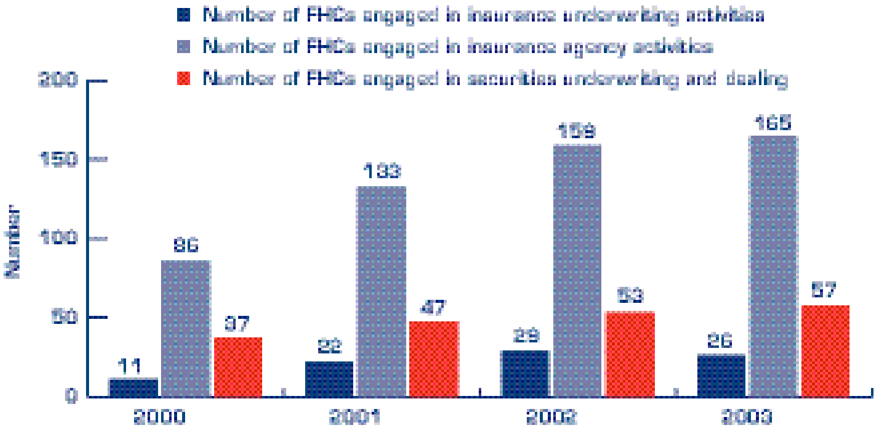
With best wishes,

Gordon Stewart,
President
Insurance Information Institute

Steve Bartlett,
President and Chief Executive Officer
The Financial Services Roundtable

- **Excluding real estate, the financial services sector's contribution to the gross domestic product totaled 7.7 percent in 2002, the latest data available.**
- **The assets of the financial services sector grew 12 percent from $37.9 trillion in 2002 to $42.0 trillion in 2003.**
- **Banks acquired 54 insurance agencies and 46 securities firms in 2003.**
- **In 2003, homeowners withdrew $138 billion in cash when they refinanced their mortgages, compared with $105 billion in 2002.**
- **U.S. households' financial assets rose 94.3 percent from $15.7 trillion in 1993 to $30.5 trillion in 2003.**
- **Household debt rose 10.6 percent and business debt rose 3.7 percent from 2002 to 2003.**
- **Financial holding companies (FHCs), a structure created by the 1999 Gramm Leach Bliley Act to expand the financial services activities of bank holding companies (BHCs), accounted for $8.3 trillion in assets in 2003.**
- **Insurance underwriting assets reported by FHCs rose to $356 billion in 2003 from $347 billion in 2002. In 2000, these assets amounted to $116 billion.**
- **Securities underwriting/dealing assets of FHCs increased dramatically from $962 billion in 2000 to $1,620 billion in 2003.**

**FINANCIAL HOLDING COMPANIES ENGAGED IN INSURANCE AND SECURITIES ACTIVITIES, 2000-2003[1]**




[1]Includes domestic and foreign financial holding companies.

Source: Board of Governors of the Federal Reserve System.

## OVERVIEW

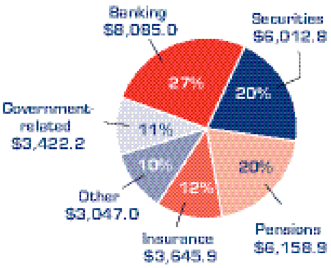
Before the Gramm-Leach-Bliley Financial Modernization Act (GLB) was passed five years ago, competition among the various segments of the financial services industry was strictly limited by law. GLB removed many of the Depression-era barriers that restricted competition. Now many of the leading financial services companies are doing business across sectors as the convergence of products and services that began in the 1970s continues to gather momentum. However, others have chosen different paths. Some have elected to become specialists in their fields, in some cases shedding segments of the financial services business they owned before the Act was passed. Today, financial services consumers have much the same kind of choice as they do in other industries. They can select from an ever broadening array of financial tools and a wide spectrum of financial services distributors, from companies that aim to serve their customers' multiple needs to those that specialize in one or two types of products.

When the Act passed it was expected to spur massive cross-sector mergers. Mergers did occur but for the most part not among leading players. Banks bought specialized securities firms, accounting for 33 percent of securities industry mergers between 1998 and 2003. Banks also bought insurance agencies and brokers, rather than insurance companies as had been predicted. Some of the largest insurance brokerages now belong to banks. Insurance companies applied for new thrift charters to open banks instead of buying existing ones. Moreover, the arrangement that provided the major impetus for the passage of GLB, Citigroup's merger with Travelers Insurance Group, has partially dissolved. In 2002 the bank spun off the property/casualty insurance unit of Travelers, which was bought by the St. Paul Companies in 2003.

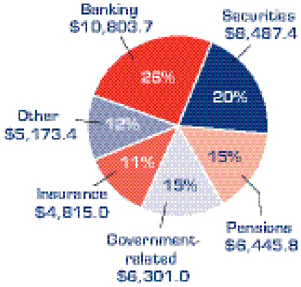
- 1916 National Bank Act limiting bank insurance sales except in small towns
- 1933 Glass-Steagall Act prohibiting commercial banks and securities firms from engaging in each other's business
- 1956 Bank Holding Company Act restricting bank holding company activities
- 1980 Banks receive federal authorization to combine securities sales and investment advisory services
- 1995 Valic U.S. Supreme Court decision allowing banks to sell annuities
- 1996 Barnett Bank U.S. Supreme Court decision allowing banks to sell insurance nationwide
- 1999 Gramm-Leach-Bliley Act allowing banks, insurance companies and securities firms to affiliate and sell each other's products
- 2001 U.S. House of Representatives Banking Committee renames itself the Financial Services Committee
- 2002 Citigroup spins off its Travelers' property/casualty insurance unit

## ASSETS

### ASSETS OF FINANCIAL SERVICES SECTORS, 1998
($ billions)




### 2003
($ billions)




Source: Board of Governors of the Federal Reserve System.

### ASSETS OF FINANCIAL SERVICES SECTORS, BY INDUSTRY, 2003
($ billions, end of year)

| Sector | Assets |
|---|---|
| **Banking** | |
| Commercial banking[1] | $7,812.2 |
| Savings institutions[2] | 1,475.2 |
| Credit unions | 617.3 |
| Bank personal trusts and estates | 899.0 |
| **Total** | **$10,803.7** |
| **Insurance** | |
| Life insurance companies | $3,770.0 |
| All other insurers | 1,045.0 |
| **Total** | **$4,815.0** |
| **Securities** | |
| Mutual and closed-end funds | $6,874.4 |
| Securities broker/dealers[3] | 1,613.0 |
| **Total** | **$8,487.4** |
| **Pensions** | |
| Private pension funds[4] | $4,175.9 |
| State and local government pension funds | 2,269.9 |
| **Total** | **$6,445.8** |
| **Government-related** | |
| Government lending enterprises | $2,813.0 |
| Federally-related mortgage pools | 3,488.0 |
| **Total** | **$6,301.0** |
| **Other** | |
| Finance companies | $1,382.6 |
| Real estate investment trusts | 116.2 |
| Mortgage companies | 32.1 |
| Asset-backed securities issuers | 2,390.9 |
| Funding corporations | 1,251.6 |
| **Total** | **$5,173.4** |
| **Total All Sectors** | **$42,026.3** |

[1]Commercial banking includes U.S.-chartered commercial banks, foreign banking offices in the United States, bank holding companies, and banks in U.S.-affiliated areas.

[2]Savings institutions include savings and loan associations, mutual savings banks and federal banks.

[3]Securities broker/dealers include investment banks.

[4]Private pension funds include defined benefit and contribution plans [including 401(k)s] and the Federal Employees Retirement Thrift Savings Plan.

Source: Board of Governors of the Federal Reserve System.

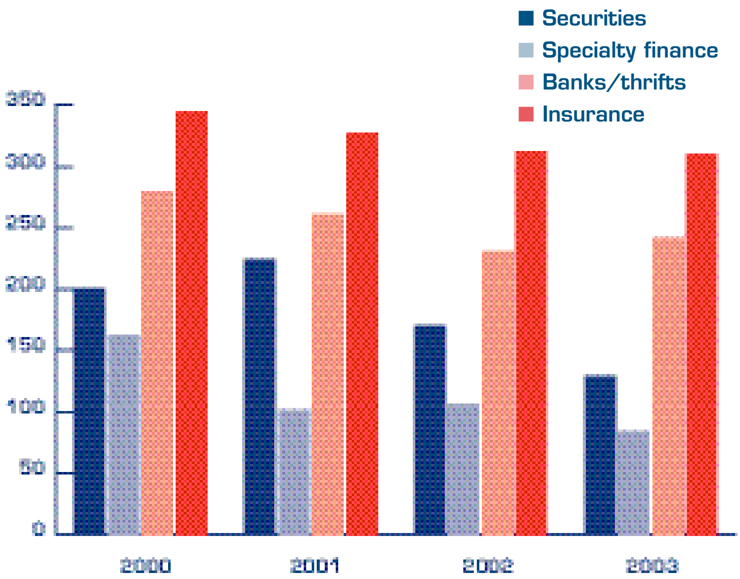
## NUMBER AND VALUE OF ANNOUNCED MERGERS AND ACQUISITIONS BY SECTOR, 1999-2003
($ billions)

| | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Deals | Value | Deals | Value | Deals | Value | Deals | Value | Deals | Value |
| Securities[1] | 165 | $12.9 | 201 | $67.8 | 224 | $14.5 | 170 | $8.1 | 129 | $12.3 |
| Specialty finance[2] | 215 | 20.7 | 163 | 37.6 | 101 | 24.1 | 107 | 23.6 | 84 | 20.1 |
| Banks | 283 | 68.9 | 213 | 90.2 | 206 | 32.1 | 179 | 8.6 | 193 | 63.7 |
| Thrifts | 74 | 7.5 | 67 | 4.4 | 55 | 8.5 | 52 | 9.0 | 49 | 8.7 |
| Insurance | 441 | 38.5 | 344 | 23.6 | 327 | 65.3 | 312 | 9.7 | 310 | 58.5 |
| Life/health | 55 | 16.4 | 58 | 13.3 | 44 | 58.6 | 29 | 3.0 | 33 | 14.5 |
| Property/casualty | 73 | 20.2 | 65 | 9.5 | 65 | 2.4 | 58 | 0.5 | 70 | 22.4 |
| Brokers and agents | 274 | 0.4 | 196 | 0.5 | 199 | 1.2 | 204 | 1.2 | 192 | 1.1 |
| Managed care | 39 | 1.5 | 25 | 0.3 | 19 | 3.2 | 21 | 5.0 | 15 | 20.5 |
| **Total** | **1,178** | **148.5** | **988** | **223.6** | **913** | **144.5** | **820** | **59.0** | **765** | **163.3** |

[1]Includes securities and investment companies, broker/dealers and asset managers.
[2]Specialty finance firms range from small finance companies to major credit card operations.

Source: SNL Financial LC.

## NUMBER OF ANNOUNCED FINANCIAL SERVICES MERGERS AND ACQUISITIONS, 2000-2003




Source: SNL Financial LC.

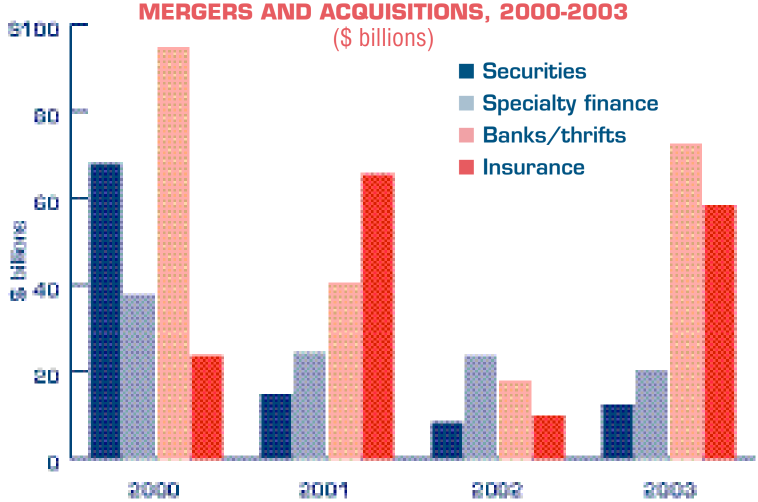
- **In 2003, the number of financial services deals fell to 765 from 820 in 2002. However, deal value rose 177 percent from 2002 to 2003.**
- **The number of deals increased in only one sector, banks/thrifts, with all the increase coming from banks.**

## MERGERS

- **The value of insurance sector mergers and acquisitions in 2003 reached $58.5 billion, up $48.8 billion from $9.7 billion in 2002. The rise was due to a $21.9 billion increase in property/casualty deals, along with a $15.5 billion rise in managed care deals. Bank and thrift deal value rose $54.8 billion, with all of the increase coming from the bank sector.**

### VALUE OF ANNOUNCED FINANCIAL SERVICES MERGERS AND ACQUISITIONS, 2000-2003

($ billions)




Source: SNL Financial LC.

### TOP TEN CROSS-INDUSTRY ACQUISITIONS ANNOUNCED IN 2003, UNITED STATES[1]

| Rank | Buyer | Industry | Country | Target | Industry | Country | Deal value[2] ($ millions) |
|---|---|---|---|---|---|---|---|
| 1 | Bank of America Corp. | Bank | U.S. | FleetBoston Financial Corp. | Bank | U.S. | $49,328.7 |
| 2 | Anthem Inc. | Insurance | U.S. | WellPoint Health Networks Inc. | Insurance | U.S. | 16,247.1 |
| 3 | St. Paul Cos. | Insurance | U.S. | Travelers Property Casualty Corp | Insurance | U.S. | 16,138.5 |
| 4 | Manulife Financial Corp. | Insurance | Canada | John Hancock Financial Services Inc. | Insurance | U.S. | 10,423.0 |
| 5 | Citigroup Inc. | Bank | U.S. | Sears Roebuck & Co.'s credit and financial business | Specialty lender | U.S. | 6,000.0 |
| 6 | General Electric Co. | Diversified | U.S. | Transamerica Finance's commercial lending business | Specialty lender | U.S. | 5,400.0 |
| 7 | BB&T Corp. | Bank | U.S. | First Virginia Banks Inc. | Bank | U.S. | 3,375.5 |
| 8 | UnitedHealth Group Inc. | Insurance | U.S. | Mid Atlantic Medical Services | Insurance | U.S. | 3,301.1 |
| 9 | Lehman Brothers Holdings Inc. | Broker/dealer | U.S. | Neuberger Berman Inc. | Asset manager | U.S. | 2,947.1 |
| 10 | American International Group | Insurance | U.S. | GE Edison Life/GE's U.S. auto and home business | Insurance | U.S. | 2,150.0 |

[1]At least one of the companies involved is a U.S.-domiciled company. List does not include terminated deals.

[2]At announcement.

Source: SNL Financial LC.

## EMPLOYMENT

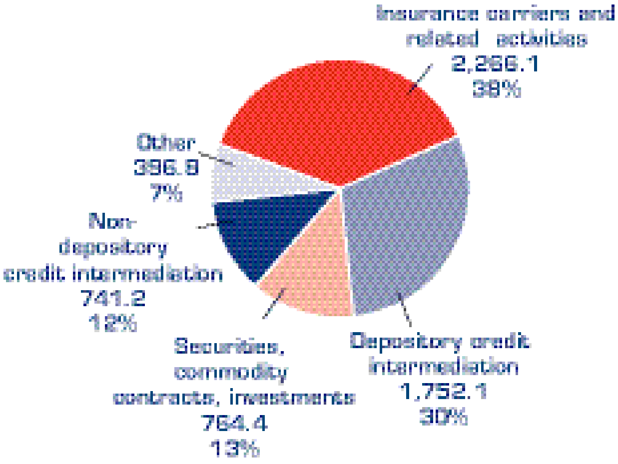
From 1999 to 2003, employment in the financial services industry averaged 5.3 percent of total U.S. employment.

### EMPLOYMENT IN THE FINANCIAL SERVICES INDUSTRY, 1999-2003
(000)

| Year | Monetary authorities | Depository credit interme-diation | Non-depository credit interme-diation | Activities related to credit interme-diation | Securities, commodity contracts, investments | Insurance carriers and related activities | Funds/ trusts | Total |
|---|---|---|---|---|---|---|---|---|
| 1999 | 22.6 | 1,709.7 | 656.3 | 224.9 | 737.3 | 2,236.1 | 81.5 | 5,668.4 |
| 2000 | 22.8 | 1,681.2 | 644.4 | 222.3 | 804.5 | 2,220.6 | 84.8 | 5,680.4 |
| 2001 | 23.0 | 1,701.2 | 660.7 | 235.7 | 830.5 | 2,233.7 | 88.3 | 5,773.1 |
| 2002 | 23.4 | 1,733.0 | 694.9 | 258.0 | 789.4 | 2,233.2 | 85.4 | 5,817.3 |
| 2003 | 22.7 | 1,752.1 | 741.2 | 292.4 | 764.4 | 2,266.1 | 81.7 | 5,920.6 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

### FINANCIAL SERVICES EMPLOYMENT BY INDUSTRY, 2003
(000)




- The Department of Labor does not include real estate in financial activities.

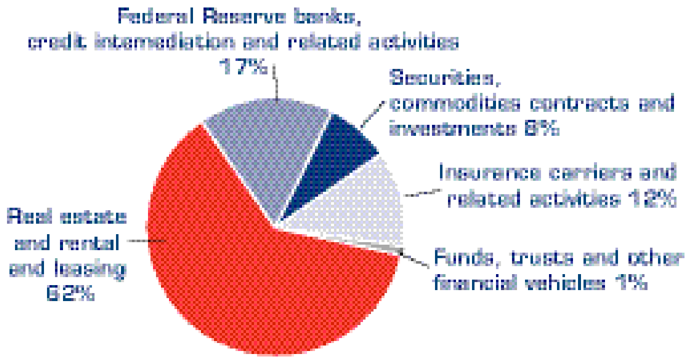
Source: U.S. Department of Labor, Bureau of Labor Statistics.

## FINANCIAL SERVICES CONTRIBUTION TO GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) is the total value of all final goods and services produced in the economy. The GDP growth rate is the primary indicator of the state of the economy.

- When real estate transactions (e.g., development, mortgages and related services, property sales and rentals) are included, financial services accounted for 20.3 percent of GDP in 2002, compared with 20.1 percent in 2001.

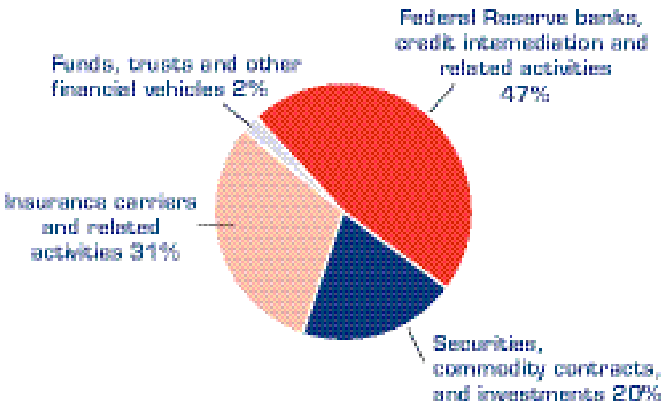
### GROSS DOMESTIC PRODUCT OF FINANCIAL SERVICES, SHARES BY COMPONENT, INCLUDING REAL ESTATE, 2002




Source: U.S. Department of Commerce, Bureau of Economic Analysis.

- With real estate excluded, the remaining financial services industries contributed 7.7 percent to the GDP in 2002, compared with 7.6 percent in 2001.

### GROSS DOMESTIC PRODUCT OF FINANCIAL SERVICES, SHARES BY COMPONENT, EXCLUDING REAL ESTATE, 2002




Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## GROSS DOMESTIC PRODUCT OF THE FINANCIAL SERVICES INDUSTRY, 1998-2002[1]

($ billions)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| **Total GDP** | **$8,747.0** | **$9,268.4** | **$9,817.0** | **$10,100.8** | **$10,480.8** |
| **Total financial services industry** | **1,684.6** | **1,798.4** | **1,931.0** | **2,028.0** | **2,125.7** |
| Industry percent of total GDP | 19.3% | 19.4% | 19.7% | 20.1% | 20.3% |
| Finance and insurance | $641.1 | $679.8 | $740.5 | $770.1 | $804.0 |
| Federal Reserve banks, credit intermediation and related activities | 277.7 | 308.0 | 319.0 | 352.3 | 374.8 |
| Securities, commodity contracts and investments | 134.1 | 139.9 | 167.7 | 164.6 | 162.6 |
| Funds, trusts and other financial vehicles | 11.9 | 15.0 | 15.5 | 17.9 | 17.9 |
| Insurance carriers and related activities | 217.4 | 216.9 | 238.3 | 235.3 | 248.7 |
| Total real estate and rental and leasing | 1,043.5 | 1,118.6 | 1,190.5 | 1,257.8 | 1,321.7 |
| Real estate | 950.3 | 1,017.9 | 1,082.1 | 1,150.0 | 1,210.3 |
| Rental and leasing services and lessors of intangible assets | 93.2 | 100.6 | 108.3 | 107.8 | 111.5 |

[1]Includes real estate and rental and leasing.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## FINANCIAL SERVICES SECTOR'S SHARE OF GROSS DOMESTIC PRODUCT, 1998-2002[1]

| | Percent of total gross domestic product | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| **Finance, insurance, real estate and rental and leasing** | **19.3%** | **19.4%** | **19.7%** | **20.1%** | **20.3%** |
| Finance and insurance | 7.3 | 7.3 | 7.5 | 7.6 | 7.7 |
| Federal Reserve banks, credit intermediation and related activities | 3.2 | 3.3 | 3.2 | 3.5 | 3.6 |
| Securities, commodity contracts and investments | 1.5 | 1.5 | 1.7 | 1.6 | 1.6 |
| Insurance carriers and related activities | 2.5 | 2.3 | 2.4 | 2.3 | 2.4 |
| Funds, trusts and other financial vehicles | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total real estate and rental and leasing | 11.9 | 12.1 | 12.1 | 12.5 | 12.6 |

[1]Includes real estate and rental and leasing.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## FINANCIAL SERVICES VS. TOTAL U.S. GROSS DOMESTIC PRODUCT GROWTH, 1998-2002

($ billions)

| Year | Total U.S. gross domestic product | Percent change from prior year | Finance, insurance, real estate and rental and leasing | Percent change from prior year | Finance and insurance | Percent change from prior year |
|---|---|---|---|---|---|---|
| 1998 | $8,747.0 | 5.3% | $1,684.6 | NA | $641.1 | NA |
| 1999 | 9,268.4 | 6.0 | 1,798.4 | 6.8% | 679.8 | 6.0% |
| 2000 | 9,817.0 | 5.9 | 1,931.0 | 7.4 | 740.5 | 8.9 |
| 2001 | 10,100.8 | 2.9 | 2,028.0 | 5.0 | 770.1 | 4.0 |
| 2002 | 10,480.8 | 3.8 | 2,125.7 | 4.8 | 804.0 | 4.4 |

NA=Not applicable.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## FINANCIAL SERVICES PERCENTAGE SHARE OF GROSS STATE PRODUCT, 2001

(Excludes real estate)

| State | Percent | State | Percent | State | Percent |
|---|---|---|---|---|---|
| Alabama | 7.6% | Louisiana | 4.7% | Oklahoma | 5.9% |
| Alaska | 3.2 | Maine | 7.3 | Oregon | 5.3 |
| Arizona | 7.8 | Maryland | 6.5 | Pennsylvania | 8.7 |
| Arkansas | 5.3 | Massachusetts | 11.2 | Rhode Island | 15.3 |
| California | 7.1 | Michigan | 6.3 | South Carolina | 5.1 |
| Colorado | 7.3 | Minnesota | 9.5 | South Dakota | 16.0 |
| Connecticut | 15.2 | Mississippi | 5.4 | Tennessee | 7.2 |
| Delaware | 34.6 | Missouri | 7.9 | Texas | 6.7 |
| District of Columbia | 8.0 | Montana | 6.3 | Utah | 11.8 |
| Florida | 7.6 | Nebraska | 8.6 | Vermont | 6.1 |
| Georgia | 7.3 | Nevada | 7.8 | Virginia | 6.9 |
| Hawaii | 5.2 | New Hampshire | 10.0 | Washington | 5.6 |
| Idaho | 4.1 | New Jersey | 9.0 | West Virginia | 4.9 |
| Illinois | 10.7 | New Mexico | 3.9 | Wisconsin | 7.4 |
| Indiana | 6.4 | New York | 20.1 | Wyoming | 3.7 |
| Iowa | 9.1 | North Carolina | 11.0 | **Total U.S.** | **8.9** |
| Kansas | 6.5 | North Dakota | 7.8 | | |
| Kentucky | 5.5 | Ohio | 8.9 | | |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## LARGEST U.S. FINANCIAL SERVICES FIRMS, 2003[1]
($ millions)

| | | | | Profits as a percent of | | | |
|---|---|---|---|---|---|---|---|
| Rank | Company | Revenues | Profits | Revenues | Assets | Industry | Employees |
| 1 | General Electric | $134,187 | $15,002 | 11% | 2% | Diversified financial | 305,000 |
| 2 | Citigroup | 94,713 | 17,853 | 19 | 1 | Banking | 275,000 |
| 3 | American Intl. Group | 81,300 | 9,274 | 11 | 1 | Insurance | 86,000 |
| 4 | Berkshire Hathaway | 63,859 | 8,151 | 13 | 5 | Insurance | 172,732 |
| 5 | State Farm Insurance Cos. | 56,065 | 2,826 | 5 | 2 | Insurance | 71,976 |
| 6 | Fannie Mae | 53,767 | 7,905 | 15 | 1 | Diversified financial | 5,032 |
| 7 | Bank of America Corp. | 48,065 | 10,810 | 23 | 2 | Banking | 133,549 |
| 8 | J.P. Morgan Chase & Co. | 44,363 | 6,719 | 15 | 1 | Banking | 93,453 |
| 9 | MetLife | 36,261 | 2,217 | 6 | 1 | Insurance | 49,029 |
| 10 | Morgan Stanley | 34,933 | 3,787 | 11 | 1 | Securities | 51,196 |
| 11 | Allstate | 32,149 | 2,705 | 8 | 2 | Insurance | 38,878 |
| 12 | Wells Fargo | 31,800 | 6,202 | 20 | 2 | Banking | 140,000 |
| 13 | Prudential Financial | 27,907 | 1,264 | 5 | 0 | Insurance | 39,422 |
| 14 | Merrill Lynch | 27,745 | 3,988 | 14 | 1 | Securities | 48,100 |
| 15 | TIAA-CREF | 26,016 | 514 | 2 | 0 | Insurance | 5,671 |
| 16 | American Express | 25,866 | 2,987 | 12 | 2 | Diversified financial | 78,200 |
| 17 | New York Life Insurance | 25,700 | 695 | 3 | 1 | Insurance | 12,180 |
| 18 | Wachovia Corp. | 24,474 | 4,624 | 19 | 1 | Banking | 86,670 |
| 19 | Goldman Sachs Group | 23,623 | 3,005 | 13 | 1 | Securities | 19,476 |
| 20 | Bank One Corp. | 21,454 | 3,535 | 17 | 1 | Banking | 71,196 |
| 21 | Mass. Mutual Life Ins. | 21,076 | 735 | 4 | 1 | Insurance | 10,906 |
| 22 | Hartford Financial Services | 18,733 | -91 | -1 | 0 | Insurance | 30,000 |
| 23 | Washington Mutual | 18,629 | 3,880 | 21 | 1 | Banking | 60,021 |
| 24 | Lehman Brothers Hldgs. | 17,287 | 1,699 | 10 | 1 | Securities | 16,188 |
| 25 | Northwestern Mutual | 17,060 | 692 | 4 | 1 | Insurance | 4,427 |

[1]Ranked by revenues.

Source: Fortune.

## LARGEST FINANCIAL SERVICES COMPANIES BY SECTOR, 2003[1]

($ millions)

| Industry | Number of Fortune 500 companies | Revenues[1] | Share of total financial services sector revenues (percent)[1] | Profits[1] | Share of total financial services sector profits (percent)[1] |
|---|---|---|---|---|---|
| Banks | | | | | |
| Savings | 5 | $28,013 | 1.8% | $5,984 | 3.2% |
| Commercial | 39 | 414,044 | 26.7 | 78,456 | 42.2 |
| Insurance | | | | | |
| Life and health | 30 | 264,170 | 17.1 | 13,947 | 7.5 |
| Property/casualty | 42 | 446,340 | 28.8 | 37,999 | 20.4 |
| Diversified financials | 12 | 271,266 | 17.5 | 34,262 | 18.4 |
| Securities | 11 | 125,255 | 8.1 | 15,209 | 8.2 |
| **Total** | **139** | **$1,549,088** | **100.0%** | **$185,857** | **100.0%** |

[1]Based on companies in the Fortune 500.

Source: Fortune; Insurance Information Institute.

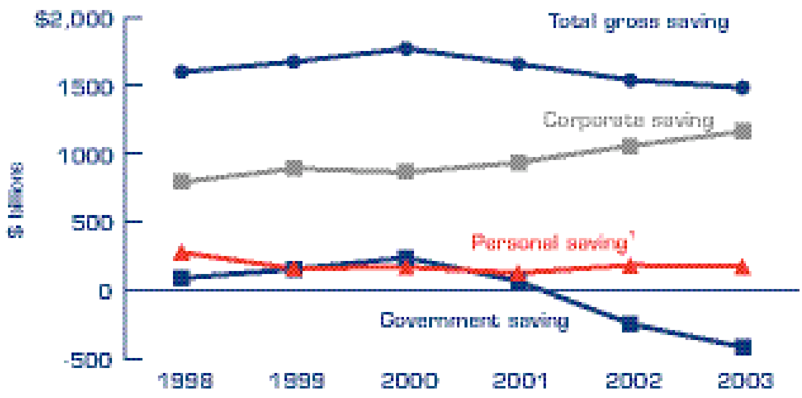
## SAVINGS, INVESTMENT AND DEBT OWNERSHIP

Individuals and businesses seek to increase their assets through savings and investments. They also borrow to purchase assets or finance business opportunities. The financial services industry exists to manage these activities, bringing savers, investors and borrowers together, a process known as financial intermediation. The banking industry acts as an intermediary by taking deposits and lending the funds to those who need credit. The securities industry fulfills the role of intermediary by facilitating the process of buying and selling corporate debt and equity to investors. The insurance industry safeguards the assets of its policyholders, investing the premiums it collects in corporate and government securities. Finance companies provide credit to both individuals and businesses, funded in large part by issuing bonds, commercial paper and asset-backed securities.

## NATIONAL SAVINGS

Gross national savings is the excess of production over cost, or earnings over spending. Gross national savings grew in the late 1990s, fueled largely by increased saving by federal, state and local governments, but fell in the three years from 2000 to 2003, reflecting declining government saving. Beginning in 2002, total government saving turned negative due to federal personal income tax refunds and rising expenditures at all levels of government. Governments spent $414 billion more than they received in 2003, compared with $243 billion in 2002. Personal saving is the excess of personal disposable income over spending.

### GROSS NATIONAL SAVINGS, 1998-2003
($ billions)




- Total gross savings fell $54 billion from $1,539 trillion in 2002 to $1,485 trillion in 2003.

[1]Includes individuals (including proprietors and partnerships), nonprofit institutions primarily serving individuals, life insurance carriers, and miscellaneous entities.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## OWNERSHIP OF EQUITIES AND CORPORATE AND MUNICIPAL BONDS

Equity and debt markets offer individuals and institutional investors the opportunity to participate in the development and expansion of publicly-traded companies and in municipalities. Equity investments provide an ownership interest in a company through stocks. Debt securities, generally bonds, represent money a corporation or municipality has borrowed from investors and must repay at a specific time and usually at a specific interest rate. Municipal bonds may be tax exempt.

### U.S. HOLDINGS OF CORPORATE EQUITIES, 1998-2003[1]

($ billions, market value at end of year)

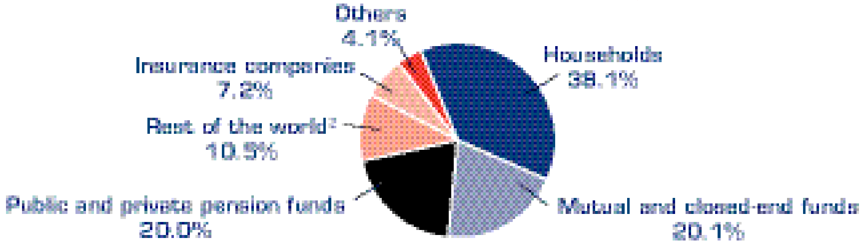
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Percent change, 1998-2003 |
|---|---|---|---|---|---|---|---|
| **Total** | **$15,547.2** | **$19,522.8** | **$17,672.0** | **$15,310.6** | **$11,870.9** | **$15,472.7** | **-0.5%** |
| Household sector | 7,069.7 | 9,234.7 | 7,650.1 | 6,341.6 | 4,727.3 | 5,901.0 | -16.5 |
| State and local governments | 102.0 | 115.0 | 115.1 | 126.3 | 112.9 | 138.0 | 35.3 |
| Rest of the world[2] | 1,250.3 | 1,611.5 | 1,625.6 | 1,533.9 | 1,222.7 | 1,619.8 | 29.6 |
| Commercial banking | 6.8 | 11.3 | 11.9 | 8.9 | 3.5 | 15.1 | 122.1 |
| Savings institutions | 24.5 | 23.8 | 24.2 | 27.9 | 29.1 | 30.4 | 24.1 |
| Bank personal trusts and estates | 360.1 | 407.3 | 356.8 | 280.7 | 181.1 | 213.1 | -40.8 |
| Life insurance companies | 683.2 | 909.0 | 891.9 | 811.3 | 708.9 | 928.6 | 35.9 |
| Other insurance companies | 200.1 | 207.9 | 194.3 | 173.9 | 152.3 | 182.7 | -8.7 |
| Private pension funds | 1,947.9 | 2,081.2 | 1,956.1 | 1,697.8 | 1,288.2 | 1,709.2 | -12.3 |
| State and local gov't. retirement funds | 1,233.9 | 1,343.2 | 1,335.1 | 1,221.9 | 1,001.6 | 1,304.5 | 5.7 |
| Federal government retirement funds | 44.9 | 59.1 | 59.1 | 51.4 | 48.5 | 79.9 | 78.0 |
| Mutual funds | 2,506.2 | 3,376.7 | 3,227.3 | 2,836.1 | 2,188.0 | 3,051.6 | 21.8 |
| Closed-end funds | 47.6 | 41.3 | 36.6 | 31.1 | 33.7 | 51.9 | 9.0 |
| Exchange-traded funds | 15.6 | 33.9 | 65.6 | 83.0 | 98.2 | 146.3 | 837.8 |
| Brokers and dealers | 54.4 | 66.9 | 77.2 | 85.1 | 74.9 | 100.5 | 84.7 |

[1]Excludes mutual fund shares.

[2]Holdings of U.S. issues by foreign residents.

Source: Board of Governors of the Federal Reserve System.

## U.S. HOLDINGS OF CORPORATE EQUITIES, 2003[1]




[1]Market value, end of year; excludes mutual fund shares. [2]Holdings of U.S. issues by foreign residents.
Source: Board of Governors of the Federal Reserve System.

## U.S. HOLDINGS OF CORPORATE AND FOREIGN BONDS, 1998-2003
($ billions, end of year)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Percent change, 1998-2003 |
|---|---|---|---|---|---|---|---|
| **Total** | **$4,142.6** | **$4,553.0** | **$4,924.0** | **$5,510.5** | **$5,942.3** | **$6,523.8** | **57.5%** |
| Household sector | 651.4 | 594.8 | 576.4 | 571.8 | 600.1 | 379.5 | -41.7 |
| State and local governments | 61.2 | 71.3 | 73.0 | 84.9 | 86.7 | 90.7 | 48.2 |
| Rest of the world[1] | 607.8 | 752.1 | 920.6 | 1,126.3 | 1,291.9 | 1,547.0 | 154.5 |
| Commercial banking | 180.9 | 220.5 | 278.6 | 376.4 | 379.1 | 506.4 | 179.9 |
| Savings institutions | 88.6 | 111.9 | 109.4 | 83.9 | 79.9 | 71.1 | -19.8 |
| Bank personal trusts and estates | 28.5 | 39.8 | 44.9 | 38.3 | 35.6 | 39.5 | 38.6 |
| Life insurance companies | 1,130.4 | 1,173.2 | 1,222.2 | 1,342.4 | 1,449.3 | 1,599.2 | 41.5 |
| Other insurance companies | 171.1 | 181.1 | 187.5 | 196.4 | 198.9 | 222.7 | 30.2 |
| Private pension funds | 297.5 | 347.5 | 352.5 | 351.4 | 359.4 | 374.9 | 26.0 |
| State and local gov't. retirement funds | 279.6 | 310.0 | 339.7 | 351.1 | 360.5 | 362.5 | 29.6 |
| Federal government retirement funds | 0.8 | 0.8 | 0.8 | 1.6 | 2.8 | 3.3 | 312.5 |
| Money market mutual funds | 81.2 | 123.7 | 161.9 | 163.0 | 170.7 | 185.9 | 128.9 |
| Mutual funds | 339.0 | 368.2 | 361.9 | 420.1 | 470.9 | 548.3 | 61.7 |
| Closed-end funds | 31.8 | 33.5 | 30.9 | 27.1 | 27.1 | 58.7 | 84.6 |
| Exchange-traded funds | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 2.4 | NA |
| Government-sponsored enterprises | 67.8 | 91.5 | 117.2 | 132.7 | 139.7 | 150.1 | 121.4 |
| REITs | 6.1 | 5.7 | 4.9 | 7.0 | 11.7 | 13.9 | 127.9 |
| Brokers and dealers | 81.4 | 93.4 | 112.7 | 161.3 | 192.0 | 228.4 | 180.6 |
| Funding corporations | 37.6 | 33.8 | 28.9 | 74.8 | 84.4 | 139.3 | 270.5 |

[1]Holdings of U.S. issues by foreign residents. NA=Not applicable. Source: Board of Governors of the Federal Reserve System.

## U.S. HOLDINGS OF MUNICIPAL SECURITIES AND LOANS, 1998-2003

($ billions, market value at end of year)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Percent change, 1998-2003 |
|---|---|---|---|---|---|---|---|
| **Total** | **$1,402.9** | **$1,457.2** | **$1,480.9** | **$1,603.7** | **$1,763.1** | **$1,898.5** | **35.3%** |
| Household sector | 426.6 | 450.2 | 460.7 | 511.9 | 614.6 | 669.8 | 57.0 |
| Nonfinancial corporate business | 25.7 | 25.0 | 31.9 | 29.3 | 32.6 | 38.8 | 51.0 |
| Nonfarm noncorporate business | 2.8 | 2.7 | 2.4 | 3.5 | 3.7 | 3.9 | 39.3 |
| State and local governments | 2.5 | 1.0 | 1.6 | 1.9 | 0.5 | 4.3 | 72.0 |
| Commercial banking | 104.8 | 110.8 | 114.1 | 120.2 | 121.7 | 132.5 | 26.4 |
| Savings institutions | 2.5 | 3.0 | 3.2 | 4.5 | 5.5 | 6.3 | 152.0 |
| Bank personal trusts and estates | 89.5 | 100.3 | 99.1 | 95.6 | 100.9 | 98.4 | 9.9 |
| Life insurance companies | 18.4 | 20.1 | 19.1 | 18.7 | 19.9 | 21.4 | 16.3 |
| Other insurance companies | 208.1 | 199.0 | 184.1 | 173.8 | 183.0 | 204.6 | -1.7 |
| State and local gov't. retirement funds | 3.3 | 3.0 | 1.6 | 1.4 | 0.5 | 0.6 | -81.8 |
| Money market mutual funds | 193.0 | 210.4 | 244.7 | 281.0 | 282.8 | 297.3 | 54.0 |
| Mutual funds | 242.6 | 239.4 | 230.5 | 253.4 | 277.3 | 290.2 | 19.6 |
| Closed-end funds | 60.7 | 69.7 | 67.7 | 74.7 | 86.0 | 89.3 | 47.1 |
| Government-sponsored enterprises | 9.2 | 10.6 | 8.8 | 14.8 | 13.1 | 16.3 | 77.2 |
| Brokers and dealers | 13.1 | 11.9 | 11.3 | 19.0 | 21.0 | 24.9 | 90.1 |

Source: Board of Governors of the Federal Reserve System.

### MUTUAL FUNDS BY HOLDER, 1999 AND 2003
($ billions)

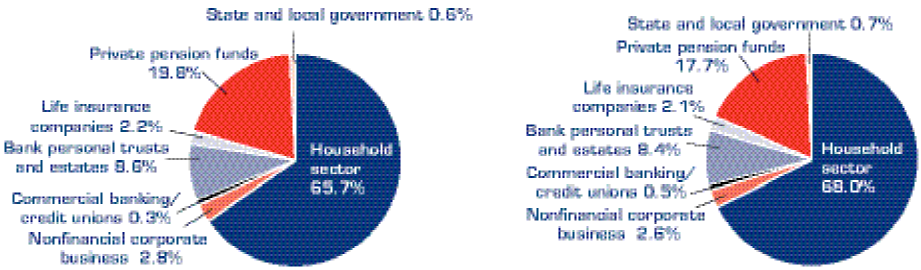
| | 1999 | 2003 |
|---|---|---|
| Household sector | $2,983.2 | $3,165.9 |
| Nonfinancial corporate business | 127.0 | 121.0 |
| State and local governments | 25.6 | 30.5 |
| Commercial banking | 12.4 | 17.1 |
| Credit unions | 2.5 | 4.1 |
| Bank personal trusts and estates | 391.5 | 391.2 |
| Life insurance companies | 98.7 | 98.9 |
| Private pension funds | 897.6 | 824.5 |
| **Total** | **$4,538.5** | **$4,653.2** |

Source: Board of Governors of the Federal Reserve System.

- **Sixty-three percent of households owning mutual funds participated through their employers' defined contribution plans, according to a 2004 survey by the Investment Company Institute.**

### MUTUAL FUND SHARES BY HOLDER, 1999 AND 2003

1999 2003




Source: Board of Governors of the Federal Reserve System.

## DEBT

### OWNERSHIP OF FEDERAL GOVERNMENT DEBT

The buying and selling of government securities is a crucial component of each of the financial sectors. Debt is issued and sold, based on the changing needs of the federal government. This fluctuation is reflected in the surplus and deficit levels of the gross federal debt.

The average daily trading volume in U.S. Treasury securities hit $226.6 billion in 1998, dropped in 1999, and began to rise again in 2000. By May 30, 2004, it had reached $560.2 billion, according to the Bond Market Association.

## ESTIMATED OWNERSHIP OF U.S. PUBLIC DEBT SECURITIES, 1994-2003
($ billions, end of year)

| | | Percent of total | | | |
|---|---|---|---|---|---|
| Year | Total | Individuals | Mutual funds/ trusts[1] | Banking institutions[2] | Insurance companies |
| 1994 | $3,465.6 | 24.0% | 6.9% | 8.6% | 6.9% |
| 1995 | 3,608.5 | 21.7 | 7.0 | 9.2 | 6.7 |
| 1996 | 3,755.1 | 22.2 | 6.7 | 7.6 | 5.7 |
| 1997 | 3,778.3 | 19.5 | 6.7 | 7.8 | 4.7 |
| 1998 | 3,723.7 | 18.7 | 7.3 | 6.8 | 3.8 |
| 1999 | 3,652.7 | 21.9 | 6.7 | 5.6 | 3.4 |
| 2000 | 3,357.8 | 17.7 | 7.1 | 5.9 | 3.3 |
| 2001 | 3,352.7 | 15.1 | 8.0 | 5.7 | 3.2 |
| 2002 | 3,609.8 | 11.2 | 8.1 | 6.1 | 3.9 |
| 2003 | 4,008.2 | 12.1 | 7.3 | 4.8 | 3.8 |

| | Percent of total | | | | |
|---|---|---|---|---|---|
| Year | Pension funds[3] | U.S. Monetary authorities | State and local governments | Foreign and international | Other[4] |
| 1994 | 10.6% | 10.5% | 10.7% | 18.3% | 3.5% |
| 1995 | 10.3 | 10.5 | 8.0 | 22.7 | 3.8 |
| 1996 | 10.1 | 10.4 | 6.8 | 27.9 | 2.5 |
| 1997 | 10.5 | 11.4 | 6.3 | 30.9 | 2.2 |
| 1998 | 9.9 | 12.1 | 7.2 | 31.8 | 2.3 |
| 1999 | 10.0 | 13.1 | 7.3 | 29.6 | 2.4 |
| 2000 | 10.2 | 15.2 | 7.1 | 30.6 | 3.0 |
| 2001 | 9.2 | 16.5 | 8.6 | 31.0 | 2.7 |
| 2002 | 8.8 | 17.4 | 8.6 | 33.6 | 2.3 |
| 2003 | 7.8 | 16.6 | 8.4 | 37.0 | 2.2 |

[1]Includes mutual funds, money market funds, closed-end funds, exchange-traded funds and bank personal trusts and estates.
[2]Includes commercial banks, savings institutions, credit unions, and brokers and dealers.
[3]Includes state and local government pension funds and private pension funds.
[4]Includes nonfinancial corporate institutions, nonfarm noncorporate institutions and government-sponsored enterprises.

Source: Board of Governors of the Federal Reserve System.

## ASSETS OF HOUSEHOLDS

Where people save their money, how much they save, and where they look for investment returns is influenced by many factors including people's appetite for risk, the state of the economy, the investment products available, as well as incentives to save, such as tax advantages and matching funds provided by employers who offer retirement plans.

### ASSETS AND LIABILITIES OF HOUSEHOLDS, 1983-2003[1]

($ billions, end of year)

| | Value | | | Percent of total | | |
|---|---|---|---|---|---|---|
| | 1983 | 1993 | 2003 | 1983 | 1993 | 2003 |
| **Total financial assets** | **$6,154.2** | **$15,660.7** | **$30,456.5** | **100.0%** | **100.0%** | **100.0%** |
| Foreign deposits | 6.9 | 15.8 | 60.2 | 0.1 | 0.1 | 0.2 |
| Checkable deposits and currency | 337.0 | 710.5 | 557.0 | 5.5 | 4.5 | 1.8 |
| Time and savings deposits | 1,645.7 | 2,246.9 | 4,132.3 | 26.7 | 14.3 | 13.6 |
| Money market fund shares | 149.1 | 352.7 | 1,039.6 | 2.4 | 2.3 | 3.4 |
| Securities | 1,508.4 | 5,730.2 | 11,171.7 | 24.5 | 36.6 | 36.7 |
| Open market paper | 25.0 | 45.5 | 43.5 | 0.4 | 0.3 | 0.1 |
| U.S. savings bonds | 71.5 | 171.9 | 203.8 | 1.2 | 1.1 | 0.7 |
| Other Treasury securities | 149.3 | 481.9 | 326.7 | 2.4 | 3.1 | 1.1 |
| Agency- and GSE-backed securities | 0.3 | -65.9 | 477.4 | 0.0 | -0.4 | 1.6 |
| Municipal securities | 211.8 | 536.8 | 673.8 | 3.4 | 3.4 | 2.2 |
| Corporate and foreign bonds | 26.7 | 358.3 | 379.5 | 0.4 | 2.3 | 1.2 |
| Corporate equities[2] | 936.2 | 3,232.4 | 5,901.0 | 15.2 | 20.6 | 19.4 |
| Mutual fund shares | 87.7 | 969.2 | 3,165.9 | 1.4 | 6.2 | 10.4 |
| Private life insurance reserves | 231.1 | 457.2 | 959.1 | 3.8 | 2.9 | 3.1 |
| Private insured pension reserves | 281.7 | 775.1 | 1,728.7 | 4.6 | 4.9 | 5.7 |
| Private noninsured pension reserves | 838.2 | 2,305.9 | 4,249.0 | 13.6 | 14.7 | 14.0 |
| Gov't. insurance and pension reserves | 436.7 | 1,559.2 | 3,319.3 | 7.1 | 10.0 | 10.9 |
| Investment in bank personal trusts | 318.1 | 691.3 | 932.4 | 5.2 | 4.4 | 3.1 |
| Miscellaneous and other assets | 401.2 | 816.0 | 2,307.1 | 6.5 | 5.2 | 7.6 |

(table continues)

## ASSETS AND LIABILITIES OF HOUSEHOLDS, 1983-2003[1] (Cont'd)

($ billions, end of year)

| | Value | | | Percent of total | | |
|---|---|---|---|---|---|---|
| | 1983 | 1993 | 2003 | 1983 | 1993 | 2003 |
| **Total liabilities** | **$2,747.9** | **$5,854.0** | **$13,171.9** | **100.0%** | **100.0%** | **100.0%** |
| Mortgage debt on nonfarm homes | 1,184.7 | 3,111.8 | 7,153.2 | 43.1 | 53.2 | 54.3 |
| Other mortgage debt[3] | 517.5 | 877.4 | 1,549.5 | 18.8 | 15.0 | 11.8 |
| Consumer credit | 444.9 | 886.2 | 2,032.9 | 16.2 | 15.1 | 15.4 |
| Policy loans | 55.2 | 78.6 | 105.6 | 2.0 | 1.3 | 0.8 |
| Security credit | 34.2 | 76.1 | 182.5 | 1.2 | 1.3 | 1.4 |
| Other liabilities[3] | 511.3 | 823.9 | 2,148.2 | 18.6 | 14.1 | 16.3 |

[1]Combined statement for household sector, nonfarm noncorporate business, and farm business.

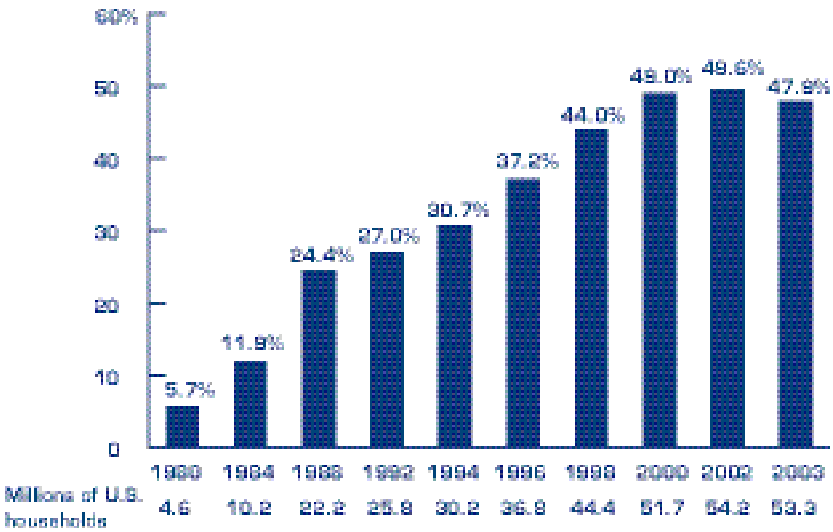
[2]Only those directly held and those in closed-end and exchange-traded funds. Other equities are included in mutual funds, life insurance and pension reserves, and bank personal trusts.

[3]Includes corporate farms.

Source: Board of Governors of the Federal Reserve System.

## U.S. HOUSEHOLD OWNERSHIP OF MUTUAL FUNDS, 1980-2003[1]

(Percent of all U.S. households)




[1]Households owning mutual funds in 1980 and 1984 were estimated from data on the number of accounts held by individual shareholders and the number of funds owned by households; data for 1980 through 1992 exclude households owning mutual funds only through employer-sponsored retirement plans; data for 1994 through 2002 include households owning mutual funds only through employer-sponsored retirement plans. The data for 1998 through 2003 include fund ownership through variable annuities.

Source: Investment Company Institute.

## FINANCIAL ASSETS HELD BY FAMILIES, BY TYPE OF ASSET, 1995-2001

| Percent of families owning asset[1] | Any financial asset[2] | Transaction accounts[3] | Certificates of deposit | Savings bonds | Bonds[4] | Stocks[4] | Mutual funds[5] | Retirement accounts[6] | Life insurance[7] | Other assets[8] |
|---|---|---|---|---|---|---|---|---|---|---|
| 1995 | 91.0% | 87.0% | 14.3% | 22.8% | 3.1% | 15.2% | 12.3% | 45.2% | 32.0% | 15.0% |
| 1998 | 92.9 | 90.5 | 15.3 | 19.3 | 3.0 | 19.2 | 16.5 | 48.9 | 29.6 | 15.3 |
| 2001 | 93.1 | 90.9 | 15.7 | 16.7 | 3.0 | 21.3 | 17.7 | 52.2 | 28.0 | 15.9 |
| By age of family head - 2001 | | | | | | | | | | |
| Under 35 years old | 89.2 | 86.0 | 6.3 | 12.7 | NA | 17.4 | 11.5 | 45.1 | 15.0 | 12.5 |
| 35 to 44 years old | 93.3 | 90.7 | 9.8 | 22.6 | 2.1 | 21.6 | 17.5 | 61.4 | 27.0 | 12.6 |
| 45 to 54 years old | 94.4 | 92.2 | 15.2 | 21.0 | 2.8 | 22.0 | 20.2 | 63.4 | 31.1 | 14.9 |
| 55 to 64 years old | 94.8 | 93.6 | 14.4 | 14.3 | 6.1 | 26.7 | 21.3 | 59.1 | 35.7 | 23.6 |
| 65 to 74 years old | 94.6 | 93.8 | 29.7 | 11.3 | 3.9 | 20.5 | 19.9 | 44.0 | 36.7 | 20.3 |
| 75 years old and over | 95.1 | 93.7 | 36.5 | 12.5 | 5.7 | 21.8 | 19.5 | 25.7 | 33.3 | 18.5 |
| Percentiles of income - 2001[9] | | | | | | | | | | |
| Less than 20 | 74.8 | 70.9 | 10.0 | 3.8 | NA | 3.8 | 3.6 | 13.2 | 13.8 | 8.4 |
| 20-39.9 | 93.0 | 89.4 | 14.7 | 11.0 | NA | 11.2 | 9.5 | 33.3 | 24.7 | 13.2 |
| 40-59.9 | 98.3 | 96.1 | 17.4 | 14.1 | 1.5 | 16.4 | 15.7 | 52.8 | 25.6 | 15.3 |
| 60-79.9 | 99.6 | 98.8 | 16.0 | 24.4 | 3.7 | 26.2 | 20.6 | 75.7 | 35.7 | 17.5 |
| 80-89.9 | 99.8 | 99.7 | 18.3 | 30.3 | 3.9 | 37.0 | 29.0 | 83.7 | 38.6 | 21.5 |
| 90-100 | 99.7 | 99.2 | 22.0 | 29.7 | 12.7 | 60.6 | 48.8 | 88.3 | 41.8 | 29.2 |
| Percent distribution of amount of financial assets of all families | | | | | | | | | | |
| 1995 | 100.0 | 13.9 | 5.6 | 1.3 | 6.3 | 15.6 | 12.7 | 28.1 | 7.2 | 9.2 |
| 1998 | 100.0 | 11.4 | 4.3 | 0.7 | 4.3 | 22.7 | 12.4 | 27.6 | 6.4 | 10.3 |
| 2001 | 100.0 | 11.5 | 3.1 | 0.7 | 4.6 | 21.6 | 12.2 | 28.4 | 5.3 | 12.5 |

[1]Families include one-person units. [2]Includes other types of financial assets, not shown separately.
[3]Includes checking, savings and money market deposit accounts; money market mutual funds; and call accounts at brokerages.
[4]Covers only those stocks and bonds that are directly held by families outside mutual funds, retirement accounts and other managed assets. [5]Excludes money market mutual funds and funds held through retirement accounts or other managed assets.
[6]Covers IRAs, Keogh accounts, and employer-provided pension plans. Employer-sponsored accounts are those from current jobs [restricted to those in which loans or withdrawals can be made, such as 401(k) accounts] held by the family head and that person's spouse or partner as well as those from past jobs held by them. Those from past jobs are restricted to accounts from which the family expects to receive the account balance in the future. [7]Cash value. [8]Includes personal annuities and trusts with an equity interest, managed investment accounts and miscellaneous assets. [9]Ranges listed below represent percentiles rather than income levels. A percentile is a statistical ranking point. The 50th percentile represents the midpoint of all values. For example, at the 50th percentile half of the families in the ranking fall above this income level, and half fall below. NA=Data not available.
Note: Latest data available. Based on surveys conducted every three years.

Source: Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

## NONFINANCIAL ASSETS HELD BY FAMILIES, BY TYPE OF ASSET, 1995-2001

| Percent of families owning asset[1] | Vehicles | Primary residence | Other residential property | Equity in nonresidential property | Business equity | Other | Any nonfinancial asset | Total |
|---|---|---|---|---|---|---|---|---|
| 1995 | 84.1% | 64.7% | 11.8% | 9.4% | 11.1% | 9.0% | 90.9% | 96.3% |
| 1998 | 82.8 | 66.2 | 12.8 | 8.6 | 11.5 | 8.5 | 89.9 | 96.8 |
| 2001 | 84.8 | 67.7 | 11.3 | 8.3 | 11.8 | 7.6 | 90.7 | 96.7 |
| By age of family head - 2001 | | | | | | | | |
| Under 35 years old | 78.8 | 39.9 | 3.4 | 2.8 | 7.0 | 6.9 | 83.0 | 93.1 |
| 35 to 44 years old | 88.9 | 67.8 | 9.2 | 7.6 | 14.2 | 8.0 | 93.2 | 97.4 |
| 45 to 54 years old | 90.5 | 76.2 | 14.7 | 10.0 | 17.1 | 7.2 | 95.2 | 98.1 |
| 55 to 64 years old | 90.7 | 83.2 | 18.3 | 12.3 | 15.6 | 7.9 | 95.4 | 98.2 |
| 65 to 74 years old | 81.3 | 82.5 | 13.7 | 12.9 | 11.6 | 9.7 | 91.6 | 97.1 |
| 75 years old and over | 73.9 | 76.2 | 15.2 | 8.3 | 2.4 | 6.2 | 86.4 | 97.8 |
| Percentiles of income - 2001[2] | | | | | | | | |
| Less than 20 | 56.8 | 40.6 | 3.1 | 2.8 | 2.5 | 2.9 | 67.7 | 85.3 |
| 20-39.9 | 86.7 | 57.3 | 5.4 | 6.7 | 7.1 | 6.1 | 93.1 | 98.3 |
| 40-59.9 | 91.6 | 66.0 | 7.9 | 6.7 | 8.8 | 6.2 | 95.6 | 99.8 |
| 60-79.9 | 94.8 | 81.8 | 14.2 | 7.2 | 12.0 | 8.9 | 97.8 | 100.0 |
| 80-89.9 | 95.4 | 90.9 | 19.7 | 12.1 | 18.7 | 9.4 | 99.4 | 100.0 |
| 90-100 | 92.8 | 94.4 | 32.8 | 23.9 | 38.9 | 18.0 | 99.5 | 100.0 |

[1]Families include one-person units. [2]Ranges listed below represent percentiles rather than income levels. A percentile is a statistical ranking point. The 50th percentile represents the midpoint of all values. For example, at the 50th percentile, half of the families in the ranking fall above this income level and half fall below.

Note: Latest data available. Based on surveys conducted every three years.

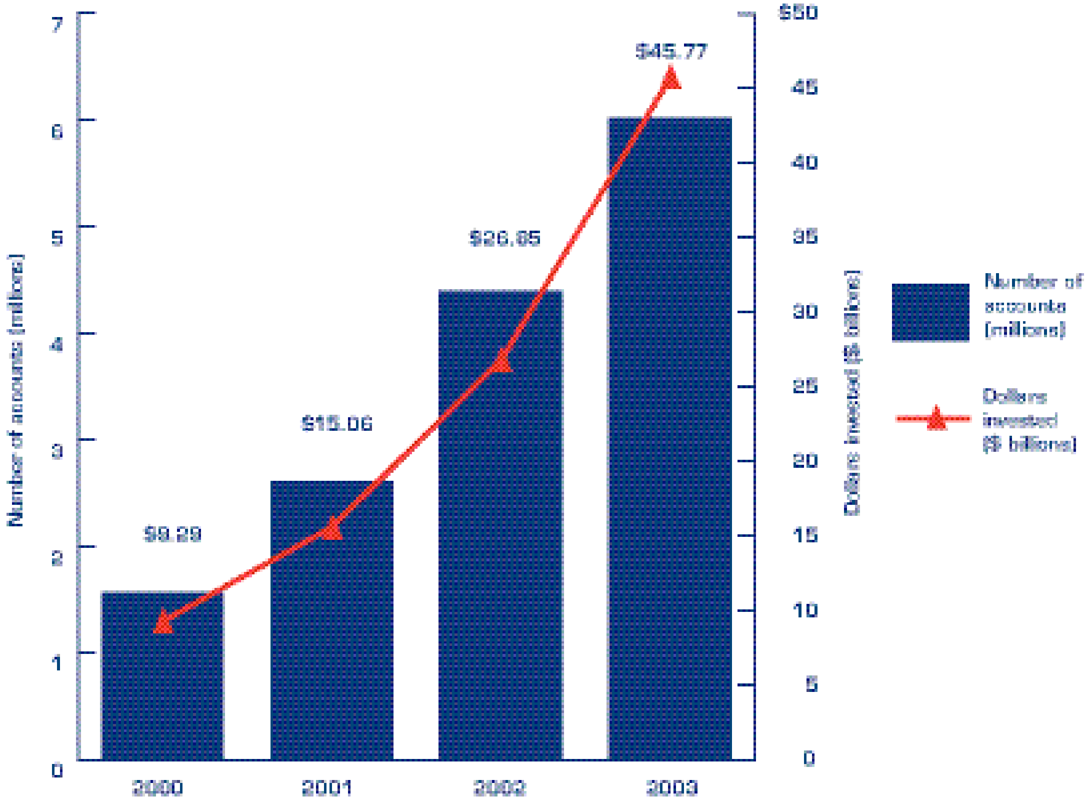
Source: Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

## EDUCATIONAL SAVINGS PLANS AND LOANS

To encourage households to save for college education, states have developed Section 529 college savings plans, named after a part of the Internal Revenue tax code that allows earnings to accumulate free of federal income tax and to be withdrawn to pay for college costs tax-free. Slow to gain acceptance initially, these plans are now growing fast. By the end of 2002, all states had such plans in operation. There are two types of plans: savings and prepaid tuition. Plan assets are managed either by the state's treasurer or an outside investment company. Most offer a range of investment options.

- There were 6 million 529 plan accounts in 2003, compared with 1.6 million in 2000, according to the National Association of State Treasurers.

### DOLLARS INVESTED AND NUMBER OF 529 PLAN ACCOUNTS, 2000-2003




Source: National Association of State Treasurers.

- **The top 10 providers control 81 percent of assets, according to Cerulli Associates.**

### TOP TEN 529 SAVINGS PLAN PROVIDERS BY ASSETS, 2003[1]

($ millions, end of year)

| Rank | Provider | Assets |
|---|---|---|
| 1 | American Funds | $5,326.8 |
| 2 | Alliance Capital | 4,193.0 |
| 3 | Fidelity Investments | 4,007.6 |
| 4 | Vanguard[2] | 3,270.0 |
| 5 | TIAA-CREF | 2,902.4 |
| 6 | Putnam Investments | 2,850.0 |
| 7 | Citigroup Asset Management | 2,155.0 |
| 8 | Merrill Lynch | 2,137.8 |
| 9 | American Express[3] | 859.0 |
| 10 | Manulife | 698.8 |
| | **Top 10 Providers** | **$28,400.3** |

[1]Ranked by assets. Excludes prepaid accounts defined as savings plan assets.

[2]Excludes state of Utah plan. Plan treated separately.

[3]Estimated.

Source: Cerulli Associates.

## FEDERAL STUDENT LOANS

The most significant source of federal educational loans is the Stafford Loan Program, which accounted for 86 percent of all federally-supported student aid in 2002-2003. Stafford loans may come directly from the federal government under the Ford Direct Loan Program or through the Federal Family Education Loan Program (FFELP), which makes federally guaranteed loans available through private lenders such as banks.

The Stafford Loan Program provides subsidized loans (awarded on the basis of need, interest free up to six months after a student leaves college) and unsubsidized loans. The FFELP made some $35 billion in student loans available in 2002-2003 and is more than one-third the size of the direct program.

### TOP TEN ORIGINATORS OF FFELP LOANS, FISCAL YEARS 2002-2003[1]
($ millions)

| | | New guarantees | |
|---|---|---|---|
| Rank | Lender name, City, State | Fiscal year 2002 | Fiscal year 2003 |
| 1 | Bank One Ed. Finance Group, Columbus, OH | $2,680.7 | $3,317.5 |
| 2 | Sallie Mae, Reston, VA | 2,317.0 | 3,160.6 |
| 3 | Citibank, Student Loan Corp., Sioux Falls, SD | 2,541.6 | 2,995.2 |
| 4 | JP Morgan Chase Bank, Garden City, NY | 2,497.7 | 2,466.0 |
| 5 | Bank of America, Kansas City, MO | 1,937.9 | 2,157.5 |
| 6 | Wells Fargo Education Financial Services, Sioux Falls, SD | 1,899.2 | 2,042.2 |
| 7 | Wachovia Bank/Classnotes (Educaid), Sacramento, CA | 1,553.8 | 1,780.8 |
| 8 | National City Bank, Brecksville, OH | 1,115.7 | 1,377.8 |
| 9 | U.S. Bank, St. Paul, MN | 931.4 | 1,031.2 |
| 10 | Pittsburgh National Corp., Pittsburgh, PA | 618.5 | 670.7 |

[1]Federal Family Education Loan Program, available to the parents of dependent students. Includes Stafford loans (subsidized and unsubsidized) and PLUS loans. Excludes consolidation loans.

Source: U.S. Department of Education, National Student Loan Data Service.

## CONSUMER AND BUSINESS DEBT

Compared with the 1990s, the rate of growth for 2000 to 2003 for business borrowing slowed but consumers continued to pile on debt.

- **Household debt rose 10.6 percent from 2002 to 2003, compared with 3.7 percent for business debt. Over the 10 years, 1994-2003, business debt rose 85.9 percent, compared with 104 percent for household debt.**

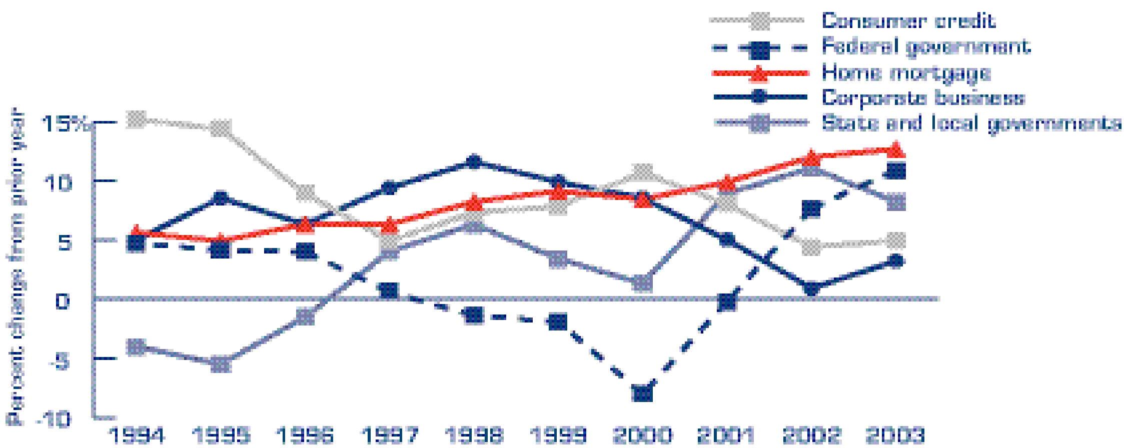
### CREDIT MARKET DEBT OUTSTANDING, OWED BY SECTOR, 1994-2003[1]
($ billions)

| Year | Household sector | Nonfinancial corporate business |
|---|---|---|
| 1994 | $4,550.4 | $2,682.9 |
| 1995 | 4,875.6 | 2,909.6 |
| 1996 | 5,208.1 | 3,092.3 |
| 1997 | 5,512.8 | 3,382.3 |
| 1998 | 5,949.1 | 3,774.7 |
| 1999 | 6,439.3 | 4,181.6 |
| 2000 | 7,014.1 | 4,538.8 |
| 2001 | 7,648.4 | 4,766.7 |
| 2002 | 8,388.7 | 4,807.6 |
| 2003 | 9,281.4 | 4,986.4 |

[1]Excludes corporate equities and mutual fund shares.

Source: Board of Governors of the Federal Reserve System.

### DEBT GROWTH BY SECTOR, 1994-2003
(Percent change from prior year)




Source: Board of Governors of the Federal Reserve System.

## DEBT HELD BY FAMILIES, BY TYPE OF DEBT AND LENDING INSTITUTION, 1995-2001

| Type of debt | 1995 | 1998 | 2001 |
|---|---|---|---|
| **Total** | **100.0%** | **100.0%** | **100.0%** |
| Home-secured debt | 73.1 | 71.3 | 75.1 |
| Installment loans | 11.9 | 13.0 | 12.3 |
| Other residential property | 7.7 | 7.7 | 6.4 |
| Credit card balances | 3.9 | 3.9 | 3.4 |
| Other debt | 2.8 | 3.7 | 2.3 |
| Other lines of credit | 0.6 | 0.3 | 0.5 |
| Purpose of debt | | | |
| **Total** | **100.0%** | **100.0%** | **100.0%** |
| Home purchase | 70.3 | 67.7 | 70.7 |
| Other residential property | 8.2 | 7.9 | 6.6 |
| Vehicles | 7.6 | 7.6 | 7.8 |
| Goods and services | 5.7 | 6.1 | 5.7 |
| Education | 2.7 | 3.4 | 3.1 |
| Investment, excluding real estate | 1.0 | 3.3 | 2.8 |
| Home improvement | 2.0 | 2.1 | 1.9 |
| Unclassifiable loans against pension accounts | 0.2 | 0.4 | 0.3 |
| Other | 2.2 | 1.5 | 1.1 |
| **Total** | **100.0%** | **100.0%** | **100.0%** |
| Type of lending institution | | | |
| Mortgage or real estate lender | 32.8 | 35.5 | 38.0 |
| Commercial bank | 34.9 | 32.8 | 34.1 |
| Thrift institution[1] | 10.8 | 9.7 | 6.1 |
| Credit union | 4.5 | 4.2 | 5.5 |
| Finance or loan company | 3.2 | 4.2 | 4.3 |
| Credit and store cards | 3.9 | 3.9 | 3.7 |
| Brokerage | 1.9 | 3.8 | 3.1 |
| Individual lender | 5.0 | 3.3 | 2.0 |
| Other nonfinancial | 0.8 | 1.3 | 1.4 |
| Government | 1.2 | 0.6 | 1.1 |
| Pension account | 0.2 | 0.4 | 0.3 |
| Other loans | 0.7 | 0.3 | 0.5 |

[1]Savings and loan association or savings bank. Note: Latest data available. Based on surveys conducted every three years.
Source: Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

### PERCENT OF UNDERGRADUATES WITH ANY BALANCE DUE ON CREDIT CARDS AND THE BALANCE DUE BY NUMBER OF CREDIT CARDS, 1999-2000[1]

| | Percent with any balance due | Average balance due on all credit cards | Median balance due on all credit cards |
|---|---|---|---|
| **Total** | **44.7%** | **$3,066** | **$1,538** |
| Number of credit cards in own name | | | |
| One or two | 39.1 | 1,834 | 919 |
| Three or more | 53.2 | 4,433 | 2,974 |

[1]Academic year from July 1, 1999 to June 30, 2000.

Source: U.S. Department of Education, National Center for Education Statistics, 1999-2000 National Postsecondary Student Aid Study (NPSAS:2000).

## BANKRUPTCY

There are three major types of bankruptcies: Chapter 7 is a liquidation, under which assets are distributed by a court-appointed trustee and, if there are no assets, the debt is discharged and creditors receive nothing. Chapter 11 is a reorganization, used mostly for businesses, under which debts are restructured and a payment schedule is worked out. Chapter 13 is a debt repayment plan, under which debts are repaid in part or in full over a period of time, normally three years, under the supervision of a trustee.

- **From 1999 to 2003, business bankruptcies fell 6.2 percent.**
- **Nonbusiness bankruptcies rose 23.6 percent, 1999-2003.**

### BANKRUPTCY PETITIONS FILED, BY TYPE, 1999-2003
(Year ending June 30)

| Year | Business | Nonbusiness | Total |
|---|---|---|---|
| 1999 | 38,595 | 1,315,751 | 1,354,376 |
| 2000 | 36,034 | 1,226,037 | 1,262,102 |
| 2001 | 38,490 | 1,398,860 | 1,437,354 |
| 2002 | 39,091 | 1,508,578 | 1,547,669 |
| 2003 | 36,183 | 1,625,813 | 1,661,996 |

Source: Administrative Office of the U.S. Courts.

## OVERVIEW

Competition is intense in the asset management arena, with some companies providing complete asset management services while others offer specific products. One major aspect of asset management is planning for retirement. Retirement plans are generally administered by a bank, life insurance company, mutual fund, brokerage firm or pension fund manager. Because payouts are relatively predictable, pension funds invest primarily in long-term securities. They are among the largest investors in the stock market. Pension plan assets made up 15 percent of total financial services assets in 2003.

## RETIREMENT FUNDS, ASSETS AND ASSET MIX

Retirement fund assets have declined and rebounded with stock market fluctuations.

### ASSETS OF PRIVATE PENSION FUNDS, BY TYPE OF ASSET, 1999-2003[1]

($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total financial assets** | **$4,571.2** | **$4,422.3** | **$4,039.7** | **$3,513.4** | **$4,175.9** |
| Checkable deposits and currency | 6.9 | 7.3 | 6.3 | 6.8 | 7.1 |
| Time and savings deposits | 118.8 | 121.7 | 125.8 | 126.7 | 129.1 |
| Money market fund shares | 75.1 | 79.6 | 69.0 | 71.8 | 74.7 |
| Security repurchase agreements | 32.5 | 33.4 | 34.2 | 36.1 | 35.4 |
| Credit market instruments | 720.4 | 724.2 | 708.3 | 729.5 | 733.6 |
| Open market paper | 41.3 | 39.6 | 37.4 | 48.3 | 42.3 |
| U.S. government securities | 320.5 | 319.9 | 306.1 | 306.6 | 299.1 |
| Treasury | 87.5 | 77.9 | 56.2 | 54.9 | 52.7 |
| Agency | 233.0 | 242.0 | 249.9 | 251.7 | 246.4 |
| Corporate and foreign bonds | 347.5 | 352.5 | 351.4 | 359.4 | 374.9 |
| Mortgages | 11.0 | 12.2 | 13.5 | 15.2 | 17.2 |
| Corporate equities | 2,081.2 | 1,956.1 | 1,697.8 | 1,288.2 | 1,709.2 |
| Mutual fund shares | 897.6 | 873.7 | 776.9 | 634.6 | 824.5 |
| Miscellaneous assets | 638.9 | 626.4 | 621.3 | 619.8 | 662.2 |
| Unallocated insurance contracts[2] | 396.4 | 381.4 | 372.2 | 366.5 | 406.5 |
| Contributions receivable | 107.3 | 108.5 | 109.8 | 111.1 | 112.4 |
| Other | 135.3 | 136.5 | 139.3 | 142.2 | 143.3 |
| Pension fund reserves (liabilities)[3] | 4,628.9 | 4,483.5 | 4,104.6 | 3,582.3 | 4,249.0 |

[1]Private defined benefit plans and defined contribution plans [including 401(k) type plans], and the Federal Employees Retirement System Thrift Savings Plan. [2]Assets of private pension plans held at life insurance companies (e.g., GICs, variable annuities). [3]Equal to the value of tangible and financial assets. These liabilities are assets of the household sector.

Source: Board of Governors of the Federal Reserve System.

### ASSETS OF STATE AND LOCAL GOVERNMENT EMPLOYEE RETIREMENT FUNDS, BY TYPE OF ASSET, 1999-2003

($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total financial assets** | **$2,226.8** | **$2,289.6** | **$2,179.6** | **$1,963.8** | **$2,269.9** |
| Checkable deposits and currency | 9.2 | 9.1 | 9.5 | 7.7 | 9.2 |
| Time and savings deposits | 1.7 | 1.1 | 0.6 | 0.7 | 1.1 |
| Security repurchase agreements | 40.4 | 44.7 | 45.3 | 45.5 | 48.4 |
| Credit market instruments | 751.4 | 806.0 | 788.4 | 802.4 | 815.5 |
| Open market paper | 40.4 | 44.7 | 45.3 | 45.5 | 43.4 |
| U.S. Government securities | 376.4 | 398.5 | 365.7 | 364.3 | 367.0 |
| Treasury | 247.4 | 231.9 | 213.6 | 212.5 | 207.2 |
| Agency- and GSE-backed securities | 129.0 | 166.6 | 152.1 | 151.8 | 159.8 |
| Municipal securities | 3.0 | 1.6 | 1.4 | 0.5 | 0.6 |
| Corporate and foreign bonds | 310.0 | 339.7 | 351.1 | 360.5 | 362.5 |
| Mortgages | 21.5 | 21.5 | 24.9 | 31.6 | 41.9 |
| Corporate equities | 1,343.2 | 1,335.1 | 1,221.9 | 1,001.6 | 1,304.5 |
| Miscellaneous assets | 81.0 | 93.5 | 113.8 | 105.9 | 91.2 |
| Pension fund reserves (liabilities)[1] | 2,262.3 | 2,331.5 | 2,226.4 | 2,013.4 | 2,319.8 |

[1]Equal to the value of tangible and financial assets. These liabilities are assets of the household sector.

Source: Board of Governors of the Federal Reserve System.

There are two basic types of pension funds: defined benefit and defined contribution plans. In a defined benefit plan, the income the employee receives in retirement is stipulated in a contract, and is based on that person's earnings and number of years with the company. In a defined contribution plan, a type of savings plan in which taxes on earnings are deferred until funds are withdrawn, the amount of retirement income depends on the contributions made and the earnings generated by the securities purchased. The employer generally matches the employee contribution up to a certain level and the employee selects investments from among the options the employer's plan offers.

The Individual Retirement Account (IRA) is a tax-deductible savings plan for those who are self-employed, or those whose earnings are below a certain level, or whose employers do not offer retirement plans. Others may make limited IRA contributions on a tax-deferred basis. The Roth IRA, a special kind of retirement account created in 1997, may offer greater tax benefits to certain individuals. There are several other types of retirement funds, such as profit-sharing plans and Keogh plans which are tax-deferred programs for the self-employed and employees of small businesses.

## DEFINED BENEFITS PLANS AND DEFINED CONTRIBUTION PLANS, 1974-2003

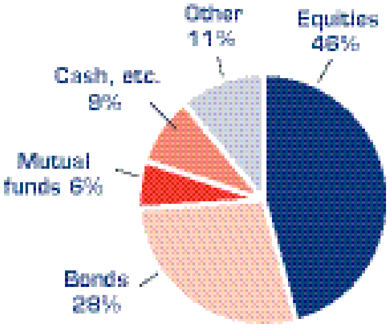
| | 1974-1975 | 1978 | 2003-2004 |
|---|---|---|---|
| Percentage of people 65+ receiving income from a private-sector pension | 15.9% | NA | 22.8% |
| Number of active participants in defined benefit plans (millions) | 27.2 | 29.0 | 20.0 |
| Percentage of private nonfarm wage and salary workers participating in a defined benefit plan | 43.7% | 40.9% | 16.8% |
| Number of defined benefit plans | 103,346 | 128,401 | 26,000 |
| Number of active participants in defined contribution plans (millions) | 11.2 | 15.6 | 64.3 |
| Percentage of private nonfarm wage and salary workers participating in a defined contribution plan | 18.0% | 21.6% | 58.2% |
| Number of defined contribution plans | 207,748 | 314,592 | 840,301 |

NA=Data not available.

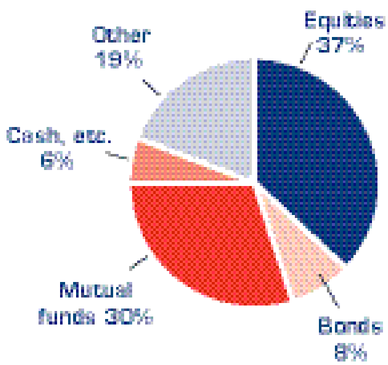
Source: Employee Benefits Research Institute.

## RETIREMENT FUNDS ASSET MIX, 2003

Private Defined Benefit Plans




Private Defined Contribution Plans




- **In defined benefit plans, investments in equities and mutual funds rose from 2002 to 2003, and investments in bonds decreased.**

Source: Securities Industry Association.

## RETIREMENT ASSETS

### INVESTMENT MIX OF PRIVATE DEFINED BENEFIT PLAN ASSETS, 1999-2003
($ billions)

| Year | Equity | Bonds | Mutual funds | Cash items | Other assets | Total assets |
|---|---|---|---|---|---|---|
| 1999 | $1,070 | $540 | $123 | $140 | $199 | $2,072 |
| 2000 | 962 | 539 | 118 | 146 | 193 | 1,958 |
| 2001 | 815 | 523 | 102 | 141 | 181 | 1,762 |
| 2002 | 623 | 511 | 81 | 148 | 180 | 1,542 |
| 2003 | 828 | 509 | 109 | 153 | 199 | 1,798 |

Source: Securities Industry Association.

### INVESTMENT MIX OF PRIVATE DEFINED CONTRIBUTION PLAN ASSETS, 1999-2003
($ billions)

| Year | Equity | Bonds | Mutual funds | Cash items | Other assets | Total assets |
|---|---|---|---|---|---|---|
| 1999 | $1,011 | $139 | $775 | $134 | $440 | $2,500 |
| 2000 | 994 | 146 | 756 | 135 | 434 | 2,465 |
| 2001 | 883 | 148 | 675 | 132 | 440 | 2,277 |
| 2002 | 665 | 171 | 554 | 142 | 440 | 1,972 |
| 2003 | 882 | 183 | 716 | 135 | 463 | 2,378 |

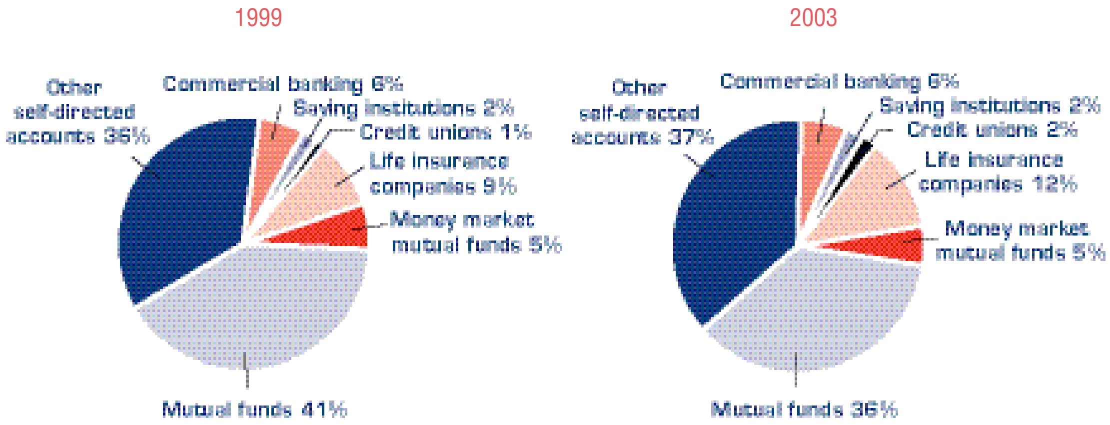
Source: Securities Industry Association.

### IRA MARKET SHARES, BY HOLDER, 1999 TO 2003
($ billions, end of year)

| By holder | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Commercial banking | $148.1 | $157.0 | $160.1 | $165.6 | $166.0 |
| Saving institutions | 58.7 | 56.4 | 54.6 | 53.9 | 55.1 |
| Credit unions | 36.2 | 36.7 | 39.9 | 43.3 | 46.8 |
| Life insurance companies | 245.5 | 245.5 | 251.0 | 308.3 | 370.0 |
| Money market mutual funds | 137.0 | 141.0 | 159.0 | 172.0 | 158.0 |
| Mutual funds | 1,078.0 | 1,048.0 | 961.0 | 819.0 | 1,079.0 |
| Other self-directed accounts | 947.5 | 944.4 | 993.4 | 883.0 | 1,104.0 |
| **Total** | **2,651.0** | **2,629.0** | **2,619.0** | **2,445.0** | **2,979.0** |

Source: Board of Governors of the Federal Reserve System.

## IRA MARKET SHARES BY HOLDER, 1999 AND 2003




Source: Board of Governors of the Federal Reserve System.

## ASSETS IN 401(K) PLANS, 1993-2003
($ billions)

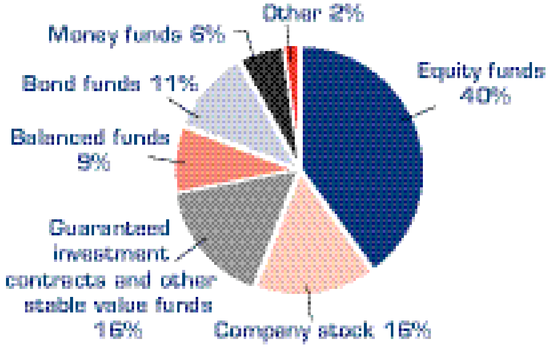
| Year | Mutual fund 401(k) plan assets | Other 401(k) plan assets | Total |
|---|---|---|---|
| 1993 | $140 | $476 | $616 |
| 1994 | 184 | 491 | 675 |
| 1995 | 266 | 598 | 864 |
| 1996 | 350 | 711 | 1,061 |
| 1997 | 479 | 785 | 1,264 |
| 1998 | 618 | 923 | 1,541 |
| 1999 | 813 | 977 | 1,790 |
| 2000 | 819 | 966[2] | 1,785[2] |
| 2001 | 792 | 923[2] | 1,715[2] |
| 2002 | 697 | 823[2] | 1,521[2] |
| 2003[1] | 898 | 970[2] | 1,867[2] |

[1]Preliminary data. [2]Estimated.

Note: Components may not add to totals due to rounding.

Source: Investment Company Institute.

### AVERAGE ASSET ALLOCATION FOR ALL 401(K) PLAN BALANCES, 2002




Note: Funds include mutual funds and other pooled investments.

Source: Investment Company Institute.

## ANNUITIES

### SALES OF FIXED AND VARIABLE ANNUITIES

Fixed annuities guarantee that a specific sum of money will be paid each period, generally on a monthly basis, regardless of fluctuations in the value of the annuity issuer's underlying investments. Variable annuity payments are based on the portfolio of stocks in which the issuer invests so that the monthly payment may fluctuate, depending on whether the value of the investments goes up or down. Annuities may also be classified as immediate, which begin to pay as soon as the premium is received, or deferred, which accumulate assets before payments begin, generally at retirement. See also Life Insurance, Premiums by Line section of chapter 5.

A hybrid annuity product is the equity index annuity, which guarantees a minimum return and at the same time offers an opportunity to benefit from increases in the equity index. Until recently, most index annuities were sold as fixed annuities. Beginning in 2002, equity index annuities were also sold as securities. Total sales reached a record $14 billion in 2003, according to the Advantage Compendium.

### INDIVIDUAL ANNUITY CONSIDERATIONS, 1997-2003[1]
($ billions)

| Year | Variable | Fixed | Total |
|---|---|---|---|
| 1997 | $87.9 | $38.2 | $126.1 |
| 1998 | 99.5 | 32.0 | 131.5 |
| 1999 | 121.8 | 41.7 | 163.5 |
| 2000 | 137.2 | 52.7 | 189.9 |
| 2001 | 111.0 | 74.3 | 185.3 |
| 2002 | 116.6 | 103.3 | 219.9 |
| 2003[2] | 129.2 | 87.6 | 216.8 |

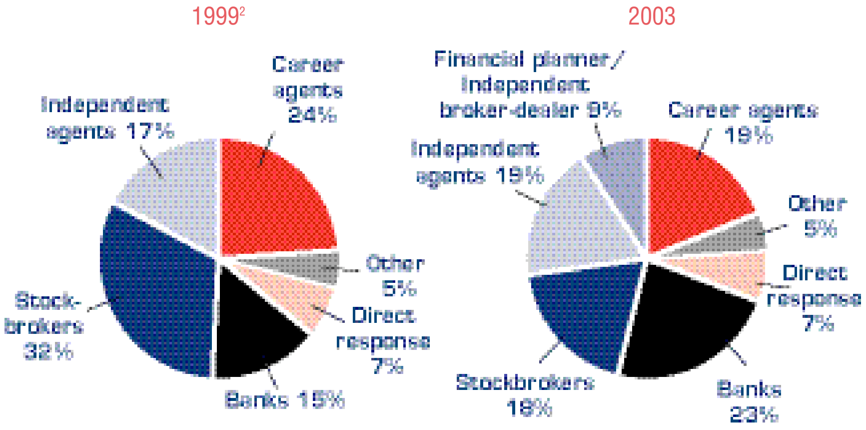
[1]Considerations are LIMRA's estimates of the total annuity sales market.
[2]Preliminary. Source: LIMRA International.

- **Variable annuity sales grew in 2003 by 10.8 percent. Sales in 2002 were up 5.0 percent from the previous year.**
- **Fixed annuity sales dropped by 15.2 percent in 2003.**
- **Total annuity sales fell 1.4 percent in 2003.**

### ANNUITY DISTRIBUTION SYSTEMS

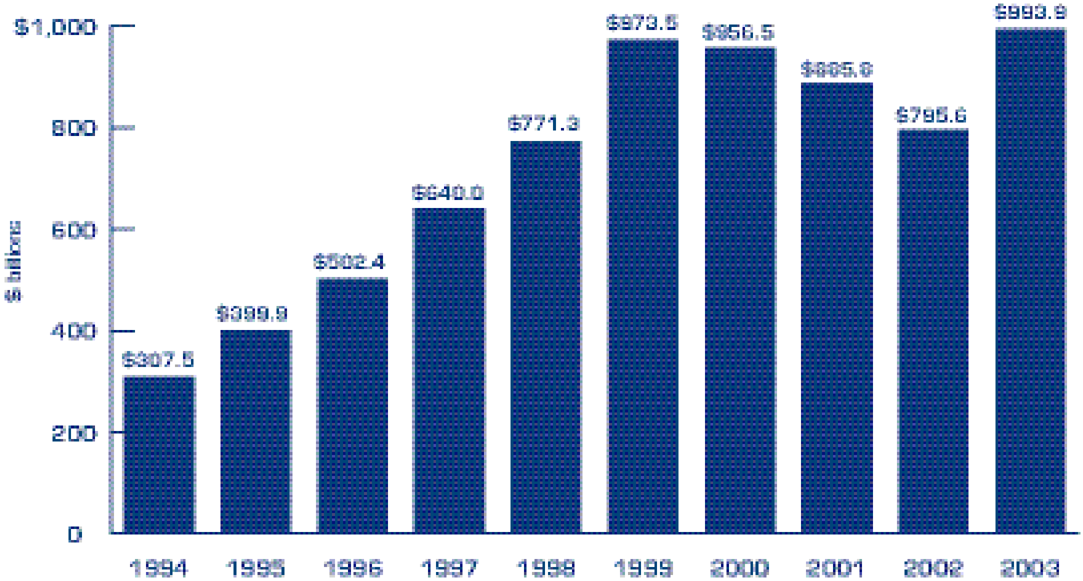
The difference in distribution channels between fixed and variable annuities is related to the nature of the product. Variable annuities are similar to stock market-based investments and therefore attract a different type of customer from fixed annuities, which tend to be associated with other fixed rate products such as certificates of deposit sold by banks. In addition, state and federal regulators require people who sell variable annuities to register with the National Association of Securities Brokers as securities dealers. Career agents, agents who sell mostly the products of a single life insurance company, are more likely to sell variable annuities than independent agents because they have stronger ties to the company marketing them.

### SALES OF INDIVIDUAL ANNUITIES BY DISTRIBUTION CHANNELS, 1999 AND 2003[1]




[1]Preliminary. [2]Financial planner sales included with stockbrokers prior to 2003.
Source: LIMRA International.

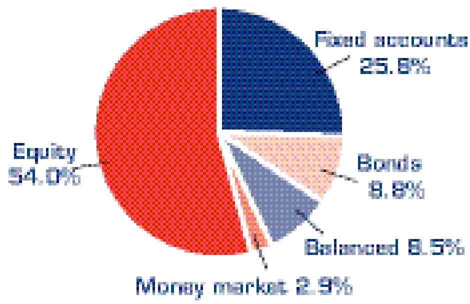
## TOTAL NET ASSETS OF VARIABLE ANNUITIES, 1994-2003
($ billions)




Source: NAVA and Finetre/VARDS.

## VARIABLE ANNUITY NET ASSETS BY INVESTMENT OBJECTIVE, 2003[1]

- The equity segment grew from 47.9 percent in 2002 to 54.0 percent in 2003.




[1]As of December 31, 2003.

Source: NAVA and Finetre/VARDS.

## MUTUAL FUND RETIREMENT ASSETS, 1993–2003
($ billions)

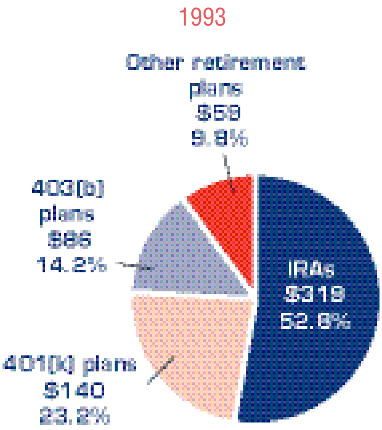
| Year | Employer-sponsored accounts[1] | IRAs | Total retirement |
|---|---|---|---|
| 1993 | $285 | $319 | $604 |
| 1994 | 339 | 346 | 685 |
| 1995 | 468 | 470 | 938 |
| 1996 | 607 | 590 | 1,197 |
| 1997 | 803 | 770 | 1,573 |
| 1998 | 1,020 | 968 | 1,988 |
| 1999 | 1,325 | 1,259 | 2,584 |
| 2000 | 1,294 | 1,233 | 2,527 |
| 2001 | 1,227 | 1,161 | 2,388 |
| 2002 | 1,092 | 1,032 | 2,124 |
| 2003[2] | 1,395 | 1,292 | 2,687 |

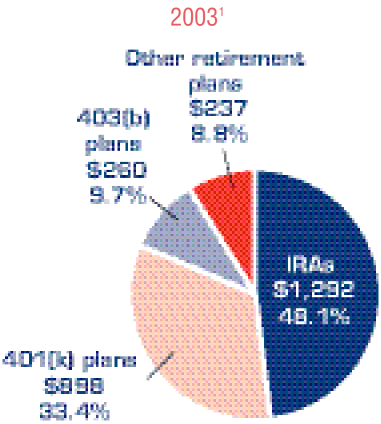
[1]Includes private defined contribution plans [401(k), 403(b), and others], 457 plans, state and local government employee retirement plans, and private defined benefit plans.
[2]Preliminary.

Note: Components may not add to totals due to rounding.

Source: Investment Company Institute.

## MUTUAL FUND RETIREMENT ASSETS BY TYPE OF PLAN, 1993 AND 2003
($ billions)

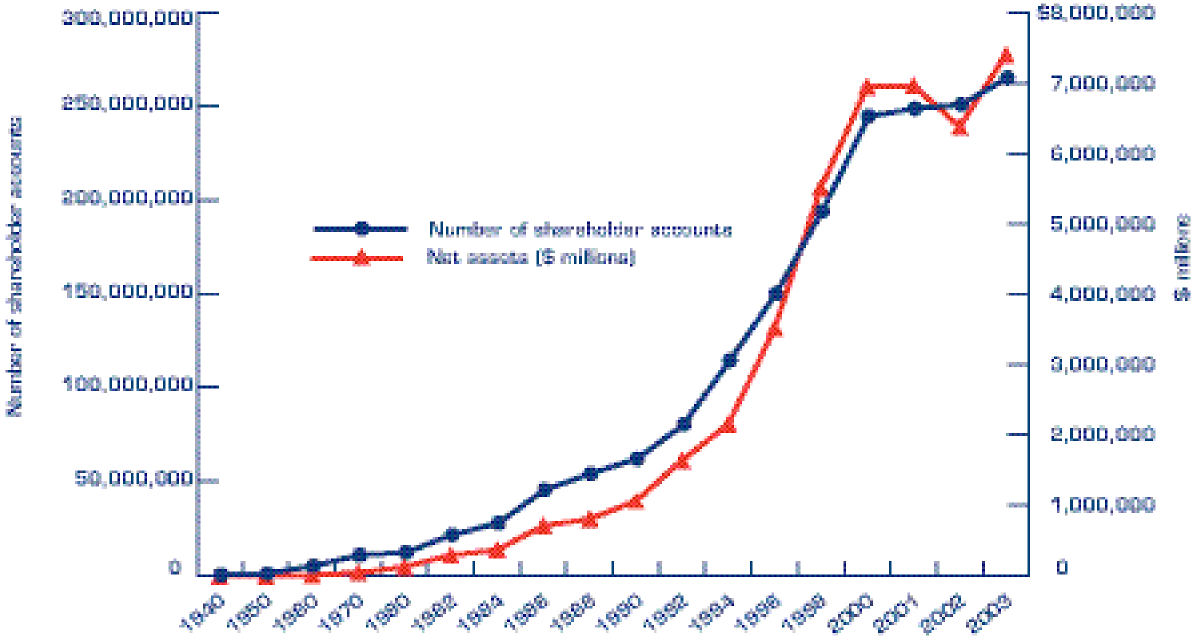



[1]Preliminary.

Source: Investment Company Institute.

## MUTUAL FUND INDUSTRY NET ASSETS AND SHAREHOLDER ACCOUNTS, 1940-2002




Source: Investment Company Institute.

## OVERVIEW

Convergence in financial services can be clearly seen in the financial holding company (FHC) chart below. FHCs were created by the Gramm-Leach-Bliley Act as a way to expand the financial services activities of bank holding companies (BHCs). BHCs are companies that own or control one or more banks and are regulated and supervised by the Federal Reserve. BHCs must meet certain eligibility requirements in terms of capital, management and community investment to become an FHC.

The Act allows FHCs to engage in activities other than banking as long as they are financial in nature. The most important of these are securities underwriting and dealing, insurance underwriting, insurance agency activities and merchant banking, a form of equity financing. Before passage of the Act, bank holding companies could be involved in the securities business but what they could do was strictly limited by law. Some banks also sold insurance products but for the most part, no bank, whether state or federally chartered, could engage in insurance underwriting with the exception of credit-related insurance.

Although the number of FHCs is small relative to the number of BHCs, FHCs are powerful financially. In aggregate, they controlled 78 percent of all bank holding company assets as of the first quarter of 2003, according to a Federal Reserve report to Congress. More than half of the largest BHCs, those with assets in excess of $10 billion, have elected to become FHCs.

Most FHCs were bank holding companies before the passage of the Act. However, several entities, among them MetLife, Charles Schwab & Co. and Franklin Resources, acquired banks and became FHCs.

Of the newly permissible or expanded activities, insurance agency and brokering activities are the most common, particularly among smaller banks. Approximately 65 percent of the FHCs that report insurance agency activity have assets of less than $1 billion, the Federal Reserve study notes. Nevertheless, the insurance brokering businesses of more than a dozen FHCs now rank among the largest insurance brokerage firms in the country.

### AGGREGATE NUMBER OF FINANCIAL HOLDING COMPANIES, 2000-2003[1]
(End of year)

| | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| Number of domestic FHCs[2] | 457 | 565 | 603 | 600 |
| Number of foreign FHCs[3] | 20 | 23 | 30 | 30 |
| **Total number of FHCs** | **477** | **588** | **633** | **630** |
| FHCs as a percentage of all bank holding companies | 9% | 11% | 12% | 12% |

[1]To avoid double-counting, only the top-tier bank holding company in a multi-tier organization is included. [2]Bank holding companies whose ultimate parent is incorporated in the United States. [3]Bank holding companies whose ultimate parent is a foreign bank or other organization chartered outside the United States.

Source: Board of Governors of the Federal Reserve System.

## FINANCIAL HOLDING COMPANIES ENGAGED IN INSURANCE UNDERWRITING ACTIVITIES, 2000-2003

(End of year)

| | 2000 | 2001 | 2002 | 2003[1] |
|---|---|---|---|---|
| **FHCs under the GLB[2] Act engaged in insurance underwriting activities** | | | | |
| Domestic FHCs | 7 | 16 | 20 | 17 |
| Foreign FHCs | 4 | 8 | 9 | 9 |
| **Total** | **11** | **22** | **29** | **26** |
| **Reported insurance underwriting assets ($ billions)** | **$116.1** | **$340.7** | **$347.1** | **$356.2** |

[1]End of first quarter 2003. [2]Gramm-Leach-Bliley.

Source: Board of Governors of the Federal Reserve System.

## FINANCIAL HOLDING COMPANIES ENGAGED IN INSURANCE AGENCY ACTIVITIES, 2000-2003

(End of year)

| | 2000 | 2001 | 2002 | 2003[1] |
|---|---|---|---|---|
| **FHCs under the GLB[2] Act engaged in insurance agency activities** | | | | |
| Domestic FHCs | 82 | 128 | 150 | 155 |
| Foreign FHCs | 4 | 5 | 9 | 10 |
| **Total** | **86** | **133** | **159** | **165** |

[1]End of first quarter 2003. [2]Gramm-Leach-Bliley.

Source: Board of Governors of the Federal Reserve System.

- **Merchant banking is a form of private equity financing. The decline in the merchant banking assets of FHCs is due mostly to the drop in stock prices from record highs.**

## FINANCIAL HOLDING COMPANY MERCHANT BANKING ACTIVITIES, 2000-2003

(End of year)

| | 2000 | 2001 | 2002 | 2003[1] |
|---|---|---|---|---|
| **FHCs under the GLB[2] Act engaged in merchant banking** | | | | |
| Domestic FHCs | 11 | 19 | 12 | 12 |
| Foreign FHCs | 9 | 10 | 14 | 14 |
| **Total** | **20** | **29** | **26** | **26** |
| **Reported merchant banking assets ($ billions)** | **$9.5** | **$8.3** | **$9.1** | **$9.2** |

[1]End of first quarter 2003. [2]Gramm-Leach-Bliley.

Source: Board of Governors of the Federal Reserve System.

## SECURITIES UNDERWRITING AND DEALING ACTIVITIES OF FINANCIAL HOLDING COMPANIES, 2000-2003

(End of year)

| | 2000 | 2001 | 2002 | 2003[1] |
|---|---|---|---|---|
| **FHCs under the GLB[2] Act engaged in securities underwriting and dealing** | | | | |
| Domestic | 27 | 32 | 36 | 38 |
| Foreign | 10 | 15 | 17 | 19 |
| **Total** | **37** | **47** | **53** | **57** |
| **Assets ($ billions)** | | | | |
| Assets of GLB Act securities subsidiaries of domestic FHCs | $403 | $482 | $501 | $545 |
| Assets of GLB Act securities subsidiaries of foreign FHCs | 559 | 967 | 918 | 1,075 |
| **Total** | **962** | **1,449** | **1,419** | **1,620** |

[1]End of first quarter 2003. [2]Gramm-Leach-Bliley.

Source: Board of Governors of the Federal Reserve System.

## BANK HOLDING COMPANY INSURANCE FEE INCOME, 2001-2003[1]

| Year | Reporting insurance fee income: Number | Reporting insurance fee income: Percent | Insurance fee income ($ billions) | Mean insurance fee income | Median insurance fee income |
|---|---|---|---|---|---|
| 2001 | 1,129 | 62.8% | $4.99 | $4,421,859 | $71,000 |
| 2002 | 1,235 | 63.9 | 5.86 | 4,748,952 | 65,000 |
| 2003 | 1,319 | 63.2 | 8.36 | 6,338,246 | 65,000 |

[1]Income from nonunderwriting activities, mostly from insurance product sales and referrals, service charges and commissions, and fees earned from insurance and annuity sales.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## BANK HOLDING COMPANY INVESTMENT FEE INCOME, 2001-2003[1]

| Year | Reporting investment fee income: Number | Reporting investment fee income: Percent | Investment fee income ($ billions) | Mean investment fee income | Median investment fee income |
|---|---|---|---|---|---|
| 2001 | 1,005 | 55.9% | $38.56 | $38,363,297 | $147,000 |
| 2002 | 1,101 | 57.0 | 39.24 | 35,644,486 | 143,000 |
| 2003 | 1,196 | 57.3 | 41.95 | 35,074,606 | 139,500 |

[1]Income from investment banking, advisory, brokerage, and underwriting fees and commissions.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## BANK HOLDING/FINANCIAL HOLDING COMPANIES

### BANK HOLDING COMPANY MUTUAL FUND AND ANNUITY INCOME, 2001-2003

| Year | Reporting mutual fund and annuity income | | Mutual fund and annuity income ($ billions) | Mean mutual fund and annuity income | Median mutual fund and annuity income |
|---|---|---|---|---|---|
| | Number | Percent | | | |
| 2001 | 895 | 49.8% | $13.11 | $14,648,515 | $125,000 |
| 2002 | 986 | 51.0 | 13.96 | 14,158,153 | 137,000 |
| 2003 | 1,054 | 50.5 | 15.39 | 14,597,508 | 141,000 |

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

### LEADING BANK HOLDING/FINANCIAL HOLDING COMPANIES

- More than 500 BHCs elected to become FHCs within the first 12 months that the option was available with the passage of Gramm-Leach-Bliley.

#### TOP TEN FINANCIAL HOLDING COMPANIES, 2004[1]

| Rank | Financial holding company | City | State | Assets |
|---|---|---|---|---|
| 1 | Citigroup Inc. | New York | NY | $1,396,568,000 |
| 2 | Bank of America Corporation | Charlotte | NC | 1,039,764,440 |
| 3 | J.P. Morgan Chase & Co. | New York | NY | 817,763,000 |
| 4 | Wells Fargo & Company | San Francisco | CA | 420,305,000 |
| 5 | Wachovia Corporation | Charlotte | NC | 418,441,000 |
| 6 | Taunus Corporation[2] | New York | NY | 316,458,000 |
| 7 | Bank One Corporation | Chicago | IL | 299,303,000 |
| 8 | HSBC North America Holdings Inc.[3] | Prospect Heights | IL | 298,818,386 |
| 9 | U.S. Bancorp | Minneapolis | MN | 190,230,000 |
| 10 | ABN AMRO North America Holding Company[4] | Chicago | IL | 131,361,819 |

[1]As of June 30, 2004.
[2]Taunus' top holder, Deutsche Bank, is an FHC.
[3]HSBC N.A. Holdings Inc.'s holder, HSBC Holding PLC, is an FHC.
[4]ABN AMRO N.A. Holding Company's holder, ABN AMRO Holding, N.V., is an FHC.

Source: Board of Governors of the Federal Reserve System.

## TOP TEN BANK HOLDING COMPANIES IN INSURANCE FEE INCOME, 2003[1]
($000)

| Rank | Bank holding company | State | Insurance fee income 2002 | Insurance fee income 2003 | Percent change | Percent of noninterest income | Assets |
|---|---|---|---|---|---|---|---|
| 1 | MetLife, Inc. | NY | $2,476,591 | $2,798,717 | 13.01% | 11.14% | $326,841,959 |
| 2 | Citigroup Inc. | NY | 0 | 1,358,000 | NA | 3.67 | 1,264,032,000 |
| 3 | Wells Fargo & Company | CA | 598,000 | 838,000 | 40.13 | 6.77 | 387,798,000 |
| 4 | BB&T Corporation | NC | 302,487 | 371,272 | 22.74 | 20.83 | 90,466,613 |
| 5 | Bank One Corporation | IL | 285,000 | 350,000 | 22.81 | 4.15 | 326,563,000 |
| 6 | Wachovia Corporation | NC | 223,000 | 246,000 | 10.31 | 2.64 | 401,032,000 |
| 7 | MBNA Corporation | DE | 181,474 | 231,941 | 27.81 | 2.96 | 59,126,089 |
| 8 | J.P. Morgan Chase & Co. | NY | 57,000 | 165,000 | 189.47 | 0.85 | 770,912,000 |
| 9 | Greater Bay Bancorp | CA | 88,500 | 116,704 | 31.87 | 71.19 | 7,657,105 |
| 10 | FleetBoston Financial Corp. | MA | 94,000 | 114,000 | 21.28 | 2.23 | 200,356,000 |

[1]Income from nonunderwriting activities, mostly from insurance product sales and referrals, service charges and commissions, and fees earned from insurance and annuity sales. Ranked by 2003 insurance fee income.
NA=Not applicable.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP TEN BANK HOLDING COMPANIES IN INVESTMENT FEE INCOME, 2003[1]
($ millions)

| Rank | Bank holding company | State | Investment fee income 2002 | Investment fee income 2003 | Percent change | Percent of noninterest income | Assets |
|---|---|---|---|---|---|---|---|
| 1 | Citigroup Inc. | NY | $11,060.0 | $11,225.0 | 1.49% | 30.35% | $1,264,032.0 |
| 2 | J.P. Morgan Chase & Co. | NY | 3,994.0 | 4,182.0 | 4.71 | 21.48 | 770,912.0 |
| 3 | Wachovia Corporation | NC | 2,227.0 | 3,119.0 | 40.05 | 33.41 | 401,032.0 |
| 4 | Bank of America Corporation | NC | 2,710.0 | 3,061.5 | 12.97 | 18.35 | 736,487.4 |
| 5 | Charles Schwab Corporation | CA | 2,616.3 | 2,682.2 | 2.52 | 80.23 | 45,866.2 |
| 6 | Franklin Resources, Inc. | CA | 2,329.3 | 2,634.0 | 13.08 | 93.26 | 7,417.4 |
| 7 | Taunus Corporation | NY | 2,141.0 | 2,366.0 | 10.51 | 49.98 | 291,375.0 |
| 8 | Mellon Financial Corporation | PA | 1,841.9 | 1,946.7 | 5.69 | 53.19 | 34,048.9 |
| 9 | Wells Fargo & Company | CA | 1,035.0 | 1,198.0 | 15.75 | 9.68 | 387,798.0 |
| 10 | FleetBoston Financial Corp. | MA | 1,133.0 | 1,128.0 | -0.44 | 22.09 | 200,356.0 |

[1]Income from investment banking, advisory, brokerage, and underwriting fees and commissions. Ranked by 2003 investment fee income.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## BANK HOLDING/FINANCIAL HOLDING COMPANIES

### TOP TEN BANK HOLDING COMPANIES IN MUTUAL FUND AND ANNUITY FEE INCOME, 2003[1]

($ millions)

| Rank | Bank holding company | State | Mutual fund and annuity fee income: 2002 | 2003 | Percent change | Percent of noninterest income | Assets |
|---|---|---|---|---|---|---|---|
| 1 | Citigroup Inc. | NY | $2,185.0 | $2,395.0 | 9.61% | 6.48% | $1,264,032.0 |
| 2 | Franklin Resources, Inc. | CA | 1,706.6 | 2,007.3 | 17.62 | 71.07 | 7,417.4 |
| 3 | Wachovia Corporation | NC | 1,373.0 | 1,673.0 | 21.85 | 17.92 | 401,032.0 |
| 4 | MetLife, Inc. | NY | 1,004.0 | 1,283.1 | 27.80 | 5.11 | 326,842.0 |
| 5 | Charles Schwab Corporation | CA | 1,088.6 | 1,122.8 | 3.14 | 33.59 | 45,866.2 |
| 6 | PNC Financial Services Group | PA | 735.7 | 749.5 | 1.88 | 24.02 | 68,193.3 |
| 7 | FleetBoston Financial Corp. | MA | 701.0 | 719.0 | 2.57 | 14.08 | 200,356.0 |
| 8 | Mellon Financial Corporation | PA | 743.7 | 689.6 | -7.28 | 18.84 | 34,048.9 |
| 9 | Bank One Corporation | IL | 195.0 | 601.0 | 208.21 | 7.13 | 326,563.0 |
| 10 | Taunus Corporation | NY | 44.0 | 586.0 | 1,231.82 | 12.38 | 291,375.0 |

[1]Ranked by 2003 mutual fund and annuity income.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

### TOP TEN BANK HOLDING COMPANIES IN TOTAL INSURANCE PREMIUMS, 2003[1]

($000)

| Rank | Bank holding company | State | Total insurance premiums: 2002 | 2003 | Percent change | Assets |
|---|---|---|---|---|---|---|
| 1 | MetLife, Inc. | NY | $19,085,896 | $20,673,489 | 8.32% | $326,841,959 |
| 2 | Citigroup Inc. | NY | 3,479,000 | 2,550,000 | -26.70 | 1,264,032,000 |
| 3 | Countrywide Financial Corp. | CA | 561,868 | 732,816 | 30.42 | 97,957,619 |
| 4 | Wells Fargo & Company | CA | 399,000 | 233,000 | -41.60 | 387,798,000 |
| 5 | Bank One Corporation | IL | 157,000 | 151,000 | -3.82 | 326,563,000 |
| 6 | J.P. Morgan Chase & Co. | NY | 220,000 | 104,000 | -52.73 | 770,912,000 |
| 7 | HSBC North America Inc. | NY | 40,862 | 72,335 | 77.02 | 125,950,317 |
| 8 | Bank of America Corporation | NC | 133,000 | 69,168 | -47.99 | 736,487,404 |
| 9 | CIBC Delaware Holdings Inc. | NY | 0 | 62,633 | NA | 39,209,663 |
| 10 | Wachovia Corporation | NC | 30,000 | 60,000 | 100.00 | 401,032,000 |

[1]Ranked by 2003 total insurance premiums.

NA=Not applicable.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP TEN BANK HOLDING COMPANIES IN PROPRIETARY MUTUAL FUND AND ANNUITIES ASSETS UNDER MANAGEMENT, 2003[1]

($000)

| | | | Proprietary assets under management[2] | | | |
|---|---|---|---|---|---|---|
| Rank | Bank holding company | State | 2002 | 2003 | Percent change | 2003 Assets |
| 1 | MetLife, Inc. | NY | $299,200,000 | $350,200,000 | 17.05% | $326,841,959 |
| 2 | Franklin Resources, Inc. | CA | 190,201,000 | 249,963,322 | 31.42 | 7,417,402 |
| 3 | Citigroup Inc. | NY | 214,121,000 | 222,247,000 | 3.80 | 1,264,032,000 |
| 4 | Mellon Financial Corporation | PA | 188,699,000 | 170,778,000 | -9.50 | 34,048,947 |
| 5 | Charles Schwab Corporation | CA | 158,046,487 | 153,602,564 | -2.81 | 45,866,220 |
| 6 | Bank of America Corporation | NC | 416,289,000 | 132,002,989 | -68.29 | 736,487,404 |
| 7 | Wachovia Corporation | NC | 113,093,000 | 109,359,000 | -3.30 | 401,032,000 |
| 8 | Bank One Corporation | IL | 102,692,000 | 107,361,000 | 4.55 | 326,563,000 |
| 9 | J.P. Morgan Chase & Co. | NY | 111,224,000 | 107,294,000 | -3.53 | 770,912,000 |
| 10 | Taunus Corporation | NY | 98,312,000 | 95,888,000 | -2.47 | 291,375,000 |

[1]Ranked by 2003 proprietary assets under management. [2]Proprietary mutual fund and annuities assets under management.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP TEN BANK HOLDING COMPANIES IN INSURANCE UNDERWRITING NET INCOME, 2003[1]

($000)

| Rank | Bank holding company | State | Total insurance underwriting net income | Total BHC net income | Insurance net income as a percent of total BHC net income | Assets |
|---|---|---|---|---|---|---|
| 1 | MetLife, Inc. | NY | $1,907,000 | $2,216,956 | 86.02% | $326,841,959 |
| 2 | Citigroup Inc. | NY | 1,256,000 | 17,853,000 | 7.04 | 1,264,032,000 |
| 3 | Wells Fargo & Company | CA | 579,000 | 6,202,000 | 9.34 | 387,798,000 |
| 4 | Countrywide Financial Corp. | CA | 102,188 | 2,372,950 | 4.31 | 97,957,619 |
| 5 | Bank of America Corporation | NC | 74,755 | 10,810,456 | 0.69 | 736,487,404 |
| 6 | Bank One Corporation | IL | 67,000 | 3,535,000 | 1.90 | 326,563,000 |
| 7 | Old National Bancorp | IN | 62,219 | 70,413 | 88.36 | 9,354,586 |
| 8 | ABN AMRO N.A. Holding Co. | IL | 41,056 | 1,105,572 | 3.71 | 127,153,684 |
| 9 | CIBC Delaware Holdings Inc. | NY | 34,159 | -93,058 | NA | 39,209,663 |
| 10 | Wachovia Corporation | NC | 33,000 | 4,264,000 | 0.77 | 401,032,000 |

[1]Ranked by 2003 insurance underwriting net income. NA=not applicable.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## BANK SALES OF INSURANCE AND MUTUAL FUNDS

Since 1999 when Congress passed the Gramm-Leach-Bliley Financial Services Modernization Act, enabling financial services companies to sell each other's products, banks have greatly expanded their business beyond their traditional offerings to include sales of insurance and securities. Sales of nonbanking products now make up an increasing part of their revenue.

### BANK-PRODUCED INSURANCE PREMIUMS, 1998-2003[1]
($ billions)

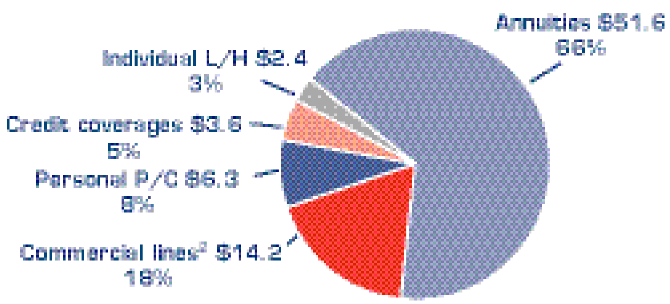
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Percent change 1998-2003 |
|---|---|---|---|---|---|---|---|
| Annuities | $19.6 | $24.2 | $31.0 | $37.1 | $47.7 | $51.6 | 163.3% |
| Commercial lines[2] | 4.0 | 4.4 | 5.4 | 8.9 | 11.5 | 14.2 | 255.0 |
| Personal property/casualty | 2.9 | 3.1 | 3.7 | 4.1 | 5.0 | 6.3 | 117.2 |
| Credit coverages | 2.9 | 2.9 | 2.7 | 2.8 | 2.5 | 3.6 | 24.1 |
| Individual life/health | 1.5 | 1.8 | 2.1 | 2.3 | 2.8 | 2.4 | 60.0 |
| **Total** | **$30.9** | **$36.4** | **$44.9** | **$55.2** | **$69.5** | **$78.1** | **152.8** |
| Annual growth | 11.6% | 17.8% | 23.4% | 22.9% | 25.9% | 12.4% | NA |

[1]Estimated. [2]Includes commercial property/casualty and group benefits premium. NA=Not applicable.

Source: American Bankers Insurance Association.

### BANK INSURANCE PREMIUMS, BY TYPE OF COVERAGE, 2003[1]
($ billions)

- In 2003, bank insurance premiums increased by 12 percent to an estimated $78.1 billion from $69.5 billion the previous year, according to a survey conducted by the American Bankers Insurance Association.
- In 2003, sales of credit coverages dropped to 5 percent of bank premiums, down from 9 percent in 1998.




[1]Total estimated at $69.5 billion.
[2]Commercial property/casualty and group benefits premium.

Source: American Bankers Insurance Association.

## PRIMARY BANK INSURANCE DISTRIBUTION CHANNELS, 2003
(Percent)

| | Property/casualty | | Life/health | |
|---|---|---|---|---|
| | Personal | Commercial | Individual | Group benefits |
| Acquired agency | 53.1% | 67.1% | 29.4% | 51.9% |
| Carrier direct | 22.2 | 19.0 | 19.3 | 14.8 |
| De novo[1] | 19.8 | 15.2 | 20.2 | 23.5 |
| Joint venture[2] | 11.1 | 11.4 | 24.4 | 17.3 |
| Third-party marketer | 7.4 | 5.1 | 25.2 | 11.1 |

[1]Joint venture or marketing alliance with an insurance agency.

[2]Agency originated by the bank without acquisition of a platform agency.

Source: American Bankers Insurance Association.

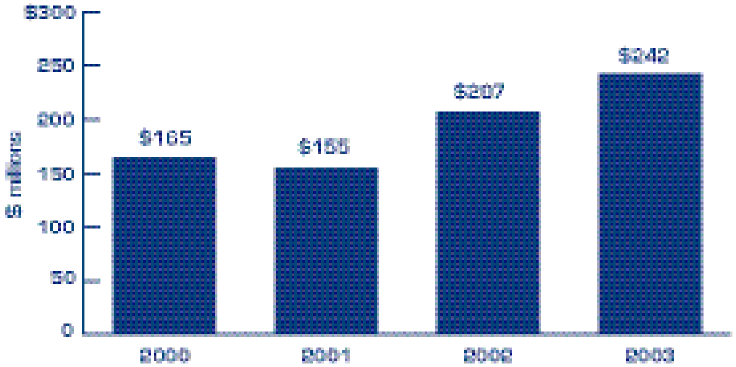
## BANK SALES OF LIFE INSURANCE: NEW (FIRST YEAR) PREMIUM, 2000-2003
($ millions)

| Year | Sales |
|---|---|
| 2000 | $338 |
| 2001 | 452 |
| 2002 | 643 |
| 2003 | 926 |

Source: Kenneth Kehrer Associates.

- **Bank sales of new life premiums, which contain single premium products, rose 44 percent in 2003.**
- **Total bank sales of life insurance rose 17 percent in 2003, compared with 2002 based on "weighted premiums," a formula that gives recurring premium products more weight than single premium products.**

## BANK LIFE INSURANCE SALES, 2000-2003[1]
(Weighted premiums, $ millions)

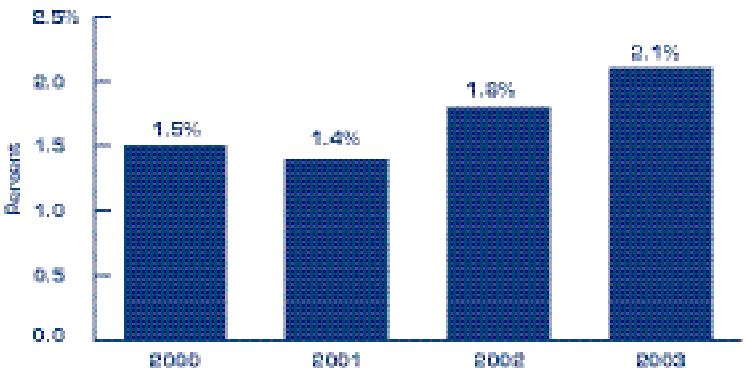



[1]Sales are based on weighted premiums, discounting 90 percent of single premium (one-time payment) products to approximate the expected value of premium flows to life insurance companies each year.

Source: Kenneth Kehrer Associates.

## BANK MARKET SHARE OF LIFE INSURANCE SALES, 2000-2003[1]

(Based on weighted premiums)




[1]Sales are based on weighted premiums, discounting 90 percent of single premium (one-time payment) products to approximate the expected value of premium flows to life insurance companies each year.

Source: Kenneth Kehrer Associates.

## BANK SHARE OF FIXED-ANNUITY PREMIUMS, 1994-2003

($ billions)

| Year | Total individual fixed-annuity premiums | Fixed-annuity premiums by banks | Bank share (percent) |
|---|---|---|---|
| 1994 | $47.2 | $14.7 | 31.0% |
| 1995 | 49.4 | 10.7 | 21.7 |
| 1996 | 38.9 | 10.3 | 26.5 |
| 1997 | 38.2 | 10.0 | 26.2 |
| 1998 | 32.9 | 8.5 | 24.8 |
| 1999 | 42.1 | 12.5 | 30.0 |
| 2000 | 52.8 | 15.4 | 29.2 |
| 2001 | 71.5 | 27.4 | 38.3 |
| 2002 | 98.6 | 36.4 | 36.9 |
| 2003 | 81.6 | 32.0 | 39.2 |

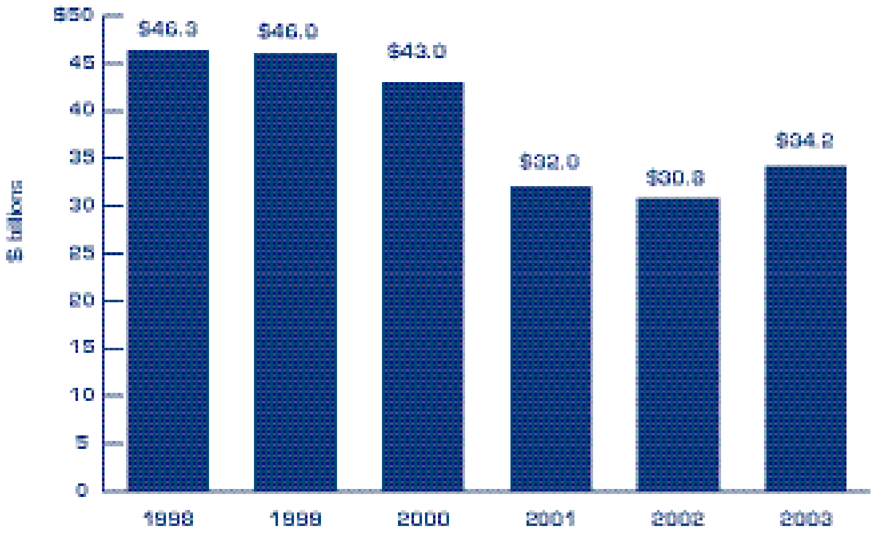
Source: Kenneth Kehrer Associates.

## BANK SHARE OF VARIABLE-ANNUITY PREMIUMS, 1994-2003
($ billions)

| Year | Total individual variable-annuity premiums | Variable-annuity premiums by banks | Bank share (percent) |
|---|---|---|---|
| 1994 | $51.7 | $3.4 | 6.6% |
| 1995 | 49.3 | 3.5 | 7.1 |
| 1996 | 72.5 | 6.9 | 9.5 |
| 1997 | 87.9 | 9.3 | 10.6 |
| 1998 | 98.6 | 11.2 | 11.4 |
| 1999 | 114.4 | 13.9 | 12.2 |
| 2000 | 137.7 | 15.6 | 11.3 |
| 2001 | 112.8 | 10.9 | 9.7 |
| 2002 | 119.3 | 12.5 | 10.5 |
| 2003 | 129.2 | 18.1 | 14.0 |

Source: Kenneth Kehrer Associates.

## BANK SALES OF RETAIL MUTUAL FUNDS, 1998-2003
($ billions)




- **Bank sales of retail mutual funds were up 11.2 percent from 2002 to 2003.**

Source: Kenneth Kehrer Associates.

## BANK INSURANCE/INSURANCE FEE INCOME

- From 2000 to 2003, banks bought 243 insurance agencies. (See Bank Purchases of Insurance Agencies, page 86.)

### BANK INSURANCE FEE INCOME, 2001-2003[1]

| Year | Reporting insurance fee income: Number | Reporting insurance fee income: Percent | Insurance fee income ($ billions) | Mean insurance fee income | Median insurance fee income |
|---|---|---|---|---|---|
| 2001 | 4,276 | 49.8% | $2.98 | $696,524 | $21,000 |
| 2002 | 4,359 | 52.0 | 3.49 | 801,687 | 19,000 |
| 2003 | 4,140 | 50.2 | 3.60 | 869,113 | 19,000 |

[1]Income from nonunderwriting activities, mostly from insurance product sales and referrals, service charges and commissions, and fees earned from insurance and annuity sales.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

- From 1998 to 2003, banks bought an average of 58 securities firms each year. (See Mergers and Acquisitions of U.S. Securities Firms, page 110.)

### BANK INVESTMENT FEE INCOME, 2001-2003[1]

| Year | Reporting investment fee income: Number | Reporting investment fee income: Percent | Investment fee income ($ billions) | Mean investment fee income | Median investment fee income |
|---|---|---|---|---|---|
| 2001 | 2,331 | 27.1% | $9.16 | $3,930,462 | $54,000 |
| 2002 | 2,338 | 27.9 | 9.11 | 3,895,962 | 58,000 |
| 2003 | 2,331 | 28.2 | 10.16 | 4,357,725 | 61,000 |

[1]Income from investment banking, advisory, brokerage, and underwriting fees and commissions.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

### BANK MUTUAL FUND AND ANNUITY INCOME, 2001-2003

| Year | Reporting mutual fund and annuity income: Number | Reporting mutual fund and annuity income: Percent | Mutual fund and annuity income ($ billions) | Mean mutual fund and annuity income | Median mutual fund and annuity income |
|---|---|---|---|---|---|
| 2001 | 2,132 | 24.8% | $5.51 | $2,585,624 | $52,000 |
| 2002 | 2,161 | 25.8 | 5.83 | 2,699,706 | 60,000 |
| 2003 | 2,105 | 25.5 | 5.53 | 2,626,858 | 65,000 |

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP BANKS IN INSURANCE AND MUTUAL FUNDS

### TOP TEN BANKS IN INSURANCE FEE INCOME, 2003[1]

($000)

| | | | Insurance fee income | | | | |
|---|---|---|---|---|---|---|---|
| Rank | Bank | State | 2002 | 2003 | Percent change | Percent of noninterest income | Assets |
| 1 | Citibank, N.A. | NY | $547,000 | $742,000 | 35.65% | 4.88% | $582,123,000 |
| 2 | Branch Banking and Trust Company | NC | 298,726 | 379,426 | 27.01 | 26.43 | 67,584,376 |
| 3 | MBNA America Bank, N.A. | DE | 181,474 | 231,941 | 27.81 | 3.05 | 56,495,866 |
| 4 | Chase Manhattan Bank USA, N.A. | DE | 196,087 | 139,830 | -28.69 | 3.68 | 36,578,612 |
| 5 | Bank of America, N.A. | NC | 101,000 | 98,612 | -2.36 | 0.74 | 617,962,335 |
| 6 | Citibank (Delaware) | DE | 98,768 | 81,854 | -17.12 | 22.57 | 6,285,165 |
| 7 | Wells Fargo Bank Minnesota, N.A. | MN | 90,713 | 73,991 | -18.43 | 7.58 | 48,801,863 |
| 8 | Commerce Bank/North | NJ | 55,549 | 66,009 | 18.83 | 86.22 | 2,499,585 |
| 9 | Fleet National Bank | RI | 58,000 | 63,000 | 8.62 | 1.56 | 192,265,000 |
| 10 | Union Bank of California, N.A. | CA | 27,848 | 62,652 | 124.98 | 8.15 | 41,928,707 |

[1]Income from nonunderwriting activities, mostly from insurance product sales and referrals, service charges and commissions, and fees earned from insurance and annuity sales. Ranked by 2003 insurance fee income.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

### TOP TEN BANKS IN INVESTMENT FEE INCOME, 2003[1]

($000)

| | | | Investment fee income | | | | |
|---|---|---|---|---|---|---|---|
| Rank | Bank | State | 2002 | 2003 | Percent change | Percent of noninterest income | Assets |
| 1 | J.P. Morgan Chase Bank | NY | $1,907,000 | $2,183,000 | 14.47% | 15.75% | $628,662,000 |
| 2 | Bank of America, N.A. | NC | 1,041,000 | 1,145,600 | 10.05 | 8.56 | 617,962,335 |
| 3 | Deutsche Bank Trust Co. Americas | NY | 495,000 | 806,000 | 62.83 | 41.48 | 34,068,000 |
| 4 | Wachovia Bank, N.A. | NC | 692,000 | 616,000 | -10.98 | 9.74 | 353,541,000 |
| 5 | PNC Bank, N.A. | PA | 543,672 | 562,482 | 3.46 | 27.86 | 62,036,533 |
| 6 | Mellon Bank, N.A. | PA | 631,433 | 562,215 | -10.96 | 31.02 | 20,838,836 |
| 7 | Fleet National Bank | RI | 508,000 | 504,000 | -0.79 | 12.44 | 192,265,000 |
| 8 | The Bank of New York | NY | 460,920 | 455,362 | -1.21 | 12.50 | 89,257,901 |
| 9 | Bank One, N.A. | OH | 101,000 | 358,000 | 254.46 | 28.26 | 65,194,000 |
| 10 | SunTrust Bank | GA | 239,462 | 234,805 | -1.94 | 12.37 | 124,453,567 |

[1]Income from investment banking, advisory, brokerage, and underwriting fees and commissions. Ranked by 2003 insurance fee income.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP TEN BANKS IN INSURANCE UNDERWRITING INCOME, 2003[1]

($000)

| | | | Insurance underwriting income | | | |
|---|---|---|---|---|---|---|
| Rank | Bank | State | Amount | Percent of total insurance income | Percent of noninterest income | Assets |
| 1 | Citibank, N.A. | NY | $190,000 | 25.61% | 1.25% | $582,123,000 |
| 2 | Wells Fargo Bank Minnesota, N.A. | MN | 73,900 | 99.88 | 7.57 | 48,801,863 |
| 3 | Citibank (Delaware) | DE | 70,305 | 85.89 | 19.39 | 6,285,165 |
| 4 | Chase Manhattan Bank USA, N.A. | DE | 45,660 | 32.65 | 1.20 | 36,578,612 |
| 5 | Wachovia Bank, N.A. | NC | 32,000 | 82.05 | 0.51 | 353,541,000 |
| 6 | Wells Fargo Financial Bank | SD | 25,415 | 100.00 | 50.17 | 1,585,830 |
| 7 | National City Bank of MI/IL | IL | 20,854 | 43.63 | 4.63 | 20,336,253 |
| 8 | U.S. Bank, N.A. | OH | 19,630 | 70.54 | 0.42 | 189,159,050 |
| 9 | Branch Banking and Trust Company | NC | 13,541 | 3.57 | 0.94 | 67,584,376 |
| 10 | Sky Bank | OH | 13,067 | 100.00 | 9.69 | 11,844,146 |

[1]Ranked by 2003 insurance underwriting income.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP TEN BANKS IN MUTUAL FUND AND ANNUITY INCOME, 2003[1]

($000)

| | | | Mutual fund and annuity income | | | | |
|---|---|---|---|---|---|---|---|
| Rank | Bank | State | 2002 | 2003 | Percent change | Percent of noninterest income | Assets |
| 1 | Wachovia Bank, N.A. | NC | $590,000 | $594,000 | 0.68% | 9.39% | $353,541,000 |
| 2 | Mellon Bank, N.A. | PA | 629,389 | 562,215 | -10.67 | 31.02 | 20,838,836 |
| 3 | PNC Bank, N.A. | PA | 525,984 | 554,935 | 5.50 | 27.49 | 62,036,533 |
| 4 | Bank of America, N.A. | NC | 686,000 | 497,716 | -27.45 | 3.72 | 617,962,335 |
| 5 | Fleet National Bank | RI | 405,000 | 418,000 | 3.21 | 10.32 | 192,265,000 |
| 6 | Bank One, N.A. | OH | 101,000 | 355,000 | 251.49 | 28.02 | 65,194,000 |
| 7 | J.P. Morgan Chase Bank | NY | 334,000 | 247,000 | -26.05 | 1.78 | 628,662,000 |
| 8 | The Bank of New York | NY | 207,440 | 222,334 | 7.18 | 6.10 | 89,257,901 |
| 9 | SunTrust Bank | GA | 126,576 | 136,406 | 7.77 | 7.19 | 124,453,567 |
| 10 | Fifth Third Bank | OH | 96,056 | 117,155 | 21.97 | 6.68 | 57,373,000 |

[1]Ranked by 2003 mutual fund and annuity income.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## TOP TEN BANKS IN PROPRIETARY MUTUAL FUND AND ANNUITIES ASSETS UNDER MANAGEMENT, 2003[1]

($000)

| | | | Proprietary assets under management[2] | | | |
|---|---|---|---|---|---|---|
| Rank | Bank | State | 2002 | 2003 | Percent change | 2003 Assets |
| 1 | Mellon Bank, N.A. | PA | $176,173,000 | $156,316,000 | -11.27% | $20,838,836 |
| 2 | Bank of America, N.A. | NC | 387,255,000 | 132,002,989 | -65.91 | 617,962,335 |
| 3 | Wachovia Bank, N.A. | NC | 113,093,000 | 109,359,000 | -3.30 | 353,541,000 |
| 4 | Bank One, N.A. | OH | 102,692,000 | 107,361,000 | 4.55 | 65,194,000 |
| 5 | J.P. Morgan Chase Bank | NY | 111,224,000 | 107,294,000 | -3.53 | 628,662,000 |
| 6 | Fleet National Bank | RI | 71,516,000 | 87,176,000 | 21.90 | 192,265,000 |
| 7 | PNC Bank, N.A. | PA | 89,327,759 | 86,766,687 | -2.87 | 62,036,533 |
| 8 | U.S. Bank N.A. | OH | 54,259,691 | 58,179,672 | 7.22 | 189,159,050 |
| 9 | The Northern Trust Company | IL | 44,008,772 | 44,581,364 | 1.30 | 33,403,079 |
| 10 | State Street Bank and Trust Company | MA | 28,185,020 | 31,192,800 | 10.67 | 80,435,427 |

[1]Ranked by 2003 proprietary assets under management. [2]Proprietary mutual fund and annuities assets under management.

Source: Michael White's Bank Insurance & Investment Fee Income Report - 2003 Year-End.

## INSURANCE COMPANIES

### LEADING INSURERS, LIFE INSURANCE SALES THROUGH BANKS, 2002-2003[1]

($ millions)

| Rank | Company | 2002 | 2003 |
|---|---|---|---|
| 1 | Hartford | $17.0 | $33.1 |
| 2 | Nationwide | 38.1 | 21.0 |
| 3 | Mass Mutual | 2.5 | 11.9 |
| 4 | Great West Life | 7.8 | 11.0 |
| 5 | AIG | 9.7 | 10.9 |
| 6 | AXA | 11.3 | 8.5 |
| 7 | CUNA Mutual | 15.2 | 6.3 |
| 8 | John Hancock | 4.2 | 5.9 |
| 9 | Sun Life Financial | 5.2 | 5.7 |
| 10 | Aegon | 0.0 | 4.3 |

[1]Ranked by 2003 weighted premiums, which discount 90 percent of single premium (one-time payment) products to approximate the expected value of premium flows to life insurance companies each year.

Source: Kenneth Kehrer Associates.

## TOP TEN WRITERS OF FIXED ANNUITIES SOLD THROUGH BANKS, 2002-2003[1]
($ millions)

| Rank | Company | 2002 | 2003 |
|---|---|---|---|
| 1 | AIG/American General | $8,575 | $10,380 |
| 2 | Aegon/Transamerica | 5,142 | 3,725 |
| 3 | Allstate Financial | 1,973 | 2,283 |
| 4 | Nationwide | 2,214 | 1,642 |
| 5 | Jackson National | 2,005 | 1,089 |
| 6 | Western-Southern | 1,205 | 1,075 |
| 7 | John Hancock | 1,982 | 1,068 |
| 8 | New York Life | 789 | 1,005 |
| 9 | American Enterprise | 1,094 | 996 |
| 10 | Sun Life Financial | 1,535 | 952 |

[1]Ranked by 2003 sales.

Source: Kenneth Kehrer Associates.

## TOP TEN WRITERS OF VARIABLE ANNUITIES SOLD THROUGH BANKS, 2002-2003[1]
($ millions)

| Rank | Company | 2002 | 2003 |
|---|---|---|---|
| 1 | Hartford | $3,176 | $4,890 |
| 2 | AXA | 605 | 1,950 |
| 3 | Pacific Life | 674 | 1,760 |
| 4 | Nationwide | 1,398 | 1,659 |
| 5 | American Enterprise | 1,125 | 1,051 |
| 6 | AIG/SunAmerica | 833 | 907 |
| 7 | GE Financial | 242 | 765 |
| 8 | Jackson National | 291 | 582 |
| 9 | Prudential | 223 | 556 |
| 10 | Sun Life Financial | 595 | 529 |

[1]Ranked by 2003 sales.

Source: Kenneth Kehrer Associates.

## OVERVIEW

The insurance industry safeguards the assets of its policyholders, ensuring that they or their families can get their lives back on track and continue to contribute to the economy even after a disaster. Insurance companies act as financial intermediaries in that they invest the premiums they collect for providing this service. Insurance company size is usually measured by net premiums written, that is, premium revenues less amounts paid for reinsurance.

The insurance industry is divided into two groups, life/health and property/casualty. Many large insurers offer both property/casualty and life/health insurance and a number are expanding into other financial services sectors, including banking and mutual funds. About 20 percent of the life/health sector's premiums consists of accident and health products, including a small amount of "pure" health insurance, such as coverage from HMOs. Due to the massive involvement of the federal government in health care financing, pure health insurance data are hard to isolate and generally not compatible with other insurance data. For this reason, specific health insurance data are not included in this book.

Insurance is a product that transfers risk from an individual or business to an insurance company. It differs from most products in that insurers must price and sell their policies *before* the full cost of coverage is known. In property/casualty insurance, claims may be more frequent and costly than anticipated and investment income may not fully offset the shortfall. In life insurance, expected returns from investments may not be sufficient to fund annuity contracts, especially fixed dollar annuities. If there is a downturn in the economy, policyholders may cancel life insurance policies before the company can recoup its selling expenses.

## REGULATION

All types of insurance are regulated by the states, with each state having its own set of statutes and rules. The McCarran-Ferguson Act, passed by Congress in 1945, speaks of continued state regulation of the insurance industry as being in the public interest, but there have been and continue to be challenges to state regulation, including proposals for a federal role in creating a more uniform system and allowing insurers the choice of a federal or state charter similar to banks.

State insurance departments oversee insurer solvency, market conduct and, to a greater or lesser degree, review and rule on requests for rate increases for coverage, among other things. Personal lines of the property/casualty insurance business, such as auto and homeowners insurance, and workers compensation, in commercial lines, are the most highly regulated, largely because these coverages are generally mandated by state law or required by banks and other lenders. The National Association of Insurance Commissioners develops model rules and regulations for the industry, many of which must be approved by state legislatures before they can be implemented.

### How Statutory Accounting Principles and Generally Accepted Accounting Principles Differ

Insurers are required to use a special accounting system when filing annual financial reports with state regulators and the Internal Revenue Service. This system is known as statutory accounting principles (SAP). SAP accounting is more conservative than generally accepted accounting principles (GAAP), as defined by the Financial Accounting Standards Board, to ensure that insurers have sufficient capital and surplus to cover insured losses. The two systems differ principally in matters of timing of expenses, tax accounting, the treatment of capital gains and accounting for surplus. Simply put, SAP recognizes liabilities earlier or at a higher value and recognizes assets later or at a lower value. GAAP accounting focuses on a business as a going concern, while SAP accounting treats insurers as if they were about to be liquidated. SAP accounting is defined by state law according to uniform codes established by the National Association of Insurance Commissioners. Insurance companies reporting to the Securities and Exchange Commission must maintain and report another set of figures that meet GAAP standards.

### GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) COMPARED WITH STATUTORY ACCOUNTING PRINCIPLES (SAP)

| | GAAP | SAP |
|---|---|---|
| Sales Costs | Accounted for over the period in which the premium is earned, i.e., the policy period. | Accounted for immediately on the sale of a policy. |
| Unearned income | Taxes on unearned income can be deferred until the income is earned. | Some taxes must be paid on a portion of unearned premium. |
| Loss reserve discounting | Reserves held to pay known losses in future need not be discounted for tax purposes. | Loss reserves must be discounted for tax purposes. |
| Reinsurance recoverables | Net worth may include reinsurance payments that may not be recoverable. | Net worth cannot include potentially unrecoverable reinsurance payments. |
| Nonadmitted assets | Certain assets, e.g., furniture and equipment, can be included in net worth. | Such assets cannot be included in net worth. |
| Taxes on unrealized capital gains | Deferred taxes on unrealized capital gains cannot be included in net worth. | Those anticipated taxes need not be deducted from net worth. |
| Bonds | Requires insurers to carry certain bonds at fair market value. | Most bonds can be carried at their amortized value. |
| Surplus notes | Surplus notes, a highly subordinated form of debt, must be carried as liabilities. | Surplus notes can be carried as part of policyholder's surplus. |

Source: Insurance Information Institute.

## MERGERS AND ACQUISITIONS

### THE TOP TEN INSURANCE-RELATED MERGERS AND ACQUISITIONS REPORTED IN 2003[1]

($ millions)

| Rank | Buyer | Target | Deal value[2] |
|---|---|---|---|
| 1 | Anthem Inc. | WellPoint Health Networks Inc. | $16,247.1 |
| 2 | St. Paul Cos. | Travelers Property Casualty Corp. | 16,138.5 |
| 3 | Manulife Financial Corp. | John Hancock Financial Services Inc. | 10,423.0 |
| 4 | UnitedHealth Group Inc. | Mid Atlantic Medical Services | 3,301.1 |
| 5 | American International Group | GE Edison Life/GE's U.S. auto and home business | 2,150.0 |
| 6 | Berkshire Hathaway Inc. | Clayton Homes Inc. | 1,710.8 |
| 7 | AXA | Mony Group Inc. | 1,507.8 |
| 8 | Berkshire Hathaway Inc. | McLane Co. | 1,450.0 |
| 9 | Fidelity National Financial | Alltel Information Services | 1,050.0 |
| 10 | WellPoint Health Networks Inc. | Cobalt Corp. | 885.8 |

[1]At least one of the companies involved is a U.S.-domiciled company. List does not include terminated deals. [2]At announcement.

Source: SNL Financial LC.

- **The total number of insurance-related mergers and acquisitions dropped steadily from 441 deals worth $38.5 billion in 1999, to 310 deals worth $58.5 billion in 2003. However, the value of deals fluctuated, reaching a peak of $65.3 billion in 2001.**

## PROFITABILITY

### ANNUAL RATE OF RETURN, GAAP ACCOUNTING, PROPERTY/CASUALTY AND LIFE/HEALTH INSURANCE, 1996-2003

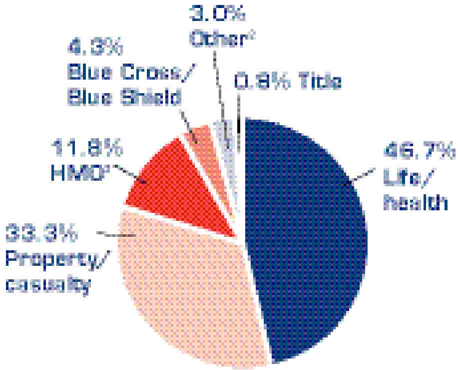
| Year | Property/casualty[1] | Life/health[2] |
|---|---|---|
| 1996 | 9.3 % | 10.0% |
| 1997 | 11.6 | 12.0 |
| 1998 | 8.5 | 11.0 |
| 1999 | 6.0 | 13.0 |
| 2000 | 5.9 | 10.0 |
| 2001 | -1.2 | 7.0 |
| 2002 | 2.2 | 1.0 |
| 2003 | 8.9 | 9.0 |

[1]Return on average net worth, ISO.

[2]Combined stock and mutual companies from data reported by Fortune as calculated by the Insurance Information Institute.

Source: ISO; Fortune.

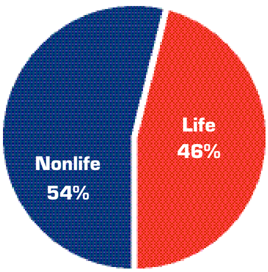
## PREMIUMS BY TYPE OF INSURER, 2002[1]




[1]Gross direct premiums. Total premiums for 2002 were $1,169 billion.
[2]Includes hospital, medical and dental indemnity, fraternal, limited benefit plans and all other insurance.
[3]Health maintenance organizations.

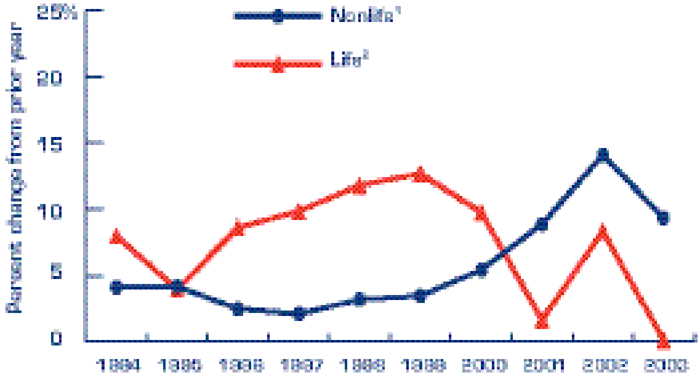
Source: National Association of Insurance Commissioners. Reprinted with permission. Further reprint or redistribution strictly prohibited without written permission of NAIC.

## U.S. NONLIFE AND LIFE INSURANCE PREMIUMS, 2003




Source: *Swiss* Re, *sigma,* No. 3/2004.

## GROWTH IN U.S. PREMIUMS, NONLIFE AND LIFE INSURANCE, 1994-2003




[1]Net premiums written, includes health insurance premiums written by commercial insurers; includes state funds in 2003.
[2]Includes an estimate of group pension business.

Source: Swiss Re, *sigma,* various issues.

## EMPLOYMENT

Data compiled by the U.S. Bureau of Labor Statistics show the insurance industry provided 2.3 million jobs in 2003.

### EMPLOYMENT IN INSURANCE, 1994-2003
(000)

| | Insurance companies[1] | | | | |
|---|---|---|---|---|---|
| Year | Life, health and medical | Property/ casualty | Reinsurers | Insurance agencies, brokerages and related services[2] | Total industry |
| 1994 | 812.0 | 568.8 | 37.7 | 700.3 | 2,118.8 |
| 1995 | 807.4 | 552.0 | 36.3 | 712.6 | 2,108.3 |
| 1996 | 788.0 | 558.2 | 35.4 | 726.4 | 2,108.0 |
| 1997 | 797.4 | 566.9 | 35.1 | 744.1 | 2,143.5 |
| 1998 | 816.8 | 592.0 | 34.3 | 766.3 | 2,209.4 |
| 1999 | 815.3 | 603.9 | 33.5 | 783.4 | 2,236.1 |
| 2000 | 808.8 | 591.6 | 32.3 | 787.8 | 2,220.5 |
| 2001 | 807.7 | 591.3 | 31.4 | 803.2 | 2,233.6 |
| 2002 | 791.1 | 590.0 | 31.7 | 820.4 | 2,223.2 |
| 2003 | 792.3 | 606.2 | 30.6 | 837.0 | 2,266.1 |

[1]Described by the Bureau of Labor Statistics as “direct insurers.”

[2]Includes claims adjusters, third party administrators of insurance funds and other service personnel such as advisory and insurance ratemaking services.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

- **Over the last 10 years, employment in the insurance industry (all sectors) has averaged 2.1 percent of the total U.S. employment.**

## U.S. INSURANCE COMPANIES

An insurance company is said to be "domiciled" in the state that issued its primary license; it is "domestic" in that state. Once licensed in one state, it may seek licenses in other states as a "foreign" insurer. An insurer incorporated in a foreign country is called an "alien" insurer in the U.S. states in which it is licensed.

- **According to the National Association of Insurance Commissioners (NAIC), there were 3,330 property/casualty companies in the United States in 2002, compared with 3,188 in 2001. Many are part of larger organizations.**
- **The life/health insurance industry consisted of 1,462 companies in 2002, compared with 1,521 in 2001, according to the NAIC.**

### DOMESTIC INSURANCE COMPANIES BY STATE BY TYPE, END OF YEAR 2002

| State | Life/ health | Property/ casualty | Blue Cross/ Blue Shield, limited benefits, HMDI[1] | HMO | Fraternal[2] | Title | Other[3] |
|---|---|---|---|---|---|---|---|
| Alabama | 14 | 25 | 2 | 3 | 1 | 1 | 6 |
| Alaska | 0 | 7 | 1 | 0 | 0 | 0 | 0 |
| Arizona | 286 | 50 | 11 | 8 | 0 | 1 | 13 |
| Arkansas | 42 | 11 | 1 | 5 | 0 | 2 | 14 |
| California | 28 | 144 | 0 | NA | 6 | 10 | 19 |
| Colorado | 11 | 34 | 12 | 13 | 2 | 3 | 2 |
| Connecticut | 32 | 76 | 2 | 8 | 1 | 1 | 12 |
| Delaware | 46 | 85 | 4 | 6 | 2 | 0 | 0 |
| D.C. | 6 | 10 | 1 | 6 | 2 | 0 | 5 |
| Florida | 22 | 146 | 23 | 28 | 0 | 5 | 1 |
| Georgia | 20 | 38 | 1 | 11 | 0 | 0 | 32 |
| Hawaii | 4 | 32 | 5 | 3 | 0 | 0 | 85 |
| Idaho | 3 | 13 | 4 | 2 | 0 | 0 | 2 |
| Illinois | 78 | 195 | 17 | 10 | 18 | 0 | 114 |
| Indiana | 42 | 79 | 0 | 17 | 3 | 5 | 40 |
| Iowa | 28 | 58 | 2 | 4 | 1 | 0 | 122 |
| Kansas | 12 | 30 | 1 | 6 | 0 | 2 | 0 |
| Kentucky | 11 | 8 | 1 | 12 | 0 | 0 | 18 |
| Louisiana | 60 | 35 | 1 | 12 | 2 | 3 | 27 |
| Maine | 2 | 15 | 3 | 3 | 0 | 0 | 10 |
| Maryland | 12 | 49 | 13 | 14 | 0 | 1 | 2 |
| Massachusetts | 19 | 56 | 3 | 10 | 2 | 2 | 0 |
| Michigan | 18 | 67 | 15 | 32 | 2 | 0 | 11 |
| Minnesota | 16 | 50 | 3 | 10 | 6 | 1 | 0 |
| Mississippi | 28 | 18 | 0 | 5 | 4 | 2 | 3 |

(table continues)

## DOMESTIC INSURANCE COMPANIES BY STATE BY TYPE, END OF YEAR 2002 (Cont'd)

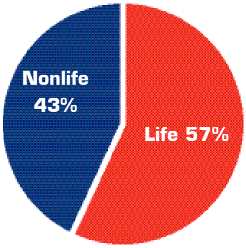
| State | Life/ health | Property/ casualty | Blue Cross/ Blue Shield, limited benefits, HMDI[1] | HMO | Fraternal[2] | Title | Other[3] |
|---|---|---|---|---|---|---|---|
| Missouri | 36 | 54 | 7 | 17 | 2 | 3 | 119 |
| Montana | 3 | 4 | 2 | 3 | 0 | 1 | 17 |
| Nebraska | 30 | 44 | 6 | 3 | 1 | 0 | 36 |
| Nevada | 2 | 8 | 10 | 6 | 0 | 0 | 16 |
| New Hampshire | 4 | 31 | 2 | 5 | 1 | 0 | 3 |
| New Jersey | 7 | 80 | 3 | 11 | 4 | 2 | 0 |
| New Mexico | 2 | 7 | 4 | 7 | 0 | 0 | 0 |
| New York | 103 | 215 | 13 | 24 | 7 | 10 | 189 |
| North Carolina | 7 | 54 | 2 | 15 | 0 | 2 | 15 |
| North Dakota | 4 | 19 | 4 | 1 | 0 | 0 | 15 |
| Ohio | 43 | 128 | 7 | 24 | 14 | 11 | 52 |
| Oklahoma | 33 | 58 | 5 | 0 | 5 | 3 | 0 |
| Oregon | 3 | 15 | 22 | 2 | 0 | 3 | 94 |
| Pennsylvania | 37 | 202 | 17 | 23 | 26 | 5 | 0 |
| Rhode Island | 5 | 20 | 3 | 3 | 0 | 0 | 1 |
| South Carolina | 12 | 30 | 1 | 4 | 0 | 2 | 28 |
| South Dakota | 2 | 18 | 2 | 4 | 0 | 1 | 23 |
| Tennessee | 17 | 27 | 6 | 18 | 1 | 2 | 38 |
| Texas | 175 | 239 | 5 | 53 | 10 | 4 | 19 |
| Utah | 18 | 9 | 6 | 7 | 0 | 1 | 0 |
| Vermont | 2 | 464 | 2 | 1 | 0 | 0 | 3 |
| Virginia | 14 | 19 | 6 | 17 | 0 | 2 | 21 |
| Washington | 12 | 27 | 18 | 4 | 2 | 2 | 0 |
| West Virginia | 1 | 4 | 1 | 2 | 0 | 0 | 11 |
| Wisconsin | 32 | 175 | 17 | 20 | 9 | 0 | 96 |
| Wyoming | 0 | 2 | 1 | 1 | 0 | 0 | 0 |
| **Countrywide[4]** | **1,462** | **3,330** | **300** | **519** | **134** | **94** | **1,334** |

[1]Limited benefit plans cover only specified accidents or sicknesses; hospital, medical and dental indemnity (HMDI) plans provide stipulated payments to an insured person during hospital confinement, for virtually all costs related to hospital stays, other medical expenses, and for dental services and supplies. [2]Fraternal groups provide insurance plans for their members. [3]Includes county mutuals, auto services companies and specialty companies. [4]Includes territories and possessions. NA=Data not available.

Source: Insurance Department Resources Report, 2002, published by the National Association of Insurance Commissioners. Reprinted with permission. Further reprint or redistribution strictly prohibited without written permission of NAIC.

- **The number of Blue Cross/Blue Shield, limited benefits and HMDI companies dropped to 300 in 2002 from 324 in 2001.**
- **Fraternal companies totaled 134 in 2002, compared with 132 the prior year.**
- **Title insurance companies numbered 94 in 2002, compared with 98 in 2001.**

### WORLD LIFE AND NONLIFE INSURANCE PREMIUMS, 2003




Source: Swiss Re, *sigma,* No. 3/2004

### WORLD INSURANCE MARKET

Outside the United States, the insurance industry is usually classified as life and nonlife, or general insurance. The latter includes every form of insurance except life. Reinsurance, insurance for insurance companies, is purchased by both life and nonlife insurers.

The number of countries in the survey of world insurance premiums conducted by Swiss Re increased from 69 in 1994 to 88 in 2003. To be included, countries must have had reliable data and direct premiums of over $100 million from 1994 to 1998, over $150 million from 1999 to 2002, and at least $200 million in 2003.

- **From 1994 to 2003, total world insurance premiums grew 49.4 percent. Nonlife premiums grew 49.8 percent. Life business grew 49.1 percent.**
- **The inflation-adjusted growth rate from 2002 to 2003 was 2.0 percent for the total world insurance market, compared with 5.4 percent from 2001 to 2002. These growth rates were calculated using local currencies.**

### WORLD LIFE AND NONLIFE INSURANCE PREMIUMS, 1994-2003
(Direct premiums written, U.S. $ millions)

| Year | Nonlife[1] | Life | Total |
|---|---|---|---|
| 1994 | $846,600 | $1,121,186 | $1,967,787 |
| 1995 | 906,781 | 1,236,627 | 2,143,408 |
| 1996 | 909,100 | 1,196,736 | 2,105,838 |
| 1997 | 896,873 | 1,231,798 | 2,128,671 |
| 1998 | 891,352 | 1,275,053 | 2,166,405 |
| 1999 | 912,749 | 1,424,203 | 2,336,952 |
| 2000 | 926,503 | 1,518,401 | 2,444,904 |
| 2001 | 969,945 | 1,445,776 | 2,415,720 |
| 2002 | 1,098,412 | 1,534,061 | 2,632,473 |
| 2003 | 1,268,157 | 1,672,514 | 2,940,671 |

[1]Includes accident and health insurance.

Source: Swiss Re, *sigma,* various issues.

## PROPERTY/CASUALTY INSURANCE

Property/casualty insurance covers the property and liability losses of businesses and individuals. These losses range from damage and injuries resulting from car accidents to the cost of lawsuits stemming from faulty products and professional misconduct. In terms of premiums written, private auto insurance is by far the largest single line of business, nearly four times greater than the next largest line, homeowners multiple peril. Property/casualty insurance companies tend to specialize in commercial or personal insurance but some sell both and a number of companies are expanding into other financial services sectors, including personal banking and mutual funds.

Because property/casualty losses are more volatile than those in life insurance, property/casualty insurers invest largely in high-quality liquid securities which can be sold quickly to pay for claims resulting from a major hurricane, earthquake or man-made disaster such as the destruction of the World Trade Center.

### ASSETS AND LIABILITIES OF NONLIFE INSURANCE COMPANIES, 1999 AND 2003[1]

($ billions, end of year)

| | 1999 | 2003 |
|---|---|---|
| **Total financial assets** | **$872.7** | **$1,045.0** |
| Checkable deposits and cash | 4.3 | 34.5 |
| Security repurchase agreements[2] | 28.3 | 52.8 |
| Credit market instruments | 518.2 | 624.0 |
| U.S. government securities | 136.1 | 194.7 |
| Municipal securities | 199.0 | 204.6 |
| Corporate and foreign bonds | 181.1 | 222.7 |
| Commercial mortgages | 1.9 | 2.1 |
| Corporate equities | 207.9 | 182.7 |
| Trade receivables | 63.6 | 79.3 |
| Miscellaneous assets | 50.6 | 71.7 |
| **Total liabilities** | **551.8** | **682.5** |
| Taxes payable | 17.4 | 29.3 |
| Miscellaneous liabilities[3] | 534.4 | 653.2 |

[1]Nonlife insurance includes every form of insurance except life.

[2]Short-term agreements to sell and repurchase government securities by a specified date at a set price.

[3]Largely reserves, i.e., money held to pay known and anticipated claims.

Source: Board of Governors of the Federal Reserve System.

## CAPITAL AND SURPLUS

A property/casualty insurer must maintain a certain level of capital and surplus to underwrite risks. This capital is known as "capacity." When the industry is hit by high losses, such as after the World Trade Center terrorist attack, capacity is diminished. It can be restored by increases in net income, favorable investment returns, reinsuring more risk, and/or raising additional capital. When there is excess capacity, usually because of a high return on investments, premiums tend to decline as insurers compete for market share. As premiums decline, underwriting losses are likely to grow, reducing capacity and causing insurers to raise rates and tighten conditions and limits.

Property/casualty insurers rarely show an overall underwriting profit, i.e., a net gain from premiums after costs of sales, dividends to policyholders, loss payments, and loss adjustment costs (which include litigation costs). Some lines of insurance do produce a steady underwriting profit, but others record combined ratios (costs in excess of premiums) that are above 100 year after year. In 2003, the combined ratio was 100.2, which means insurers paid out just over a dollar for every dollar in earned premium. In 2002, the combined ratio was 107. The difference is generally covered by investment income from a number of sources, including capital and surplus accounts, money set aside for loss reserves and unearned premium reserves, and capital gains.

- **In 2003, net income after taxes, at $29.9 billion, was at its highest level since 1998, at $30.8 billion.**

### PROPERTY/CASUALTY INSURANCE INDUSTRY INCOME ANALYSIS, 1999-2003
($ billions)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Written premiums | $286.9 | $299.7 | $323.5 | $369.7 | $405.9 |
| Percent change | 1.9% | 5.3%[1] | 8.0% | 14.3% | 9.8% |
| Earned premiums | $282.8 | $294.0 | $311.5 | $348.5 | $388.1 |
| Losses incurred | 184.6 | 200.9 | 234.5 | 238.8 | 239.7 |
| Loss adjustment expenses incurred | 37.7 | 37.8 | 40.9 | 44.8 | 50.1 |
| Other underwriting expenses | 80.3 | 82.6 | 86.4 | 93.8 | 101.1 |
| Policyholder dividends | 3.3 | 3.9 | 2.4 | 1.9 | 1.9 |
| Underwriting gain/loss | -23.1 | -31.2 | -52.6 | -30.8 | -4.6 |
| Investment income | 38.9 | 40.7 | 37.7 | 37.2 | 38.7 |
| Miscellaneous income/loss | -1.4 | 0.4 | 1.1 | -0.8 | -0.3 |
| Operating income/loss | 14.4 | 9.9 | -13.8 | 5.6 | 33.7 |
| Realized capital gains/losses | 13.0 | 16.2 | 6.6 | -1.2 | 6.9 |
| Federal income taxes/credit | 5.6 | 5.5 | -0.2 | 1.3 | 10.8 |
| Net income after taxes | 21.9 | 20.6 | -7.0 | 3.0 | 29.9 |

[1]ISO adjusted the growth rate to mitigate distortion caused by a significant insolvency.

Source: ISO.

## ASSETS

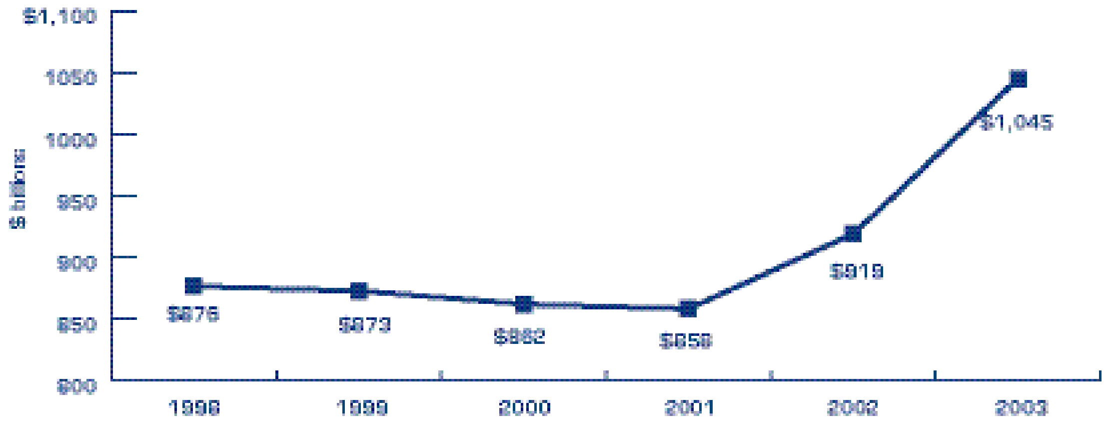
### PROPERTY/CASUALTY INSURER FINANCIAL ASSET DISTRIBUTION, 1998-2003
($ billions)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **Total financial assets** | **$876.4** | **$872.7** | **$862.0** | **$858.1** | **$918.8** | **$1,045.0** |
| Checkable deposits and cash | 4.0 | 4.3 | 3.7 | 13.1 | 25.9 | 34.5 |
| Security RPs[1] | 42.7 | 28.3 | 38.3 | 30.2 | 44.4 | 52.8 |
| Credit market instruments | 521.1 | 518.2 | 509.4 | 518.4 | 558.3 | 624.0 |
| U.S. government securities | 140.1 | 136.1 | 136.2 | 146.2 | 174.4 | 194.7 |
| Treasury | 70.4 | 60.6 | 52.1 | 52.0 | 61.2 | 68.4 |
| Agency and GSE-backed securities | 69.7 | 75.5 | 84.1 | 94.2 | 113.2 | 126.3 |
| Municipal securities | 208.1 | 199.0 | 184.1 | 173.8 | 183.0 | 204.6 |
| Corporate and foreign bonds | 171.1 | 181.1 | 187.5 | 196.4 | 198.9 | 222.7 |
| Commercial mortgages | 2.0 | 1.9 | 1.6 | 1.9 | 2.0 | 2.1 |
| Corporate equities | 200.1 | 207.9 | 194.3 | 173.9 | 152.3 | 182.7 |
| Trade receivables | 61.5 | 63.6 | 64.6 | 69.9 | 74.8 | 79.3 |
| Miscellaneous assets | 47.0 | 50.6 | 51.8 | 52.6 | 63.1 | 71.7 |

[1]RPs are repos (repurchase agreements).

Source: Board of Governors of the Federal Reserve System.

### PROPERTY/CASUALTY INSURER FINANCIAL ASSETS, 1998-2003




Source: Board of Governors of the Federal Reserve System.

## TOP TWENTY U.S. PROPERTY/CASUALTY INSURANCE COMPANIES, BY REVENUES, 2003
($ millions)

| Rank | Group | Revenues | Assets |
|---|---|---|---|
| 1 | American International Group | $81,300 | $677,000 |
| 2 | Berkshire Hathaway | 63,859 | 180,559 |
| 3 | State Farm Insurance Cos. | 56,065 | 136,441 |
| 4 | Allstate | 32,149 | 134,142 |
| 5 | Hartford Financial Services | 18,733 | 225,853 |
| 6 | Liberty Mutual Insurance Group | 16,914 | 64,422 |
| 7 | Nationwide | 16,803 | 147,674 |
| 8 | Loews (CNA) | 15,810 | 77,881 |
| 9 | Travelers Property Casualty | 15,139 | 64,872 |
| 10 | Progressive | 11,892 | 16,282 |
| 11 | Chubb | 11,394 | 38,361 |
| 12 | USAA | 10,593 | 41,044 |
| 13 | St. Paul Cos. | 8,958 | 39,563 |
| 14 | Fidelity National Financial | 7,715 | 7,312 |
| 15 | Safeco | 7,358 | 35,845 |
| 16 | First American Corp. | 6,214 | 4,892 |
| 17 | American Family Insurance Group | 5,895 | 12,239 |
| 18 | Erie Insurance Group | 4,717 | 11,860 |
| 19 | Auto-Owners Insurance | 4,211 | 9,425 |
| 20 | W.R. Berkley | 3,630 | 9,335 |

Source: Fortune.

## DISTRIBUTION CHANNELS

Property/casualty insurance was once sold almost exclusively by agents — either by captive agents representing one insurance company or by independent agents representing several companies. Insurance companies selling through captive agents and/or by mail, telephone, or via the Internet are called "direct writers." In the 1990s, these distinctions blurred as insurers began to use multiple channels to reach potential customers.

In the 1980s, banks began to explore the possibility of selling insurance through independent agents, usually buying agencies for that purpose, see page 86. Other distribution channels include sales through professional organizations and workplaces.

The sale of insurance via the Internet, either at proprietary Web sites or at so-called "insurance malls," remains a very small portion of total sales. Most Internet sales are of "commodity" insurance products, i.e., auto, some homeowners, term and whole life, and other relatively simple coverages that do not require much explanation or customized risk analysis.

The Independent Insurance Agents & Brokers of America says that in 2002 (latest data available) on average personal property/casualty insurance accounted for 49 percent of agencies' insurance revenues. Commercial lines accounted for 38 percent of revenues, life and health insurance for 4 percent, and employee benefits for 3 percent.

### INSURANCE CARRIERS AND AGENTS DIRECT MARKETING SALES REVENUE BY MEDIA, 1998-2007[1]
($ millions)

| | | | | Projected | | Compound annual growth | |
|---|---|---|---|---|---|---|---|
| Media | 1998 | 2002 | 2003[2] | 2004 | 2007 | 1998-2003 | 2003-2007 |
| **All media** | **$81,751.8** | **$117,291.9** | **$129,224.7** | **$144,348.8** | **$200,971.1** | **9.44%** | **11.67%** |
| Magazine | 1,960.3 | 2,749.5 | 3,025.8 | 3,384.5 | 4,800.3 | 8.83 | 12.23 |
| Direct mail | 32,298.1 | 46,380.9 | 51,467.3 | 57,794.6 | 80,429.1 | 9.47 | 11.81 |
| Newspaper | 5,255.6 | 7,173.6 | 7,949.9 | 8,885.1 | 12,391.1 | 8.09 | 11.73 |
| Other | 1,825.0 | 2,628.9 | 2,912.2 | 3,292.0 | 4,709.7 | 9.55 | 12.77 |
| Radio | 1,079.3 | 1,608.0 | 1,802.2 | 2,041.8 | 2,909.0 | 10.48 | 12.72 |
| Telephone | 36,579.8 | 52,556.4 | 57,416.1 | 63,717.7 | 88,262.5 | 9.48 | 11.35 |
| Television | 2,753.7 | 4,194.6 | 4,651.2 | 5,233.0 | 7,469.4 | 11.09 | 12.57 |

[1]Sales generated by products sold directly to the public through various media.

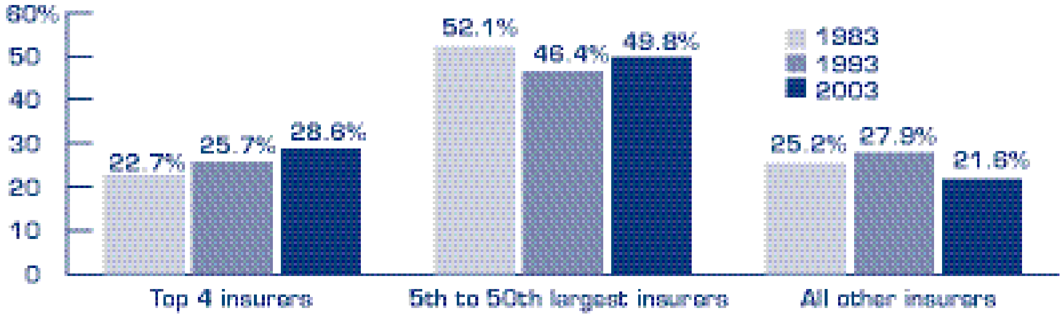
[2]Estimated.

Source: The Direct Marketing Association, Inc.

## PROPERTY/CASUALTY INSURANCE INDUSTRY CONCENTRATION

According to the ISO, concentration in the property/casualty insurance sector increased from 229 in 1980 to 321 in 2003 on the Herfindahl scale, used to measure market concentration. The U.S. Department of Justice classifies any score under 1,000 as unconcentrated. A score of 10,000 represents a monopoly.

### MARKET SHARE TRENDS BY SIZE OF INSURER, 1983-2003[1]




[1]Based on net premiums written.
Source: ISO.

## PREMIUMS BY LINE

### NET PREMIUMS WRITTEN BY LINE, PROPERTY/CASUALTY INSURANCE, 2002-2003[1]

($000)

| Lines of insurance | 2002 | 2003 | Percent change 2002-2003 | Percent of total, 2003 |
|---|---|---|---|---|
| Private passenger auto | | | | |
| Liability | $82,035,458 | $89,284,322 | 8.8% | 21.9% |
| Collision and comprehensive | 57,581,460 | 62,016,255 | 7.7 | 15.2 |
| Total private passenger auto | 139,616,918 | 151,300,577 | 8.4 | 37.1 |
| Commercial auto | | | | |
| Liability | 17,236,905 | 18,444,445 | 7.0 | 4.5 |
| Collision and comprehensive | 7,326,905 | 7,018,876 | -4.2 | 1.7 |
| Total commercial auto | 24,563,810 | 25,463,321 | 3.7 | 6.2 |

(table continues)

## NET PREMIUMS WRITTEN BY LINE, PROPERTY/CASUALTY INSURANCE, 2002-2003[1] (Cont'd)

($000)

| Lines of insurance | 2002 | 2003 | Percent change 2002-2003 | Percent of total, 2003 |
|---|---|---|---|---|
| Fire | $7,366,804 | $8,395,790 | 14.0% | 2.1% |
| Allied lines[2] | 6,847,386 | 7,871,360 | 15.0 | 1.9 |
| Earthquake | 1,000,054 | 1,048,714 | 4.9 | 0.3 |
| Farmowners mutliple peril | 1,779,350 | 2,000,834 | 12.4 | 0.5 |
| Homeowners multiple peril | 40,262,872 | 46,035,860 | 14.3 | 11.3 |
| Commercial multiple peril | 25,460,482 | 27,432,019 | 7.7 | 6.7 |
| Ocean marine | 2,443,244 | 2,588,607 | 5.9 | 0.6 |
| Inland marine | 6,989,272 | 7,786,214 | 11.4 | 1.9 |
| Accident and health[3] | 15,600,494 | 11,935,478 | -23.5 | 2.9 |
| Workers compensation | 30,007,042 | 32,922,244 | 9.7 | 8.1 |
| Medical malpractice | 7,441,333 | 8,753,368 | 17.6 | 2.1 |
| Other liability[4] | 29,352,604 | 36,148,810 | 23.2 | 8.9 |
| Products liability | 1,789,533 | 2,726,486 | 52.4 | 0.7 |
| Aircraft | 1,471,068 | 1,703,685 | 15.8 | 0.4 |
| Burglary and theft | 114,300 | 124,098 | 8.6 | 0.0 |
| Boiler and machinery | 1,410,316 | 1,591,987 | 12.9 | 0.4 |
| Fidelity | 1,024,107 | 1,194,158 | 16.6 | 0.3 |
| Surety | 3,260,415 | 3,395,447 | 4.1 | 0.8 |
| Reinsurance | 15,063,321 | 15,468,787 | 2.7 | 3.8 |
| Credit | 716,645 | 640,580 | -10.6 | 0.2 |
| Mortgage guaranty | 3,987,772 | 4,285,447 | 7.5 | 1.1 |
| Financial guaranty | 1,834,174 | 2,507,763 | 36.7 | 0.6 |
| Other lines[5] | 3,258,568 | 4,256,978 | 4.7 | 1.0 |
| **Total, all lines** | **$372,661,903** | **$407,578,645** | **9.4%** | **100.0%** |

[1]After reinsurance transactions, excluding state funds. Does not add to total due to rounding.

[2]Includes multiple peril crop and federal flood.

[3]Premiums from certain insurers that write primarily health insurance but file financial statements with state regulators on a property/casualty rather than life/health basis.

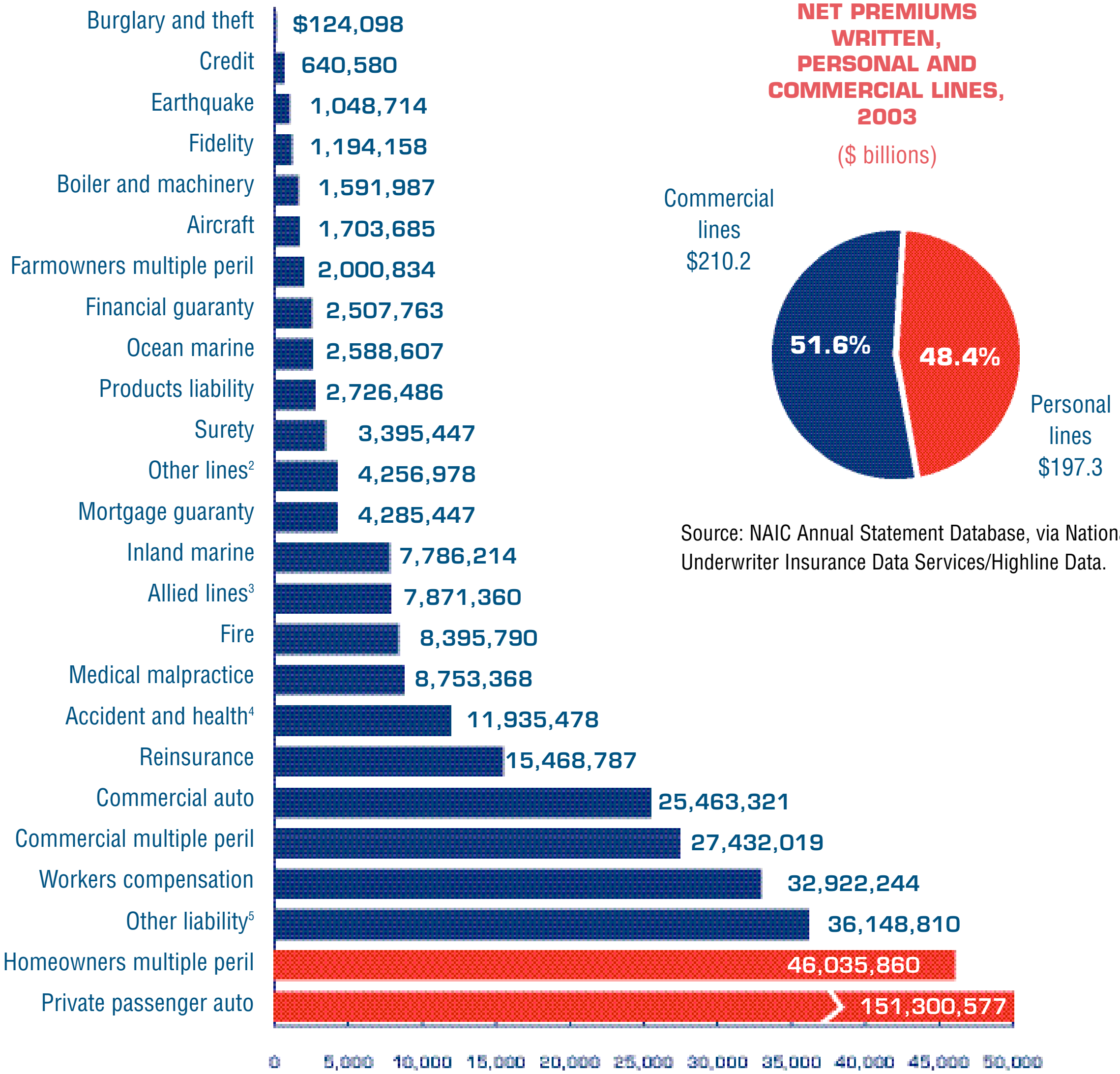
[4]Coverages protecting against legal liability resulting from negligence, carelessness, or failure to act. Some examples are contingent liability, errors and omissions, environmental pollution and umbrella and liquor liability insurance.

[5]Includes international and miscellaneous coverages.

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

## PROPERTY/CASUALTY: PREMIUMS BY LINE

### NET PREMIUMS WRITTEN BY LINE, PROPERTY/CASUALTY INSURANCE, 2003[1]
($000)




### NET PREMIUMS WRITTEN, PERSONAL AND COMMERCIAL LINES, 2003
($ billions)

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

[1]After reinsurance transactions, excluding state funds. Does not add to total due to rounding. [2]Includes international and miscellaneous coverages. [3]Includes multiple peril crop and federal flood. [4]Premiums from certain insurers that write primarily health insurance but file financial statements with state regulators on a property/casualty rather than life/health basis. [5]Coverages protecting against legal liability resulting from negligence, carelessness, or failure to act. Some examples are contingent liability, errors and omissions, environmental pollution and umbrella and liquor liability insurance.

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

## SURETY BONDS

Some kinds of insurance provide financial guarantees. The oldest type, a personal contract of suretyship, dates back to biblical times, when one person would guarantee the creditworthiness or the promise to perform of another. Surety bonds in modern times are primarily used to guarantee the performance of contractors.

A surety bond is a contract guaranteeing the performance of a specified obligation. Simply put, it is a three-party agreement under which one party, the surety company, answers to a second party, the owner, creditor or “obligee,” for a third party’s debts, default or nonperformance. Before it issues the bond, the insurer investigates the background and financial condition of the contractor to satisfy itself that the firm is capable of doing the job as set out in the contract. If the contractor fails to perform, the surety company is obligated to get the work completed or pay for the loss up to the bond “penalty.” Surety bonds are generally required on large federal, state and local public works projects.

### SURETY BONDS, 1994-2003
($000)

| Year | Direct premiums written | Annual percent change |
|---|---|---|
| 1994 | $2,353,113.4 | 4.7% |
| 1995 | 2,471,961.8 | 5.1 |
| 1996 | 2,656,150.9 | 7.5 |
| 1997 | 2,769,298.9 | 4.3 |
| 1998 | 2,918,747.5 | 5.4 |
| 1999 | 3,401,012.3 | 16.5 |
| 2000 | 3,490,219.5 | 2.6 |
| 2001 | 3,473,100.6 | -0.5 |
| 2002 | 3,756,651.5 | 8.2 |
| 2003[1] | 3,727,457.1 | -0.8 |

[1]Preliminary.

Source: Surety Association of America.

### TOP TEN SURETY COMPANIES, 2003
($000)

| Rank | Group | Direct premiums written |
|---|---|---|
| 1 | Travelers Property Casualty Corporation | $581,645.9 |
| 2 | The St. Paul Companies | 391,742.9 |
| 3 | CNA Insurance Companies | 341,835.0 |
| 4 | Zurich Group | 275,289.5 |
| 5 | Safeco Insurance Companies | 212,456.7 |
| 6 | Chubb Group of Insurance Companies | 197,422.2 |
| 7 | Liberty Mutual Group | 151,492.9 |
| 8 | The Hartford Insurance Group | 142,900.5 |
| 9 | American International Group | 84,458.2 |
| 10 | International Fidelity Insurance Company | 73,307.1 |

Source: Surety Association of America.

### FINANCIAL GUARANTY INSURANCE

Insurers also provide other financial guarantees which help expand the financial markets by increasing borrower and lender leverage. Starting in the 1970s, surety bonds began to be used to guarantee the principal and interest payments on municipal obligations. This made the bonds more attractive to investors and at the same time benefited bond issuers because the insurance lowered their borrowing costs. This kind of surety bond became known as financial guaranty insurance. Initially, financial guaranty insurance was considered a special category of surety covering the risk involved in financial transactions. It became a separate line of insurance in 1986.

The companies that insure bonds are specialized, highly-capitalized companies that traditionally have the highest rating. The insurer's high rating attaches to the bonds, lowering the riskiness of the bonds to investors. With their credit rating thus enhanced, municipalities can issue bonds that pay a lower interest rate, enabling them to borrow more for the same outlay of funds. Investors typically have to sacrifice some yield, generally about 2 to 3 percent, in exchange for the security that bond insurance provides.

The leading municipal bond insurers have diversified since their inception and now provide insurance and reinsurance for corporate bonds and other forms of credit as well as for foreign government and corporate borrowings. They have also become insurers of asset-backed securities, pools of credit default swaps, and other structured financial transactions.

## FINANCIAL GUARANTY INSURANCE INCOME STATEMENT, 1999-2003
($ millions)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Premiums written | $1,520 | $1,572 | $2,161 | $3,037 | $3,995 |
| Net premiums earned | 1,013 | 1,042 | 1,274 | 1,648 | 2,124 |
| Net investment income | 942 | 1,025 | 1,189 | 1,282 | 1,301 |
| Other income | -9 | -8 | 2 | 8 | 3 |
| Losses and loss expenses incurred | 43 | 42 | 76 | 191 | 189 |
| Other underwriting expenses | 367 | 441 | 447 | 548 | 671 |
| Net income before taxes | 1,536 | 1,576 | 1,942 | 2,199 | 2,568 |
| Income taxes | 327 | 315 | 500 | 572 | 722 |
| Net income | 1,209 | 1,261 | 1,442 | 1,628 | 1,846 |

Source: Association of Financial Guaranty Insurors.

- **In 2003, municipal bonds were the largest sector insured by financial guaranty insurers, up 9 percent from the previous year, according to the Association of Financial Guaranty Insurors. Insurance on U.S. municipals accounted for 54 percent of total par (face value of bond) insured volume.**
- **In 2003, insurance on U.S. asset-backed securities accounted for 31 percent of total par insured volume, compared with 38 percent in 2002.**

## TOP SIX FINANCIAL GUARANTY INSURERS, 2003[1]
($ millions)

| | | Adjusted gross premiums | | | |
|---|---|---|---|---|---|
| Rank | Company | U.S. municipal | U.S. nonmunicipal | International | Total |
| 1 | MBIA | $627 | $342 | $694 | $1,663 |
| 2 | Ambac | 699 | 455 | 365 | 1,519 |
| 3 | FSA | 483 | 222 | 190 | 895 |
| 4 | XLCA | 145 | 105 | 57 | 307 |
| 5 | FGIC | 224 | 50 | 0 | 274 |
| 6 | CIFG | 43 | 40 | 50 | 132 |
| | **Total** | **2,221** | **1,213** | **1,356** | **4,790** |

[1]Ranked by adjusted gross premiums written. Based on firms rated "AAA" by Fitch Ratings.

Source: Fitch Ratings.

## CREDIT INSURANCE FOR SHORT-TERM TRADE RECEIVABLES

Credit insurance protects the policyholder, the product seller, against the risk of a customer's protracted default on its obligation to pay for goods or services or its insolvency. Credit insurance covers outstanding receivables over and above the level of losses for which a company would typically set up bad debt reserves and often is sold with a large package of credit management services. Credit insurance facilitates financing, enabling insured companies to get better credit terms from banks. (Export credit insurance is provided by private insurers under the sponsorship of the Export-Import Bank, a federal agency.)

### CREDIT INSURANCE, 1999-2003
($000)

| Year | Direct premiums written | Annual percent change |
|---|---|---|
| 1999 | $560,604 | 2.1% |
| 2000 | 591,136 | 5.4 |
| 2001 | 556,544 | -5.9 |
| 2002 | 716,645 | 28.8 |
| 2003 | 640,580 | -10.6 |

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

### TOP TEN CREDIT INSURANCE COMPANIES, 2003[1]
($000)

| Rank | Company | Direct premiums written | Market share |
|---|---|---|---|
| 1 | Euler American Credit Indemnity Co. | $146,703 | 16.9% |
| 2 | Radian Guaranty Inc. | 67,716 | 7.8 |
| 3 | Old Republic Insurance Group | 59,114 | 6.8 |
| 4 | American Nat'l. Prop. & Cas. Co. & Affiliates | 50,913 | 5.9 |
| 5 | Continental Casualty Group | 44,137 | 5.1 |
| 6 | OneBeacon Ins. Group | 41,320 | 4.8 |
| 7 | Ace American Insurance Co. | 40,809 | 4.7 |
| 8 | First Colonial Insurance Company | 37,272 | 4.3 |
| 9 | Balboa Casualty Group | 33,268 | 3.8 |
| 10 | American International Group | 31,794 | 3.7 |

[1]Ranked by direct premiums written.

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

## MORTGAGE GUARANTEES

Private mortgage insurance (PMI), known as mortgage guaranty insurance, guarantees that, in the event of a default, the insurer will pay the mortgage lender for any loss resulting from property foreclosure up to a specific amount. PMI, purchased by the borrower, is sometimes confused with mortgage insurance, a life insurance product that pays off the mortgage if the borrower dies before the loan is repaid. Banks generally require PMI for all borrowers with down payments less than 20 percent. With PMI, therefore, prospective homeowners with only enough cash for a 5-percent down payment may be able to buy a home immediately rather than waiting to save enough to pay 20 percent.

### MORTGAGE GUARANTY INSURANCE, 2000-2003[1]
($000)

| | 2000 | 2001 | 2002 | 2003[2] |
|---|---|---|---|---|
| Net premiums written | $3,324,382 | $3,656,387 | $3,789,257 | $4,137,603 |
| Net premiums earned | 3,299,936 | 3,649,250 | 3,835,948 | 3,385,414 |
| Losses | 483,285 | 681,539 | 831,973 | 870,861 |
| Expenses | 700,929 | 806,767 | 899,493 | 787,649 |
| Underwriting income | 2,115,722 | 2,160,944 | 2,104,483 | 1,375,427 |
| Loss ratio | 14.65% | 18.68% | 21.69% | 25.72% |
| Expense ratio | 21.08 | 22.06 | 23.74 | 19.04 |
| Combined ratio | 35.73 | 40.74 | 45.43 | 44.76 |

[1]As reported by members of the Mortgage Insurance Companies of America, representing seven private mortgage insurance companies.
[2]Includes six private mortgage insurance companies. Data for 2003 not strictly comparable with earlier data.
Source: Mortgage Insurance Companies of America.

### TOP TEN MORTGAGE GUARANTEE INSURANCE COMPANIES, 2003[1]
($000)

| Rank | Company | Direct premiums written | Market share |
|---|---|---|---|
| 1 | Mortgage Guaranty Insurance Corp. | $1,481,191 | 30.0% |
| 2 | PMI Group | 805,656 | 16.3 |
| 3 | Radian Guaranty Inc. | 741,047 | 15.0 |
| 4 | American International Group | 618,494 | 12.5 |
| 5 | General Electric Mortgage Ins. Group | 616,662 | 12.5 |
| 6 | Republic Mortgage Insurance Co. | 473,271 | 9.6 |
| 7 | Triad Guaranty Insurance Group | 154,046 | 3.1 |
| 8 | CMG Mortgage Ins. Co. | 53,966 | 1.1 |
| 9 | Citigroup Affiliated Property & Casualty Ins. | 118 | 0.0 |
| 10 | Aztec Insurance Company | 95 | 0.0 |

[1]Ranked by direct premiums written.
Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

## REINSURANCE

Reinsurance is essentially "insurance for insurance companies." It is a way for primary insurance companies to protect against unforeseen or extraordinary losses. Depending on the contract, reinsurance can enable the insurer to improve its capital position, expand its business, limit losses and stabilize cash flow, among other things. In addition, the reinsurer, drawing information from many primary insurers, will usually have a far larger pool of data for assessing risks, information that can help the primary insurer.

Reinsurance can take a variety of forms. It may represent a layer of risk such as losses within certain limits, say $5 million to $10 million, for which a premium is paid, or a sharing of both losses and profits for a certain type of business.

Reinsurance is an international business. Seventy-seven percent of the reinsurance business that came from U.S. insurance companies in 2002 was written by non-U.S. reinsurers. Some investment banks are now setting up reinsurers as part of a move to develop alternative risk financing deals such as catastrophe bonds.

### TOP TEN U.S. PROPERTY/CASUALTY REINSURERS, 2003[1]
($ millions)

| Rank | Company | Net premiums written |
|---|---|---|
| 1 | General Reinsurance Corp. | $3,073.3 |
| 2 | Everest Reinsurance Co. | 2,964.5 |
| 3 | Transatlantic Reinsurance Co. | 2,945.3 |
| 4 | Swiss Reinsurance Life & Health America Inc. | 2,839.4 |
| 5 | National Indemnity Co. | 2,523.4 |
| 6 | Swiss Reinsurance America Corp. | 1,988.5 |
| 7 | Employers Reinsurance Corp. | 1,968.0 |
| 8 | Odyssey America Reinsurance Co. | 1,837.8 |
| 9 | American Reinsurance Co. | 1,584.1 |
| 10 | Berkley Insurance Co. | 1,395.6 |

[1]Ranked by net premiums written.

Source: Standard & Poor's.

## THE SECURITIZATION OF INSURANCE RISK

Insurers and reinsurers typically issue catastrophe bonds through an issuer known as a special purpose vehicle or reinsurer, a specialized company set up specifically for this purpose. The bonds pay high interest rates and diversify an investor's portfolio because natural disasters occur randomly and are not associated with economic factors. Depending on how the bond is structured, if losses reach the threshold specified in the bond offering, the investor may lose all or part of the principal or interest. There is growing interest in securitizing life insurance company portfolios and a catastrophe bond public fund has been launched in Europe for individual investors. Discussions are taking place on securitization of auto insurance and other commodity-type insurance risks.

### CATASTROPHE BOND TRANSACTIONS, 2003
($ millions)

| Special purpose vehicle | Sponsor | Risk amount | Peril | Risk location |
|---|---|---|---|---|
| Residential Re 2003 | USAA | $160.0 | Hurricane<br>Earthquake | East/Gulf Coast and Hawaii U.S. |
| Phoenix Quake | Zenkyoren | 192.5 | Earthquake | Japan |
| Wind Ltd. | | | Typhoon | Japan |
| Phoenix Quake Ltd. | | 192.5 | Earthquake | Japan |
| Phoenix Quake | | 85.0 | Earthquake | Japan |
| Wind II Ltd. | | | Typhoon | Japan |
| Palm Capital Ltd. | Swiss Re | 41.4 | Hurricane | North Atlantic |
| Oak Capital Ltd. | Swiss Re | 23.6 | Windstorm | Europe |
| Sequoia Capital Ltd. | Swiss Re | 22.5 | Earthquake | California |
| Sakura Ltd. | Swiss Re | 14.7 | Earthquake | Japan |
| Arbor I Ltd. | Swiss Re | 163.9 | Hurricane<br>Windstorm<br>Earthquake<br>Earthquake | North Atlantic<br>Europe<br>California<br>Japan |
| Arbor II Ltd. | Swiss Re | 26.5 | Hurricane<br>Windstorm<br>Earthquake<br>Earthquake | North Atlantic<br>Europe<br>California<br>Japan |

(table continues)

## CATASTROPHE BOND TRANSACTIONS, 2003 (Cont'd)
($ millions)

| Special purpose vehicle | Sponsor | Risk amount | Peril | Risk location |
|---|---|---|---|---|
| Pioneer 2002 Ltd. | Swiss Re | 16.3 | Hurricane | North Atlantic |
| | | 20.3 | Windstorm | Europe |
| | | 13.8 | Earthquake | California |
| | | 59.1 | Earthquake | Central U.S. |
| | | 8.0 | Earthquake | Japan |
| | | 8.1 | All the above | All the above |
| Formosa Re | Central Re | 100.0 | Earthquake | Taiwan |
| Redwood Capital III | Swiss Re | 150.0 | Earthquake | California |
| Redwood Capital IV | Swiss Re | 200.0 | Earthquake | California |
| Pylon Ltd. | Electricite de France | 85.4 | Windstorm | France |
| | | 146.4 | Windstorm | France |

Source: Guy Carpenter; MMC Securities Corp.

### WEATHER-RELATED HEDGES

Weather-related derivatives and insurance allow such businesses as ski resorts, oil and propane gas distributors, and others that may experience large swings in annual sales due to weather conditions, to hedge their weather-related risk.

Developed initially by an energy company in the late 1990s and now being offered by insurers and reinsurers (the insurers of insurance companies), weather derivatives typically are indexes derived from average temperatures, snowfall or rainfall. Weather derivatives come in the form of options or swaps. A weather option is a trade that pays an agreed amount at a specific time, based on the occurrence of certain weather conditions, such as summer temperatures more than five degrees below average. A weather swap is an exchange of funds between two entities likely to experience different conditions. Money changes hands for every point above or below a certain threshold. Contracts can be tailored to meet specific needs.

Companies can also buy an insurance policy. These policies generally have a dual trigger, one weather-related, such as heating degree days, and the other based on reduced sales or some other economic indicator. These products are treated differently from derivatives in terms of accounting and taxation.

Weather-related hedge products are different from other kinds of weather insurance, such as policies that protect against specific events being cancelled by poor weather, and different from catastrophe bonds, see Securitization of Insurance Risk on page 75.

### GLOBAL WEATHER RISK PRODUCTS, VALUE AND NUMBER OF CONTRACTS, 1999-2003[1]

| Year | Notional value ($ millions) | Number of contracts |
|---|---|---|
| 1999 | $3,003 | 1,285 |
| 2000 | 2,517 | 2,759 |
| 2001 | 4,339 | 3,397 |
| 2002 | 4,188 | 4,517 |
| 2003 | 4,578 | 3,162 |

[1]Based on companies responding to a survey conducted by PricewaterhouseCoopers for the Weather Risk Management Association; excludes Chicago Mercantile Exchange trades.

Source: PricewaterhouseCoopers.

- **According to a survey by Weather Risk Management Association and PricewaterhouseCoopers, from 2002 to 2003, the number of transactions in the global weather market fell by 30 percent but the value of those transactions increased 9 percent.**

### PARTICIPANTS IN THE 2003 WEATHER RISK MANAGEMENT ASSOCIATION SURVEY[1]

| Participation by main line of business | | Participation by location of respondent | |
|---|---|---|---|
| Banking | 3 | Asia | 6 |
| Energy | 7 | Europe | 5 |
| Insurance | 5 | North America | 7 |
| Other | 4 | Other | 1 |
| | | **Total** | **19** |

[1]Based on companies responding to a survey covering 2003/2004 conducted by PricewaterhouseCoopers for the Weather Risk Management Association; excludes Chicago Mercantile Exchange trades.

Source: PricewaterhouseCoopers.

### WEATHER CONTRACTS TRADED AT THE CHICAGO MERCANTILE EXCHANGE, 1999-2004
($ millions)

| Year | Notional value | Number of contracts |
|---|---|---|
| 1999 | NA | 336 |
| 2000 | NA | 59 |
| 2001 | NA | 131 |
| 2002 | $191 | 4,446 |
| 2003 | 1,700 | 19,094 |
| 2004[1] | 628 | 39,000 |

[1]January-August, 2004.

NA=Data not available.

Source: Chicago Mercantile Exchange.

- **The Chicago Mercantile Exchange (CME) is a key component of the weather risk management industry. Weather contracts traded on the CME totaled 19,094 in 2003 — more than three times the number traded over the previous year. In the first eight months of 2004, the number of these contracts doubled from 2003.**

## LIFE/HEALTH INSURANCE

The primary business of life/health insurance companies is no longer traditional life insurance, but the underwriting of annuities — contracts that guarantee a fixed or variable payment over a given period of time. Nevertheless, the sale of such life insurance products as whole life and term life policies in particular remains an important part of the business.

Life insurance is essentially an investment of savings that offers a tax-free sum to the beneficiary at some point in the future. Life insurers invest the premiums they collect primarily in government and corporate bonds, but also in mortgage loans (mostly commercial). Besides annuities and life insurance, life insurers may offer other types of financial services such as asset management.

- Growth in total assets of life insurance companies has slowed in recent years, from an average annual rate of 10.9 percent, 1996-1999, to 6.3 percent, 2000-2003.

### ASSETS AND LIABILITIES OF LIFE INSURANCE COMPANIES, 1999 AND 2003
($ billions, end of year)

| | 1999 | 2003 |
|---|---|---|
| **Total financial assets** | **$3,067.9** | **$3,770.0** |
| Checkable deposits and currency | 5.5 | 27.7 |
| Money market fund shares | 131.8 | 151.4 |
| Credit market instruments | 1,886.0 | 2,503.7 |
| U.S. government securities | 287.2 | 444.1 |
| Open market paper | 75.8 | 74.1 |
| Municipal securities | 20.1 | 21.4 |
| Corporate and foreign bonds | 1,173.2 | 1,599.2 |
| Policy loans | 99.0 | 104.7 |
| Mortgages | 230.8 | 260.3 |
| Corporate equities | 909.0 | 928.6 |
| Mutual fund shares | 98.7 | 98.9 |
| Miscellaneous assets | 36.9 | 59.7 |
| **Total liabilities** | **2,882.8** | **3,538.3** |
| Loans and advances | 3.2 | 8.0 |
| Life insurance reserves | 748.9 | 959.1 |
| Pension fund reserves[1] | 1,428.1 | 1,728.7 |
| Taxes payable | 16.2 | 24.9 |
| Miscellaneous liabilities | 686.4 | 817.6 |

[1]Excludes unallocated contracts held by private pension funds which are included in miscellaneous liabilities.

Source: Board of Governors of the Federal Reserve System.

## CAPITAL AND SURPLUS

Capital, in a publicly-owned life insurance company, is the shareholders' equity. In a mutual company, capital is retained earnings. Surplus in both cases is what is left when basic liabilities (unearned premiums and reserves for unpaid claims) are subtracted from assets (earned premiums, investments, reinsurance).

The life/health insurance industry's net income fell to $7.1 billion in 2002, down $8.1 billion, or 53.2 percent, from 2001. Net income was down $14.8 billion, or 67.4 percent, from 1998.

### LIFE/HEALTH INSURANCE INDUSTRY: SELECTED, OPERATING DATA, 1998-2002

($ millions)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Premiums and annuity considerations[1] | $270,019.7 | $272,659.5 | $303,288.6 | $479,108.1 | $508,656.0 |
| Net investment income | 133,032.9 | 135,374.2 | 139,192.2 | 142,134.9 | 143,681.2 |
| Net gain from operations[2] | 26,492.2 | 31,133.0 | 31,607.6 | 24,453.8 | 26,345.7 |
| Federal and foreign income taxes[3] | 7,484.8 | 8,228.8 | 7,135.4 | 4,836.7 | 3,703.6 |
| Net realized capital gains/losses[4] | 2,878.2 | 2,201.9 | 1,356.0 | -4,364.7 | -15,508.2 |
| Net income | 21,885.7 | 25,106.2 | 25,828.2 | 15,252.3 | 7,133.8 |
| Dividends to stockholders | -16,263.5 | -12,287.4 | -14,669.0 | -25,977.1 | -15,847.3 |
| Capital and surplus (end of year) | 206,117.0 | 218,561.3 | 230,870.8 | 234,962.5 | 242,963.0 |

[1]Life and accident and health policies and contracts.

[2]After dividends to policyholders and before federal income taxes.

[3]Incurred (excluding tax on capital gain).

[4]Less capital gains tax and transfers to the interest maintenance reserve.

Source: National Association of Insurance Commissioners. Reprinted with permission. Further reprint or redistribution strictly prohibited without written permission of NAIC.

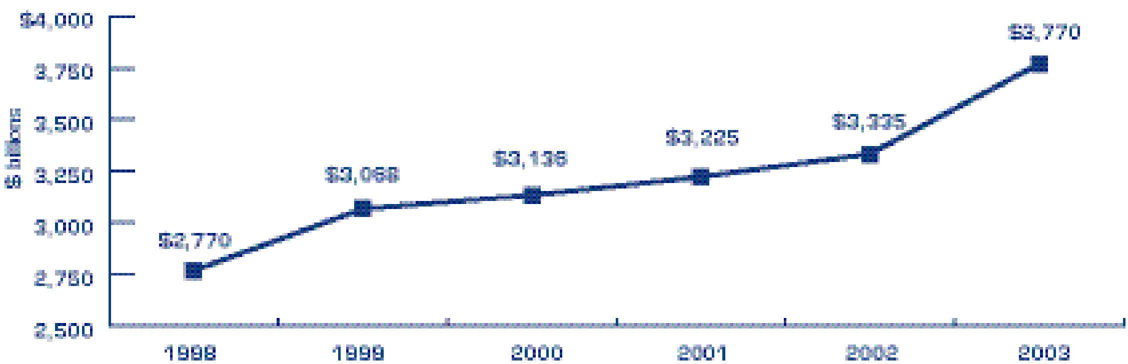
## ASSETS

### LIFE/HEALTH INSURER FINANCIAL ASSET DISTRIBUTION, 1998-2003
($ billions)

| Asset type | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **Total financial assets** | **$2,769.5** | **$3,067.9** | **$3,135.7** | **$3,224.6** | **$3,335.0** | **$3,770.0** |
| Checkable deposits and currency | 5.4 | 5.5 | 5.0 | 36.8 | 35.3 | 27.7 |
| Money market fund shares | 110.4 | 131.8 | 142.3 | 173.3 | 159.8 | 151.4 |
| Credit market instruments | 1,828.0 | 1,886.0 | 1,943.9 | 2,074.8 | 2,307.8 | 2,503.7 |
| Open market paper | 73.4 | 75.8 | 71.2 | 59.3 | 74.0 | 74.1 |
| U.S. government securities | 288.3 | 287.2 | 293.5 | 307.2 | 409.4 | 444.1 |
| Treasury | 71.3 | 62.8 | 58.1 | 53.7 | 78.5 | 83.1 |
| Agency- and GSE-backed securities | 217.0 | 224.4 | 235.4 | 253.5 | 330.9 | 361.0 |
| Municipal securities | 18.4 | 20.1 | 19.1 | 18.7 | 19.9 | 21.4 |
| Corporate and foreign bonds | 1,130.4 | 1,173.2 | 1,222.2 | 1,342.4 | 1,449.3 | 1,599.2 |
| Policy loans | 103.8 | 99.0 | 101.9 | 104.1 | 105.1 | 104.7 |
| Mortgages | 213.6 | 230.8 | 235.9 | 243.0 | 250.0 | 260.3 |
| Corporate equities | 683.2 | 909.0 | 891.9 | 811.3 | 708.9 | 928.6 |
| Mutual fund shares | 73.2 | 98.7 | 97.0 | 88.3 | 76.6 | 98.9 |
| Miscellaneous assets | 69.2 | 36.9 | 55.6 | 40.1 | 46.8 | 59.7 |

Source: Board of Governors of the Federal Reserve System.

### LIFE/HEALTH INSURER FINANCIAL ASSETS, 1998-2003




Source: Board of Governors of the Federal Reserve System.

## TOP TWENTY U.S. LIFE/HEALTH INSURANCE GROUPS AND COMPANIES, BY REVENUES, 2003
($ millions)

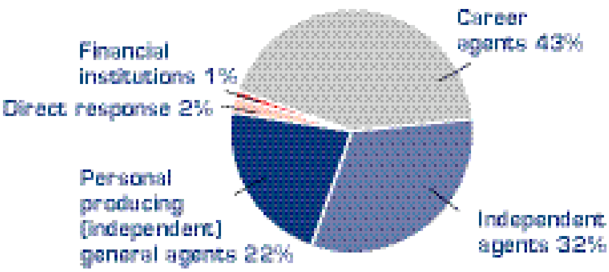
| Rank | Group | Revenues | Assets |
|---|---|---|---|
| 1 | MetLife | $36,261 | $326,841 |
| 2 | Prudential Financial | 27,907 | 321,274 |
| 3 | TIAA-CREF | 26,016 | 303,764 |
| 4 | New York Life Insurance | 25,700 | 131,267 |
| 5 | Mass. Mutual Life Ins. | 21,076 | 108,617 |
| 6 | Northwestern Mutual | 17,060 | 113,822 |
| 7 | AFLAC | 11,447 | 50,964 |
| 8 | UnumProvident | 10,400 | 49,718 |
| 9 | John Hancock Financial Svcs. | 10,071 | 111,301 |
| 10 | Principal Financial | 9,404 | 107,800 |
| 11 | Guardian Life of America | 9,022 | 33,443 |
| 12 | Thrivent Financial for Lutherans | 6,575 | 49,355 |
| 13 | Lincoln National | 5,284 | 106,745 |
| 14 | Conseco | 4,710 | 29,922 |
| 15 | Pacific Life | 4,669 | 67,421 |
| 16 | Mutual of Omaha Ins. | 4,393 | 16,243 |
| 17 | Western & Southern Financial | 3,795 | 24,676 |
| 18 | Jefferson-Pilot | 3,650 | 32,696 |
| 19 | Unitrin | 2,944 | 8,537 |
| 20 | Torchmark | 2,931 | 13,461 |

Source: Fortune.

## DISTRIBUTION CHANNELS

Life insurance was once sold primarily by career life agents, captive agents that represent a single insurance company and by independent agents who represent several insurers. Now life insurance company products are also sold by direct mail, telephone, and the Internet, directly to the public. In addition, in the 1980s, insurers began to market annuities and term life insurance through banks and financial advisors, professional organizations and workplaces. A large portion of variable annuities, which are based on stock market performance, and a small portion of fixed annuities, are sold by stockbrokers.

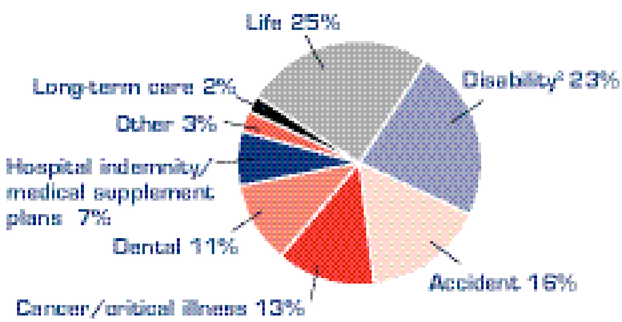
### LIFE INSURANCE DISTRIBUTION (FIRST YEAR PREMIUM), 2001[1]




[1]Based on LIMRA International estimates.
Source: LIMRA International.

### WORKSITE LIFE INSURANCE SALES, BY LINE OF BUSINESS, 2003[1]

- Worksite sales of life and health insurance in 2003 were 4.3 billion, up from $2.0 billion in 1997 (the first year tracked), according to a survey by Eastbridge Consulting Group, Inc.




[1]Worksite marketing is the selling of voluntary (employee-paid) insurance and financial products at the worksite. The products may be on either an individual or group platform and are usually paid through periodic payroll deductions. [2]Short-term and long-term disability.

Source: Eastbridge Consulting Group, Inc.

## PREMIUMS BY LINE

The dominant products of life insurers are life insurance and the annuity. Annuities offer a lifelong income or an income for a specific period of time. They fall into two major categories: fixed and variable. Fixed annuities, sometimes called fixed dollar annuities, guarantee that a specific sum of money will be paid in the future, generally a monthly benefit, regardless of fluctuations in the insurer's underlying investment returns. With variable annuities, fluctuations in the insurer's investment earnings over time affect the amount of funds available for benefit payments. Once payments start, they may be fixed and guaranteed or vary according to current investment earnings or combine the two payment features. An equity-indexed annuity is a fixed annuity with interest or benefits linked to a stock index such as the S&P 500.

The big growth in annuity sales began in the 1970s when investors began demanding returns that better reflected inflation and stock market values. This demand resulted in the variable annuity, an instrument so closely aligned to the stock markets that it is sold by stockbrokers and its underwriters and agents must register as securities dealers with the Securities and Exchange Commission.

Credit life insurance, not included separately in the chart below, is a form of decreasing term insurance that protects creditors such as banks. Credit accident and health is a similar product. Sales of both products are declining.

### LIFE/HEALTH INSURANCE INDUSTRY PREMIUM, BY LINE, 1998 AND 2002
($ millions)

| | 1998 | | 2002 | |
|---|---|---|---|---|
| Lines of insurance | Net premiums written | Percent of total | Net premiums written | Percent of total |
| Life | $123,976.6 | 27.0% | $141,739.9 | 23.0% |
| Annuity considerations | 44,506.6 | 9.7 | 210,762.9 | 34.2 |
| Accident and health | 97,096.9 | 21.2 | 114,038.9 | 18.5 |
| Deposit-type contract funds[1] | 193,459.4 | 42.1 | 81,583.4 | 13.3 |
| Other considerations | NA | NA | 67,334.9 | 10.9 |
| **Total, all lines** | **$459,039.5** | **100.0%** | **$615,460.1** | **100.0%** |

[1]New statutory accounting rules effective 2001 bring statutory accounting principles closer to generally accepted accounting principles. This change requires life insurers to report deposit-type contracts as liabilities, not revenues, resulting in lower net premium reported for deposit-type contract funds.

NA=Data not available.

Source: National Association of Insurance Commissioners. Reprinted with permission. Further reprint or redistribution strictly prohibited without written permission of NAIC.

## TOP TEN WRITERS OF VARIABLE ANNUITIES BY NEW SALES, 2003
($ millions)

| Rank | Company | New Sales |
|---|---|---|
| 1 | Hartford Life Insurance Company | $15,741.3 |
| 2 | TIAA-CREF | 12,814.3 |
| 3 | Equitable Life Assurance Society of the U.S. | 10,155.4 |
| 4 | MetLife/NEF/Gen Am/MLI | 9,846.9 |
| 5 | AIG/SunAmerica/VALIC | 8,035.8 |
| 6 | Pacific Life Insurance Company | 6,253.5 |
| 7 | ING Group of Companies | 6,006.4 |
| 8 | Prudential/America Skandia | 5,303.2 |
| 9 | Nationwide Life Insurance Company | 4,544.1 |
| 10 | Manulife Financial | 4,145.6 |

Source: AnnuityNet/VARDS.

## TOP TEN PRODUCERS OF EQUITY INDEX ANNUITIES BY TOTAL SALES, 2003[1]
($ millions)

| Rank | Company | Total Sales |
|---|---|---|
| 1 | Allianz Life | $4,350.8 |
| 2 | AmerUS Group | 1,307.6 |
| 3 | American Equity | 1,073.0 |
| 4 | Midland National Life | 711.8 |
| 5 | Fidelity & Guaranty | 662.5 |
| 6 | Investors Insurance | 596.4 |
| 7 | ING | 588.4 |
| 8 | Sun Life (Keyport) | 525.2 |
| 9 | National Western Life | 479.5 |
| 10 | Jefferson-Pilot | 390.5 |

Source: The Advantage Compendium.

## OVERVIEW

Banking, the largest sector within the financial services industry, includes all depository institutions, from commercial banks and thrifts (savings and loan associations and savings banks) to credit unions. In their role as financial intermediaries, banks use the funds they receive from depositors to make loans and mortgages to individuals and businesses, seeking to earn more on their lending activities than it costs them to attract depositors. However, in so doing they must manage many risk factors, including interest rates, which can result in a mismatch of assets and liabilities.

Over the past decade, many banks have diversified and expanded into new business lines such as credit cards, stock brokerage and investment management services, see Financial Services Industry, Convergence section. They are also moving into the insurance business, selling annuities and life insurance products in particular, often through the purchase of insurance agencies. Banks can be federally or state chartered. Except for industrial banks, only data for federally chartered institutions are included here.

## REGULATION

Consumers rely on banking institutions to maintain their savings for retirement, emergencies and other situations that cannot be financed out of current income. The concept of depository insurance was introduced during the Great Depression, when many people lost their lifetime savings, to restore confidence in the banking system. Under the program administered by the Federal Depository Insurance Corporation (FDIC), which is an independent agency within the federal government, deposits in commercial banks and thrifts are insured for up to $100,000. The FDIC is also charged with liquidating failing banks or disposing of their insured liabilities by selling them to a solvent institution.

The FDIC regulates the activities of insured banks and sets guidelines for their investment portfolios to safeguard the assets of depositors. The Office of Thrift Supervision performs a similar function for savings institutions, and the National Credit Union Administration does much the same for credit unions.

The Federal Reserve system was established by Congress in 1913 to regulate the money supply according to the needs of the U.S. economy. The Federal Reserve attempts to do this by changing bank reserve requirements and the discount rate that banks pay for loans from the Federal Reserve system and by increasing or decreasing its open-market operations, the buying and selling of federal securities. When the Federal Reserve buys Treasury bills, reserves in the federal banking system rise. When it sells, reserves in the system shrink. This tends to push up interest rates and therefore the cost of credit. Because of banks' sensitivity to interest rates, Federal Reserve policy has a major impact on the banking sector.

### TOP TEN BANK AND THRIFT DEALS ANNOUNCED IN 2003[1]

| Rank | Buyer (Location) | Target (State) | Deal value[2] ($ millions) |
|---|---|---|---|
| 1 | Bank of America Corp. (NC) | FleetBoston Financial Corp. (MA) | $49,328.7 |
| 2 | BB&T Corp. (NC) | First Virginia Banks Inc. (VA) | 3,375.5 |
| 3 | New York Community Bancorp (NY) | Roslyn Bancorp Inc. (NY) | 1,578.5 |
| 4 | Independence Community Bank Corp. (NY) | Staten Island Bancorp Inc. (NY) | 1,487.3 |
| 5 | North Fork Bancorp Inc. (NY) | Trust Co. of New Jersey (NJ) | 726.1 |
| 6 | PNC Financial Services Group (PA) | United National Bancorp (NJ) | 649.0 |
| 7 | Provident Financial Services (NJ) | First Sentinel Bancorp Inc. (NJ) | 643.8 |
| 8 | Wells Fargo & Co. (CA) | Pacific Northwest Bancorp (WA) | 621.2 |
| 9 | New Haven Savings Bank (CT) | Connecticut Bancshares Inc. (CT) | 603.4 |
| 10 | National City Corp. (OH) | Allegiant Bancorp Inc. (MO) | 488.3 |

[1]Deals where the entire operation of the bank or thrift is acquired by the buyer, including all property, assets and charters. At least one of the companies that is involved is a U.S.-domiciled company. List does not include terminated deals.
[2]At announcement.

Source: SNL Financial LC.

### BANK PURCHASES OF INSURANCE AGENCIES

Since the 1999 passage of the Gramm-Leach-Bliley Financial Services Modernization Act, banks' sales of nonbanking products make up an increasing share of their revenue. For more information on bank revenue from insurance products, see Chapter 4, Convergence, page 48.

- **In 2003, the number of bank/agency deals decreased by 10 percent from 2002, but the value of those deals increased by 382 percent.**

### BANK PURCHASES OF INSURANCE AGENCIES, 2000-2003[1]

| | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| Number of deals | 63 | 56 | 60 | 54 |
| Deal value[2] ($ millions) | $131.8 | $383.7 | $136.2 | $656.1 |

[1]List does not include terminated deals.
[2]At announcement.

Source: SNL Financial LC.

## PROFITABILITY

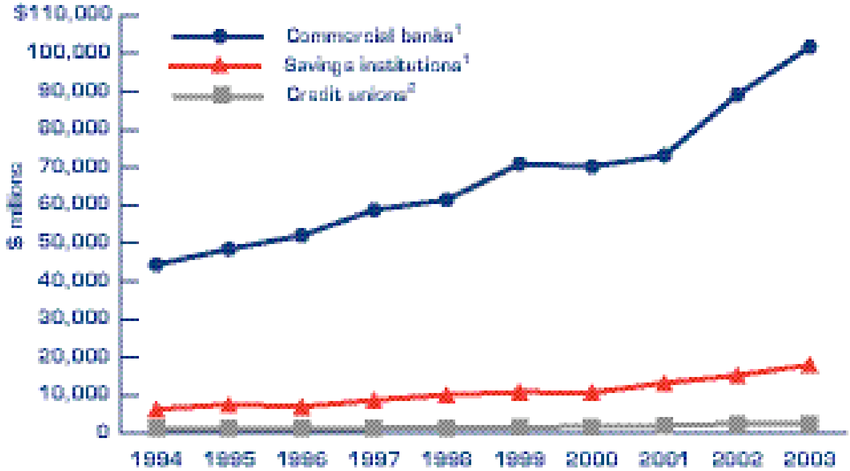
In their efforts to maximize profits, commercial banks and other depository institutions must balance credit quality and future economic conditions with liquidity needs and regulatory mandates.

### PROFITABILITY OF SAVINGS AND COMMERCIAL BANKS AND CREDIT UNIONS, 1999-2003

| | Return on equity | | Return on average assets |
|---|---|---|---|
| Year | Savings banks | Commercial banks | Credit unions |
| 1999 | 11.73% | 15.30% | 0.94% |
| 2000 | 11.14 | 13.99 | 1.02 |
| 2001 | 12.33 | 13.09 | 0.96 |
| 2002 | 12.37 | 14.49 | 1.07 |
| 2003 | 13.66 | 15.31 | 0.99 |

Source: Office of Thrift Supervision; Federal Deposit Insurance Corporation; National Credit Union Administration.

### NET INCOME OF SAVINGS INSTITUTIONS, COMMERCIAL BANKS AND CREDIT UNIONS, 1994-2003
($ millions)




- Net income of savings institutions and commercial banks grew 18.1 percent and 14.1 percent, respectively, from 2002 to 2003. By contrast, net income of credit unions fell 2.8 percent from 2002 to 2003.

[1]FDIC-insured.
[2]Federally insured state-chartered credit unions.

Source: Federal Deposit Insurance Corporation; National Credit Union Administration.

## ASSETS

Although assets of credit unions are very small in relation to those of commercial banks, they are growing faster.

- **Assets of credit unions grew 10.0 percent from 2002 to 2003, faster than commercial banks at 6.6 percent and savings banks at 8.7 percent.**

### FINANCIAL ASSETS OF BANKING INSTITUTIONS, 1980-2003
($ billions, end of year)

| Year | Commercial banking | Savings institutions | Credit unions |
|---|---|---|---|
| 1980 | $1,482 | $792 | $68 |
| 1990 | 3,338 | 1,323 | 217 |
| 1999 | 5,983 | 1,151 | 415 |
| 2000 | 6,469 | 1,218 | 441 |
| 2001 | 6,829 | 1,299 | 506 |
| 2002 | 7,329 | 1,357 | 561 |
| 2003 | 7,812 | 1,475 | 617 |

Source: Board of Governors of the Federal Reserve System.

## CREDIT MARKETS

Until about 1950, commercial banks dominated the credit market. Commercial banks' credit market share continues to decrease, falling from 16.0 percent in 1999 to 15.8 percent in 2003. While depository institutions continue to be the leading holders of credit assets, asset shares of federal mortgage pools, government-sponsored corporations and ABS issuers have risen.

### CREDIT MARKET ASSET HOLDINGS, 1999-2003[1]
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 | Percent of 2003 total |
|---|---|---|---|---|---|---|
| **Total credit market assets held** | **$25,459.6** | **$27,178.7** | **$29,151.2** | **$31,343.7** | **$34,029.1** | **100.0%** |
| **By financial sectors:** | **19,416.9** | **20,974.2** | **22,653.3** | **24,406.0** | **26,366.7** | **77.5** |
| Monetary authority | 478.1 | 511.8 | 551.7 | 629.4 | 666.7 | 2.0 |
| U.S.-chartered commercial banks | 4,080.0 | 4,419.5 | 4,610.1 | 5,003.9 | 5,361.7 | 15.8 |
| Foreign banking offices in the U.S. | 487.4 | 511.3 | 510.7 | 516.9 | 485.8 | 1.4 |
| Bank holding companies | 32.7 | 20.5 | 24.7 | 27.8 | 36.4 | 0.1 |
| Banks in U.S.-affiliated areas | 48.3 | 55.0 | 65.0 | 66.3 | 77.6 | 0.2 |
| Savings institutions | 1,032.4 | 1,088.6 | 1,131.4 | 1,166.8 | 1,293.1 | 3.8 |
| Credit unions | 351.7 | 379.7 | 421.2 | 463.9 | 514.5 | 1.5 |
| Bank personal trusts and estates | 222.0 | 222.8 | 194.7 | 195.6 | 193.2 | 0.6 |

(table continues)

### CREDIT MARKET ASSET HOLDINGS, 1999-2003[1] (Cont'd)

($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 | Percent of 2003 total |
|---|---|---|---|---|---|---|
| Life insurance companies | $1,886.0 | $1,943.9 | $2,074.8 | $2,307.8 | $2,503.7 | 7.4% |
| Nonlife insurance companies | 518.2 | 509.4 | 518.4 | 558.3 | 624.0 | 1.8 |
| Private pension funds | 720.4 | 724.2 | 708.3 | 729.5 | 733.6 | 2.2 |
| Public pension funds | 784.5 | 841.1 | 833.2 | 860.2 | 879.6 | 2.6 |
| Money market mutual funds | 1,147.8 | 1,290.9 | 1,536.9 | 1,511.6 | 1,398.5 | 4.1 |
| Mutual funds | 1,076.8 | 1,097.7 | 1,223.8 | 1,368.0 | 1,505.7 | 4.4 |
| Closed-end funds | 110.8 | 105.3 | 108.5 | 117.1 | 153.3 | 0.5 |
| Exchange-traded funds | 0.0 | 0.0 | 0.0 | 3.7 | 4.5 | 0.0 |
| Government-sponsored corporations | 1,543.2 | 1,803.9 | 2,110.0 | 2,320.9 | 2,579.0 | 7.6 |
| Federal mortgage pools | 2,292.2 | 2,491.6 | 2,830.1 | 3,158.2 | 3,488.0 | 10.3 |
| ABS issuers | 1,360.0 | 1,517.2 | 1,745.1 | 1,915.8 | 2,100.1 | 6.2 |
| Finance companies | 742.6 | 851.2 | 846.4 | 867.6 | 951.8 | 2.8 |
| Mortgage companies | 32.1 | 32.1 | 32.1 | 32.1 | 32.1 | 0.1 |
| Real Estate Investment Trusts | 42.9 | 35.8 | 42.5 | 65.6 | 82.4 | 0.2 |
| Brokers and dealers | 154.7 | 223.6 | 316.0 | 344.4 | 424.1 | 1.2 |
| Funding corporations | 272.2 | 297.1 | 217.8 | 174.7 | 277.5 | 0.8 |
| **By the federal government** | **261.1** | **272.7** | **278.7** | **288.5** | **285.8** | **0.8** |
| **By others, domestic** | **3,427.0** | **3,310.7** | **3,265.5** | **3,212.5** | **3,420.0** | **10.1** |
| **By others, foreign** | **2,354.6** | **2,621.1** | **2,953.7** | **3,436.8** | **3,956.5** | **11.6** |

[1]Excluding corporate equities and mutual fund shares.

Source: Board of Governors of the Federal Reserve System.

### COMMUNITY DEVELOPMENT LENDING, 2003[1]

| | Number of loans | | Amount of loans ($000) | | Lending by affiliates | | Community development loans | |
|---|---|---|---|---|---|---|---|---|
| Asset size of lender ($ millions) | Total | Percent | Total | Percent | Number | Percent | Number extending | Percent extending |
| Less than $100 | 85 | 0.2% | $142,118 | 0.3% | 99 | 4.7% | 34 | 2.6% |
| $100 to $249 | 401 | 1.1 | 184,044 | 0.4 | 157 | 7.5 | 57 | 4.3 |
| $250 to $999 | 9,443 | 25.6 | 4,647,137 | 11.0 | 1,322 | 62.9 | 807 | 60.8 |
| $1,000 or more | 26,901 | 73.0 | 37,295,043 | 88.2 | 525 | 25.0 | 430 | 32.4 |
| **Total** | **36,830** | **100.0** | **42,268,342** | **100.0** | **2,103** | **100.0** | **1,328** | **100.0** |
| Lending by all affiliates | 449 | 1.2 | 1,016,203 | 2.4 | | | 27 | 2.0 |

[1]As per the Community Reinvestment Act (CRA), enacted in 1977 to encourage banks to help meet the needs of the communities in which they operate, including low and moderate income neighborhoods.

Source: Federal Financial Institutions Examination Council.

## BUSINESS LENDING BY LOAN SIZE AND SIZE OF BANK, 2004[1]

| Large banks[2] | |
|---|---|
| Size of loan ($000) | Total value of loans ($ millions) |
| $1-$99 | $1,565 |
| $100-$999 | 7,115 |
| $1,000-$9,999 | 12,572 |
| $10,000 + | 18,860 |
| **Small banks** | |
| Size of loan ($000) | Total value of loans ($ millions) |
| $1-$99 | $1,271 |
| $100-$999 | 2,848 |
| $1,000-$9,999 | 3,293 |
| $10,000 + | 897 |

[1]Based on a sample of 348 domestically chartered commercial banks, as of May 3-7, 2004.
[2]As of March 31, 2003, assets of large banks were at least $3.7 billion.

Source: Board of Governors of the Federal Reserve System.

### EMPLOYMENT

- **Within the banking industry, employment at credit unions grew fastest in 2003, up 3.7 percent from 2002, followed by savings banks, up 2.3 percent from 2002.**

## EMPLOYMENT IN THE BANKING INDUSTRY, 1999-2003
(000)

| Year | Commercial banks | Savings banks | Credit unions | Total |
|---|---|---|---|---|
| 1999 | 1,281.2 | 232.6 | 196.0 | 1,709.7 |
| 2000 | 1,250.5 | 229.2 | 201.5 | 1,681.2 |
| 2001 | 1,258.4 | 233.6 | 209.2 | 1,701.2 |
| 2002 | 1,278.1 | 239.6 | 215.3 | 1,733.0 |
| 2003 | 1,281.1 | 247.6 | 223.3 | 1,752.1 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

### BANK BRANCHES

Consolidation in commercial banking has substantially reduced the number of these institutions, but has not reduced consumers' access to their deposits as the number of commercial bank branches and ATMs continues to grow. However, there are fewer savings institutions than in 1990, both in terms of banks and branches. In addition, since 1990, the number of credit unions has dropped by 8 percent.

## BANKING OFFICES BY TYPE OF BANK, 1990-2003

| | 1990 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **All banking offices** | **96,951** | **98,468** | **97,766** | **98,640** | **98,394** | **99,079** |
| Commercial banks | 62,346 | 71,664 | 71,784 | 73,027 | 73,454 | 74,518 |
| Number of banks | 12,329 | 8,563 | 8,297 | 8,062 | 7,870 | 7,752 |
| Number of branches | 50,017 | 63,101 | 63,487 | 64,965 | 65,584 | 66,766 |
| Savings institutions | 21,630 | 14,534 | 14,077 | 14,094 | 13,785 | 13,779 |
| Number of banks | 2,815 | 1,642 | 1,589 | 1,535 | 1,467 | 1,413 |
| Number of branches | 18,815 | 12,892 | 12,488 | 12,559 | 12,318 | 12,366 |
| Credit unions | 10,160 | 10,628 | 10,316 | 9,984 | 9,688 | 9,369 |

Source: Federal Deposit Insurance Corporation; National Credit Union Administration.

## ASSETS OF FOREIGN BANKING OFFICES IN THE UNITED STATES, 1999-2003[1]

($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total financial assets** | **$750.9** | **$789.4** | **$791.9** | **$801.1** | **$732.5** |
| Reserves at Federal Reserve | 1.4 | 0.5 | 0.6 | 1.2 | 0.9 |
| Total bank credit | 543.0 | 610.2 | 603.0 | 615.0 | 607.1 |
| U.S. government securities | 166.9 | 166.7 | 154.5 | 178.3 | 86.7 |
| Treasury | 94.5 | 94.0 | 103.8 | 116.7 | 34.2 |
| Agency | 72.4 | 72.7 | 50.7 | 61.6 | 52.5 |
| Corporate and foreign bonds | 42.4 | 50.7 | 81.3 | 81.6 | 160.9 |
| Total loans | 333.8 | 392.8 | 367.2 | 355.2 | 359.6 |
| Open market paper | 0.6 | 0.6 | 0.0 | 0.0 | 0.0 |
| Other bank loans | 260.0 | 274.6 | 256.1 | 237.5 | 220.4 |
| Mortgages | 15.9 | 17.1 | 17.9 | 19.0 | 17.2 |
| Security credit | 57.2 | 100.5 | 93.3 | 98.7 | 121.9 |
| Customers' liability on acceptances | 1.6 | 1.6 | 1.0 | 0.6 | 0.6 |
| Miscellaneous assets | 204.9 | 177.1 | 187.2 | 184.2 | 123.9 |

[1]Branches and agencies of foreign banks, Edge Act and Agreement corporations and American Express Bank.

Source: Board of Governors of the Federal Reserve System.

## COMMERCIAL BANKS

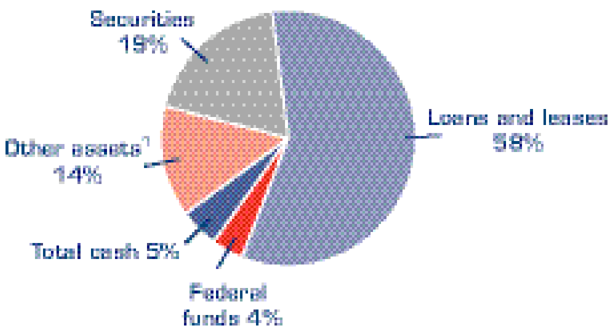
Commercial banks vary greatly in size from the "money center" banks located in the nation's financial centers that offer a broad array of traditional and nontraditional banking services, including international lending, to the smaller regional and local community banks engaged in more typical banking activities, such as consumer and business lending. Commercial banks' revenue stream comes from many sources including check writing, and trust account management fees, investments, loans and mortgages. Some banks are beginning to receive revenue from consumers' use of Internet banking services.

The number of small commercial banks continues to drop while the number of larger banks grows. There were 257 fewer commercial banks with assets of less than $100 million in 2003 than in the previous year, but 120 more in the $100 million to $1 billion asset size, and 19 more in the $1 billion or more category.

## ASSETS AND LIABILITIES

A bank's assets and liabilities are managed to maximize revenues and maintain liquidity. The lending business's susceptibility to changes in interest rates, domestic and international economies, and credit quality can make revenue streams unpredictable. Banks hold substantial amounts of U.S. Treasury and government agency obligations, which are highly liquid, although the asset mix does include equity as well as other asset classes.

### ASSETS OF FDIC-INSURED COMMERCIAL BANKS, 2003




[1]Includes assets held in trading accounts, bank premises and fixed assets, other real estate owned, intangible assets, and all other assets.

Source: Federal Deposit Insurance Corporation.

## ASSETS AND LIABILITIES OF FDIC-INSURED COMMERCIAL BANKS GROUPED BY ASSET SIZE, 2003

($ millions, end of year)

| | | By asset size | | | |
|---|---|---|---|---|---|
| | Total commercial banks | Less than $100 million | $100 million to $1 billion | $1 billion or more | Foreign offices |
| Number of institutions | 7,769 | 3,911 | 3,434 | 424 | 126 |
| **Total assets** | **$7,602,489** | **$200,689** | **$910,014** | **$6,491,786** | **$823,611** |
| Cash and funds due from depository institutions | 387,632 | 11,922 | 40,331 | 335,379 | 103,227 |
| Noninterest-bearing | 260,132 | 8,413 | 32,320 | 219,400 | NA |
| Interest-bearing | 127,499 | 3,509 | 8,011 | 115,979 | NA |
| Securities | 1,456,290 | 50,074 | 215,237 | 1,190,979 | NA |
| Federal funds sold and re-repos[1] | 333,020 | 9,754 | 24,706 | 298,560 | NA |
| Loans and leases, net | 4,351,677 | 119,978 | 583,710 | 3,647,989 | NA |
| Plus: allowance for losses and allocated transfer risk reserve | 77,107 | 1,798 | 8,524 | 66,786 | NA |
| Loans and leases, total | 4,428,784 | 121,776 | 592,234 | 3,714,774 | 295,559 |
| Assets held in trading accounts[2] | 448,429 | 2 | 57 | 448,370 | 124,163 |
| Bank premises and fixed assets | 83,370 | 3,722 | 16,333 | 63,315 | NA |
| Other real estate owned | 4,568 | 322 | 1,254 | 2,992 | NA |
| Intangible assets | 158,155 | 671 | 5,936 | 151,548 | NA |
| All other assets | 379,349 | 4,244 | 22,451 | 352,654 | NA |
| **Total liabilities, limited-life preferred stock, and equity capital** | **$7,602,489** | **$200,689** | **$910,014** | **$6,491,786** | **NA** |
| **Total liabilities** | **6,910,434** | **178,063** | **819,835** | **5,912,536** | **$998,275** |
| **Deposits, total** | **5,028,866** | **168,996** | **736,815** | **4,123,055** | **741,171** |
| Noninterest-bearing | 956,671 | 27,411 | 120,925 | 808,335 | 35,513 |
| Interest-bearing | 4,072,195 | 141,585 | 615,891 | 3,314,720 | 705,658 |
| Federal funds purchased and repos[1] | 529,022 | 1,697 | 23,857 | 503,467 | NA |
| Trading liabilities | 274,272 | 0 | 0 | 274,271 | NA |
| Other borrowed money | 738,556 | 6,102 | 50,393 | 682,061 | 57,827 |
| Subordinated notes and debentures | 101,480 | 14 | 999 | 100,467 | NA |
| All other liabilities | 238,239 | 1,254 | 7,771 | 229,214 | NA |
| **Total equity capital** | **$692,056** | **$22,625** | **$90,180** | **$579,251** | **NA** |
| Perpetual preferred stock | 6,497 | 35 | 178 | 6,283 | NA |
| Common stock | 30,265 | 3,256 | 7,621 | 19,388 | NA |
| Surplus | 350,423 | 9,194 | 35,114 | 306,116 | NA |
| Undivided profits | 304,871 | 10,141 | 47,267 | 247,464 | NA |

[1]Re-repos are security resale agreements. [2]The foreign office component of "assets held in trading accounts" is only available for institutions with $1 billion or more in total assets or $2 billion or more in off-balance sheet contracts. NA=Data not available.

Source: Federal Deposit Insurance Corporation.

## DEPOSITS

In the depository process, banks pay interest to depositors and gain income by lending and investing deposits at higher rates. Banks must balance the generation of revenue from these deposits with the maintenance of liquidity, according to FDIC guidelines. These guidelines have a similar impact on the banking industry that statutory accounting practices have on the insurance industry — to promote solvency, see Insurance, Accounting Practices section, page 54.

### DEPOSITS, INCOME AND EXPENSES OF FDIC-INSURED COMMERCIAL BANKS, 1999-2003
($ millions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Number of institutions | 8,562 | 8,297 | 8,061 | 7,870 | 7,752 |
| **Total deposits (domestic and foreign) individuals, partnerships, corps.** | **$3,389,916** | **$3,704,680** | **$3,951,067** | **$4,186,531** | **$4,479,907** |
| U.S. government | 7,486 | 8,513 | 12,284 | 30,077 | 5,112 |
| States and political subdivisions | 150,538 | 160,216 | 172,725 | 196,998 | 227,151 |
| All other | 255,557 | 275,611 | 207,227 | 237,576 | 274,103 |
| **Total domestic and foreign deposits** | **3,803,497** | **4,149,020** | **4,343,302** | **4,651,182** | **4,986,274** |
| Interest-bearing | 3,104,980 | 3,397,412 | 3,476,414 | 3,718,038 | 4,036,323 |
| Noninterest-bearing | 698,517 | 751,608 | 866,888 | 933,144 | 949,951 |
| Domestic office deposits | | | | | |
| Demand deposits | 523,101 | 526,608 | 570,700 | 525,813 | 517,182 |
| Savings deposits | 1,413,382 | 1,559,684 | 1,869,986 | 2,197,451 | 2,497,137 |
| Time deposits | 1,211,639 | 1,356,315 | 1,273,353 | 1,270,341 | 1,231,306 |
| **Total domestic deposits** | **3,148,122** | **3,442,607** | **3,714,038** | **3,993,606** | **4,245,626** |
| Transaction | 679,571 | 672,058 | 737,691 | 701,284 | 717,019 |
| Nontransaction | 2,468,551 | 2,770,549 | 2,976,347 | 3,292,322 | 3,528,607 |
| **Income and expenses** | | | | | |
| Total interest income | 363,785 | 424,144 | 398,490 | 353,748 | 331,988 |
| Total interest expense | 173,469 | 222,258 | 185,702 | 119,121 | 94,220 |
| Net interest income | 190,316 | 201,886 | 212,788 | 234,627 | 237,769 |
| Total noninterest income (fees, etc.) | 144,497 | 153,805 | 157,718 | 172,106 | 185,852 |
| Total noninterest expense | 203,355 | 215,636 | 221,970 | 232,217 | 244,445 |
| Provision for loan and lease losses | 21,562 | 29,741 | 42,968 | 47,817 | 34,429 |
| Pretax net operating income | 109,897 | 110,313 | 105,568 | 126,699 | 144,747 |
| Securities gains (losses) | 175 | -2,278 | 4,437 | 6,396 | 5,591 |
| Income taxes | 39,233 | 37,729 | 36,551 | 43,893 | 49,068 |
| Net extraordinary items | 169 | -32 | -240 | -69 | 428 |
| Net income | 71,008 | 70,274 | 73,215 | 89,132 | 101,697 |

Source: Federal Deposit Insurance Corporation.

## INVESTMENT MIX

### SECURITIES OF FDIC-INSURED COMMERCIAL BANKS, 2003
($ millions, end of year)

| | | By asset size[1] | | |
|---|---|---|---|---|
| | Total commercial banks | Less than $100 million | $100 million to $1 billion | $1 billion or more |
| **Securities (debt and equity)** | **$1,456,290** | **$50,074** | **$215,237** | **$1,190,979** |
| Securities held-to-maturity (amortized cost) | 103,526 | 8,444 | 28,623 | 66,460 |
| Securities available-for-sale (fair value) | 1,352,764 | 41,630 | 186,615 | 1,124,519 |
| By security type:[2] | | | | |
| U.S. Government securities | 1,005,790 | 38,394 | 159,322 | 808,074 |
| U.S. Treasury securities | 73,942 | 2,363 | 8,238 | 63,341 |
| U.S. Government obligations | 931,848 | 36,031 | 151,084 | 744,733 |
| Securities issued by states and political subdivisions | 110,166 | 9,301 | 40,612 | 60,254 |
| Asset backed securities | 104,216 | 30 | 820 | 103,366 |
| Other domestic debt securities[3] | 149,449 | 1,816 | 11,452 | 136,181 |
| Foreign debt securities[3] | 70,217 | 7 | 178 | 70,032 |
| Equity securities | 16,452 | 527 | 2,854 | 13,072 |
| **Other items[2]** | | | | |
| Pledged securities | 702,306 | 17,008 | 90,948 | 594,349 |
| Mortgage-backed securities | 775,610 | 11,551 | 74,797 | 689,262 |
| Certificates of participation in pools of residential mortgages | 512,533 | 8,681 | 49,965 | 453,887 |
| Issued or guaranteed by the U.S. | 503,858 | 8,671 | 49,877 | 445,310 |
| Privately issued | 8,675 | 10 | 88 | 8,577 |
| Mortgage backed pass throughs | | | | |
| Issued by FNMA and FHLMC | 435,629 | 7,015 | 41,468 | 387,146 |
| Issued by GNMA | 68,229 | 1,656 | 8,409 | 58,164 |
| Collateralized mortgage obligations and REMICs | 164,498 | 2,710 | 22,183 | 139,604 |

[1]Grouped by asset size and insurance fund membership.

[2]Includes held-to-maturity securities at amortized cost and available-for-sale securities at fair value.

[3]Institutions with less than $100 million in total assets include “foreign debt securities” in “other domestic debt securities.”

Source: Federal Deposit Insurance Corporation.

## CONCENTRATION

As a result of consolidation over the past two decades, small banks are dropping in number and in percentage of assets and deposits held. A large share of the nation's banking business is held by a relatively small number of big banks.

### COMMERCIAL BANKS' CONCENTRATION, NUMBERS AND ASSETS, 1998 AND 2003

($ billions, end of year)

| | By asset size | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than $100 million | Percent of total | $100 million to $1 billion | Percent of total | $1 billion to $10 billion | Percent of total | Greater than $10 billion | Percent of total | Total banks |
| 1998 | | | | | | | | | |
| Number of banks | 5,408 | 61.6% | 2,974 | 33.9% | 321 | 3.7% | 71 | 0.8% | 8,774 |
| Total assets | $252.4 | 4.6 | $727.0 | 13.4 | $921.4 | 16.9 | $3,540.2 | 65.1 | $5,440.9 |
| Total deposits | 215.9 | 5.9 | 600.9 | 16.3 | 632.7 | 17.2 | 2,232.0 | 60.6 | 3,681.5 |
| Return on assets | 1.14 | NA | 1.31 | NA | 1.52 | NA | 1.08 | NA | 1.19 |
| Return on equity | 10.15 | NA | 13.57 | NA | 15.96 | NA | 13.82 | NA | 13.95 |
| 2003 | | | | | | | | | |
| Number of banks | 3,911 | 50.3% | 3,434 | 44.2% | 341 | 4.4% | 83 | 1.1% | 7,769 |
| Total assets | $200.7 | 2.6 | $910.0 | 12.0 | $947.3 | 12.5 | $5,544.5 | 72.9 | $7,602.5 |
| Total deposits | 169.0 | 3.4 | 736.8 | 14.7 | 645.8 | 12.8 | 3,477.3 | 69.1 | 5,028.9 |
| Return on assets | 0.94 | NA | 1.27 | NA | 1.46 | NA | 1.42 | NA | 1.40 |
| Return on equity | 8.19 | NA | 12.80 | NA | 14.00 | NA | 16.37 | NA | 15.31 |

NA=Not applicable.

Source: Federal Deposit Insurance Corporation.

### TOP TEN U.S. COMMERCIAL BANKS, BY REVENUES, 2003[1]

($ millions)

| Rank | Company | Revenues |
|---|---|---|
| 1 | Citigroup | $94,713 |
| 2 | Bank of America Corp. | 48,065 |
| 3 | J.P. Morgan Chase & Co. | 44,363 |
| 4 | Wells Fargo | 31,800 |
| 5 | Wachovia Corp. | 24,474 |
| 6 | Bank One Corp. | 21,454 |
| 7 | U.S. Bancorp | 15,354 |
| 8 | FleetBoston | 14,362 |
| 9 | MBNA | 11,684 |
| 10 | National City Corp. | 9,594 |

[1]Ranked by revenues.

Source: Fortune.

## TOP TEN U.S. COMMERCIAL BANKS, BY ASSETS, 2004[1]
($ millions)

| Rank | Company | Assets |
|---|---|---|
| 1 | Bank of America, N.A. | $690,573 |
| 2 | J.P. Morgan Chase & Co. | 648,692 |
| 3 | Citibank, N.A. | 606,191 |
| 4 | Wachovia Bank, N.A. | 364,474 |
| 5 | Wells Fargo Bank, N.A. | 347,560 |
| 6 | Bank One, N.A. | 256,701 |
| 7 | Fleet National Bank | 195,323 |
| 8 | U.S. Bank N.A. | 191,606 |
| 9 | Suntrust Bank | 124,298 |
| 10 | HSBC Bank USA | 99,867 |

[1]As of March 31, 2004. Ranked by assets.

Source: Board of Governors of the Federal Reserve System.

## TOP TEN U.S. BANK HOLDING COMPANIES, 2004[1]
($ millions)

| Rank | Company | Assets |
|---|---|---|
| 1 | Citigroup Inc. | $1,317,591 |
| 2 | Bank of America Corporation | 819,842 |
| 3 | J.P. Morgan Chase & Co. | 801,078 |
| 4 | Wachovia Corporation | 410,991 |
| 5 | Wells Fargo & Company | 397,354 |
| 6 | Taunus Corporation | 336,788 |
| 7 | Bank One Corporation | 319,590 |
| 8 | FleetBoston Financial Corporation | 199,790 |
| 9 | U.S. Bancorp | 192,093 |
| 10 | ABN AMRO North America Holding Company | 136,086 |

[1]As of March 31, 2004. Ranked by assets.

Source: Board of Governors of the Federal Reserve System.

## THRIFT INSTITUTIONS

Savings and loan associations and savings banks fall into the category of thrift institutions. Thrifts were originally established to promote personal savings through savings accounts and homeownership through mortgage lending, but now provide a range of services similar to many commercial banks. Savings banks tend to be small and are located mostly in the northeastern states.

Like other banking institutions with a significant portion of mortgages on their books, thrifts may belong to the Federal Home Loan (FHL) Bank System. In exchange for holding a certain percentage of their assets in mortgage-backed securities and residential mortgages, these financial institutions may borrow funds from the FHL Bank System at favorable rates.

Thrifts are declining in number. At their peak in the late 1960s, there were more than 4,800. But a combination of factors has reduced their ranks significantly. These include sharp increases in interest rates in the late 1970s, which immediately raised the cost of funds without a similar rise in earnings from thrifts' principal assets, long-term fixed rate mortgages. In addition, the recession of the early 1980s increased loan defaults. By year-end 2003, due mostly to acquisitions by or conversions to commercial banks or state-chartered savings banks, the number of thrifts had fallen to 1,413.

### SELECTED INDICATORS, FDIC-INSURED SAVINGS INSTITUTIONS, 1999-2003

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Return on assets (%) | 1.00% | 0.92% | 1.07% | 1.16% | 1.28% |
| Return on equity (%) | 11.73 | 11.14 | 12.33 | 12.37 | 13.66 |
| Core capital (leverage) ratio (%) | 7.86 | 7.80 | 7.77 | 8.06 | 8.05 |
| Noncurrent assets plus other real estate owned to assets (%) | 0.58 | 0.56 | 0.65 | 0.69 | 0.62 |
| Net charge-offs to loans (%) | 0.17 | 0.20 | 0.28 | 0.29 | 0.30 |
| Asset growth rate (%) | 5.52 | 5.99 | 8.17 | 3.20 | 8.49 |
| Net interest margin (%) | 3.10 | 2.96 | 3.20 | 3.35 | 3.27 |
| Net operating income growth (%) | 17.04 | 3.05 | 6.64 | 5.61 | 23.07 |
| Number of institutions reporting | 1,642 | 1,589 | 1,535 | 1,467 | 1,413 |
| Percentage of unprofitable institutions (%) | 8.28% | 8.56% | 8.79% | 6.82% | 5.66% |
| Number of problem institutions | 13 | 18 | 19 | 17 | 10 |
| Assets of problem institutions ($ billions) | $6 | $7 | $4 | $3 | $1 |
| Number of failed/assisted institutions | 1 | 1 | 1 | 1 | 0 |

Source: Federal Deposit Insurance Corporation.

## OTS-REGULATED THRIFT INDUSTRY INCOME STATEMENT DETAIL, 1999-2003
($ millions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Interest income | $57,006 | $64,199 | $65,233 | $55,456 | $51,481 |
| Interest expense | 34,104 | 40,925 | 37,618 | 25,468 | 20,660 |
| Net interest income before provisions for losses | 22,902 | 23,275 | 27,615 | 29,988 | 30,822 |
| Provision for losses for interest bearing assets[1] | 1,312 | 1,659 | 2,532 | 2,854 | 2,179 |
| Net interest income after provisions for losses | 21,590 | 21,616 | 25,083 | 27,134 | 28,642 |
| Non-interest income[2] | 9,063 | 10,023 | 13,137 | 14,132 | 18,512 |
| Non-interest expense | 17,706 | 19,238 | 22,591 | 22,999 | 25,766 |
| Net income before taxes and extraordinary items | 12,948 | 12,400 | 15,629 | 18,266 | 21,389 |
| Taxes | 4,729 | 4,382 | 5,696 | 6,437 | 7,636 |
| Other[3] | 10 | -4 | 269 | 8 | -7 |
| Net income | 8,228 | 8,014 | 10,202 | 11,837 | 13,746 |
| Other items: | | | | | |
| Preferred and common stock cash dividends | 4,836 | 4,131 | 4,823 | 6,660 | 10,843 |
| Reinvested earnings[4] | 3,392 | 3,883 | 5,379 | 5,177 | 2,903 |
| Gross profits of profitable thrifts | 8,508 | 8,560 | 10,830 | 12,570 | 14,019 |
| Gross profits of unprofitable thrifts | -280 | -546 | -628 | -733 | -273 |

[1]Loss provisions for non-interest-bearing assets are included in noninterest expense.

[2]Net gain (loss) on sale of assets is reported in non-interest income.

[3]Defined as extraordinary items, net of tax effect, and cumulative effect of changes in accounting principles. Extraordinary items are material events and transactions that are unusual and infrequent.

[4]Reinvested earnings is the portion of a corporation's earnings distributed back into the business. It is calculated by subtracting preferred and common stock cash dividends from net income.

Source: U.S. Department of the Treasury, Office of Thrift Supervision.

## BALANCE SHEET OF THE FEDERALLY-INSURED THRIFT INDUSTRY, 1999-2003

($ millions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Number of thrifts | 1,640 | 1,590 | 1,532 | 1,467 | 1,413 |
| **Assets** | | | | | |
| Cash and invested securities | $98,271 | $97,724 | $123,721 | $156,662 | $167,882 |
| Mortgage-backed securities | 221,723 | 213,826 | 196,512 | 209,660 | 206,389 |
| 1-4 family loans | 530,225 | 574,341 | 597,867 | 608,993 | 678,349 |
| Multifamily development | 55,591 | 56,797 | 58,990 | 63,065 | 71,989 |
| Construction and land loans | 29,073 | 34,832 | 38,397 | 37,437 | 40,703 |
| Nonresidential loans | 53,418 | 59,765 | 63,140 | 71,884 | 79,713 |
| Consumer loans | 62,099 | 65,286 | 69,421 | 68,704 | 77,860 |
| Commercial loans | 26,534 | 34,420 | 36,754 | 42,228 | 52,169 |
| Real estate owned | 1,125 | 1,003 | 1,050 | 1,516 | 1,501 |
| Other assets | 70,875 | 84,641 | 113,157 | 98,812 | 97,734 |
| **Total assets** | **1,148,934** | **1,222,635** | **1,299,009** | **1,358,961** | **1,474,288** |
| **Liabilities and equity** | | | | | |
| Deposits | 707,097 | 738,234 | 797,822 | 878,655 | 925,423 |
| FHLB advances | 231,449 | 261,495 | 254,271 | 216,445 | 234,345 |
| Other borrowings | 95,770 | 98,250 | 111,140 | 107,542 | 153,709 |
| Other liabilities | 19,659 | 21,098 | 26,158 | 27,707 | 22,067 |
| Total liabilities | 1,053,975 | 1,119,077 | 1,189,391 | 1,230,349 | 1,335,543 |
| Equity capital | 94,959 | 103,558 | 109,618 | 128,612 | 138,745 |
| **Total liabilities and equity** | **1,148,934** | **1,222,635** | **1,299,009** | **1,358,961** | **1,474,288** |

Source: U.S. Department of the Treasury, Office of Thrift Supervision.

### INVESTMENT SECURITIES OF FDIC-INSURED SAVINGS INSTITUTIONS, 1994-2003
($ millions, end of year)

| | U.S. Treasury, agencies and corporations | | | | |
|---|---|---|---|---|---|
| Year | U.S. Treasury | U.S. agencies and corporations | Total[1] | States and political subdivisions | Other debt securities |
| 1994 | $26,933.4 | $207,526.2 | $234,459.6 | $1,940.4 | $47,248.4 |
| 1995 | 18,409.4 | 213,365.2 | 231,774.6 | 1,947.1 | 47,418.3 |
| 1996 | 10,236.4 | 202,507.5 | 212,744.0 | 2,066.6 | 39,410.1 |
| 1997 | 6,933.8 | 199,772.4 | 206,706.2 | 2,095.9 | 31,430.9 |
| 1998 | 4,264.0 | 217,847.7 | 222,111.7 | 3,171.0 | 35,217.8 |
| 1999 | 2,997.8 | 232,787.7 | 235,785.5 | 3,599.2 | 42,954.2 |
| 2000 | 2,136.5 | 223,581.8 | 225,718.3 | 3,831.6 | 42,697.3 |
| 2001 | 3,260.0 | 231,187.8 | 234,447.8 | 4,486.6 | 45,500.3 |
| 2002 | 35,411.0 | 240,475.5 | 243,267.0 | 5,716.0 | 39,778.8 |
| 2003 | 52,090.5 | 258,117.5 | 260,945.1 | 6,534.7 | 37,618.3 |

| Year | Equity securities | Less: contra accounts[2] | Less: trading accounts | Total investment securities[3] | Mortgage-backed securities |
|---|---|---|---|---|---|
| 1994 | $6,413.0 | -$595.6 | $415.5 | $290,241.6 | $213,992.5 |
| 1995 | 7,469.9 | -537.2 | 607.6 | 288,539.6 | 215,661.4 |
| 1996 | 8,647.9 | -357.3 | 946.6 | 262,279.3 | 193,021.1 |
| 1997 | 9,380.7 | 27.1 | 914.6 | 248,672.0 | 180,645.4 |
| 1998 | 10,974.2 | 23.0 | 1,956.5 | 269,495.3 | 207,287.4 |
| 1999 | 10,077.8 | 1.2 | 1,028.1 | 291,387.4 | 221,713.2 |
| 2000 | 10,484.8 | 1.4 | 758.6 | 281,972.1 | 212,652.7 |
| 2001 | 10,169.2 | 1.7 | 1,816.7 | 292,785.5 | 203,372.0 |
| 2002 | 11,427.6 | 0.9 | 1,581.0 | 298,607.5 | 209,660.5 |
| 2003 | 10,678.1 | 0.4 | 1,276.5 | 314,499.3 | 206,453.8 |

[1]Components may not add to total.

[2]Balance in account that offsets another account. Reserves for loan losses, for example, offset the loan account.

[3]Book value.

Source: Federal Deposit Insurance Corporation.

## THRIFT INSTITUTIONS

### THRIFT INDUSTRY MORTGAGE LENDING ACTIVITY, 1994-2003
($ millions, end of year)

| Year | Mortgage refinancing[1] | Mortgage loans outstanding | Mortgage-backed securities outstanding | Mortgage portfolio total | Mortgage portfolio as a percent of total assets |
|---|---|---|---|---|---|
| 1994 | $20,939 | $449,820 | $127,554 | $577,374 | 74.59% |
| 1995 | 12,808 | 446,930 | 125,457 | 572,388 | 74.24 |
| 1996 | 19,020 | 486,640 | 110,977 | 597,617 | 77.68 |
| 1997 | 19,512 | 483,288 | 103,815 | 587,103 | 75.60 |
| 1998 | 51,665 | 491,968 | 93,322 | 585,290 | 71.62 |
| 1999 | 41,983 | 506,963 | 94,759 | 601,722 | 69.69 |
| 2000 | 24,622 | 556,958 | 93,106 | 650,064 | 70.03 |
| 2001 | 125,889 | 578,974 | 92,360 | 671,333 | 68.66 |
| 2002 | 218,585 | 599,747 | 90,232 | 689,979 | 68.69 |
| 2003 | 368,545 | 670,233 | 92,294 | 762,527 | 69.79 |

[1]Full year.

Source: U.S. Department of the Treasury, Office of Thrift Supervision.

### TOP FIVE U.S. THRIFT COMPANIES, RANKED BY REVENUES, 2003
($ millions)

| Rank | Company | Revenues |
|---|---|---|
| 1 | Washington Mutual | $18,629 |
| 2 | Golden West Financial | 3,842 |
| 3 | Sovereign Bancorp | 2,452 |
| 4 | Greenpoint Financial | 1,735 |
| 5 | Westcorp | 1,355 |

Source: Fortune.

### TOP TEN U.S. THRIFT COMPANIES, RANKED BY ASSETS, 2004[1]
($ millions)

| Rank | Company | Assets[1] |
|---|---|---|
| 1 | Washington Mutual, Inc. | $280,768 |
| 2 | Golden West Financial Corporation | 86,605 |
| 3 | Sovereign Bancorp, Inc.[2] | 56,868 |
| 4 | New York Community Bancorp, Inc. | 26,494 |
| 5 | Astoria Financial Corporation | 22,651 |
| 6 | E*TRADE Bank[3,4] | 20,288 |
| 7 | ING Bank, FSB[3,5] | 19,145 |
| 8 | Hudson City Bancorp, Inc. (MHC) | 17,920 |
| 9 | Independence Community Bank Corp.[6] | 17,461 |
| 10 | Guaranty Bank[3,7] | 17,275 |

[1]Assets as of March, 2004. Rankings account for all bank and thrift acquisitions that were announced or completed subsequent to the buyer's most recent financial reports and were valued in excess of $300 million at announcement and as explicitly noted. Combined asset values are summations of the most recent figures reported by each merging company and assume no divestitures or accounting adjustments.
[2]Reflects Sovereign Bancorp, Inc.'s pending acquisitions of Seacoast Financial Services, announced on January 26, 2004 and Waypoint Financial Corp., announced on March 8, 2004.
[3]Assets as of December 31, 2003.
[4]Subsidiary of E*TRADE Financial Corp.
[5]Subsidiary of ING Direct, NV.
[6]Reflects Independence Community Bank Corp.'s acquisition of Staten Island Bancorp Inc., completed on April 13, 2004.
[7]Subsidiary of Temple-Inland Inc.

Source: SNL Financial LC.

## REMITTANCES

The flow of money from immigrants to their families back home usually takes the form of money transfers, commonly referred to as remittances. They include money orders, hand delivered cash, wire transfers and unlicensed informal means. While in the past few years banks and credit unions have launched major initiatives in remittance services, they only hold a small fraction of the market, which is currently dominated by wire transfer firms.

- Remittances to Mexico now average about $400 per transaction.
- In 2003, Latin American immigrants in the United States sent $38 billion in remittances to their families overseas.

### SHARE OF REMITTANCES FROM THE U.S. TO LATIN AMERICA AND THE CARIBBEAN, 2003

| By mechanism | Percent |
|---|---|
| Cash pick up at office or bank branch | 86% |
| Home delivery | 4 |
| Bank, credit union deposit | 4 |
| ATM, Debit or Smart Card | 1 |

Source: *The Remittance Marketplace*, Pew Hispanic Center, 2004.

### LATIN AMERICAN REMITTANCES, 2002-2003
($ billions)

| Country | 2002 | 2003 | Percent change from prior year |
|---|---|---|---|
| Mexico | $10,500.0 | $13,266.0 | 26.3% |
| Brazil | 4,600.0 | 5,200.0 | 13.0 |
| Colombia | 2,430.0 | 3,067.0 | 26.2 |
| El Salvador | 2,200.0 | 2,316.0 | 5.3 |
| Dominican Republic | 2,110.0 | 2,217.0 | 5.1 |
| Guatemala | 1,690.0 | 2,106.0 | 24.6 |
| Ecuador | 1,580.0 | 1,656.0 | 4.8 |
| Jamaica | 1,230.0 | 1,425.0 | 15.9 |
| Peru | 1,270.0 | 1,295.0 | 2.0 |
| Cuba | 1,140.0 | 1,194.0 | 4.7 |
| Other | 3,300.0 | 3,999.0 | 21.2 |
| **Total[1]** | **32,040.0** | **37,741.0** | **17.8** |

[1]Total may not equal sum because of rounding.

Source: Inter-American Development Bank/MIF.

## CREDIT UNIONS

Credit unions, generally set up by groups of individuals with a common link, such as membership in a labor union, are not-for-profit financial cooperatives that offer personal loans and other consumer banking services. Originating in Europe, the first credit union in this country was formed in Manchester, New Hampshire in 1909. Credit unions now serve more than 80 million people in the United States. New federal rules have made it easier for credit unions to expand.

In 1934, President Roosevelt signed the Federal Credit Union Act into law, authorizing the establishment of federally-chartered credit unions in all states. The purpose of the federal law was "to make more available to people of small means credit for provident [provisions for the future] purposes through a national system of cooperative credit..." In 1970, the National Credit Union Administration, which charters and supervises credit unions, was created along with the National Credit Union Share Insurance Fund, which insures members' deposits. Individual credit unions are served by 31 federally-insured corporate credit unions, which provide investment, liquidity and payment services for their members.

### FEDERAL CREDIT UNIONS AND FEDERALLY-INSURED STATE CHARTERED CREDIT INSTITUTIONS, 1980-2003
(end of year)

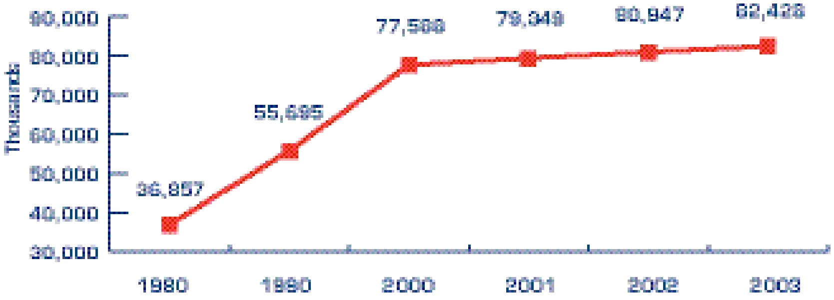
| | 1980 | 1990 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| Operating credit unions | | | | | | |
| Federal | 12,440 | 8,511 | 6,336 | 6,118 | 5,953 | 5,776 |
| State | 4,910 | 4,349 | 3,980 | 3,866 | 3,735 | 3,593 |
| Number of failed institutions | 239 | 164 | 29 | 22 | 15 | 13 |
| Members (000) | | | | | | |
| Federal | 24,519 | 36,241 | 43,883 | 43,817 | 44,611 | 46,155 |
| State | 12,338 | 19,454 | 33,705 | 35,532 | 36,336 | 36,273 |
| Assets ($ millions) | | | | | | |
| Federal | $40,092 | $130,073 | $242,881 | $270,125 | $301,238 | $336,612 |
| State | 20,870 | 68,133 | 195,363 | 231,280 | 255,838 | 273,572 |
| Loans outstanding ($ millions) | | | | | | |
| Federal | $26,350 | $83,029 | $163,851 | $170,326 | $181,767 | $202,898 |
| State | 14,852 | 44,102 | 137,485 | 152,014 | 160,881 | 173,236 |
| Shares ($ millions) | | | | | | |
| Federal | $36,263 | $117,892 | $210,188 | $235,202 | $261,819 | $291,485 |
| State | 18,469 | 62,082 | 169,053 | 201,807 | 222,377 | 236,856 |

Source: National Credit Union Administration.

## CREDIT UNIONS

- From 1980 to 2003, federal and federally-insured state credit union assets grew from $61 billion to $610 billion. In 2003, assets increased by $53 billion, or 9.5 percent, from 2002.
- There are currently fewer than 500 nonfederally-insured state chartered credit unions.

### CREDIT UNION MEMBERS, 1980-2003
(000)




Source: National Credit Union Administration.

### ASSETS AND LIABILITIES OF CREDIT UNIONS, 1999-2003
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total financial assets** | **$414.5** | **$441.1** | **$505.5** | **$560.8** | **$617.3** |
| Checkable deposits and currency | 26.4 | 26.7 | 36.8 | 38.4 | 41.5 |
| Time and savings deposits | 16.6 | 15.5 | 23.0 | 24.5 | 26.4 |
| Federal funds and security repos | 9.3 | 4.0 | 2.5 | 1.7 | 1.6 |
| Credit market instruments | 351.7 | 379.7 | 421.2 | 463.9 | 514.5 |
| Open market paper | 1.9 | 1.2 | 2.4 | 3.6 | 1.6 |
| U.S. government securities | 70.9 | 69.1 | 88.0 | 105.1 | 124.4 |
| Treasury | 9.6 | 8.2 | 7.4 | 7.8 | 8.9 |
| Agency | 61.3 | 60.9 | 80.6 | 97.3 | 115.5 |
| Home mortgages | 111.0 | 124.9 | 141.3 | 159.4 | 182.6 |
| Consumer credit | 167.9 | 184.4 | 189.6 | 195.7 | 205.9 |
| Mutual fund shares | 2.5 | 2.2 | 3.7 | 3.5 | 4.1 |
| Miscellaneous assets | 8.0 | 12.9 | 18.3 | 28.7 | 29.2 |
| **Total liabilities** | **376.1** | **398.1** | **458.9** | **509.0** | **560.3** |
| Shares/deposits | 366.7 | 389.1 | 450.2 | 496.9 | 544.9 |
| Checkable | 45.4 | 51.3 | 54.7 | 59.7 | 67.4 |
| Small time and savings | 299.8 | 312.7 | 361.3 | 394.4 | 424.0 |
| Large time | 21.6 | 25.1 | 34.1 | 42.8 | 53.6 |
| Other loans and advances | 3.4 | 3.4 | 4.9 | 6.9 | 9.1 |
| Miscellaneous liabilities | 6.0 | 5.6 | 3.8 | 5.1 | 6.3 |

Source: Board of Governors of the Federal Reserve System.

## CREDIT UNION DISTRIBUTION BY ASSET SIZE, 2003[1]
(End of year)

| Asset size ($ millions) | Number of credit unions | Percent change from Dec. 2002 | Assets ($ millions) | Percent change from Dec. 2002 |
|---|---|---|---|---|
| $0 - $.2 | 208 | -10.7% | $25 | -10.8% |
| $.2 - $.5 | 385 | -7.2 | 136 | -5.5 |
| $.5 - $1 | 504 | -12.0 | 379 | -9.8 |
| $1 - $2 | 731 | -9.5 | 1,086 | -8.2 |
| $2 - $5 | 1,411 | -7.5 | 4,789 | -6.3 |
| $5 - $10 | 1,487 | -5.8 | 10,947 | -4.7 |
| $10 - $20 | 1,414 | -1.1 | 20,275 | -1.0 |
| $20 - $50 | 1,585 | -0.9 | 50,718 | -1.1 |
| $50 - $100 | 821 | 3.1 | 57,433 | 2.8 |
| $100 - $200 | 527 | 4.6 | 73,858 | 5.4 |
| $200 - $500 | 401 | 7.2 | 122,813 | 6.7 |
| More than $500 | 235 | 14.1 | 286,673 | 17.7 |
| **Total** | **9,709** | **-3.3** | **629,134** | **9.5** |

[1]From Credit Union Call Reports.

Source: Credit Union National Association.

## TOP TEN U.S. CREDIT UNIONS, 2003[1]
($ millions)

| Rank | Company | Assets |
|---|---|---|
| 1 | Navy | $20,039.8 |
| 2 | State Employees' | 11,339.3 |
| 3 | Pentagon | 6,057.8 |
| 4 | The Golden 1 | 4,860.3 |
| 5 | Boeing Employees | 4,672.6 |
| 6 | Orange County Teachers | 4,562.1 |
| 7 | United Airlines Employees' | 4,352.4 |
| 8 | Suncoast Schools | 3,935.9 |
| 9 | American Airlines | 3,924.1 |
| 10 | Security Service | 3,185.4 |

[1]Federally-insured credit unions, ranked by assets.

Source: National Credit Union Administration.

## INDUSTRIAL BANKS

Industrial banks, known originally as state-chartered loan companies, were formed in the early part of the 20th century to make consumer loans and offer deposit accounts as part of a move to secure credit for blue collar workers. Many later merged with commercial banks and although 12 states still have industrial bank-charter options on their books, most of the remaining industrial banks now exist in a few states, mainly in the west. Many serve niche markets such as real estate lending and automobile loans. The banks are not regulated by the Federal Reserve and may be owned by firms in other financial services businesses such as banks, finance companies, credit card issuers, securities firms or by nonfinancial businesses such as automakers and department stores. Legislation being considered by Congress would greatly expand the powers of industrial banks.

### TOP TEN FDIC-INSURED INDUSTRIAL BANKS, 2003[1]
($000)

| Rank | Bank | City | State | Total assets |
|---|---|---|---|---|
| 1 | Merrill Lynch Bank USA | Salt Lake City | UT | $67,079,011 |
| 2 | American Express Centurion Bank | Midvale | UT | 19,574,320 |
| 3 | UBS Bank USA | Salt Lake City | UT | 14,783,724 |
| 4 | Fremont Investment & Loan | Anaheim | CA | 9,707,027 |
| 5 | USAA Savings Bank | Las Vegas | NV | 5,803,410 |
| 6 | Morgan Stanley Bank | West Valley City | UT | 4,137,822 |
| 7 | GE Capital Financial Inc. | Salt Lake City | UT | 1,811,391 |
| 8 | BMW Bank of North America | Salt Lake City | UT | 1,370,007 |
| 9 | Fireside Bank | Pleasanton | CA | 1,109,317 |
| 10 | Advanta Bank Corp. | Draper | UT | 1,034,077 |

[1]Ranked by assets.

Source: Federal Deposit Insurance Corporation.

## OVERVIEW

The securities industry consists of securities brokers and dealers, investment banks and advisers, and stock exchanges. Together, these entities facilitate the flow of funds from investors to companies and institutions seeking to finance expansions or other projects. Firms that make up the securities sector may specialize in one segment of the business or engage in a wide range of activities that includes brokerage, asset management and advisory services, as well as investment banking. As part of their asset management activities, some firms sell their own and others' annuities.

Investment banking involves the underwriting of new debt securities (bonds) and equity securities (stocks) issued by private or government entities to finance new projects. Investment banks buy the new issues and, acting essentially as wholesalers, sell them, primarily to institutional investors such as banks, mutual funds and pension funds. Investment banks may also be called securities dealers or broker/dealers because many also participate in the financial market as retailers, selling to individual investors. The primary difference between a broker and dealer is that dealers buy and sell securities, whereas brokers act as intermediaries for investors who wish to purchase or sell securities. Dealers make money by selling at a slightly higher price than they paid. Like underwriters/wholesalers, they face the risk that the securities in their inventory will drop in price before they can resell them.

## REGULATION

**Securities and Exchange Commission:** The Securities and Exchange Commission (SEC), established by Congress in 1934, regulates the U.S. securities markets. Its mission is to protect investors and maintain the markets' integrity by enacting new regulations and interpreting and enforcing existing laws.

A component of the Securities Act of 1933 is the requirement that publicly-held companies disclose their financial information to provide transparency, ensuring that potential investors have access to key information needed for investment decisions. The Sarbanes-Oxley Act enacted in 2002 further increases the accountability of the boards of publicly-held companies to their shareholders.

**The National Association of Securities Dealers:** National Association of Securities Dealers (NASD) is a self-regulated body which was developed under the National Recovery Act of 1933. The NASD has created greater transparency in over-the-counter (OTC) markets by automating and providing greater access to pricing and other key information with the national electronic stock market quotation system (NASDAQ).

## MERGERS AND ACQUISITIONS

The value of the top ten mergers and acquisitions deals in the securities industry rose by $4.4 billion in 2003, after dropping $2.6 billion in 2002. Broker/dealers were the dominant buyers in the top ten deals of 2003.

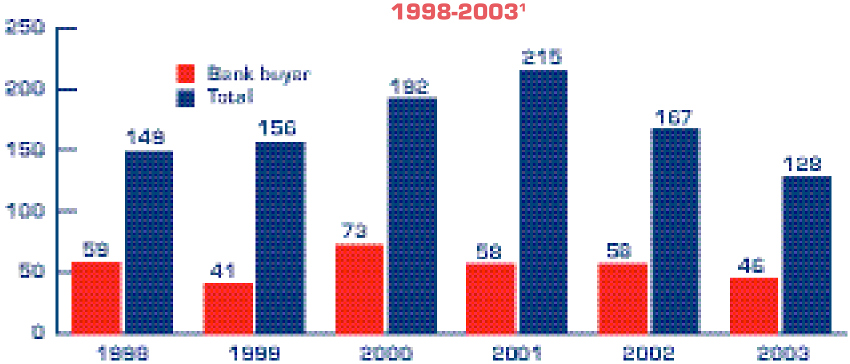
### TOP TEN SECURITIES AND INVESTMENT FIRMS MERGERS AND ACQUISITIONS, 2003[1]

| Rank | Buyer | Industry | Target | Industry | Deal value[2] ($ millions) |
|---|---|---|---|---|---|
| 1 | Lehman Brothers Holdings Inc. | Broker/ dealer | Neuberger Berman Inc. | Asset manager | $2,947.1 |
| 2 | Prudential Financial Inc. | Insurance | CIGNA's retirement business | Asset manager | 2,100.0 |
| 3 | Bank of New York Co. | Bank | Pershing LLC | Broker/ dealer | 2,050.0 |
| 4 | Wachovia Corp. | Bank | 62% of Prudential Financial's retail brokerage and clearing operations | Broker/ dealer | 912.0 |
| 5 | J.P. Morgan Chase & Co. | Bank | Bank One Corp.'s corporate trust services business | Asset manager | 720.0 |
| 6 | American Express Co. | Specialty lender | Threadneedle Asset Management Ltd. | Asset manager | 568.2 |
| 7 | Prudential Financial Inc. | Insurance | 80% of Hyundai Investment Securities and Trust | Asset manager | 399.9 |
| 8 | Charles Schwab Corp. | Broker/ dealer | State Street Corp.'s private asset management business | Asset manager | 365.0 |
| 9 | Charles Schwab Corp. | Broker/ dealer | Soundview Technology Group Inc. | Broker/ dealer | 335.8 |
| 10 | ICAP Plc | Broker/ dealer | BrokerTec Global LLC | Broker/ dealer | 291.0 |

[1]At least one of the companies involved is a U.S.-domiciled company. List does not include terminated deals. [2]At announcement.
Source: SNL Financial LC.

- **Bank purchases of securities firms accounted for 33 percent of security industry mergers and acquisitions from 1998 to 2003, see also Convergence Chapter 4.**

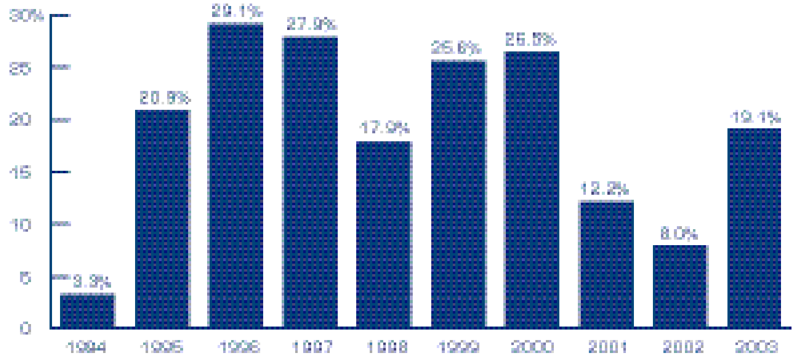
### MERGERS AND ACQUISITIONS OF U.S. SECURITIES FIRMS, 1998-2003[1]




[1]List does not include terminated deals. Source: SNL Financial LC.

## PROFITABILITY

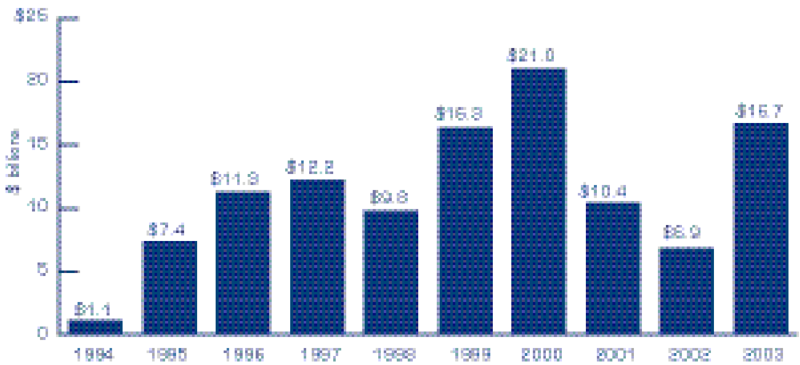
### SECURITIES INDUSTRY PRETAX RETURN ON EQUITY, 1994-2003




Source: Securities Industry Association.

- According to the Securities Industry Association, the securities industry return on equity, at 19.1 percent in 2003, was at its highest level since 2000, based on New York State Stock Exchange member firms doing public business.
- Revenues of the U.S. securities industry, at $144.5 billion in 2003, fell 2.8 percent from 2002 and 41.1 percent from a record high of $245.2 billion in 2000.

### SECURITIES INDUSTRY PRETAX PROFITS, 1994-2003
($ billions)




Source: Securities Industry Association.

- Pretax profits in 2003 totalled $16.7 billion, up 142 percent from $6.9 billion in 2002 and 60.9 percent from $10.4 billion in 2001. However, 2003 pretax profits were down $4.3 billion, or 20.5 percent from the record $21 billion profits of 2000.

## BROKER/DEALERS

There are four categories of broker/dealers. The largest, major firms, consists of national full line companies, which are full service broker/dealers with an extensive national and international branch network system and includes large investment banks. This category represents the largest U.S. broker/dealer subsidiaries of global financial holding companies, which provide a broad array of virtually every financial service and product to households and institutions.

The second category is regional brokers. Operating on a somewhat smaller scale than the major firms, they offer a range of investment services based on their size and business specialty. Because of their regional expertise, these brokers participate in underwriting securities for businesses that are centered in their region.

New York City (NYC) area regionals, the third category, are mostly broker/dealer subsidiaries of U.S. and foreign banks and securities organizations, excluding those that fall into other listed categories, and are generally institutionally-oriented. The fourth category is discounters, broker/dealers primarily engaged in the discount brokerage business.

### SECURITIES INDUSTRY PRETAX RETURN ON EQUITY BY FIRM CATEGORY, 1994-2003

| Year | Major Firms | Regionals | NYC area regionals | Discounters | Total firms[1] |
|---|---|---|---|---|---|
| 1994 | -1.5% | 21.7% | -2.5% | 26.4% | 3.3% |
| 1995 | 15.5 | 33.8 | 17.3 | 38.5 | 20.9 |
| 1996 | 27.1 | 40.2 | 17.3 | 42.6 | 29.1 |
| 1997 | 27.8 | 32.8 | 12.8 | 37.4 | 27.9 |
| 1998 | 21.1 | 13.7 | -1.0 | 29.7 | 17.9 |
| 1999 | 30.3 | 21.2 | 4.7 | 46.3 | 25.6 |
| 2000 | 28.6 | 24.9 | 10.7 | 48.6 | 26.5 |
| 2001 | 16.4 | 9.5 | 4.1 | 2.5 | 12.2 |
| 2002 | 11.0 | 2.6 | 4.3 | -0.9 | 8.0 |
| 2003 | 23.0 | 13.0 | 0.8 | 14.5 | 19.1 |

[1]Total firms, a proxy for total industry, consists of all New York Stock Exchange member broker/dealers doing public business.

Source: Securities Industry Association.

## SECURITIES INDUSTRY INCOME STATEMENT, 2003[1]
($ millions)

| Revenue | 2003 |
|---|---|
| Commissions | $25,661.4 |
| Trading gain (loss) | 23,136.5 |
| Investment account gain (loss) | 2,115.7 |
| Underwriting revenue | 15,090.0 |
| Margin interest | 4,776.9 |
| Mutual fund sale revenue | 6,064.9 |
| Fees, asset management | 11,761.6 |
| Research revenue | 170.0 |
| Commodities revenue | -1,902.4 |
| Other revenue related to the securities business | 47,898.3 |
| Other revenue | 9,743.1 |
| **Total revenue** | **$144,516.0** |

[1]New York Stock Exchange members doing public business.

Source: Securities Industry Association.

| Expenses | 2003 |
|---|---|
| Total compensation | $54,125.0 |
| Registered representative compensation | 21,588.5 |
| Clerical employee compensation | 29,107.1 |
| Total floor costs | 4,962.9 |
| Communications expense | 3,952.7 |
| Data processing costs | 2,312.8 |
| Occupancy and equipment costs | 6,028.8 |
| Promotional costs | 1,499.4 |
| Interest expense | 38,184.4 |
| Losses from error accounts and bad debts | 305.4 |
| Regulatory fees and expenses | 979.6 |
| Nonrecurring charges | 252.4 |
| Other expenses | 15,163.0 |
| **Total expenses** | **$127,766.4** |
| **Pretax net income** | **$16,749.6** |

## OVERVIEW

- **Total assets of security broker/dealers increased 23.1 percent in 2003, to $1.6 trillion, from $1.3 trillion in 2002.**

### ASSETS AND LIABILITIES OF SECURITIES BROKER/DEALERS, 1999-2003
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total financial assets** | **$1,001.0** | **$1,221.4** | **$1,465.6** | **$1,335.4** | **$1,613.0** |
| Checkable deposits and currency | 28.7 | 30.3 | 47.1 | 44.2 | 47.2 |
| Credit market instruments | 154.7 | 223.6 | 316.0 | 344.4 | 424.1 |
| Open market paper | 26.0 | 39.2 | 48.2 | 43.5 | 49.4 |
| U.S. government securities | 23.4 | 60.4 | 87.6 | 87.9 | 121.5 |
| Treasury | -42.6 | -3.3 | 9.8 | -3.9 | 37.8 |
| Agency | 66.0 | 63.7 | 77.8 | 91.8 | 83.7 |
| Municipal securities | 11.9 | 11.3 | 19.0 | 21.0 | 24.9 |
| Corporate and foreign bonds | 93.4 | 112.7 | 161.3 | 192.0 | 228.4 |
| Corporate equities | 66.9 | 77.2 | 85.1 | 74.9 | 100.5 |
| Security credit | 227.9 | 235.1 | 196.4 | 148.2 | 182.5 |
| Miscellaneous assets | 522.8 | 655.1 | 821.0 | 723.7 | 858.8 |
| **Total liabilities** | **935.8** | **1,151.4** | **1,382.2** | **1,250.6** | **1,519.3** |
| Security repos (net) | 245.2 | 302.2 | 353.2 | 344.2 | 477.9 |
| Corporate bonds | 25.3 | 40.9 | 42.3 | 40.6 | 47.0 |
| Trade payables | 30.9 | 35.9 | 39.2 | 37.4 | 28.2 |
| Security credit | 448.7 | 587.6 | 629.5 | 590.6 | 688.8 |
| Customer credit balances | 323.9 | 412.4 | 454.3 | 412.7 | 475.4 |
| From banks | 124.8 | 175.2 | 175.2 | 177.9 | 213.5 |
| Taxes payable | 2.2 | 2.1 | 1.9 | 1.3 | 1.8 |
| Miscellaneous liabilities | 183.6 | 182.7 | 316.1 | 236.4 | 275.7 |
| Foreign direct investment in U.S. | 13.9 | 20.1 | 13.6 | 13.3 | 16.7 |
| Due to affiliates | 415.5 | 475.7 | 538.6 | 545.4 | 603.0 |
| Other | -245.8 | -313.1 | -236.1 | -322.3 | -344.0 |

Source: Board of Governors of the Federal Reserve System.

## SECURITIES INDUSTRY EMPLOYMENT, 1999-2003
(000)

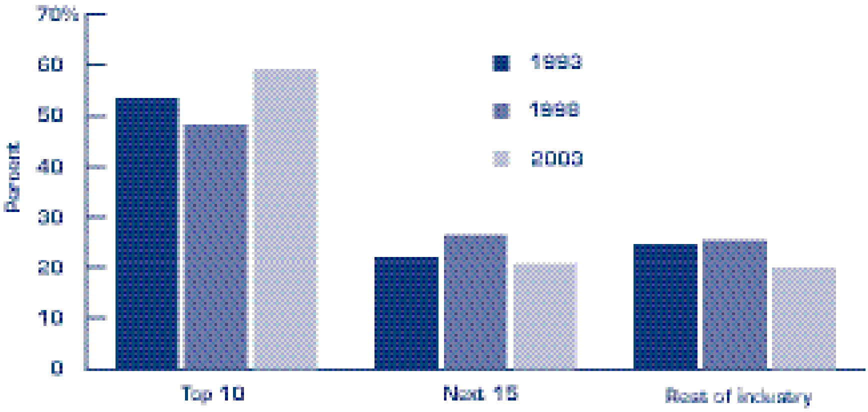
| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Securities, commodity contracts, investments (total industry)** | **737.3** | **804.5** | **830.5** | **789.4** | **764.4** |
| Securities and commodity contracts brokerages and exchanges | 519.4 | 565.7 | 576.9 | 528.3 | 495.6 |
| Securities brokerage | 321.5 | 350.1 | 355.1 | 321.1 | 294.2 |
| Other financial investment activities | 217.9 | 238.8 | 253.6 | 261.2 | 268.8 |
| Miscellaneous intermediation | 23.1 | 24.2 | 24.3 | 23.7 | 26.0 |
| Portfolio management | 83.1 | 91.4 | 97.1 | 97.9 | 98.2 |
| Investment advice | 65.6 | 72.4 | 79.1 | 89.0 | 95.3 |
| All other financial investment activities | 46.1 | 50.8 | 52.9 | 50.7 | 49.2 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

### CONCENTRATION

As in the banking and insurance sectors, the largest companies are now increasing their share of total revenue and capital, reversing a trend in the 1990s when second-tier companies were gaining at the expense of the top 10.

## SECURITIES INDUSTRY CONCENTRATION BY TOTAL REVENUE, 1993, 1998 AND 2003[1]




[1]New York Stock Exchange member firms doing public business.

Source: Securities Industry Association.

## SECURITIES INDUSTRY CONCENTRATION BY TOTAL CAPITAL, 1994-2003[1]

(Percent)

| Year | Top 10 | Next 15 | Rest of industry | Capital ($ billions) |
|---|---|---|---|---|
| 1994 | 60.9% | 18.7% | 20.4% | $56.8 |
| 1995 | 59.3 | 18.1 | 22.6 | 64.3 |
| 1996 | 58.5 | 18.8 | 22.7 | 70.7 |
| 1997 | 55.5 | 21.5 | 23.0 | 92.5 |
| 1998 | 57.1 | 21.8 | 21.1 | 105.7 |
| 1999 | 56.6 | 22.7 | 20.7 | 121.5 |
| 2000 | 53.8 | 23.1 | 23.2 | 141.5 |
| 2001 | 56.3 | 22.3 | 21.4 | 148.8 |
| 2002 | 59.6 | 22.4 | 18.0 | 144.6 |
| 2003 | 62.1 | 20.8 | 17.2 | 156.6 |

[1]New York Stock Exchange member firms doing public business.

Source: Securities Industry Association.

## TOP TEN U.S. SECURITIES FIRMS, BY REVENUES, 2003

($ millions)

| Rank | Company | Revenues | Percent change from 2002 |
|---|---|---|---|
| 1 | Morgan Stanley | $34,933 | 8% |
| 2 | Merrill Lynch | 27,745 | -2 |
| 3 | Goldman Sachs Group | 23,623 | 3 |
| 4 | Lehman Brothers Hldgs. | 17,287 | 3 |
| 5 | Bear Stearns | 7,395 | 7 |
| 6 | Charles Schwab | 4,328 | -3 |
| 7 | Franklin Resources | 2,624 | 4 |
| 8 | A.G. Edwards | 2,199 | -7 |
| 9 | E*Trade Group | 2,008 | 6 |
| 10 | Legg Mason | 1,615 | 2 |

Source: Fortune.

### TOP TEN U.S. SECURITIES AND INVESTMENT COMPANIES, BY ASSETS, 2004
($ millions, as of June 30, 2004)

| Rank | Company | Assets |
|---|---|---|
| 1 | Morgan Stanley[1] | $500,000 |
| 2 | Merrill Lynch & Co., Inc. | 488,000 |
| 3 | Alliance Capital Management L.P. | 480,611 |
| 4 | Goldman Sachs Group, Inc.[1] | 415,000 |
| 5 | Citigroup Global Markets Holdings Inc.[2] | 384,900 |
| 6 | Franklin Resources, Inc. | 350,775 |
| 7 | BlackRock, Inc. | 309,654 |
| 8 | Legg Mason, Inc. | 295,700 |
| 9 | T. Rowe Price Group, Inc. | 206,800 |
| 10 | Federated Investors, Inc. | 183,841 |

[1]As of May 31, 2004.
[2]As of March 31, 2004.

Source: SNL Financial LC.

## CAPITAL MARKETS

### INVESTMENT BANKING

Investment banks underwrite securities for the business community and offer investment advice. The type of equity deals they bring to market reflects a variety of factors including investor sentiment, the economy and market cycles. Examples of how these market factors drive this segment of the securities business are the rise and retreat of technology stocks; the varying levels of initial public offerings, where new stock issues are first offered to the public; and fluctuations in merger and acquisition activity.

The largest U.S. investment banks are located in New York City. They have branch networks, principally in money market centers such as Chicago and San Francisco; participate in both national and international markets; and serve mainly institutional investors.

## CORPORATE UNDERWRITING, 1998-2003
($ billions)

| | Value of U.S. corporate underwritings | | | Number of U.S. corporate underwritings | | |
|---|---|---|---|---|---|---|
| Year | Debt | Equity | Total | Debt | Equity | Total |
| 1998 | $1,715.6 | $152.7 | $1,868.3 | 12,322 | 1,200 | 13,522 |
| 1999 | 1,768.0 | 191.7 | 1,959.8 | 12,722 | 1,201 | 13,923 |
| 2000 | 1,646.6 | 204.5 | 1,851.0 | 11,980 | 961 | 12,941 |
| 2001 | 2,365.4 | 169.7 | 2,535.1 | 14,449 | 766 | 15,215 |
| 2002 | 2,427.2 | 154.0 | 2,581.1 | 9,841 | 731 | 10,572 |
| 2003 | 2,733.6 | 156.3 | 2,889.9 | 8,819 | 829 | 9,648 |

Source: Securities Industry Association.

- **From 1994 to 1999, the value of corporate equities tripled, reaching a high of $19.5 trillion. By contrast, from year-end 1999 to year-end 2003, the value of equities outstanding dropped 20.7 percent.**

## EQUITY AND DEBT OUTSTANDING, 1994-2003
($ billions, end of year)

| Year | Corporate equities | Corporate bonds | Total U.S. government securities | Municipal bonds |
|---|---|---|---|---|
| 1994 | $6,318.2 | $2,565.3 | $5,665.0 | $1,325.9 |
| 1995 | 8,474.8 | 2,902.0 | 6,013.5 | 1,268.3 |
| 1996 | 10,276.4 | 3,245.8 | 6,389.9 | 1,261.8 |
| 1997 | 13,292.8 | 3,596.9 | 6,625.9 | 1,318.7 |
| 1998 | 15,547.3 | 4,142.6 | 7,044.2 | 1,402.9 |
| 1999 | 19,522.8 | 4,553.0 | 7,564.9 | 1,457.2 |
| 2000 | 17,627.0 | 4,924.0 | 7,702.6 | 1,480.9 |
| 2001 | 15,310.6 | 5,510.5 | 8,323.6 | 1,603.7 |
| 2002 | 11,870.9 | 5,942.3 | 9,135.2 | 1,763.1 |
| 2003 | 15,472.7 | 6,523.8 | 10,094.1 | 1,898.5 |

Source: Board of Governors of the Federal Reserve System.

## MUNICIPAL BONDS

Municipal bonds are debt obligations issued by state or local governments to raise funds for general government needs (general obligation bonds) or special projects (revenue bonds). Average daily trading volume runs between $8 billion and $15 billion. The bonds play a significant role in portfolios because their yield is tax-free.

The principal and interest on revenue bonds are paid out of revenues of the local government operation that issued the bonds, e.g., the municipal transportation authority. General obligation bond principal and interest are backed by the "full faith and credit" of the local government and paid for out of the municipality's general revenues. The principal and interest of many general obligation bonds are insured by companies specializing in insuring municipal bonds.

Municipal bonds are usually sold in blocks to securities dealers, who either submit competitive bids for the bonds or negotiate a sale price. Negotiation is the prevailing form when the issuer is new to the financial markets or when the issue is particularly complex. Negotiation enables the underwriting dealer to become familiar with the issuer and the bonds and to help the municipality structure a complex issue.

### NUMBER AND VALUE OF LONG-TERM MUNICIPAL BOND UNDERWRITINGS, 1994-2003[1]

($ billions)

| | Revenue bonds | | General obligation bonds | | Total municipal bonds | |
|---|---|---|---|---|---|---|
| Year | Value | Number | Value | Number | Value | Number |
| 1994 | $104.2 | 5,408 | $57.7 | 5,358 | $161.9 | 10,766 |
| 1995 | 95.2 | 4,874 | 59.8 | 4,957 | 155.0 | 9,831 |
| 1996 | 115.7 | 5,272 | 64.5 | 5,538 | 180.2 | 10,810 |
| 1997 | 142.6 | 5,790 | 72.0 | 5,786 | 214.6 | 11,576 |
| 1998 | 187.0 | 7,150 | 92.8 | 7,251 | 279.8 | 14,401 |
| 1999 | 149.2 | 6,342 | 69.8 | 5,914 | 219.0 | 12,256 |
| 2000 | 129.7 | 5,310 | 64.3 | 5,149 | 194.0 | 10,459 |
| 2001 | 181.8 | 6,413 | 101.8 | 6,822 | 283.5 | 13,235 |
| 2002 | 230.0 | 6,475 | 125.4 | 7,498 | 355.4 | 13,973 |
| 2003 | 236.9 | 6,607 | 142.4 | 8,006 | 379.3 | 14,613 |

[1]Excludes taxable municipal bonds and bonds with maturities under 13 months.

Source: Thompson Financial Securities Data; Securities Industry Association.

- **The rise or fall in the number and value of municipal bond issues each year is determined largely by prevailing interest rates. As rates fall, the number and value of municipal bond issues tend to rise. In 2003, the number of underwritings rose 5 percent from 2002 and the value increased by 7 percent.**

## PRIVATE PLACEMENTS

Investment banks may distribute new security issues in a public offering to individual and institutional investors or they may arrange for the sale of all the securities of an issuer to a single institutional investor such as a bank or insurance company or a small group of them through private placement.

### PRIVATE PLACEMENTS, 1998-2003
($ billions)

| | Value of U.S. private placements | | | Number of U.S. private placements | | |
|---|---|---|---|---|---|---|
| Year | Debt | Equity | Total | Debt | Equity | Total |
| 1998 | $376.9 | $89.5 | $466.3 | 3,555 | 526 | 4,081 |
| 1999 | 368.8 | 77.7 | 446.5 | 3,285 | 462 | 3,747 |
| 2000 | 358.7 | 124.4 | 483.2 | 2,879 | 661 | 3,540 |
| 2001 | 510.5 | 80.6 | 591.1 | 2,063 | 809 | 2,872 |
| 2002 | 307.1 | 40.5 | 347.5 | 1,779 | 568 | 2,347 |
| 2003 | 489.2 | 28.4 | 517.6 | 2,627 | 529 | 3,156 |

Source: Thompson Financial Securities Data; Securities Industry Association.

### FOREIGN HOLDINGS OF U.S. SECURITIES, 1994-2003
($ billions, end of year)

| Year | Stocks | Corporate bonds | Treasuries[1] | Total |
|---|---|---|---|---|
| 1994 | $397.7 | $311.4 | $632.6 | $1,341.7 |
| 1995 | 549.5 | 361.5 | 820.2 | 1,731.2 |
| 1996 | 672.4 | 433.2 | 1,047.3 | 2,152.9 |
| 1997 | 952.9 | 501.6 | 1,165.7 | 2,620.2 |
| 1998 | 1,250.3 | 607.8 | 1,185.0 | 3,043.1 |
| 1999 | 1,611.5 | 752.1 | 1,080.4 | 3,444.0 |
| 2000 | 1,625.6 | 920.6 | 1,026.1 | 3,572.3 |
| 2001 | 1,533.9 | 1,126.3 | 1,039.7 | 3,699.9 |
| 2002 | 1,222.7 | 1,291.9 | 1,214.2 | 3,728.8 |
| 2003 | 1,619.8 | 1,547.0 | 1,482.7 | 4,649.5 |

[1]Includes agency issues.

Source: Board of Governors of the Federal Reserve System.

### U.S. HOLDINGS OF FOREIGN SECURITIES, 1994-2003
($ billions, end of year)

| Year | Stocks | Bonds | Total |
|---|---|---|---|
| 1994 | $627.5 | $242.3 | $869.8 |
| 1995 | 776.8 | 299.4 | 1,076.2 |
| 1996 | 1,002.9 | 366.3 | 1,369.2 |
| 1997 | 1,207.8 | 427.7 | 1,635.5 |
| 1998 | 1,475.0 | 450.6 | 1,925.6 |
| 1999 | 2,003.7 | 452.5 | 2,456.2 |
| 2000 | 1,852.9 | 467.7 | 2,320.6 |
| 2001 | 1,612.7 | 443.2 | 2,055.9 |
| 2002 | 1,345.2 | 409.8 | 1,755.0 |
| 2003 | 1,949.0 | 382.6 | 2,331.6 |

Source: Board of Governors of the Federal Reserve System.

## ASSET-BACKED SECURITIES

Asset-backed securities (ABS) are bonds that represent pools of loans of similar types, duration and interest rates. By selling their loans to ABS packagers, the original lenders recover cash quickly, enabling them to make more loans. The asset-backed securities market has grown as different types of loans are securitized and sold in the investment markets. Asset-backed securities may be insured by bond insurers.

### ASSET-BACKED SECURITIES OUTSTANDING, 2003
($ billions)

| | Amount outstanding | Percent of total |
|---|---|---|
| Credit card | $401.9 | 23.7% |
| Home equity | 346.0 | 20.4 |
| CBO/CDO[1] | 250.9 | 14.8 |
| Other | 246.8 | 14.6 |
| Automobile | 234.5 | 13.8 |
| Student loan | 99.2 | 5.9 |
| Equipment leases | 70.1 | 4.1 |
| Manufactured housing | 44.3 | 2.6 |
| **Total** | **$1,693.7** | **100.0%** |

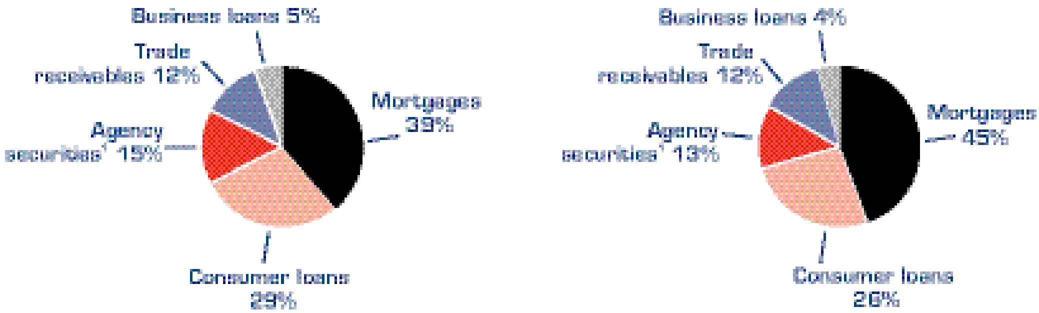
[1]Collateralized bond obligations/collateralized debt obligations.

Source: The Bond Market Association.

- **Home equity loans accounted for 20.4 percent of asset-backed securities outstanding in 2003, up from 18.6 percent in 2002 and 10.5 percent in 1995.**

## ASSET-BACKED SECURITIES

### ASSET-BACKED SECURITY SOURCES, 1999 AND 2003




[1]Securities of federal mortgage pools backing privately issued collateralized mortgage obligations (CMOs). In CMOs, mortgage principal and interest payments are separated into diff e rent payment streams to create bonds that repay capital over differing periods of time.

Source: Board of Governors of the Federal Reserve System.

### ASSET-BACKED SECURITY SOURCES, 1985-2003
($ billions, end of year)

| Year | Agency securities[1] | Mortgages | Consumer loans | Business loans | Trade receivables | Total |
|---|---|---|---|---|---|---|
| 1985 | $10.1 | $24.7 | $0.0 | $0.0 | $2.4 | $37.2 |
| 1990 | 117.8 | 68.1 | 76.7 | 4.3 | 17.4 | 284.3 |
| 1995 | 202.3 | 262.7 | 212.6 | 29.6 | 55.7 | 762.9 |
| 1996 | 195.5 | 305.0 | 272.1 | 37.7 | 80.7 | 891.0 |
| 1997 | 171.6 | 376.3 | 317.4 | 62.1 | 128.1 | 1,055.5 |
| 1998 | 193.5 | 517.9 | 389.4 | 85.9 | 165.9 | 1,352.6 |
| 1999 | 230.3 | 598.7 | 448.4 | 82.6 | 187.0 | 1,547.1 |
| 2000 | 238.6 | 667.4 | 521.3 | 89.8 | 220.0 | 1,737.2 |
| 2001 | 252.8 | 784.3 | 599.7 | 108.3 | 245.9 | 1,990.9 |
| 2002 | 299.4 | 874.4 | 637.1 | 105.0 | 269.7 | 2,185.5 |
| 2003 | 308.2 | 1,058.9 | 629.1 | 103.9 | 290.8 | 2,390.9 |

[1]Securities of federal mortgage pools backing privately issued collateralized mortgage obligations (CMOs). In CMOs, mortgage principal and interest payments are separated into diff e rent payment streams to create bonds that repay capital over differing periods of time.

Source: Board of Governors of the Federal Reserve System.

## DERIVATIVES

Financial derivatives are contracts that derive their value from the performance of an underlying financial asset, such as publicly-traded securities and foreign currencies. They are used as hedging instruments to protect assets against changes in value. There are many kinds of derivatives including futures, options and swaps. Futures and options contracts are traded on the floors of exchanges. Swaps are over-the-counter privately-negotiated agreements between two parties. Futures contracts traded on U.S. exchanges grew 23 percent in 2003, compared with 2002.

Credit derivatives are contracts that lenders, large bondholders and others can purchase to protect against the borrower defaulting on bonds. Credit derivative products can take many forms, such as credit default options, credit limited notes and total return swaps. Large banks use credit derivatives to manage their credit risk. According to the International Swaps and Derivatives Association (ISDA), credit default swaps, which ISDA began to survey at mid-year 2001, more than tripled to $3.78 trillion at the end of 2003 from the $918.9 billion reported in June 2001. Bond insurers write coverage for credit default swaps.

### NUMBER OF FUTURES CONTRACTS TRADED ON U.S. EXCHANGES, 1994-2003
(millions)

| Year | Interest rate | Agricultural commodities | Energy products | Foreign currency | Equity indices | Precious metals | Non-precious metals | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1994 | 248.7 | 58.7 | 49.7 | 29.7 | 20.6 | 15.7 | 2.7 | 0.4 | 426.3 |
| 1995 | 223.6 | 63.5 | 47.2 | 23.2 | 20.7 | 14.1 | 2.5 | 0.5 | 395.3 |
| 1996 | 212.5 | 74.9 | 47.2 | 22.6 | 22.2 | 14.9 | 2.3 | 0.8 | 397.4 |
| 1997 | 244.6 | 74.9 | 52.9 | 26.6 | 25.8 | 15.4 | 2.4 | 1.1 | 443.7 |
| 1998 | 279.2 | 73.3 | 63.8 | 27.0 | 42.4 | 13.8 | 2.5 | 1.2 | 503.2 |
| 1999 | 240.7 | 73.0 | 75.1 | 23.7 | 46.7 | 14.5 | 2.9 | 1.3 | 477.9 |
| 2000 | 248.7 | 73.2 | 73.1 | 19.4 | 62.8 | 10.2 | 2.8 | 1.3 | 491.5 |
| 2001 | 342.2 | 72.3 | 72.5 | 21.7 | 107.2 | 9.6 | 2.9 | 0.7 | 629.2 |
| 2002 | 418.8 | 79.2 | 92.1 | 23.5 | 221.5 | 12.4 | 2.9 | 0.7 | 851.3 |
| 2003 | 509.6 | 87.9 | 91.9 | 33.6 | 296.7 | 16.9 | 3.2 | 0.6 | 1,043.0 |

Source: Futures Industry Association; Securities Industry Association.

- The number of options contracts traded on U.S. exchanges increased by 13.7 percent from 2002 to 2003, compared with an increase of 4.7 percent in 2002 and 15.5 percent in 2001.

## NUMBER OF OPTIONS CONTRACTS TRADED ON U.S. EXCHANGES, 1994-2003
(millions)

| Year | Equity | Stock index | Foreign currency | Interest rate | Futures | Total |
|---|---|---|---|---|---|---|
| 1994 | 149.9 | 121.1 | 10.1 | 0.2 | 100.9 | 382.2 |
| 1995 | 174.4 | 107.9 | 5.0 | 0.1 | 94.2 | 381.5 |
| 1996 | 198.6 | 92.4 | 3.2 | 0.1 | 102.0 | 396.2 |
| 1997 | 269.6 | 78.2 | 2.6 | 0.1 | 111.1 | 461.5 |
| 1998 | 325.8 | 74.8 | 1.8 | 0.1 | 127.5 | 530.0 |
| 1999 | 444.8 | 62.3 | 0.8 | [1] | 115.0 | 622.9 |
| 2000 | 665.3 | 53.3 | 0.5 | [1] | 103.1 | 822.2 |
| 2001 | 701.1 | 79.6 | 0.6 | [1] | 168.2 | 949.4 |
| 2002 | 679.4 | 100.6 | 0.4 | [1] | 213.1 | 993.6 |
| 2003 | 789.2 | 118.3 | 0.3 | 0.1 | 221.7 | 1,129.5 |

[1]Less than 50,000 interest rate contracts traded.

Source: Options Clearing Corporation; Futures Industry Association; Securities Industry Association.

## GLOBAL DERIVATIVES MARKET, 1994-2003[1]
($ billions, end of year)

| Year | Exchange-traded | Over-the-counter (OTC) | Total |
|---|---|---|---|
| 1994 | $8,898 | $11,303 | $20,201 |
| 1995 | 9,283 | 17,713 | 26,996 |
| 1996 | 10,018 | 25,453 | 35,471 |
| 1997 | 12,403 | 29,035 | 41,438 |
| 1998 | 13,932 | 80,318 | 94,250 |
| 1999 | 13,522 | 88,202 | 101,724 |
| 2000 | 14,278 | 95,199 | 109,477 |
| 2001 | 23,764 | 111,178 | 134,942 |
| 2002 | 23,815 | 141,639 | 165,454 |
| 2003 | 36,734 | 197,177 | 233,911 |

[1]Notional principal value outstanding. Data after 1998 not strictly comparable to prior years.

Source: Bank for International Settlements.

## EXCHANGES

Exchanges are markets where sales of securities are transacted. Most stock exchanges are auction markets where stocks are traded through competitive bidding in a central location. The oldest exchanges in the United States are the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX). The National Association of Securities Dealers operates a national electronic stock market, the NASDAQ, for over-the-counter (OTC) securities. Securities traded in the OTC market are generally those not listed by major exchanges. They include technology and small company stocks, asset-backed securities, and U.S. government and corporate bonds. In contrast to organized exchanges, business in the OTC market is carried out through dealers in different locations who buy and sell NASDAQ securities.

There are also seven regional exchanges and others that specialize in commodities and derivatives. The Chicago Mercantile Exchange and the Chicago Board of Trade, for example, are markets where both futures and options on financial and agricultural products are traded.

Advances in technology have enabled exchanges to keep up with the demands of growing investor participation. Exchanges are transacting increasingly large volumes of trades, especially in times of heavy market activity due to unexpected news about earnings or interest rates, or other announcements that can cause sudden swings in value. The use of the Internet, for trading as well as investment research, and the tremendous growth in institutional and individual investor participation helped set trading records for the equity market in the 1990s.

### EXCHANGE LISTED COMPANIES, 1994-2003

| Year | NASDAQ | NYSE | AMEX |
|---|---|---|---|
| 1994 | 4,902 | 2,570 | 824 |
| 1995 | 5,122 | 2,675 | 791 |
| 1996 | 5,556 | 2,907 | 751 |
| 1997 | 5,487 | 3,047 | 771 |
| 1998 | 5,068 | 3,114 | 770 |
| 1999 | 4,829 | 3,025 | 769 |
| 2000 | 4,734 | 2,862 | 765 |
| 2001 | 4,109 | 2,798 | 691 |
| 2002 | 3,663 | 2,783 | 698 |
| 2003 | 3,333 | 2,755 | 700 |

Source: Securities Industry Association.

The volume of shares traded on the New York Stock Exchange in 2003 dropped 3 percent from 2002. The average share price also dropped 3 percent.

### EXCHANGE ACTIVITIES, 1994-2003

| | NYSE | | AMEX | | NASDAQ | | Regional | |
|---|---|---|---|---|---|---|---|---|
| Year | Reported share volume (millions) | Value of shares traded ($ millions) | Share volume (millions) | Value of shares traded ($ millions) | Share volume (millions) | Value of shares traded ($ millions) | Share volume (millions) | Value of shares traded ($ millions) |
| 1994 | 73,420 | $2,454,242 | 4,523 | $58,511 | 74,353 | $1,449,301 | 9,514 | $279,514 |
| 1995 | 87,217 | 3,082,916 | 5,072 | 72,717 | 101,158 | 2,398,214 | 11,446 | 355,879 |
| 1996 | 104,636 | 4,063,655 | 5,628 | 91,330 | 138,112 | 3,301,777 | 12,289 | 414,201 |
| 1997 | 133,312 | 5,777,602 | 6,170 | 143,230 | 163,882 | 4,481,691 | 14,809 | 573,212 |
| 1998 | 169,745 | 7,317,949 | 7,280 | 287,929 | 202,040 | 5,758,558 | 19,888 | 753,110 |
| 1999 | 203,851 | 8,945,205 | 8,231 | 477,822 | 272,605 | 11,013,192 | 27,794 | 1,147,556 |
| 2000 | 262,478 | 11,060,046 | 13,318 | 945,391 | 442,753 | 20,395,335 | 40,058 | 1,716,869 |
| 2001 | 307,509 | 10,489,323 | 16,317 | 817,042 | 471,217 | 10,934,572 | 42,430 | 1,176,992 |
| 2002 | 363,136 | 10,311,156 | 16,063 | 642,183 | 441,706 | 7,254,595 | 85,542 | 1,753,049 |
| 2003 | 352,398 | 9,692,316 | 16,919 | 563,438 | 424,745 | 7,057,440 | 169,685 | 3,437,715 |

Source: Securities Industry Association.

### STOCK MARKET PERFORMANCE INDICES, 1994-2003
(End of year)

| Year | DJIA[1] | S&P 500 | NYSE Composite | AMEX Composite[2] | NASDAQ Composite |
|---|---|---|---|---|---|
| 1994 | 3,834.44 | 459.27 | 2,653.37 | 433.67 | 751.96 |
| 1995 | 5,117.12 | 615.93 | 3,484.15 | 550.00 | 1,052.13 |
| 1996 | 6,448.27 | 740.74 | 4,148.07 | 572.34 | 1,291.03 |
| 1997 | 7,908.25 | 970.43 | 5,405.19 | 684.61 | 1,570.35 |
| 1998 | 9,181.43 | 1,229.23 | 6,299.93 | 688.99 | 2,192.69 |
| 1999 | 11,497.12 | 1,469.25 | 6,876.10 | 876.97 | 4,069.31 |
| 2000 | 10,786.85 | 1,320.28 | 6,945.57 | 897.75 | 2,470.52 |
| 2001 | 10,021.50 | 1,148.08 | 6,236.39 | 847.61 | 1,950.40 |
| 2002 | 8,341.63 | 879.82 | 5,000.00 | 824.38 | 1,335.51 |
| 2003 | 10,453.92 | 1,111.92 | 6,440.30 | 1,173.55 | 2,003.37 |

[1]Dow Jones Industrial Average.

[2]Amex Market Value Index for 1994; Amex Composite Index thereafter.

Source: Securities Industry Association.

## MUTUAL FUNDS

A mutual fund is a pool of assets that is managed by professional investment managers. Embraced as an investment vehicle by those who do not want to actively manage their investment accounts but who believe they can earn higher returns in the securities markets than through traditional savings bank products, mutual funds have experienced tremendous growth over the past two decades. In 1940, there were only 68 funds and about 300,000 shareholder accounts. By 1980, there were 564 funds and 12 million accounts. From 1985 to 1990, by most measures, the industry doubled in size. According to data from the Investment Company Institute, the trade association for the mutual fund industry, nearly one out of two American households owned mutual funds in 2003.

Mutual funds are regulated by the Investment Management Act of 1940, which stipulates that all investment advisers disclose to investors the methods and investment guidelines of their funds. Institutional fund managers have a substantial presence in the securities markets as they trade and manage the securities within the mutual funds they oversee.

- **At year-end 2003, mutual funds accounted for 22 percent of the U.S. retirement market, or $2.7 trillion. This amount represented about one-third of all mutual fund assets.**
- **Mutual funds own 22 percent of all U.S. corporate equity.**

### MUTUAL FUND INDUSTRY NET ASSETS, NUMBER OF FUNDS AND SHAREHOLDER ACCOUNTS, 1985-2003

| Year | Total net assets ($ billions) | Number of funds | Number of shareholder accounts (000) |
|---|---|---|---|
| 1985 | $495.39 | 1,528 | 34,098 |
| 1990 | 1,065.19 | 3,079 | 61,948 |
| 1995 | 2,811.29 | 5,725 | 131,219 |
| 1997 | 4,468.20 | 6,684 | 170,264 |
| 1998 | 5,525.21 | 7,314 | 194,074 |
| 1999 | 6,846.34 | 7,791 | 226,413 |
| 2000 | 6,964.67 | 8,155 | 244,768 |
| 2001 | 6,974.95 | 8,305 | 248,804 |
| 2002 | 6,390.36 | 8,244 | 251,224 |
| 2003 | 7,414.08 | 8,126 | 260,650 |

Source: Investment Company Institute.

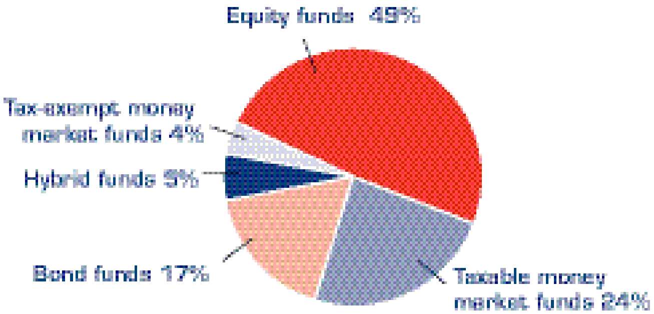
## MUTUAL FUND INDUSTRY NET ASSETS BY TYPE OF FUND, 1985-2003

($ billions, end of year)

| Year | Equity funds | Hybrid funds | Bond funds | Taxable money market funds | Tax-exempt money market funds | Total |
|---|---|---|---|---|---|---|
| 1985 | $111.3 | $17.6 | $122.7 | $207.5 | $36.3 | $495.4 |
| 1990 | 239.5 | 36.1 | 291.3 | 414.7 | 83.6 | 1,065.2 |
| 1995 | 1,249.1 | 210.3 | 598.9 | 630.0 | 123.0 | 2,811.3 |
| 1997 | 2,368.0 | 317.1 | 724.2 | 898.1 | 160.8 | 4,468.2 |
| 1998 | 2,978.2 | 364.7 | 830.6 | 1,163.2 | 188.5 | 5,525.2 |
| 1999 | 4,041.9 | 378.8 | 812.5 | 1,408.7 | 204.4 | 6,846.3 |
| 2000 | 3,961.9 | 346.3 | 811.2 | 1,607.3 | 238.0 | 6,964.7 |
| 2001 | 3,418.2 | 346.3 | 925.1 | 2,013.0 | 272.4 | 6,975.0 |
| 2002 | 2,663.0 | 330.5 | 1,124.9 | 1,997.2 | 274.8 | 6,390.4 |
| 2003 | 3,684.8 | 436.7 | 1,240.9 | 1,763.3 | 288.4 | 7,414.1 |

Source: Investment Company Institute.

## MUTUAL FUND INDUSTRY NET ASSETS BY TYPE OF FUND, 2003



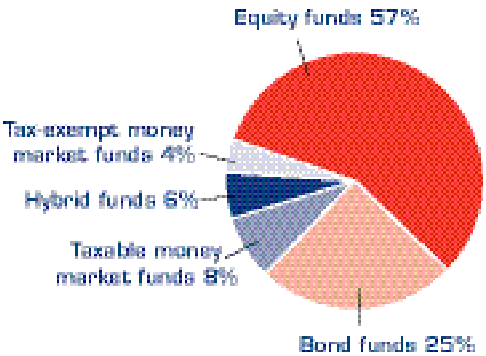

Source: Investment Company Institute.

## NUMBER OF MUTUAL FUNDS BY TYPE, 1985-2003

| Year | Equity funds | Hybrid funds | Bond funds | Taxable money market funds | Tax-exempt money market funds | Total |
|---|---|---|---|---|---|---|
| 1985 | 562 | 103 | 403 | 348 | 112 | 1,528 |
| 1990 | 1,099 | 193 | 1,046 | 506 | 235 | 3,079 |
| 1995 | 2,139 | 412 | 2,177 | 674 | 323 | 5,725 |
| 1997 | 2,951 | 501 | 2,219 | 682 | 331 | 6,684 |
| 1998 | 3,513 | 525 | 2,250 | 685 | 341 | 7,314 |
| 1999 | 3,952 | 532 | 2,262 | 702 | 343 | 7,791 |
| 2000 | 4,385 | 523 | 2,208 | 703 | 336 | 8,155 |
| 2001 | 4,716 | 483 | 2,091 | 689 | 326 | 8,305 |
| 2002 | 4,748 | 474 | 2,033 | 679 | 310 | 8,244 |
| 2003 | 4,601 | 509 | 2,043 | 661 | 312 | 8,126 |

Source: Investment Company Institute.

## NUMBER OF MUTUAL FUNDS BY TYPE, 2003




Source: Investment Company Institute.

## TOP TEN MUTUAL FUND COMPANIES, 2004[1]

($000)

| Rank | Company | Total net assets |
|---|---|---|
| 1 | Fidelity Investments | $848,549,271 |
| 2 | Vanguard Group | 717,983,899 |
| 3 | Capital Research & Management | 577,508,042 |
| 4 | Franklin Templeton Investments | 215,571,653 |
| 5 | Morgan Stanley | 190,875,909 |
| 6 | Merrill Lynch Investment Managers | 187,365,599 |
| 7 | Federated Investors | 180,766,227 |
| 8 | TIAA-CREF | 157,793,660 |
| 9 | PIMCO Funds | 153,848,531 |
| 10 | Dreyfus Corporation | 150,815,889 |

[1]As of April 30, 2004. Includes members of Investment Company Institute only.

Source: Investment Company Institute.

Finance companies, which supply credit to businesses and consumers, are often categorized as nondepository institutions, along with mortgage bankers and brokers, because they make loans without taking in deposits. They acquire funds to make these loans largely by issuing commercial paper and bonds and securitizing their loans. As financial intermediaries, finance companies compete with banks, savings institutions and credit unions. In terms of assets, the sector is twice as large as the credit union sector, about the same size as thrifts and one-fifth as large as commercial banks. Accounts receivable, or receivables, rather than assets or revenues, determine a company's standing within the industry.

Finance companies are diverse. Captive finance companies, which are affiliated with motor vehicle or appliance manufacturers, finance dealer inventories and consumer purchases of their products, sometimes at below-market rates. Consumer finance companies make loans to consumers who want to finance purchases of large household items, such as furniture; make home improvements; or refinance small debts. Business finance companies offer commercial credit, making loans secured by the assets of the business to wholesalers and manufacturers and purchasing accounts receivable at a discount. Increasingly, finance companies are participating in the real estate market but, according to the Federal Reserve, despite their expansion in this area, they still account for a very small share of the total. They also offer credit cards and engage in motor vehicle, aircraft and equipment leasing.

### TOP TEN SPECIALTY LENDER MERGERS AND ACQUISITIONS, 2003[1]

| Buyer | Industry | Target | Deal value[2] ($ millions) |
|---|---|---|---|
| Citigroup Inc. | Bank | Sears Roebuck & Co.'s credit and financial business | $6,000.0 |
| General Electric Co. | Diversified | Transamerica Finance's commercial lending business | 5,400.0 |
| General Electric Co. | Diversified | First National secured and unsecured lending business | 1,535.0 |
| General Electric Co. | Diversified | Certain assets and liabilities of IOS Capital LLC | 1,500.0 |
| FleetBoston Financial Corp. | Bank | Circuit City's bankcard operations | 1,300.0 |
| Citigroup Inc. | Bank | Washington Mutual Finance Corp. | 1,250.0 |
| CFN Investment Holdings LLC | Not classified | Certain assets of Conseco Finance Corp. | 772.0 |
| Comprendium Enterprise | Not classified | Comdisco GmbH and Co. Leasing and Finance | 361.0 |
| Charter Mac | Investment company | Related Capital Company LLC | 338.0 |
| Hudson United Bancorp | Bank | Undisclosed commercial finance company | 262.6 |

[1]At least one of the companies involved is a U.S.-domiciled company. List does not include terminated deals.

[2]At announcement.

Source: SNL Financial LC.

## FINANCE COMPANY EMPLOYMENT, 1999-2003
(000)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Nondepository credit intermediation** | **656.3** | **644.4** | **660.7** | **694.9** | **741.2** |
| Credit card issuing | 140.8 | 144.0 | 144.4 | 133.8 | 135.1 |
| Sales financing | 105.3 | 111.3 | 113.2 | 109.0 | 107.6 |
| Other nondepository credit intermediation | 410.3 | 389.1 | 403.1 | 452.1 | 498.5 |
| Consumer lending | 83.6 | 88.4 | 94.3 | 99.0 | 100.9 |
| Real estate credit | 250.8 | 223.4 | 231.2 | 277.0 | 323.9 |
| Miscellaneous nondepository credit intermediation | 75.9 | 77.3 | 77.6 | 76.2 | 73.7 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## NONDEPOSITORY CREDIT INTERMEDIATION INDUSTRY, 1997 AND 2002[1]

| | Year | Establishments[2] (number) | Annual payroll ($000) |
|---|---|---|---|
| Nondepository credit intermediation | 2002 | 48,660 | $36,271,640 |
| | 1997 | 47,556 | 22,660,754 |
| Credit card issuing | 2002 | 673 | 2,287,469 |
| | 1997 | 588 | 1,782,651 |
| Sales financing | 2002 | 7,008 | 8,961,052 |
| | 1997 | 8,143 | 6,163,041 |
| Other nondepository credit intermediation | 2002 | 40,979 | 25,023,119 |
| | 1997 | 38,825 | 14,715,062 |

[1]As defined by the U.S. Census Bureau, includes firms primarily engaged in extending credit or lending funds raised by credit market borrowing. The group includes credit card issuing firms, sales financing firms, and establishments that make cash loans or extend credit through credit instruments other than credit cards and sales finance agreements. All data based on the 1997 North American Industrial Classification System (NAICS).

[2]An establishment is a single physical location at which business is conducted, as opposed to a firm or company, which may consist of one or more establishments under common control.

Source: U.S. Department of Commerce, U.S. Census Bureau.

## ASSETS AND LIABILITIES OF FINANCE COMPANIES, 1999-2003[1]
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total financial assets** | **$1,003.5** | **$1,140.1** | **$1,158.9** | **$1,192.6** | **$1,382.6** |
| Checkable deposits and currency | 25.3 | 27.9 | 30.8 | 33.8 | 37.1 |
| Credit market instruments | 742.6 | 851.2 | 846.4 | 867.6 | 951.8 |
| Other loans and advances | 395.1 | 458.4 | 447.0 | 455.3 | 457.5 |
| Mortgages | 145.8 | 172.3 | 161.3 | 174.5 | 198.9 |
| Consumer credit | 201.6 | 220.5 | 238.1 | 237.8 | 295.4 |
| Miscellaneous assets | 235.7 | 261.0 | 281.8 | 291.3 | 393.7 |
| **Total liabilities** | **995.3** | **1,161.4** | **1,182.7** | **1,246.9** | **1,467.6** |
| Credit market instruments | 696.1 | 778.0 | 779.2 | 821.4 | 938.7 |
| Open market paper | 230.4 | 238.8 | 158.6 | 141.5 | 136.3 |
| Corporate bonds | 430.3 | 503.2 | 569.9 | 631.9 | 746.2 |
| Other bank loans | 35.4 | 35.9 | 50.8 | 48.0 | 56.2 |
| Taxes payable | 8.1 | 9.1 | 10.2 | 11.6 | 13.2 |
| Miscellaneous liabilities | 291.1 | 374.3 | 393.2 | 413.9 | 515.7 |
| Foreign direct investment in U.S. | 48.6 | 63.2 | 68.5 | 58.8 | 76.8 |
| Investment by parent | 87.8 | 102.5 | 99.2 | 88.2 | 99.8 |
| Other | 154.6 | 208.5 | 225.5 | 266.9 | 339.2 |
| Consumer leases not included above[2] | 102.9 | 108.2 | 103.5 | 83.3 | 70.0 |

[1]Includes retail captive finance companies.

[2]Receivables from operating leases, such as consumer automobile leases, are booked as current income when payments are received and are not included in financial assets (or household liabilities). The leased automobile is a tangible asset.

Source: Board of Governors of the Federal Reserve System.

## PROFITABILITY

### BUSINESS AND CONSUMER FINANCE COMPANIES, RETURN ON EQUITY, 1999-2003[1]

| | Business finance companies return on average equity[2] | | Consumer finance companies return on average equity[3] | |
|---|---|---|---|---|
| Year | Median | Average | Median | Average |
| 1999 | 10.93% | -7.00% | 18.00% | 13.99% |
| 2000 | 10.34 | -0.27 | 19.93 | 7.73 |
| 2001 | 8.46 | 11.36 | 11.35 | -31.73 |
| 2002 | 4.83 | -4.11 | 21.33 | 26.11 |
| 2003 | 8.98 | 3.16 | 20.51 | 18.23 |

[1]Net income as a percentage of average equity.

[2]Consists of 29 publicly-traded commercial finance companies including niche, diversified commercial and equipment finance companies. Does not include GSEs, finance REITs, mortgage or real estate companies.

[3]Consists of 31 publicly-traded consumer finance companies including auto finance, credit card, niche and diversified consumer companies and pawn shops. Does not include GSEs, finance REITs, or mortgage and real estate companies.

Source: SNL Financial Services DataSource.

### NONDEPOSITORY CREDIT INTERMEDIATION INDUSTRY REVENUES, 1997 AND 2002[1]
($000)

| | Year | Revenue |
|---|---|---|
| Nondepository credit intermediation | 2002 | $384,011,947 |
| | 1997 | 229,213,945 |
| Credit card issuing | 2002 | 34,505,552 |
| | 1997 | 24,503,307 |
| Sales financing | 2002 | 121,489,478 |
| | 1997 | 78,133,239 |
| Other nondepository credit intermediation | 2002 | 228,016,917 |
| | 1997 | 126,577,399 |

[1]As defined by the U.S. Census Bureau, includes firms primarily engaged in extending credit or lending funds raised by credit market borrowing. The group includes credit card issuing firms, sales financing firms, and establishments that make cash loans or extend credit through credit instruments other than credit cards and sales finance agreements. All data based on the 1997 North American Industrial Classification System (NAICS).

Source: U.S. Department of Commerce, U.S. Census Bureau.

## TOTAL RECEIVABLES AT FINANCE COMPANIES, 1999-2003[1]
($ billions)

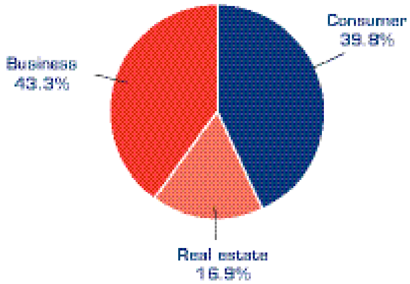
| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total** | **$1,030.4** | **$1,193.3** | **$1,248.7** | **$1,277.5** | **$1,333.3** |
| Consumer | 409.7 | 472.0 | 515.2 | 519.1 | 542.5 |
| Real estate | 174.0 | 198.9 | 207.7 | 217.4 | 239.6 |
| Business | 446.6 | 522.5 | 525.8 | 541.0 | 551.2 |

[1]Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Includes owned receivables (carried on the balance sheet of the institution) and managed receivables (outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator).

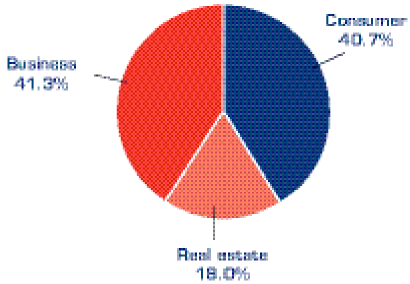
Source: Board of Governors of the Federal Reserve System.

## TOTAL RECEIVABLES AT FINANCE COMPANIES, BY CATEGORY, 1999 AND 2003[1]

1999




2003




[1]Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Includes owned receivables (carried on the balance sheet of the institution) and managed receivables (outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator).

Source: Board of Governors of the Federal Reserve System.

## RECEIVABLES

### BUSINESS RECEIVABLES AT FINANCE COMPANIES, 1999-2003
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 | Percent of total 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **$449.6** | **$525.0** | **$527.9** | **$543.0** | **$553.1** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Motor vehicles | 69.4 | 75.5 | 54.0 | 60.7 | 74.9 | 15.4 | 14.4 | 10.2 | 11.2 | 13.5 |
| Retail loans | 21.1 | 18.3 | 16.1 | 15.4 | 18.2 | 4.7 | 3.5 | 3.0 | 2.8 | 3.3 |
| Wholesale loans[1] | 34.8 | 39.7 | 20.3 | 29.3 | 40.3 | 7.7 | 7.6 | 3.8 | 5.4 | 7.3 |
| Leases | 13.6 | 17.6 | 17.6 | 16.0 | 16.3 | 3.0 | 3.4 | 3.3 | 2.9 | 2.9 |
| Equipment | 238.7 | 283.5 | 289.4 | 292.1 | 277.6 | 53.1 | 54.0 | 54.8 | 53.8 | 50.2 |
| Loans | 64.5 | 70.2 | 77.8 | 83.3 | 74.6 | 14.3 | 13.4 | 14.7 | 15.3 | 13.5 |
| Leases | 174.2 | 213.3 | 211.6 | 208.8 | 203.1 | 38.7 | 40.6 | 40.1 | 38.5 | 36.7 |
| Other business receivables[2] | 87.0 | 99.4 | 103.5 | 102.5 | 105.0 | 19.4 | 18.9 | 19.6 | 18.9 | 19.0 |
| Securitized assets[3] | 54.5 | 66.5 | 81.0 | 87.8 | 95.6 | 12.1 | 12.7 | 15.3 | 16.2 | 17.3 |
| Motor vehicles | 31.5 | 37.8 | 50.1 | 50.2 | 48.4 | 7.0 | 7.2 | 9.5 | 9.2 | 8.8 |
| Retail loans | 2.9 | 3.2 | 5.1 | 2.4 | 2.2 | 0.6 | 0.6 | 1.0 | 0.4 | 0.4 |
| Wholesale loans | 26.4 | 32.5 | 42.5 | 45.9 | 44.2 | 5.9 | 6.2 | 8.1 | 8.5 | 8.0 |
| Leases | 2.1 | 2.2 | 2.5 | 1.9 | 2.1 | 0.5 | 0.4 | 0.5 | 0.3 | 0.4 |
| Equipment | 14.6 | 23.1 | 23.2 | 20.2 | 22.1 | 3.2 | 4.4 | 4.4 | 3.7 | 4.0 |
| Loans | 7.9 | 15.5 | 16.4 | 13.0 | 12.5 | 1.8 | 3.0 | 3.1 | 2.4 | 2.3 |
| Leases | 6.7 | 7.6 | 6.8 | 7.2 | 9.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.7 |
| Other business receivables[2] | 8.4 | 5.6 | 7.7 | 17.4 | 25.1 | 1.9 | 1.1 | 1.5 | 3.2 | 4.5 |

[1]Credit arising from transactions between manufacturers and dealers, that is, floor plan financing.

[2]Includes loans on commercial accounts receivable, factored commercial accounts, and receivable dealer capital; small loans used primarily for business or farm purposes; and wholesale and lease paper for mobile homes, recreation vehicles and travel trailers.

[3]Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

Source: Board of Governors of the Federal Reserve System.

## CONSUMER RECEIVABLES AT FINANCE COMPANIES, 1999-2003
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total consumer** | **$412.8** | **$475.9** | **$519.7** | **$523.9** | **$547.7** |
| Motor vehicle loans | 129.2 | 141.6 | 173.9 | 160.2 | 197.0 |
| Motor vehicle leases | 102.9 | 108.2 | 103.5 | 83.3 | 70.0 |
| Revolving[1] | 32.5 | 37.6 | 31.5 | 38.9 | 37.6 |
| Other[2] | 39.9 | 41.3 | 32.7 | 38.7 | 60.9 |
| Securitized assets[3] | | | | | |
| Motor vehicle loans | 73.1 | 97.1 | 131.9 | 151.9 | 132.8 |
| Motor vehicle leases | 9.7 | 6.6 | 6.8 | 5.7 | 5.5 |
| Revolving | 6.7 | 27.5 | 25.0 | 31.1 | 31.6 |
| Other | 18.8 | 16.0 | 14.3 | 14.0 | 12.2 |

[1]Excludes revolving credit reported as held by depository institutions that are subsidiaries of finance companies.
[2]Includes personal cash loans, mobile home loans, and loans to purchase other types of consumer goods such as appliances, apparel, boats and recreation vehicles.
[3]Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

Source: Board of Governors of the Federal Reserve System.

## REAL ESTATE RECEIVABLES AT FINANCE COMPANIES, 1999-2003
($ billions, end of year)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Total real estate** | **$174.0** | **$198.9** | **$207.7** | **$217.4** | **$239.6** |
| One- to four-family | 108.2 | 130.6 | 120.1 | 135.0 | 152.2 |
| Other | 37.6 | 41.7 | 41.2 | 39.5 | 46.7 |
| Securitized real estate assets[1] | | | | | |
| One- to four-family | 28.0 | 24.7 | 40.7 | 39.7 | 36.9 |
| Other | 0.2 | 1.9 | 5.7 | 3.2 | 3.8 |

[1]Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

Source: Board of Governors of the Federal Reserve System.

## CONCENTRATION

### NONDEPOSITORY CREDIT INTERMEDIATION INDUSTRY: CONCENTRATION BY LARGEST FIRMS, 1997 AND 2002[1]

| | Number of establishments[2] | | Revenues | | | |
|---|---|---|---|---|---|---|
| | | | Amount ($000) | | As a percent of total | |
| | 1997 | 2002 | 1997 | 2002 | 1997 | 2002 |
| **All firms[2]** | **47,556** | **48,696** | **$229,213,945** | **$403,912,619** | **100.0%** | **100.0%** |
| 4 largest firms | 2,569 | 3,280 | 71,574,042 | 166,726,453 | 31.2 | 41.3 |
| 8 largest firms | 3,820 | 7,511 | 98,222,537 | 206,873,695 | 42.9 | 51.2 |
| 20 largest firms | 7,971 | 10,706 | 130,024,484 | 263,953,166 | 56.7 | 65.3 |
| 50 largest firms | 14,301 | 14,490 | 160,501,398 | 315,239,859 | 70.0 | 78.0 |

[1]As defined by the U.S. Census Bureau, includes firms primarily engaged in extending credit or lending funds raised by credit market borrowing. The group includes credit card issuing firms, sales financing firms, and establishments that make cash loans or extend credit through credit instruments other than credit cards and sales finance agreements. Data for 1997 based on North American Industrial Classification System (NAICS). Data for 2002 based on 2002 NAICS. Data in this chart may not be comparable to other Census Bureau Data shown elsewhere in this chapter.

[2]An establishment is a single physical location at which business is conducted, as opposed to a firm or company, which may consist of one or more establishments under common control.

Source: U.S. Department of Commerce, U.S. Census Bureau.

### NONDEPOSITORY CREDIT INTERMEDIATION INDUSTRY: CONCENTRATION BY LARGEST FIRMS, BY SECTOR, 1997 AND 2002[1]
($ billions)

| | Revenues of top 50 firms as a percent of total | |
|---|---|---|
| | 1997 | 2002 |
| Nondepository credit intermediation industry | 70.0% | 78.0% |
| Credit card issuing | 99.4 | 99.8 |
| Sales financing | 79.8 | 88.8 |
| Other nondepository credit intermediation | 72.2 | 80.3 |

[1]As defined by the U.S. Census Bureau, includes firms primarily engaged in extending credit or lending funds raised by credit market borrowing. The group includes credit card issuing firms, sales financing firms, and establishments that make cash loans or extend credit through credit instruments other than credit cards and sales finance agreements.

Source: U.S. Department of Commerce, U.S. Census Bureau.

## TOP TEN U.S. CONSUMER AND COMMERCIAL FINANCE COMPANIES, 2003[1]
($ millions)

| Rank | Company | Total managed receivables[2] |
|---|---|---|
| 1 | General Electric Capital Corporation | $312,002.0 |
| 2 | General Motors Acceptance Corp. | 247,992.0 |
| 3 | Ford Motor Credit Company | 188,800.0 |
| 4 | Citigroup Inc. (Credit card) | 158,400.0 |
| 5 | MBNA Corporation | 118,493.6 |
| 6 | SLM Corporation | 90,032.0 |
| 7 | American Express Company | 85,000.0 |
| 8 | First USA, Inc. | 76,328.0 |
| 9 | Household International, Inc. | 71,979.7 |
| 10 | Capital One Financial Corporation | 71,244.8 |

[1]Ranked by total nonmortgage managed receivables. Excludes mortgage and real estate companies.
[2]On-balance sheet nonmortgage receivables and loans sold that are still serviced and managed.

Source: SNL Financial LC.

## TOP TEN U.S. CONSUMER FINANCE COMPANIES, 2003[1]
($ millions)

| Rank | Company | Total managed receivables[2] |
|---|---|---|
| 1 | Ford Motor Credit Company | $165,636.0 |
| 2 | Citigroup Inc. (Credit card) | 158,400.0 |
| 3 | General Motors Acceptance Corp. (Auto) | 125,197.0 |
| 4 | MBNA Corporation | 104,180.6 |
| 5 | General Electric Capital Corporation | 94,015.0[3] |
| 6 | SLM Corporation | 89,001.0 |
| 7 | First USA, Inc. | 76,328.0 |
| 8 | Capital One Financial Corporation | 71,244.8 |
| 9 | American Express Company | 66,900.0 |
| 10 | Household International, Inc. | 66,762.7 |

[1]Ranked by total nonmortgage managed receivables. Excludes mortgage and real estate companies.
[2]On-balance sheet nonmortgage receivables and loans sold that are still serviced and managed.
[3]On-balance sheet receivables.

Source: SNL Financial LC.

## TOP TEN U.S. COMMERCIAL FINANCE COMPANIES, 2003[1]
($ millions)

| Rank | Company | Total managed receivables[2] |
|---|---|---|
| 1 | General Electric Capital Corporation | $175,922.0[3] |
| 2 | General Motors Acceptance Corp. | 59,074.0 |
| 3 | CIT Group Inc. | 49,485.7 |
| 4 | Ford Motor Credit Company | 23,164.0 |
| 5 | Caterpillar Financial Services Corporation | 19,591.0 |
| 6 | International Lease Finance Corporation | 19,114.1[3] |
| 7 | FleetBoston Financial Corp. (Equipment) | 14,188.0[3] |
| 8 | John Deere Capital Corporation | 11,893.9 |
| 9 | Boeing Capital Corporation | 11,495.0 |
| 10 | Philip Morris Capital Corporation | 8,540.0 |

[1]Ranked by total nonmortgage managed receivables. Excludes mortgage and real estate companies.

[2]On-balance sheet nonmortgage receivables and loans sold that are still serviced and managed.

[3]On-balance sheet receivables.

Source: SNL Financial LC.

Mortgage financing has become an increasingly important element in the economy, involving a wide range of financial institutions from commercial banks, thrifts and credit unions to finance companies, life insurers and government-sponsored corporations like Fannie Mae. In 2003, home mortgage debt outstanding amounted to $7.2 trillion.

Demographic factors such as the size of various age groups within the population and changes in disposable income, interest rates and the desirability of other investment options influence the residential mortgage market. The commercial market has expanded in response to business growth.

Overall, the mortgage market grew 12.1 percent in 2003 from the previous year. In the home mortgage sector, commercial banks' and savings institutions' mortgage holdings rose 10.6 percent, credit unions' holdings rose 14.6 percent, and finance companies' holdings rose 12.7 percent.

The term mortgage origination refers to the original transaction, the point at which the homeowner purchases the mortgage, in person or online, from a financial services company such as a bank.

Mortgages may be sold and packaged as securities, which frees up funds for the mortgage originator to make additional mortgages available. Mortgage-backed securities are sold by asset-backed securities (ABS) issuers.

The bank that originates the mortgage does not always "service" the mortgage itself. It may sell the servicing of the mortgage, which includes collecting and processing monthly payments, to another company. The servicing business of many of the leading mortgage originators is much larger than their origination business.

### TOTAL MORTGAGES OUTSTANDING, 1998-2003
($ billions, end of year)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **Total mortgages** | **$5,655.0** | **$6,255.7** | **$6,821.1** | **$7,508.8** | **$8,354.8** | **$9,366.2** |
| Home | 4,306.1 | 4,727.5 | 5,142.5 | 5,664.6 | 6,353.2 | 7,171.2 |
| Multifamily residential | 331.3 | 368.7 | 400.8 | 445.9 | 489.0 | 544.2 |
| Commercial | 921.0 | 1,057.2 | 1,168.9 | 1,282.0 | 1,387.8 | 1,518.6 |
| Farm | 96.6 | 102.3 | 108.9 | 116.3 | 124.8 | 132.2 |

Source: Board of Governors of the Federal Reserve System.

## HOME MORTGAGES BY HOLDER, 1998-2003[1]

($ billions, end of year)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **Total assets** | **$4,306.1** | **$4,727.5** | **$5,142.5** | **$5,664.6** | **$6,353.2** | **$7,171.2** |
| Household sector | 73.1 | 80.3 | 87.4 | 94.9 | 103.6 | 113.1 |
| Nonfinancial corporate business | 27.1 | 20.2 | 21.4 | 23.3 | 24.3 | 25.3 |
| Nonfarm noncorporate business | 10.0 | 9.0 | 8.7 | 9.7 | 11.0 | 12.6 |
| State and local governments | 69.1 | 72.6 | 76.3 | 80.1 | 84.1 | 88.3 |
| Federal government | 18.8 | 18.4 | 17.7 | 17.1 | 16.2 | 15.3 |
| Commercial banking | 797.0 | 879.6 | 965.6 | 1,023.9 | 1,222.1 | 1,347.1 |
| Savings institutions | 533.5 | 548.2 | 594.2 | 620.6 | 631.4 | 703.4 |
| Credit unions | 96.9 | 111.0 | 124.9 | 141.3 | 159.4 | 182.6 |
| Bank personal trusts and estates | 2.8 | 2.2 | 2.3 | 2.5 | 2.3 | 1.9 |
| Life insurance companies | 6.6 | 5.9 | 4.9 | 4.9 | 4.7 | 4.6 |
| Private pension funds | 5.8 | 6.6 | 7.7 | 9.0 | 10.7 | 12.8 |
| State and local gov't. retirement funds | 8.4 | 7.5 | 7.5 | 8.7 | 11.1 | 14.7 |
| Government-sponsored enterprises | 199.6 | 189.3 | 205.1 | 225.3 | 271.3 | 369.6 |
| Federally related mortgage pools | 1,970.2 | 2,234.7 | 2,425.6 | 2,748.5 | 3,063.7 | 3,373.4 |
| ABS issuers | 360.6 | 399.4 | 432.8 | 505.0 | 563.2 | 696.1 |
| Finance companies | 90.0 | 108.2 | 130.6 | 120.1 | 135.0 | 152.2 |
| Mortgage companies | 21.8 | 21.8 | 21.8 | 21.8 | 21.8 | 21.8 |
| REITs | 14.8 | 12.4 | 7.9 | 7.9 | 17.4 | 36.4 |
| Home equity loans included above[2] | 361.2 | 401.5 | 491.8 | 517.8 | 583.2 | 684.6 |
| Commercial banking | 176.9 | 189.5 | 235.0 | 258.6 | 303.3 | 366.0 |
| Savings institutions | 55.9 | 59.7 | 72.8 | 77.9 | 78.5 | 95.6 |
| Credit unions | 29.7 | 33.4 | 40.7 | 44.9 | 48.1 | 51.8 |
| ABS issuers | 8.6 | 10.7 | 12.7 | 16.2 | 18.4 | 19.0 |
| Finance companies | 90.0 | 108.2 | 130.6 | 120.1 | 135.0 | 152.2 |

[1]Mortgages on 1-4 family properties.

[2]Loans made under home equity lines of credit and home equity loans secured by junior liens. Excludes home equity loans held by mortgage companies and individuals.

Source: Board of Governors of the Federal Reserve System.

## 1-4 FAMILY HOME MORTGAGE ORIGINATIONS, 1993-2003
($ billions)

| Year | Total volume | Refinance share | Adjustable rate mortgage (ARM) share[1] |
|---|---|---|---|
| 1993 | $1,020 | 52% | 20% |
| 1994 | 769 | 24 | 39 |
| 1995 | 639 | 21 | 33 |
| 1996 | 785 | 29 | 27 |
| 1997 | 834 | 29 | 22 |
| 1998 | 1,656 | 50 | 12 |
| 1999 | 1,379 | 34 | 22 |
| 2000 | 1,139 | 19 | 25 |
| 2001 | 2,243 | 55 | 12 |
| 2002 | 2,852 | 59 | 17 |
| 2003 | 3,810 | 66 | 19 |

[1]ARM share is percent of total volume of conventional purchase loans.

Source: HUD Survey of Mortgage Lending Activity; Mortgage Bankers Association; Federal Housing Finance Board.

- **A study conducted by Jupiter Research found that about 4 percent of all mortgages taken out in 2002 were applied for and closed online.**
- **Refinancing accounted for 75 percent of the online business and home mortgages for 25 percent.**
- **Jupiter expects online originations to account for 7 percent of total volume by 2008.**

## MORTGAGE STATUS AND REFINANCING ACTIVITY OF HOMEOWNERS, 2003

| Homeowners with mortgages | Owner occupied housing units |
|---|---|
| Mortgages currently on property | |
| None, owned free and clear[1] | 25,020,000 |
| Reverse mortgage | 47,000 |
| Regular and/or home-equity mortgage[2] | 45,471,000 |
| Regular mortgage | 42,261,000 |
| Home-equity lump sum mortgage | 3,791,000 |
| Home-equity line of credit | 7,217,000 |
| Line of credit not reported, no regular or lump sum | 1,700,000 |
| **Refinancers** | |
| Units with a refinanced primary mortgage | 16,596,000 |
| Primary reason: to receive cash | 1,925,000 |

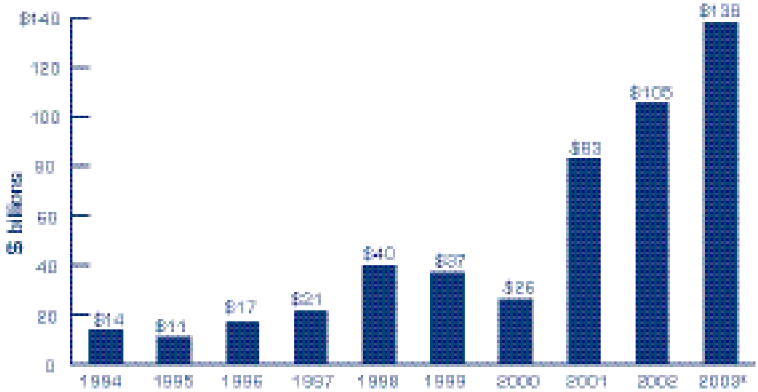
[1]Free of regular mortgages, which include all mortgages not classified as home equity or reverse.

[2]Figures may not add to total because more than one category may apply to a unit.

Source: U.S. Census Bureau.

## CASH OUT HOME MORTGAGE REFINANCING, 1994-2003[1]

($ bilions)




[1]Represents homeowners' cash withdrawals from home mortgage refinance transactions. Includes prime conventional loans only and are net of retirement of outstanding second mortgages. [2]Estimated.

Source: Freddie Mac.

### MORTGAGE DELINQUENCY AND FORECLOSURE RATES, 1980-2003
(Percent, annual average)

| | Delinquency rates | | | | Foreclosure rates | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Total | Conventional loans | VA loans | FHA loans | Total | Conventional loans | VA loans | FHA loans |
| 1980 | 5.0% | 3.1% | 5.3% | 6.6% | 0.3% | 0.2% | 0.4% | 0.5% |
| 1985 | 5.8 | 4.0 | 6.6 | 7.4 | 0.8 | 0.6 | 0.9 | 1.0 |
| 1990 | 4.7 | 3.0 | 6.4 | 6.7 | 0.9 | 0.6 | 1.3 | 1.4 |
| 1995 | 4.3 | 2.8 | 6.5 | 7.6 | 0.9 | 0.7 | 1.3 | 1.4 |
| 1996 | 4.3 | 2.8 | 6.7 | 8.1 | 1.0 | 0.7 | 1.6 | 1.6 |
| 1997 | 4.3 | 2.8 | 6.9 | 8.1 | 1.1 | 0.7 | 1.8 | 2.0 |
| 1998 | 4.5 | 3.0 | 7.1 | 8.5 | 1.2 | 0.7 | 1.8 | 2.3 |
| 1999 | 4.2 | 2.8 | 6.8 | 8.6 | 1.2 | 0.8 | 1.8 | 2.2 |
| 2000 | 4.4 | 3.0 | 6.9 | 9.1 | 1.1 | 0.8 | 1.4 | 1.8 |
| 2001 | 5.1 | 3.6 | 7.7 | 10.8 | 1.3 | 1.1 | 1.2 | 1.9 |
| 2002 | 5.1 | 3.6 | 7.9 | 11.5 | 1.5 | 1.2 | 1.5 | 2.5 |
| 2003 | 4.7 | 3.4 | 7.9 | 12.2 | 1.3 | 1.1 | 1.6 | 2.8 |

Source: Mortgage Bankers Association of America.

## HOME OWNERSHIP

### SNAPSHOT OF HOUSING IN AMERICA, 2002-2003

| | 2002 | 2003 | Percent change |
|---|---|---|---|
| Homeownership rate | 67.9% | 68.3% | 0.6% |
| New home sales[1] (units) | 973,000 | 1.1 million | 11.5 |
| Existing home sales[1] (units) | 5.6 million | 6.1 million | 9.6 |
| Existing home price (median) | $162,569 | $170,000 | 4.6 |
| Home equity | $7.9 trillion | $8.4 trillion | 6.1 |
| Mortgage debt | $6.2 trillion | $6.8 trillion | 9.9 |
| Mortgage refinancing | $1.4 trillion | $2.4 trillion | 71.4 |

[1]Single-family.

Note: All dollar figures are in 2003 dollars.

Source: Board of Governors of the Federal Reserve System; Bureau of Economic Analysis; Mortgage Bankers Association of America; Census Bureau.

- The national median price for existing single family homes jumped to $174,100 in March 2004, a 7.4 percent increase from the previous year, and the average price rose to $222,800, an 8.6 percent rise, according to the National Association of Realtors.
- From March 2003 to March 2004, the median price of existing homes rose 20.3 percent in the North, 2.0 percent in the Midwest, 5.1 percent in the South and 11.2 percent in the West.

## MEDIAN SALES PRICE OF EXISTING SINGLE FAMILY HOMES, 1968-2003

| Year | Median sales price | Percent change | Year | Median sales price | Percent change |
|---|---|---|---|---|---|
| 1968 | $20,100 | NA | 1986 | $80,300 | 6.4% |
| 1969 | 21,800 | 8.5% | 1987 | 85,600 | 6.6 |
| 1970 | 23,000 | 5.5 | 1988 | 89,300 | 4.3 |
| 1971 | 24,800 | 7.8 | 1989 | 89,500 | 0.2 |
| 1972 | 26,700 | 7.7 | 1990 | 92,000 | 2.8 |
| 1973 | 28,900 | 8.2 | 1991 | 97,100 | 5.5 |
| 1974 | 32,000 | 10.7 | 1992 | 99,700 | 2.7 |
| 1975 | 35,300 | 10.3 | 1993 | 103,100 | 3.4 |
| 1976 | 38,100 | 7.9 | 1994 | 107,200 | 4.0 |
| 1977 | 42,900 | 12.6 | 1995 | 110,500 | 3.1 |
| 1978 | 48,700 | 13.5 | 1996 | 115,800 | 4.8 |
| 1979 | 55,700 | 14.4 | 1997 | 121,800 | 5.2 |
| 1980 | 62,200 | 11.7 | 1998 | 128,400 | 5.4 |
| 1981 | 66,400 | 6.8 | 1999 | 133,300 | 3.8 |
| 1982 | 67,800 | 2.1 | 2000 | 139,000 | 4.3 |
| 1983 | 70,300 | 3.7 | 2001 | 147,800 | 6.3 |
| 1984 | 72,400 | 3.0 | 2002 | 158,100 | 7.0 |
| 1985 | 75,500 | 4.3 | 2003 | 170,000 | 7.5 |

NA=Data not available.

Source: National Association of Realtors.

## U.S. HOME OWNERSHIP RATES BY RACE AND ETHNICITY, 1997-2003

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| **United States** | **65.7** | **66.3** | **66.8** | **67.4** | **67.8** | **67.9** | **68.3** |
| Whites | 72.0 | 72.6 | 73.2 | 73.8 | 74.3 | 74.7 | 75.4 |
| Blacks | 44.8 | 45.6 | 46.3 | 47.2 | 47.7 | 47.4 | 48.1 |
| Hispanics | 43.3 | 44.7 | 45.5 | 46.3 | 47.3 | 47.0 | 46.7 |
| Asians/others | 52.5 | 53.0 | 53.7 | 53.5 | 54.2 | 54.5 | 56.0 |

Source: U.S. Department of Commerce, U.S. Census Bureau.

## HOME OWNERSHIP RATES BY REGION, 1990-2003[1]

(End of year)

| Year | United States | Northeast | Midwest | South | West |
|---|---|---|---|---|---|
| 1990 | 63.9% | 62.6% | 67.5% | 65.7% | 58.0% |
| 1995 | 64.7 | 62.0 | 69.2 | 66.7 | 59.2 |
| 1996 | 65.4 | 62.2 | 70.6 | 67.5 | 59.2 |
| 1997 | 65.7 | 62.4 | 70.5 | 68.0 | 59.6 |
| 1998 | 66.3 | 62.6 | 71.1 | 68.6 | 60.5 |
| 1999 | 66.8 | 63.1 | 71.7 | 69.1 | 60.9 |
| 2000 | 67.4 | 63.4 | 72.6 | 69.6 | 61.7 |
| 2001 | 67.8 | 63.7 | 73.1 | 69.8 | 62.6 |
| 2002 | 67.9 | 64.3 | 73.1 | 69.7 | 62.5 |
| 2003 | 68.3 | 64.4 | 73.2 | 70.1 | 63.4 |

[1]The percentage of households that are homeowners based on the total number of households.

Source: U.S. Department of Commerce, U.S. Census Bureau.

## SELECTED CHARACTERISTICS OF HOMEOWNERS, 1997 AND 2003

(000)

| | 1997 | 2003 | Percent change, 1997-2003 |
|---|---|---|---|
| **Total owner occupied units** | **65,487** | **72,238** | **10.3%** |
| By race | | | |
| White | 57,781 | 63,126 | [2] |
| Black | 5,457 | 6,193 | [2] |
| Other[1] | 2,248 | 2,920 | [2] |
| | | | |
| Hispanic[3] | 3,646 | 5,106 | 40.0 |
| | | | |
| By household income | | | |
| $0-$14,999 | 10,607 | 8,481 | -20.0 |
| $15,000-$29,999 | 11,779 | 11,381 | -3.4 |
| $30,000-$49,999 | 14,802 | 14,513 | -2.0 |
| $50,000-$99,000 | 20,378 | 23,692 | 16.3 |
| $100,000 or more | 7,921 | 14,171 | 78.9 |

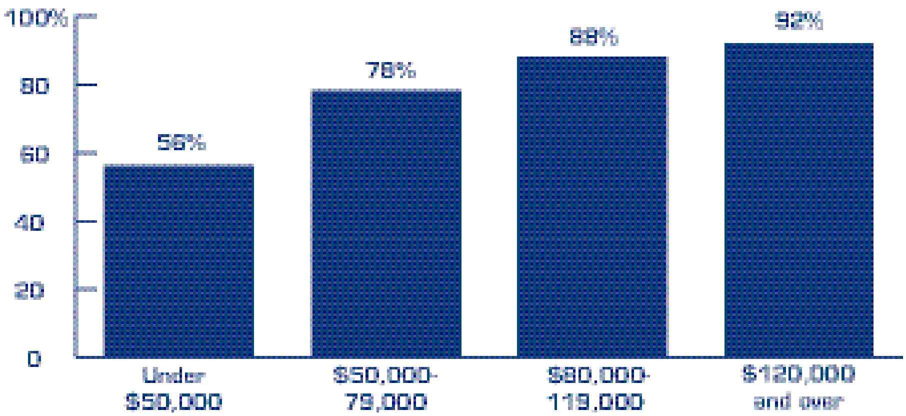
[1]Other=American Indian, Eskimo, Aleut, Asian and Pacific Islander.

[2]Reporting by race changed in 2003. Data for 1997 and 2003 are not comparable.

[3]Hispanic is considered an ethnic origin rather than a race and is tallied separately. Hispanics may report themselves as any race.

Source: U.S. Department of Commerce, Bureau of the Census.

## HOME OWNERSHIP RATES BY INCOME, 2003




Source: 2003 American Housing Survey.

## CONVENTIONAL HOME PURCHASE LOANS BY RACIAL/ETHNIC IDENTITY AND INCOME OF BORROWERS, 1996-2003

(Percent change)

| | 1996-1997 | 1997-1998 | 1998-1999 | 1999-2000 | 2000-2001 | 2001-2002 | 2002-2003 | 1996-2003 |
|---|---|---|---|---|---|---|---|---|
| **Racial/ethnic identity** | | | | | | | | |
| American Indian | -1.2% | 21.1% | 44.4% | -4.6% | -38.7% | 22.7% | -4.8% | 18.1% |
| Asian | 12.2 | 13.1 | 16.3 | 8.4 | 4.0 | 18.1 | 16.2 | 128.2 |
| Black | 3.9 | 8.5 | 11.1 | -1.1 | -7.0 | 2.2 | 14.8 | 35.1 |
| Hispanic | 3.8 | 15.8 | 18.3 | 7.4 | 8.4 | 10.9 | 17.5 | 115.7 |
| White | 2.0 | 12.9 | 1.7 | -6.3 | 1.0 | 2.6 | 11.3 | 26.5 |
| **Income[1]** | | | | | | | | |
| Less than 80 | 6.0 | 18.7 | 13.7 | -4.1 | 2.1 | 4.5 | 6.0 | 55.1 |
| 80-99 | 2.4 | 14.0 | 6.8 | -2.9 | 3.3 | 3.0 | 7.9 | 39.1 |
| 100-119 | 1.6 | 15.3 | 4.7 | -1.8 | 3.8 | 3.5 | 9.8 | 42.0 |
| 120 or more | 5.2 | 14.4 | 4.0 | 3.4 | 2.2 | 4.1 | 12.9 | 55.6 |

[1]Percentage of metropolitan area median. Metropolitan area median is the median family income of the metropolitan area in which the property related to the loan is located.

Source: Federal Financial Institutions Examination Council.

## HOME EQUITY LOANS

### HOME EQUITY LOANS BY HOLDER, 1998-2003[1]

($ billions, end of year)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **Total** | **$361.2** | **$401.5** | **$491.8** | **$517.8** | **$583.2** | **$684.6** |
| Commercial banking | 176.9 | 189.5 | 235.0 | 258.6 | 303.3 | 366.0 |
| Savings institutions | 55.9 | 59.7 | 72.8 | 77.9 | 78.5 | 95.6 |
| Credit unions | 29.7 | 33.4 | 40.7 | 44.9 | 48.1 | 51.8 |
| ABS issuers | 8.6 | 10.7 | 12.7 | 16.2 | 18.4 | 19.0 |
| Finance companies | 90.0 | 108.2 | 130.6 | 120.1 | 135.0 | 152.2 |

[1]Loans made under home equity lines of credit and home equity loans secured by junior liens, such as second mortgages, which are subordinate to another mortgage. Excludes home equity loans held by mortgage companies and individuals.

Source: Board of Governors of the Federal Reserve System.

## HOME EQUITY LOANS/LEADING COMPANIES

### 2002 NONPRIME HOME EQUITY LOANS: FACTS AND STATISTICS

- Nonprime home equity loan originations (loans made to borrowers who, for any reason, could not qualify for a prime loan) exceeded $200 billion.
- The average nonprime mortgage loan was $130,000.
- Over 5 million homeowners held nonprime home equity loans.
- The average nonprime home equity borrower earned $54,165 a year.
- Between 30 percent and 50 percent of all Americans were classified as nonprime borrowers.
- The number of subprime lenders increased from 51 in 1993 to 183 in 2002, according to the Federal Reserve.[1]

[1]As reported by the Federal Financial Institutions Examination Council. All other data from the National Home Equity Mortgage Association.

### LEADING COMPANIES

#### TOP TEN MORTGAGE FINANCE COMPANIES, 2003

($ millions)

| Rank | Company | Total managed receivables[1] |
|---|---|---|
| 1 | Washington Mutual Bank (Mortgage) | $726,200.0 |
| 2 | Wells Fargo Home Mortgage Inc. | 664,049.0 |
| 3 | Countrywide Financial Corporation | 644,855.0 |
| 4 | General Motors Acceptance Corporation | 541,876.0 |
| 5 | Chase Manhattan Mortgage Corp. | 470,000.0 |
| 6 | Bank of America Consumer Real Estate Lending | 246,500.0 |
| 7 | CitiMortgage Inc. | 204,568.6 |
| 8 | ABN AMRO Mortgage Group, Inc. | 200,000.0 |
| 9 | National City Mortgage Company | 156,204.7 |
| 10 | Cendant Mortgage Services | 138,618.6 |

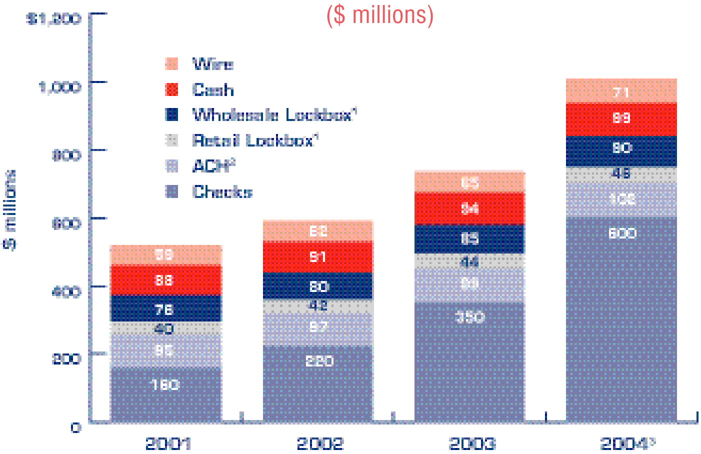
[1]On-balance sheet receivables and loans sold that are still serviced and managed.

Source: SNL Financial Services LC.

## IT SPENDING

Information technology (IT) has transformed the financial services industry, making available many products and services that would have otherwise been impossible to offer. New features range from asset-backed securities, personal cash management accounts and automated teller machines that were introduced in 1970s to more recent innovations such as online banking. At the same time, IT has improved efficiency and reduced labor costs.

### INTERNAL IT SPENDING ON PAYMENTS BY U.S. BANKS, 2001-2004

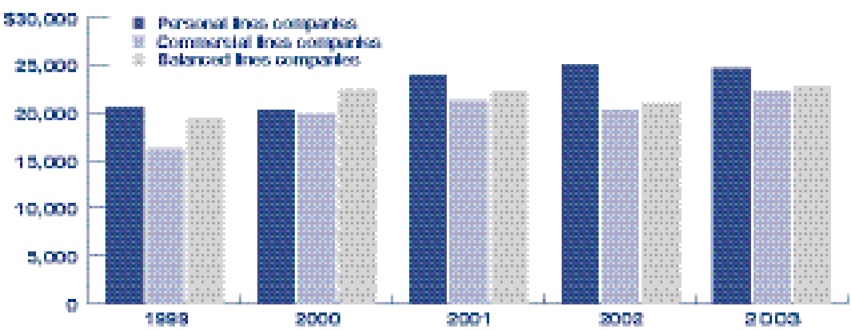



[1]A lockbox is a collection and processing service provided to clients by banks. [2]Automated Clearing House, an electronic payments network allowing credit and debit payments between depository institutions. [3]Estimated.

Source: Celent Communications.

- **Total internal IT spending on payments by banks is expected to grow from $592 million in 2002 to $1.0 billion in 2004, according to Celent Communications.**

### INFORMATION TECHNOLOGY SPENDING, BY TYPE OF PROPERTY/CASUALTY INSURANCE COMPANY, 1999-2003[1]




[1]Information technology expense per total company full-time employee.

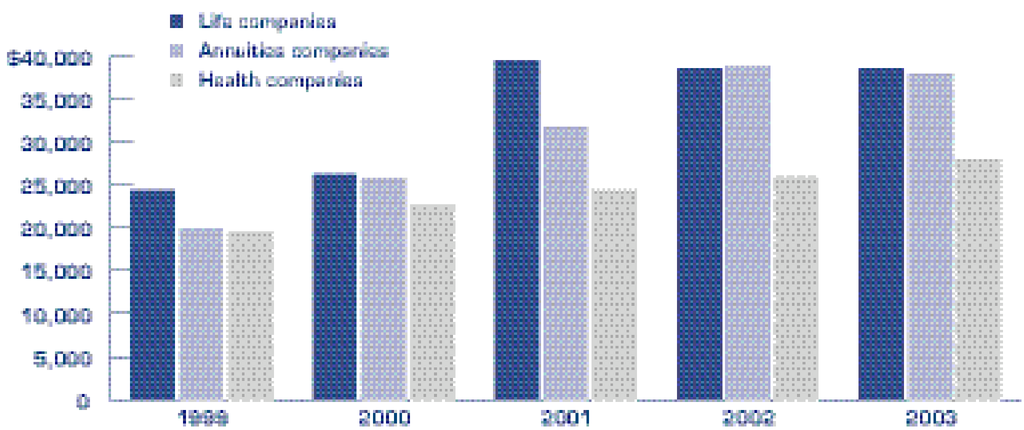
Source: Ward Group.

- **Within the property-casualty insurance industry, personal lines companies have historically invested more heavily in information technology than commercial or balanced lines companies, according to Ward Group, an insurance industry benchmarking firm.**

## INFORMATION TECHNOLOGY SPENDING AS A PERCENT OF GROSS PREMIUMS WRITTEN BY TYPE OF PROPERTY/CASUALTY INSURANCE COMPANY, 1999-2003


Source: Ward Group.

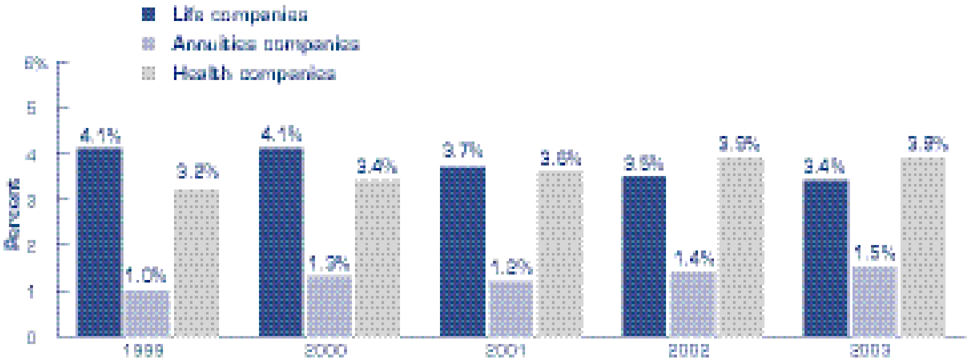
## INFORMATION TECHNOLOGY SPENDING BY TYPE OF LIFE/ANNUITIES INSURANCE COMPANY, 1999-2003[1]




[1]Information technology expense per total company full-time employee.

Source: Ward Group.

## INFORMATION TECHNOLOGY SPENDING AS A PERCENT OF GROSS PREMIUMS WRITTEN BY TYPE OF LIFE/ANNUITIES INSURANCE COMPANY, 1999-2003




Source: Ward Group.

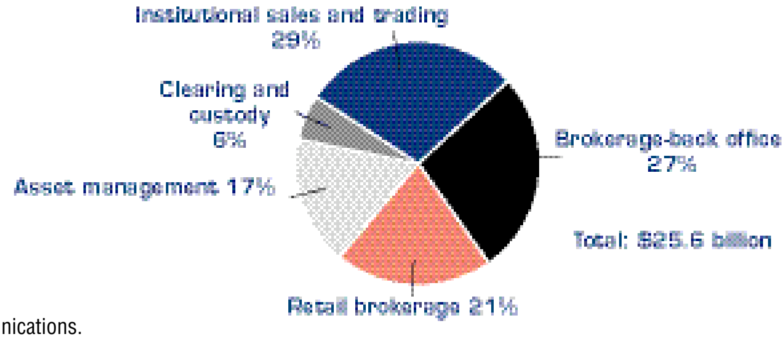
## INFORMATION TECHNOLOGY SPENDING BY U.S. SECURITIES FIRMS, 2003
($ billions)

| Operations | |
|---|---|
| Institutional sales and trading | $7.3 |
| Brokerage - back office | 7.0 |
| Retail brokerage | 5.4 |
| Asset management | 4.4 |
| Clearing and custody | 1.5 |
| **Total** | **$25.6** |

Source: Celent Communications.

- The two largest components of IT spending by securities companies in 2003 were institutional sales and trading operations and brokerage back office operations, each accounting for more than 25 percent of total spending.

## INFORMATION TECHNOLOGY SPENDING BY U.S. SECURITIES FIRMS, 2003




Source: Celent Communications.

## ELECTRONIC COMMERCE

Using advanced information technology, banks have transformed some of their core services, such as personal banking. Consumers can now conduct many banking activities over the telephone and online as well as in traditional branch offices. The use of personal computers to conduct personal finance has increased as consumers have become more comfortable with making routine purchases online.

- **The percentage of Internet users who do banking on the Internet rose to 44 percent in 2003, up from 32 percent in 2002 and 17 percent in 2000.**

### FINANCIAL AND OTHER ONLINE ACTIVITIES, UNITED STATES, 2003

| Activity | Percent of Internet users who have done the activity online | Percent who do the activity only online | Percent who do the activity only offline |
|---|---|---|---|
| Buy tickets for concerts, movies | 55% | 28% | 45% |
| **Pay bills, do banking** | **44** | **20** | **56** |
| Purchase everyday items like books, groceries, CDs | 33 | 9 | 68 |
| Schedule appointments or meetings | 22 | 9 | 78 |

Source: Pew Internet & American Life Project Survey, August 2004.

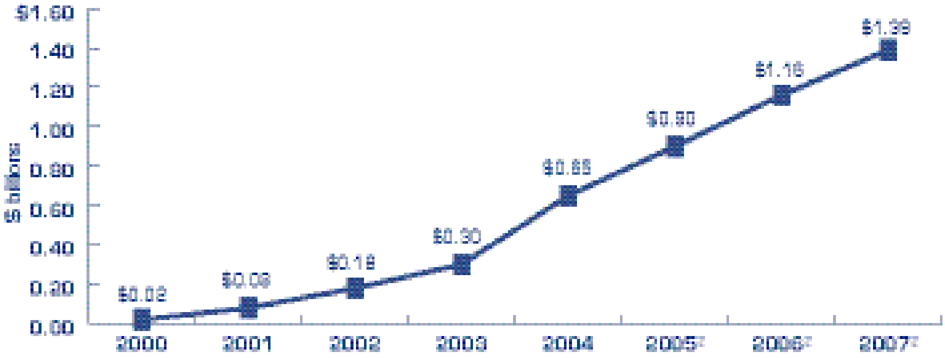
- **According to the Direct Marketing Association, interactive/e-commerce sales in the financial services sector (including depository and nondepository institutions, security and commodity brokers, insurance carriers and agents, and real estate firms) rose by 29 percent from $8.5 billion in 2002 to $11 billion in 2003.**

### FINANCIAL SERVICES INTERACTIVE MEDIA/E-COMMERCE SALES REVENUE, 1998-2007
($ millions)

| | | | | Projected | | Average annual growth | |
|---|---|---|---|---|---|---|---|
| Industry | 1998 | 2002 | 2003 | 2004 | 2007 | 1998-2003 | 2003-2007 |
| Depository institutions | $320 | $2,643 | $3,511 | $4,722 | $9,126 | 61.46% | 26.97% |
| Nondepository institutions | 175 | 1,208 | 1,533 | 2,018 | 3,595 | 54.35 | 23.75 |
| Security and commodity brokers | 132 | 1,221 | 1,668 | 2,316 | 4,887 | 66.08 | 30.83 |
| Insurance carriers and agents | 206 | 1,493 | 1,918 | 2,524 | 4,629 | 56.24 | 24.64 |
| Real estate | 321 | 1,903 | 2,326 | 2,907 | 4,653 | 48.60 | 18.93 |
| **Total financial services** | **1,154** | **8,468** | **10,956** | **14,487** | **26,890** | **56.85** | **25.17** |

Source: Direct Marketing Association.

**FINANCIAL SERVICES INDUSTRY EXPENDITURE ON WEB SERVICES, 2000-2007[1]**
($ bilions)




[1]Includes the banking, securities, investments and insurance sectors.
[2]Estimated.

Source: Celent Communications.

**TOTAL AND E-COMMERCE REVENUES, SECURITIES AND COMMODITY CONTRACTS, 2001-2002**
($ millions)

| | Revenues | | | | Percent change, 2001-2002 | | E-commerce as a percent of total revenues | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2002 | | | | | |
| | Total | E-commerce | Total | E-commerce | Total revenues | E-commerce revenues | 2001 | 2002 |
| Securities and commodity contracts, intermediation and brokerage | $191,007 | $3,570 | $163,080 | $4,071 | -14.6% | 14.0% | 1.9% | 2.5% |

Source: U.S. Department of Commerce, Bureau of the Census.

## ELECTRONIC PAYMENTS

Over the past quarter-century, electronic alternatives to the traditional way of paying bills by check have revolutionized the payments infrastructure. While credit cards continue to contribute the largest share, newer choices such as PIN and signature debit and Automated Clearing House (ACH) payments have grown rapidly. Debit cards have become increasingly popular in large part because of the availability of more secure forms of signature.

ACH payments were launched in the early 1970s as a reliable and efficient alternative to the check. The ACH electronic funds transfer system continues to expand, with larger volumes transacted each year and new types of payments transacted. In fact, ACH payment can now be initiated by telephone or on the Web. Electronic Benefits Transfers give consumers more flexible access to Social Security, Veterans' Pensions and other benefits disbursed by the federal government.

- The number of Automated Clearing House (ACH) payments originated by commercial financial institutions and the Federal government increased from 2.4 billion in 1994 to over 9 billion in 2003, according to NACHA, the electronic payments association. The total value of ACH payments increased from $10.1 trillion to $27.4 trillion during the same period.
- ACH payments include direct deposit of payroll, Social Security benefits and tax refunds, and direct payment of consumer bills, e-checks, business-to-business payments, and federal tax payments.

### TOTAL ESTIMATED VOLUME AND DOLLAR VALUE OF AUTOMATED CLEARING HOUSE ELECTRONIC PAYMENTS, 2002-2003

| | 2002 | 2003 | Percent change |
|---|---|---|---|
| **Transaction volume** | | | |
| Commercial | 8,050,445,866 | 9,092,139,466 | 12.94% |
| Government | 893,471,342 | 924,366,686 | 3.46 |
| **Total** | **8,943,917,208** | **10,016,506,152** | **11.99** |
| **Dollar volume ($000)** | | | |
| Commercial | $21,705,029,366 | $24,612,887,590 | 13.40 |
| Government | 2,710,593,518 | 2,810,121,827 | 3.67 |
| **Total** | **$24,415,622,884** | **$27,423,009,417** | **12.32** |

Source: NACHA - The Electronic Payments Association.

## ATMs

The growth of online banking, electronic payments and deposits, and automated teller machine (ATM) usage has been driven by customer demand for greater convenience. ATMs were introduced in the mid-1970s. By 2004, there were some 383,000 ATMs in the United States, almost four times the number of bank and thrift branches. ATMs increasingly are being installed in places where consumers may want access to their money, such as supermarkets, convenience stores and transportation terminals.

The ATM business consists of three major entities: ATM cardholders' banks, the ATM network that links banks in other locations, and the owners of the ATM machines, which may or may not be banks. Most banks allow customers to withdraw money from their own bank's ATMs free of charge but charge a fee to other banks' customers. These charges help offset the cost of ATMs and fees banks must pay to the ATM network system.

### OFF-PREMISE ATM DEPLOYMENT, 1998-2004[1]

| Year | Total ATMs | Off-premise ATMs | Percent off-premise |
|---|---|---|---|
| 1998 | 187,000 | 84,000 | 44.9% |
| 1999 | 227,000 | 117,000 | 51.5 |
| 2000 | 273,000 | 156,000 | 57.1 |
| 2001 | 324,000 | 193,000 | 59.6 |
| 2002 | 352,000 | 220,000 | 62.5 |
| 2003 | 371,000 | 238,000 | 64.2 |
| 2004 | 383,000 | 263,000 | 68.7 |

[1]ATMs located away from financial institution branches.

Source: ATM & Debit News.

- **The first U.S. ATM was installed in 1971 at the Citizens & Southern National Bank in Atlanta.**

### ANNUAL PIN-BASED VOLUME, 1994-2004[1]

(millions)

| Year | ATM volume | POS volume[2] | Total volume |
|---|---|---|---|
| 1995 | 9,689 | 775 | 10,464 |
| 2000 | 12,840 | 3,107 | 15,947 |
| 2001 | 13,584 | 3,648 | 17,232 |
| 2002[3] | 10,598 | 4,500[4] | 15,098[4] |
| 2003[3] | 10,828 | 5,006[4] | 15,971[4] |
| 2004[3] | 11,030 | 6,274 | 17,304 |

[1]PIN (personal identification number) volume. [2]POS (point of sale) is a retail payment system that allows funds to be transferred electronically from a customer's account to a retailer, for example from a debit card. [3]Adjusted to eliminate double-counting caused by two networks reporting a transaction. [4]Restated based on revised data provided by some electronic funds transfer networks.

Source: ATM & Debit News.

## ATM TRANSACTIONS, 1994-2004

| Year | Average monthly ATM transactions | Terminals | Total transactions[1] (millions) |
|---|---|---|---|
| 1994 | 6,459 | 109,080 | 704.5 |
| 1995 | 6,580 | 122,706 | 807.4 |
| 1996 | 6,399 | 139,134 | 890.3 |
| 1997 | 5,515 | 165,000 | 910.0 |
| 1998 | 4,973 | 187,000 | 930.0 |
| 1999 | 3,997 | 227,000 | 907.4 |
| 2000 | 3,919 | 273,000 | 1,070.0 |
| 2001 | 3,494 | 324,000 | 1,132.0 |
| 2002 | 2,509 | 352,000 | 883.2[2] |
| 2003 | 2,432 | 371,000 | 902.3[2] |
| 2004 | 2,400 | 383,000 | 919.2[2] |

[1]Total network transactions include all deposits, withdrawals, transfers, payments, and balances inquiries performed on ATMs in the network, whether or not those transactions are switched through the network data center, as well as point of sale transactions on network terminals. [2]Adjusted to eliminate double-counting caused by two networks reporting a transaction.

Source: ATM & Debit News.

## TOP TEN ATM OWNERS, 2003-2004[1]

| Rank | Owner | Number of ATMs 2003 | Number of ATMs 2004 |
|---|---|---|---|
| 1 | Bank of America | 13,013 | 14,000 |
| 2 | Cardtronics | 4,500 | 7,000[2] |
| 3 | U.S. Bancorp | 6,663 | 6,503 |
| 4 | Wells Fargo | 6,353 | 6,184 |
| 5 | American Express | 7,100 | 5,400[3] |
| 6 | Wachovia | 4,560 | 4,408 |
| 7 | Bank One | 3,700 | 4,394[4] |
| 8 | PNC | 3,556 | 3,624 |
| 9 | FleetBoston | 3,500 | 3,460[5] |
| 10 | Washington Mutual | 2,490 | 2,990 |

[1]January data. [2]Includes E*Trade ATMs, acquired July 1, 2004. [3]Sold portfolio to 7-Eleven Stores, August 2004. [4]Acquired by J.P. Morgan Chase, July 2004. [5]Acquired by Bank of America, February 2004.

Source: ATM & Debit News.

## WORLD'S LARGEST FINANCIAL SERVICES FIRMS, 2003[1]
($ millions)

| Rank | Company | Revenues | Profits | Profits as a percent of Revenues | Profits as a percent of Assets | Country | Industry |
|---|---|---|---|---|---|---|---|
| 1 | General Electric | $134,187 | $15,002 | 11% | 2% | U.S. | Diversified financial |
| 2 | Allianz | 114,950 | 1,829 | 2 | 0 | Germany | Insurance |
| 3 | AXA | 111,912 | 1,137 | 1 | 0 | France | Insurance |
| 4 | ING Group | 95,893 | 4,576 | 5 | 1 | Netherlands | Insurance |
| 5 | Citigroup | 94,713 | 17,853 | 19 | 1 | U.S. | Banking |
| 6 | American International Group | 81,303 | 9,274 | 11 | 1 | U.S. | Insurance |
| 7 | Assicurazioni Generali | 66,755 | 1,149 | 2 | 0 | Italy | Insurance |
| 8 | Berkshire Hathaway | 63,859 | 8,151 | 13 | 5 | U.S. | Insurance |
| 9 | Nippon Life Insurance | 63,841 | 1,759 | 3 | 0 | Japan | Insurance |
| 10 | Aviva | 59,719 | 1,551 | 3 | 0 | U.K. | Insurance |
| 11 | Munich Re Group | 59,083 | -491 | -1 | 0 | Germany | Insurance |
| 12 | Credit Suisse | 58,957 | 3,717 | 6 | 1 | Switzerland | Banking |
| 13 | HSBC Holdings | 57,608 | 8,774 | 15 | 1 | U.K. | Banking |
| 14 | BNP Paribas | 57,272 | 4,257 | 7 | 0 | France | Banking |
| 15 | Fortis | 56,695 | 2,487 | 4 | 0 | Belgium/ Netherlands | Banking |
| 16 | State Farm Insurance Cos. | 56,065 | 2,826 | 5 | 2 | U.S. | Insurance |
| 17 | Fannie Mae | 53,767 | 7,905 | 15 | 1 | U.S. | Diversified financial |
| 18 | Zurich Financial Services | 51,357 | 2,120 | 4 | 1 | Switzerland | Insurance |
| 19 | Deutsche Bank | 48,670 | 1,545 | 3 | 0 | Germany | Banking |
| 20 | Bank of America Corp. | 48,065 | 10,810 | 23 | 2 | U.S. | Banking |
| 21 | UBS | 47,741 | 4,747 | 10 | 0 | Switzerland | Banking |
| 22 | Crédit Agricole | 45,928 | 2,971 | 7 | 0 | France | Banking |
| 23 | Dai-ichi Mutual Life Insurance | 45,066 | 880 | 2 | 0 | Japan | Insurance |
| 24 | J.P. Morgan Chase & Co. | 44,363 | 6,719 | 15 | 1 | U.S. | Banking |
| 25 | Meiji Yasuda Life Insurance | 44,064 | 1,944 | 4 | 1 | Japan | Insurance |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500.

Source: Fortune.

## TOP TEN GLOBAL INSURANCE COMPANIES, BY REVENUES, 2003[1]
($ millions)

| Rank | Company | Revenues[2] | Country |
|---|---|---|---|
| 1 | Allianz | $114,950 | Germany |
| 2 | AXA | 111,912 | France |
| 3 | ING Group | 95,893 | Netherlands |
| 4 | American International Group | 81,303 | U.S. |
| 5 | Assicurazioni Generali | 66,755 | Italy |
| 6 | Berkshire Hathaway | 63,859 | U.S. |
| 7 | Nippon Life Insurance | 63,841 | Japan |
| 8 | Aviva | 59,719 | U.K. |
| 9 | Munich Re Group | 59,083 | Germany |
| 10 | State Farm Insurance Cos. | 56,065 | U.S. |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500. Includes stock and mutual companies.
[2]Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.

Source: Fortune.

## TOP TEN GLOBAL PROPERTY/CASUALTY INSURANCE COMPANIES, BY REVENUES, 2003[1]
($ millions)

| Rank | Company | Revenues[2] | Country |
|---|---|---|---|
| 1 | Allianz | $114,950 | Germany |
| 2 | American International Group | 81,303 | U.S. |
| 3 | Berkshire Hathaway | 63,859 | U.S. |
| 4 | Munich Re Group | 59,083 | Germany |
| 5 | State Farm Insurance Cos. | 56,065 | U.S. |
| 6 | Zurich Financial Services | 51,357 | Switzerland |
| 7 | Allstate | 32,149 | U.S. |
| 8 | Swiss Reinsurance | 27,087 | Switzerland |
| 9 | Millea Holdings | 24,574 | Japan |
| 10 | Royal & Sun Alliance | 19,259 | U.K. |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500. Includes stock and mutual companies.
[2]Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.

Source: Fortune.

## TOP TEN GLOBAL LIFE/HEALTH INSURANCE COMPANIES, BY REVENUES, 2003[1]

($ millions)

| Rank | Company | Revenues[2] | Country |
|---|---|---|---|
| 1 | AXA | $111,912 | France |
| 2 | ING Group | 95,893 | Netherlands |
| 3 | Assicurazioni Generali | 66,755 | Italy |
| 4 | Nippon Life Insurance | 63,841 | Japan |
| 5 | Aviva | 59,719 | United Kingdom |
| 6 | Dai-ichi Mutual Life Insurance | 45,066 | Japan |
| 7 | Meiji Yasuda Life Insurance | 44,064 | Japan |
| 8 | Sumitomo Life Insurance | 36,913 | Japan |
| 9 | MetLife | 36,261 | United States |
| 10 | Prudential | 35,473 | United Kingdom |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500. Includes stock and mutual companies.

[2]Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.

Source: Fortune.

## TOP TEN GLOBAL REINSURERS, 2003[1]

($ millions)

| Rank | Company | Net reinsurance premiums written | Country |
|---|---|---|---|
| 1 | Munich Re Group | $29,197.9 | Germany |
| 2 | Swiss Re Group | 24,776.6 | Switzerland |
| 3 | Berkshire Hathaway Re Group | 11,946.0 | U.S. |
| 4 | Employers Re Group | 9,729.0 | U.S. |
| 5 | Hannover Re Group | 8,700.3 | Germany |
| 6 | Lloyd’s | 7,818.3 | U.K. |
| 7 | Allianz Re Group | 5,226.1 | Germany |
| 8 | SCOR Re Group | 4,260.1 | France |
| 9 | Converium Group | 3,827.0 | Switzerland |
| 10 | PartnerRe Group | 3,589.6 | Bermuda |

[1]Ranked by net reinsurance premiums written.

Source: Standard & Poors.

## BANKS/SECURITIES/DIVERSIFIED FINANCIAL

### TOP TEN GLOBAL COMMERCIAL AND SAVINGS BANKS, 2003[1]
($ millions)

| Rank | Company | Revenues | Country |
|---|---|---|---|
| 1 | Citigroup | $94,713 | U.S. |
| 2 | Credit Suisse | 58,957 | Switzerland |
| 3 | HSBC Holdings | 57,608 | U.K. |
| 4 | BNP Paribas | 57,272 | France |
| 5 | Fortis | 56,695 | Belgium/ Netherlands |
| 6 | Deutsche Bank | 48,670 | Germany |
| 7 | Bank of America Corp. | 48,065 | U.S. |
| 8 | UBS | 47,741 | Switzerland |
| 9 | Crédit Agricole | 45,928 | France |
| 10 | J.P. Morgan Chase & Co. | 44,363 | U.S. |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500.

Source: Fortune.

### TOP FOUR GLOBAL SECURITIES FIRMS, 2003[1]
($ millions)

| Rank | Company | Revenues | Country |
|---|---|---|---|
| 1 | Morgan Stanley | $34,933 | U.S. |
| 2 | Merrill Lynch | 27,745 | U.S. |
| 3 | Goldman Sachs Group | 23,623 | U.S. |
| 4 | Lehman Brothers Hldgs. | 17,287 | U.S. |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500.

Source: Fortune.

### TOP SIX GLOBAL DIVERSIFIED FINANCIAL COMPANIES, 2003[1]
($ millions)

| Rank | Company | Revenues | Country |
|---|---|---|---|
| 1 | General Electric | $134,187 | U.S. |
| 2 | Fannie Mae | 53,767 | U.S. |
| 3 | Freddie Mac | 36,839 | U.S. |
| 4 | American Express | 25,866 | U.S |
| 5 | Countrywide Financial | 13,660 | U.S |
| 6 | Marsh & McLennan | 11,588 | U.S. |

[1]Ranked by revenues. Based on an analysis of companies in the Global Fortune 500.

Source: Fortune.

The Gramm-Leach-Bliley Act (GLB) was signed into law on November 12, 1999, culminating almost a decade of efforts to pass such a measure. The legislation essentially ended regulations that prevented companies in the various financial sectors from engaging in each other's businesses. The law repeals major sections of the Glass-Steagall Act of 1933, the Bank Holding Company Act of 1956 and other federal banking laws. The following explains some of the law's provisions.

### Financial Holding Companies

GLB expanded permissible activities for bank holding companies, entities that control one or more commercial banks, by creating a new type of financial services company, the financial holding company (FHC). Under the act, securities firms, banks, insurance companies and other entities engaged in financial services may affiliate under an FHC umbrella and cross-sell an affiliate's products within a regulatory system overseen by the Federal Reserve Board.

An FHC may engage in many financial activities, including any future activity the Federal Reserve, in conjunction with the Secretary of the Treasury, considers to be financial in nature, incidental to finance, or complementary to a financial activity as long as it does not pose a substantial risk to the safety and soundness of the institution. More than 500 bank holding companies elected to become FHCs within the first 12 months that the option was available.

### Commercial (Nonfinancial) Business

Prior to the passage of GLB, banks and others had been concerned about the possibility of commercial entities such as big retail stores entering the banking business. While a financial firm engaged in nonfinancial activities is not required to divest itself of these activities for at least 10 years if they do not constitute more than 15 percent of its business, the act bars expansion of such activities by mergers and nonfinancial company ownership of commercial banks. In addition, while existing thrift nonfinancial activities are protected by a grandfather provision, commercial companies are prohibited from buying thrifts. Securities firms may continue existing nonfinancial business activities on a limited basis for a limited time.

### Regulation

All financial services activities are essentially regulated by the agency that oversaw such transactions before the passage of the law. Thus, whether insurance is sold by a bank or insurance company, the sale is regulated by the states. This is known as "functional regulation." Functional regulation particularly addressed the fears of some insurers that the system of state regulation of insurance would be summarily disbanded and replaced by a federal regulatory framework. At the same time, forms of federal regulation have support from many from within the insurance industry and state vs. federal regulation is one of its most controversial subjects.

### National Banks

National banks are commercial banks with a national as opposed to state charter. Those that meet the GLB's capitalization and management requirements may establish financial operating subsidiaries. These subsidiaries can sell any financial product and assume the risk as dealer for most financial products. However, national banks may not underwrite insurance (except credit-related insurance) or engage in real estate development, real estate investment, or merchant banking because these are riskier businesses requiring more capital and more safeguards to protect that capital. Merchant banking, an investment bank activity in which the bank raises funds or lends its own capital for a period to finance a transaction, may be allowed starting in 2004. National banks may continue to underwrite municipal revenue bonds, an activity that was not barred under Glass-Steagall.

Independent banks, which are not affiliated with multibank holding companies, and which are also known as community banks because they are locally owned and operated, may sell financial products through joint ventures with other bank and thrift institutions.

### Insurance

GLB's response to the concern of banks and insurance agents that regulatory agencies create a level playing field for the sale of insurance products is a framework to resolve disputes over regulatory practices and how a new product should be classified — as an insurance or a banking product. GLB sets up procedures for resolving these disputes.

In addition, federal regulators must establish consumer protection regulations for banks selling insurance. In case of conflict with state laws, only federal standards stricter than state laws pre-empt those laws.

### Securities

General bank exemption from registration with the Securities and Exchange Commission (SEC) as a broker has been replaced with a list of specific exempt activities such as trust and custodial activities, employment benefit plan management, and others. Banks can continue to create and trade in derivatives, swaps and other similar securities products. The SEC, in consultation with the Federal Reserve Board, is authorized to rule on whether a specific product is a security which can only be sold by a broker/dealer affiliate.

### Privacy

The issue of privacy, which tended to divide consumer groups wanting tight restrictions on personal information from financial services companies seeking broad access for cross-marketing purposes, was partially resolved through compromise. Financial institutions may share customer information with affiliates and joint venture partners, but are barred from disclosing customer account numbers or access codes to unaffiliated third parties for marketing purposes, with certain narrow exceptions necessary for the conduct of the customers' business or compliance with regulations. Other customer information may be shared with third parties, but customers must be informed and have the right to bar such sharing. Any attempt to gain private customer information by fraud or deception is made a federal crime punishable by up to five years in prison.

### SUMMARY OF THE GRAMM-LEACH-BLILEY FINANCIAL SERVICES MODERNIZATION ACT OF 1999

| Titles of the Act | Provisions |
|---|---|
| TITLE I: Affiliations among Banks, Securities Firms and Insurance Companies | Allows banks, securities firms, insurance companies and other firms engaged in financial services to affiliate under a financial holding company (FHC) structure |
| TITLE II: Functional Regulation | Specifies that all financial activities will be functionally regulated by the relevant regulatory body: banking (Federal Reserve), securities (Securities and Exchange Commission) and insurance (state regulators) |
| TITLE III: Insurance Regulation | Covers state regulation of insurance, redomestication of mutual insurers, National Association of Registered Agents and Brokers, rental car agency insurance activities and confidentiality |
| TITLE IV: Unitary Thrift Holding Company Provisions | Prohibits unitary savings and loan holding companies from engaging in nonfinancial activities or affiliating with nonfinancial entities |
| TITLE V: Privacy | Requires all financial institutions to disclose to customers their privacy policy for nonpublic information |
| TITLE VI: Federal Home Loan Bank (FHLB) System Modernization | Establishes a new capital structure for FHLBs, increases access to funds for smaller member banks, and discusses regulatory changes |
| TITLE VII: Other Provisions | Addresses ATM fee reform, the Community Reinvestment Act and other regulatory improvements |

Source: TowerGroup.

**Assets:** Something that has commercial or exchange value owned by an individual or business. In the insurance industry, state laws require a conservative valuation of assets. Insurance companies are not allowed to list some assets whose values are uncertain, such as furniture, fixtures, debit balances, and accounts receivable that are more than 90 days past due.

**Bank Holding Company:** A company that owns or controls one or more banks. The Federal Reserve has responsibility for regulating and supervising bank holding company activities, such as approving acquisitions and mergers and inspecting the operations of such companies. This authority applies even though a bank owned by a holding company may be under the primary supervision of the Comptroller of the Currency or the FDIC.

**Basis Point:** Unit of measure used to describe interest rates and bond yields. One basis point equals 0.01 percent.

**Bond:** A security that obligates the issuer to pay interest at specified intervals and to repay the principal amount of the loan at maturity.

**Capital:** In the insurance industry, shareholder's equity (for publicly-traded insurance companies) and retained earnings (for mutual insurance companies). Each state has its own requirements. There is no general measure of capital adequacy for property/casualty insurers.

**Capital Market:** The market in which corporate equity and longer-term debt securities (those maturing in more than one year) are issued and traded.

**Collateral:** Property that is offered to secure a loan or other credit and that becomes subject to seizure on default. (Also called security.)

**Combined Ratio:** Percentage of each premium dollar a property/casualty insurer spends on claims and expenses.

**Credit:** The promise to pay in the future in order to buy or borrow in the present. The right to defer payment of debt.

**Demand Deposit:** Customer assets that are held in a checking account. Funds can be readily withdrawn by check, "on demand."

**Depository Institution:** Financial institution that obtains its funds mainly through deposits from the public. Includes commercial banks, savings and loan associations, savings banks, and credit unions.

**Derivatives:** Contracts that derive their value from an underlying financial asset, such as publicly-traded securities and foreign currencies. Often used as a hedge against changes in value.

**Direct Premiums:** Property/casualty premiums collected by the insurer from policyholders, before reinsurance premiums are deducted. Insurers may share some direct premiums and the risk involved with their reinsurers.

**Earned Premiums:** The portion of premium that applies to the expired part of the policy period. Insurance premiums are payable in advance, but the insurance company does not fully earn them until the policy period expires.

**Equity:** In investments, the ownership interest of shareholders. In a corporation, stocks as opposed to bonds.

**Federal Funds:** Reserve balances that depository institutions lend each other, usually on an overnight basis. In addition, Federal funds include certain other kinds of borrowings by depository institutions from each other and from federal agencies.

**Futures:** Agreement to buy a security for a set price at a certain date. Futures contracts usually involve commodities, indexes or financial futures.

**Intermediation:** The process of bringing savers, investors and borrowers together so that savers and investors can obtain a return on their money and borrowers can use the money to finance their purchases or projects through loans.

**Liability Insurance:** Insurance for what the policyholder is legally obligated to pay because of harm caused to another entity.

**Liquidity:** The ability and speed with which a security can be converted into cash.

**Money Supply:** Total supply of money in the economy, composed of currency in circulation and deposits in savings and checking accounts. By changing the interest rates the Federal Reserve seeks to adjust the money supply to maintain a strong economy.

**Net Premiums Written:** See Premiums Written.

**Options:** Contracts that allow, but do not oblige, the buying or selling of property or assets at a certain date at a set price.

**Over-the-counter (OTC):** Security that is not listed or traded on an exchange such as the New York Stock Exchange. Business in over-the-counter securities is conducted through dealers using electronic networks.

**Premiums Written:** The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned. Net premiums written are premiums written after reinsurance transactions.

**Primary Market:** In the securities industry, the market for new issue securities where the proceeds go directly to the issuer.

**Prime Rate:** Interest rate that banks charge to their most creditworthy customers. Banks set this rate according to their cost of funds and market forces.

**Private Placement:** Securities that are not registered with the Securities and Exchange Commission and are sold directly to investors.

**Repurchase Agreement (Repo):** Agreement between a buyer and seller where the seller agrees to repurchase the securities at an agreed upon time and price. Repurchase agreements involving U.S. government securities are utilized by the Federal Reserve to control the money supply.

**Secondary Market:** Market for previously issued and outstanding securities.

**Securities Outstanding:** Stock held by shareholders.

**Surplus:** The remainder after an insurer's liabilities are subtracted from its assets. The financial cushion that protects policyholders in case of unexpectedly high claims.

**Swaps:** The simultaneous buying, selling or exchange of one security for another among investors to change maturities in a bond portfolio, for example, or because investment goals have changed.

**Time Deposit:** Funds that are held in a savings account for a predetermined period of time at a set interest rate. Banks can refuse to allow withdrawals from these accounts until the period has expired or assess a penalty for early withdrawals.

**Transparency:** A term used to explain the way information on financial matters, such as financial reports and actions of companies or markets, are communicated so that they are easily understood and frank.

**Treasury Securities:** Interest-bearing obligations of the U.S. government issued by the Treasury as a means of borrowing money to meet government expenditures not covered by tax revenues. Marketable Treasury securities fall into three categories — bills, notes and bonds. Marketable Treasury obligations are currently issued in book entry form only; that is, the purchaser receives a statement, rather than an engraved certificate.

**Underwriting Income:** The insurer's profit on the insurance sale after all expenses and losses have been paid. When premiums aren't sufficient to cover claims and expenses, the result is an underwriting loss. Underwriting losses are typically offset by investment income.

**Volatility:** A measure of the degree of fluctuation in a stock's price. Volatility is exemplified by large, frequent price swings up and down.

**Volume:** Number of shares a stock trades either per day or per week.

## BRIEF HISTORY

| YEAR | EVENT |
|---|---|
| 1601 | First insurance legislation in the U.K. enacted. Modern insurance has its root in this law concerning coverages for merchandise and ships. |
| 1735 | Friendly Society, first insurance company in the U.S., established in Charleston, S.C. The mutual insurer went out of business in 1740. |
| 1759 | First life insurance company established in Philadelphia by the Synod of the Presbyterian Church. |
| 1762 | Equitable Life Assurance founded. Was the world's oldest mutual insurer until it failed in 2001. |
| 1782 | Pennsylvania chartered first bank in the U.S. |
| 1790 | The federal government refinanced all federal and state Revolutionary War debt, issuing $80 million in bonds. These became the first major issues of publicly-traded securities, marking the birth of the U.S. investment markets. |
| 1791 | Secretary of the Treasury, Alexander Hamilton, established first Bank of the United States. |
| 1792 | Insurance Company of North America, first stock insurance company, established. |
| | The Buttonwood Agreement, pact between 24 brokers and merchants to trade securities on a common commission basis, marks origins of The New York Stock Exchange. Bank of America is first listed stock. |
| 1809 | Rhode Island was the scene of first bank failure. |
| 1849 | New York passed first general insurance law in the U.S. |
| 1850 | Franklin Health Assurance Company of Massachusetts offered first accident and health insurance. |
| 1863 | Office of the Comptroller of the Currency established in the U.S. Treasury Department. Authorized to charter banks and issue national currency. |
| 1875 | American Express established first pension plan in the U.S. |
| 1880 | First corporate surety company established. |
| 1890 | First policies providing benefits for disabilities from specific diseases offered. |
| 1898 | Travelers Insurance Company issued first automobile insurance policy in the U.S. |
| 1909 | St. Mary's Cooperative, first U.S. credit union, formed in New Hampshire. |
| | Massachusetts passed first state credit union law. |
| 1911 | Group life insurance for employees introduced. |
| 1913 | Federal Reserve established to replace J.P. Morgan as lender of last resort. |
| 1916 | National Bank Act, limiting bank insurance sales except in small towns, passed. |
| 1920 | Financial options introduced. |

| YEAR | EVENT |
|---|---|
| 1924 | First mutual funds established in Boston. |
| 1929 | Stock market crash. Nearly 10,000 U.S. banks failed. |
| 1932 | Federal Home Loan Bank Act established Federal Home Loan Bank System to act as central credit system for savings and loans institutions. |
| 1933 | Glass-Steagall Act, separating banking and securities industries, passed by Congress. |
| | Federal Deposit Corporation, guaranteeing accounts up to $2,500, opened. |
| | Securities Act of 1933, to regulate registration and offering of new securities, including mutual funds, to the public, passed. |
| 1934 | Securities Exchange Act passed. Authorized Securities and Exchange Commission to provide for fair and equitable securities markets. |
| | Federal Savings and Loan Insurance Corporation established by Congress to insure savings and loans deposits. Replaced by Savings Association Insurance Fund in 1989. |
| | Federal Credit Union Act of 1934 authorized establishment of federally-chartered credit unions in all states. |
| 1936 | Revenue Act of 1936 established tax treatment of mutual funds. |
| 1940 | Investment Company Act set structure and regulatory framework for modern mutual fund industry. |
| 1944 | National Association of Investment Companies, predecessor to the Investment Company Institute, formed and began collecting statistics. |
| 1950 | First package policies for homeowners insurance introduced. |
| 1955 | First U.S.-based international mutual fund introduced. |
| 1956 | Bank Holding Company (BHC) Act, putting multiple bank holding companies under federal supervision, passed. Stipulates that nonbanking activities of BHCs must be "closely related to the business of banking." |
| 1960 | Bank Merger Acts of 1960 and 1966 set standards for mergers and placed them under federal authority. |
| 1961 | Banking industry introduced fixed rate certificates of deposit. |
| 1962 | Keogh plans, providing savings opportunities for self-employed individuals, introduced under the Self Employed Individuals Tax Retirement Act. |
| 1968 | Mortgage insurance introduced. |
| 1970 | U.S. government introduced mortgage-related securities to increase liquidity. |
| | National Credit Union Administration created to charter and supervise federal credit unions. |

## BRIEF HISTORY

| YEAR | EVENT |
|---|---|
| 1970 | National Credit Union Share Insurance Fund created by Congress to insure members' deposits in credit unions up to the $100,000 federal limit. Administered by the National Credit Union Administration. |
| 1971 | Municipal bonds insured for first time in arrangement between American Municipal Bond Assurance Corporation (predecessor to Ambac Assurance Corporation) and Borough Medical Arts Building in Alaska. |
| 1972 | Money market mutual funds introduced. |
| 1974 | Automated teller machines (ATMs) widely introduced. |
| | Employee Retirement Income Security Act (ERISA) set minimum standards for pension plans in private industry; established the federal Pension Benefit Guaranty Corporation to protect pension benefits. |
| 1975 | SEC deregulated broker commissions by eliminating fixed commissions brokers charged for all securities transactions. |
| 1976 | First individual variable life insurance policy issued. |
| 1977 | Banking industry introduced variable rate certificates of deposit. |
| | Community Reinvestment Act passed to encourage banks to meet credit needs of their local communities. |
| 1978 | International Banking Act limited the extent to which foreign banks could engage in securities activities in the U.S. |
| 1979 | Congress created the Central Liquidity Facility, credit union lender of last resort. |
| 1980 | Depository Institutions Deregulation and Monetary Control Act provided universal requirements for all financial institutions, marking first step toward removing restrictions on competition for deposits. |
| | The Office of the Comptroller of the Currency and the Federal Reserve authorized banks to establish securities subsidiaries to combine the sale of securities with investment advisory services. |
| 1982 | Garn-St.Germain Depository Institutions Act authorized money market accounts and expanded thrifts' lending powers. |
| | Stock market futures contracts introduced. |
| 1983 | Federal government introduced collateralized mortgage obligations. |
| | Bank of America bought discount securities broker, Charles Schwab. Schwab reacquired the discounter in 1987. |
| 1987 | Federal Reserve ruling interpreting Section 20 of Glass-Steagall as permitting separately capitalized affiliates of commercial bank holding companies to engage in a variety of securities activities on a limited basis. |
| 1989 | Financial Institutions Reform, Recovery and Enforcement Act, providing government funds to insolvent savings and loan institutions (S&Ls) from the Resolution Trust Corporation and incorporating sweeping changes in the examination and supervision of S&Ls, established. |
| | Savings Association Insurance Fund, deposit insurance fund operated by the FDIC, established. |
| 1990 | J.P. Morgan permitted to underwrite securities. |

| YEAR | EVENT |
|---|---|
| 1992 | European Union's Third Non-Life Insurance Directive became effective, establishing a single European market for insurance. |
| 1994 | Riegle-Neal Interstate Banking and Branching Efficiency Act allowed bank holding companies to acquire banks in any state and, as of June 1, 1997, to branch across state lines. |
| 1995 | U.S. Supreme Court ruled in NationsBank vs. Variable Annuity Life Insurance Company that annuities are not a form of insurance under the National Bank Act, thus allowing national banks to sell annuities without limitation. |
| 1996 | Barnett Bank U.S. Supreme Court decision allowed banks to sell insurance nationwide. |
| | Section 20 of Glass-Steagall amended to allow commercial bank affiliates to underwrite up to 25 percent of revenue in previously ineligible securities of corporate equity or debt. |
| 1997 | The Financial Services Agreement of the General Agreement on Trade in Services provided framework to reduce or eliminate barriers that prevent financial services from being freely provided across national borders, or that discriminate against foreign-owned firms. |
| 1998 | Citibank and Travelers merged to form Citigroup, a firm engaged in all major financial services sectors. |
| 1999 | Financial Services Modernization Act (Gramm-Leach-Bliley Act) allowed banks, insurance companies and securities firms to affiliate and sell each other's products. Restructured the Federal Home Loan Bank System. |
| 2001 | U.S. House of Representatives Banking Committee renamed itself the Financial Services Committee. |
| 2002 | Citigroup spun off its Travelers' property/casualty insurance unit. |
| | J.P. Morgan Chase introduced an annuity, becoming one of the first banking companies to underwrite an insurance product under the Gramm-Leach-Bliley Act. |
| | Sarbanes-Oxley Act enacted to increase the accountability of the boards of publicly held companies to their shareholders. Strengthens the oversight of corporations and their accounting firms. |
| | The President signed the Terrorism Risk Insurance Act (TRIA), whereby private insurers and the federal government share the risk of future losses from terrorism for a three-year period. |
| 2003 | State regulators and the Securities and Exchange Commission (SEC) launched investigations into late trading and market timing in the mutual funds and variable annuities industries. |
| 2004 | Fourteen investment banks formed a captive insurance company to provide an extra layer of coverage for clients whose losses from investments exceed the $500,000 in insurance provided by the federal Securities Investor Protection Corporation. |
| | New York Attorney General Eliot Spitzer and a number of state regulators launched investigations into the bidding and commissions practices of insurance brokers. |

**Advantage Group** • 1610 Des Peres Rd., Suite 370. St. Louis, MO 63131. Tel. 314-984-0028. Fax. 314-984-0068. http://www.indexannuity.org/ — Provides research and consulting services to insurance companies and financial service firms in all aspects of index annuities.

**A.M. Best Company, Inc.** • Ambest Rd., Oldwick, NJ 08858. Tel. 908-439-2200. Fax. 908-439-2237. http://www.ambest.com — Rating organization and publisher of books and periodicals relating to the insurance industry.

**America's Health Insurance Plans** • 601 Pennsylvania Avenue, NW, South Building, Suite 500, Washington, DC 20004. Tel. 202-778-3200. Fax. 202-331-7487. http://www.aahp.org/template.cfm — Group whose goal is to provide a unified voice for the healthcare financing industry, to expand access to high quality, cost effective health care to all Americans, and to ensure Americans' financial security through robust insurance markets, product flexibility and innovation, and an abundance of consumer choice.

**American Bankers Association** • 1120 Connecticut Ave., NW, Washington, DC 20036. Tel. 800-BANKERS. Fax. 202-663-7543. http://www.aba.com — Represents banks of all sizes on issues of national importance for financial institutions and their customers. Brings together all categories of banking institutions, including community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks.

**American Bankers Insurance Association** • 1120 Connecticut Ave., NW, Washington, DC 20036. Tel. 202-663-5163. Fax. 202-828-4546. http://www.theabia.com — A separately chartered affiliate of the American Bankers Association. A full service association for bank insurance interests dedicated to furthering the policy and business objectives of banks in insurance.

**American Council of Life Insurers** • 101 Constitution Ave, NW Ave., Washington, DC 20001-2133. Tel. 202-624-2000. Fax. 202-624-2319. http://www.acli.com/ — Trade association responsible for the public affairs, government, legislative and research aspects of the life insurance business.

**American Financial Services Association** • 919 18th St., NW, Suite 300, Washington, DC 20006. Tel. 202-296-5544. Fax. 202-223-0321. http://www.americanfinsvcs.com — The national trade association for market funded providers of financial services to consumers and small businesses.

**American Insurance Association** • 1130 Connecticut Ave., NW, Washington, DC 20036. Tel. 202-828-7116. Fax. 202-293-1219. http://www.aiadc.org/ — Trade and service organization for property/casualty insurance companies. Provides a forum for the discussion of problems and provides safety, promotional and legislative services.

**Annuitynet/VARDS** • 2350 Corporate Park Dr., Sixth Fl., Herndon, VA 20171. Tel. 703-234-0150. http://www.annuitynet.com/aboutus/index.asp — Software technology and research data firm that helps annuity manufacturers, distributors, and financial advisors implement new technology and business practices in the sale and servicing of annuities.

**Association of Financial Guaranty Insurors** • c/o TowersGroup, 15 West 39th St., 14th Fl., New York, NY 10018. Tel. 212-354-5020. Fax. 212-391-6920. http://www.afgi.org — Trade association of the insurers and reinsurers of municipal bonds and asset-backed securities.

**Bank Administration Institute** • One N. Franklin, Suite 1000, Chicago, IL 60606. Tel. 800-224-9889. Fax. 800-375-5543. http://www.bai.org— A professional organization devoted exclusively to improving the performance of financial services companies through strategic research and information, education and training.

**Bank for International Settlements** • PO Box CH-4002, Basel, Switzerland. Tel. 41-61-280-8080. Fax. 41-61-280-9100. http://www.bis.org — An international organization which fosters cooperation among central banks and other agencies in pursuit of monetary and financial stability.

**Bank Insurance & Securities Association** • 303 West Lancaster Avenue, Suite 2C, Wayne, PA 19087. Tel. 610-989-9047. Fax: 610-989-9102. http://www.bisanet.org — Fosters the full integration of securities and insurance businesses with depository institutions' traditional banking businesses. Participants include executives from the securities, insurance, investment advisory, trust, private banking, retail, capital markets, and commercial divisions of depository institutions. Formed by the merger of the Bank Securities Association and the Financial Institutions Insurance Association.

**Bank Insurance Market Research Group** • 154 E. Boston Post Rd., Mamaroneck, NY 10543. Tel. 800-373-7723. Fax: 914-381-6947. http://www.singerpubs.com — Provides market research and investment sales data to the bank and insurance industries, based on in-depth surveys of depository and insurance entities augmented by analysis of government data.

**Bond Market Association** • 360 Madison Ave., New York, NY 10017. Tel. 646-637-9200. Fax. 646-637-9126. http://www.bondmarkets.com/ — Represents securities firms and banks that underwrite, trade and sell debt securities, both domestically and internationally.

**Celent Communications** • 745 Boylston St, Suite 502, Boston, MA 02116. Tel. 617-262-3120. Fax. 617-262-3121. http://www.celent.com/contact.htm — Research and consulting firm dedicated to technology in the financial service industry.

**College Savings Plan Network** • PO Box 11910, Lexington, KY 40578-1910. Tel. 859-244-8175. Fax. 859-244-8053. http://www.collegesavings.org/about.htm — The College Savings Plans Network is as an affiliate to the National Association of State Treasurers. The Network serves as a clearinghouse for information among college savings programs.

**Commercial Finance Association** • 225 W. 34th St., Suite 1815, New York, NY 10122. Tel. 212-594-3490. Fax. 212-564-6053. http://www.cfa.com — The trade group of the asset-based financial services industry, with members throughout the U.S., Canada and around the world.

**Commodity Futures Trading Commission** • Three Lafayette Centre, 1155 21st St., NW, Washington, DC 20581. Tel. 202-418-5000. Fax. 202-418-5521. http://www.cftc.gov — Independent agency created by Congress to protect market participants against manipulation, abusive trade practices and fraud.

**Conference of State Bank Supervisors** • 1155 Connecticut Ave., NW, 5th Fl. Washington, DC 20036. Tel. 202-296-2840. Fax: 202-296-1928. http://www.csbs.org — National organization that advocates on behalf of the nation's state banking system.

**Consumer Bankers Association** • 1000 Wilson Blvd., Suite 2500, Arlington, VA 22209-3912. Tel. 703-276-1750. Fax. 703-528-1290. http://www.cbanet.org/ — The Consumer Bankers Association is the recognized voice on retail banking issues in the nation's capital.

**DMA Financial Services Council** • 1120 Avenue of the Americas, New York, NY 10036-6700. Tel. 212-768-7277. Fax. 212-302-6714. http://www.the-dma.org/councils/fsc.shtml — Integrates the direct marketing concept, its tactics and its practices with mainstream insurance and financial services marketing to create a strategic business synergism, a division of the Direct Marketing Association.

## FINANCIAL SERVICES ORGANIZATIONS

**Eastbridge Consulting Group, Inc.** • 50 Avon Meadow Lane, Avon, CT 06001. Tel. 860-676-9633. Fax. 860-677-4233. http://www.eastbridge.com — Provides consulting, marketing, training and research services to financial services firms, including those involved in worksite marketing and the distribution of individual and employee benefits products.

**Employee Benefit Research Institute** •, 2121 K Street, NW Suite 600, Washington, DC 20037-1896. Tel. 202-659-0670. Fax. 202 775-6312. http://www.ebri.org — The Institute's mission is to advance the public's, the media's and policymakers' knowledge and understanding of employee benefits and their importance to our nation's economy.

**Federal Deposit Insurance Corporation (FDIC)** • Division of Finance, 550 17th St., NW, Washington, DC 20429-9990. Tel. 202-736-0000. http://www.fdic.gov — FDIC's mission is to maintain the stability of and public confidence in the nation's financial system. To achieve this goal, the FDIC has insured deposits and promoted safe and sound banking practices since 1933.

**Federal Financial Institutions Examination Council** • 2000 K St., NW, Suite 310, Washington, DC 20006. Tel. 202-872-7500. http://www.ffiec.gov/ — A formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System.

**Federal Reserve** • 20th St. and Constitution Ave., NW, Washington, DC 20551. Tel. 202-452-3000. http://www.federalreserve.gov/default.htm — Central bank of the United States, founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

**Financial Markets Center** • PO Box 334, Philomont, VA 20131. Tel. 540-338-7754. Fax. 540-338-7757. http://www.fmcenter.org/ — An independent, nonprofit institute that provides research and education resources to grassroots groups, unions, policymakers and journalists interested in the Federal Reserve System and financial markets.

**The Financial Planning Association** • 4100 E. Mississippi Ave. Suite 400, Denver, CO 80246-3053. Tel. 800-322-4237. Fax. 404-845-3660. http://www.fpanet.org/ — Group whose primary aim is to be the community that fosters the value of financial planning and advances the financial planning profession.

**Financial Services Coordinating Council** • 901 7th St., 2nd Fl., Washington DC 20001. Tel. 202-315-5100. Fax. 202-315-5010. http://www.fsccnews.com — A coalition including the American Insurance Association, the American Council of Life Insurers, the American Bankers Association, the Securities Industry Association and the Investment Company Institute, representing the diversified financial services industry.

**Financial Services Forum** • 745 Fifth Ave., Suite 1602, New York, NY 10151. Tel. 212-308-3420. Fax. 212-308-7383. http://financialservicesforum.org — An organization of 20 chief executive officers of major U.S. financial services firms dedicated to the execution and coordination of activities designed to promote the development of an open and competitive financial services industry.

**Financial Services Industry Council** • 2000 Pennsylvania Ave. NW, Suite 6000, Washington, DC 20006. Tel. 202-777-5000. Fax. 202-777-5100. http://www.financialservicesindustrycouncil.com — A unique forum for insight into the financial services industry. Members gain access to the strategies and practices of the world's leading financial institutions.

**The Financial Services Roundtable** • 1001 Pennsylvania Avenue, NW, Suite 500 South, Washington, DC 20004. Tel. 202-289-4322. Fax. 202-628-2507. http://www.fsround.org/ — A forum for U.S. financial industry leaders working together to determine and influence the most critical public policy concerns related to the integration of the financial services industry.

**Fitch Credit Rating Company** • One State Street Plaza, New York, NY 10004. Tel. 212-908-0500. Fax. 212-480-4435. http://www.fitchratings.com/ — Assigns claims-paying ability ratings to insurance companies.

**Futures Industry Association** • 2001 Pennsylvania Ave., NW, Suite 600, Washington, DC 20006. Tel. 202-466-5460. Fax. 202-296-3184. http://www.futuresindustry.org — Association representative of all organizations that have an interest in the futures market.

**Global Association of Risk Professionals** • 100 Pavonia Ave., Suite 405, Jersey City , NJ 07310. Tel. 201-222-0054. Fax. 201-222-5022. http://www.garp.com/index.asp — International group whose aim is to encourage and enhance communications between risk professionals, practitioners and regulators worldwide.

**Highline Data LLC** • One Alewife Center, Suite 460, Cambridge, MA 02140. Tel. 877-299-9424. http://www.highlinedata.com/ — An information and data services company comprised of two principal product lines: National Underwriter Insurance Data Services and Highline Banking Data Services.

**Independent Insurance Agents & Brokers of America, Inc.** • 127 S. Peyton St., Alexandria, VA 22314 Tel. 800-221-7917. Fax. 703-683-7556. http://www.independentagent.com — Trade association of independent insurance agents.

**Insurance Information Institute** • 110 William St., New York, NY 10038. Tel. 212-346-5500. Fax. 212-791-1807. http://www.iii.org/ — A primary source for information, analysis, and referral on insurance subjects.

**International Finance and Commodities Institute** • 2, Cours de Rive, 1204 Geneva, Switzerland. Tel. 41-22-312-5678. Fax. 41-22-312-5677. http://riskinstitute.ch — Nonprofit foundation created with the objective of promoting global understanding of commodity trading as well as financial futures and options.

**International Swaps and Derivatives Association** • 360 Madison Ave., 16th Fl, New York, NY 10020-2302. Tel. 212-901-6000. Fax. 212-901-6001. http://www.isda.org — The association's primary purpose is to encourage the prudent and efficient development of the privately negotiated derivatives business.

**Investment Company Institute** • 1401 H St., NW, Washington, DC 20005. Tel. 202-326-5800. Fax. 202-326-5874. http://www.ici.org — The national association of the American investment company industry. Founded in 1940, its membership includes 8,414 mutual funds, 489 closed-end funds, and eight sponsors of unit investment trusts.

**ISO** • 545 Washington Blvd., Jersey City, NJ 07310-1686. Tel. 800-888-4476. Fax. 201-748-1472. http://www.iso.com — A leading provider of products and services that help measure, manage and reduce risk. Provides data, analytics and decision-support solutions to profesionals in many fields, including insurance, finance, real estate, health services, government and human resources. Professionals use ISO's databases and services to classify and evaluate a variety of risks and detect potential fraud.

**Kenneth Kehrer Associates** • PO Box 7346, Princeton, NJ 08542-3852. Tel. 609-924-8766. Fax. 609.924.7407. http://www.kenkehrer.com/ — Consultant to banks on improving their insurance and securities programs. Conducts studies of sales penetration, profitability, compensation, and compliance.

**LIMRA International** • 300 Day Hill Rd., Windsor, CT 06095-4761. Tel. 860-688-3358. Fax. 860-298-9555. http://www.limra.com/ — Worldwide association providing research, consulting and other services to nearly 850 insurance and financial services companies in more than 60 countries. LIMRA was established to help its member companies maximize their marketing effectiveness.

**LOMA (Life Office Management Association)** • 2300 Windy Ridge Pkwy., Suite 600, Atlanta, GA 30339-8443. Tel. 770-951-1770. Fax. 770-984-0441. http://www.loma.org — Worldwide association of insurance companies specializing in research and education, with a primary focus on home office management.

**Michael White Associates •** 823 King of Prussia Rd., Radnor, PA 19087. Tel. 610-254-0440. Fax. 610 254-5044. http://www.bankinsurance.com/mwa/home.htm — Consulting firm that helps clients plan, develop and implement bank insurance sales programs. Conducts research on bank insurance trends.

**Moody's Investors Service •** 99 Church St., New York, NY 10007. Tel. 212-553-1658. Fax. 212-553-4062. http://www.moodys.com — Global credit analysis and financial information firm.

**Mortgage Bankers Association of America •** 1919 Pennsylvania Ave., NW, Washington, DC 20006-3438. Tel. 202-557-2700. Fax. 202-721-0167. http://www.mbaa.org/ — Represents the real estate finance industry.

**Mortgage Insurance Companies of America (MICA) •** 727 15th St., NW, 12th Fl., Washington, DC 20005. Tel. 202-393-5566. Fax. 202-393-5557. http://micanews.com — Represents the private mortgage insurance industry. MICA provides information on related legislative and regulatory issues, and strives to enhance understanding of the vital role private mortgage insurance plays in housing Americans.

**Museum of American Financial History •** 26 Broadway, Rm. 947, New York, NY 10004. Tel. 212-908-4510. Fax: 212-908-4601. http://www.financialhistory.org — An affiliate of the Smithsonian Institution, the museum is the nation's only independent public museum dedicated to celebrating the spirit of entrepreneurship and the democratic free market tradition.

**National Association for Variable Annuities •** 11710 Plaza America Dr., Suite 100, Reston, VA 20190. Tel. 703-707-8830. http://www.navanet.org — Promotes the growth, acceptance and understanding of annuity and variable life products to retirement-focused Americans; provides educational and informational resources.

**National Association of Federal Credit Unions •** 3138 10th St. North, Arlington, VA 22201-2149. Tel. 703-522-4770. Fax. 703-524-1082. http://www.nafcunet.org/ — Trade association that exclusively represents the interests of federal credit unions before the federal government and the public.

**National Association of Health Underwriters •** 2000 N. 14th St., Suite 450, Arlington, VA 22201. Tel. 703-276-0220. Fax. 703-841-7797. http://www.nahu.org/ — Professional association of persons who sell and service disability income, and hospitalization and major medical health insurance.

**National Association of Insurance and Financial Advisors •** 2901 Telestar Ct., PO Box 12012, Falls Church, VA 22042-1205. Tel. 703-770-8100. Fax. 703-770-8224. http://www.naifa.org/ — Professional association representing health and life insurance agents.

**National Association of Mutual Insurance Companies •** 3601 Vincennes Rd., PO Box 68700, Indianapolis, IN 46268. Tel. 317-875-5250. Fax. 317-879-8408. http://www.namic.org — Trade association of property/casualty mutual insurance companies.

**National Association of Professional Insurance Agents •** 400 N. Washington St., Alexandria, VA 22314. Tel. 703-836-9340. Fax. 703-836-1279. http://www.pianet.com — Trade association of independent insurance agents.

**National Association of Securities Dealers •** 1735 K St., NW, Washington, DC 20006. Tel. 202-728-8000. Fax. 301-590-6506. http://www.nasd.com/ — Largest securities industry self-regulatory organization in the United States. NASD registers member firms, writes rules to govern their behavior, examines them for compliance and disciplines those that fail to comply. Also provides education to industry professionals and investors, and support member firms in their self-compliance activities.

**National Credit Union Administration** • 1775 Duke St., Alexandria, VA 22314-3428. Tel. 703-518-6300. Fax. 703-518-6671. http://www.ncua.gov — An independent agency in the executive branch of the federal government responsible for chartering, insuring, supervising and examining federal credit unions.

**National Council on Compensation Insurance Holdings, Inc.** • 901 Peninsula Corporate Circle, Boca Raton, FL 33487. Tel. 561-893-1000. Fax. 561-893-1191. http://www.ncci.com/ — Develops and administers rating plans and systems for workers compensation insurance.

**National Futures Association** • 200 W. Madison St., Suite 1600, Chicago, IL 60606. Tel. 312-781-1300. Fax. 312-781-1467. http://www.nfa.futures.org — Industrywide self-regulatory organization for the commodity futures industry.

**National Home Equity Mortgage Association** • 1301 Pennsylvania Ave. NW, #1600, Washington, DC 91710. Tel. 800-342-1121. http://www.nhema.org/ — Association committed to keeping consumers informed and able to take advantage of the benefits afforded by home equity mortgages.

**Office of Thrift Supervision** • 1700 G St., NW, Washington, DC 20552. Tel. 202-906-6000. Fax. 202-898-0230. http://www.ots.treas.gov/ — The primary regulator of all federal and many state-chartered thrift institutions, which include savings banks and savings and loan associations.

**Options Industry Council** • The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606. Tel. 888-678-4667. Fax. 312-977-0611. http://www.optionscentral.com — Nonprofit association created to educate the investing public and brokers about the benefits and risks of exchange-traded options.

**Pension Research Council** • The Wharton School of the University of Pennsylvania, 3000 Steinberg Hall - Dietrich Hall, Philadelphia, PA 19104-6302. Tel. 215-898-7620. Fax. 215-898-0310. http://prc.wharton.upenn.edu/prc/prc.html — The Pension Research Council of the Wharton School of the University of Pennsylvania is an organization committed to generating debate on key policy issues affecting pensions and other employee benefits.

**Property Casualty Insurers Association of America** • 2600 River Rd., Des Plaines, IL 60018. Tel. 847-297-7800. Fax. 847-297-5064. http://www.pciaa.net — Trade association merging the National Association of Independent Insurers and the Alliance of American Insurers. Provides a responsible and effective voice on public policy issues and advocates positions that foster a competitive market place for insurers and insurance consumers. The association serves as the voice of the property/casualty insurance industry before state legislatures and Congress, state and federal courts, key industry governmental and business groups, and the news media.

**Securities and Exchange Commission** • 450 Fifth St., NW, Washington, DC 20549. Tel. 202-942-7040. http://www.sec.gov/ — Primary mission is to protect investors and maintain the integrity of the securities markets.

**Securities Industry Association** • 120 Broadway, 35th Fl., New York, NY 19271-0080. Tel. 212-608-1500. Fax. 212-968-0703. http://www.sia.com/ — Association bringing together the shared interests of securities firms to accomplish common goals.

**SNL Financial LC** • One SNL Plaza, PO Box 2124, Charlottesville, VA 22902. Tel. 434-977-1600. Fax. 434-977-4466. http://www.snl.com — Research firms that collects, standardizes and disseminates all relevant corporate, financial, market and M&A data plus news and analytics for the industries it covers: banking, specialized financial services, insurance, real estate and energy.

**Society of Financial Services Professionals** • 270 S. Bryn Mawr Ave., Bryn Mawr, PA 19010-2195. Tel. 610-526-2500. Fax. 610-527-1499. http://www.financialpro.org/ — Advances the professionalism of credentialed members with state of the art resources to serve their clients' financial needs.

**Standard & Poor's Rating Group** • 55 Water St., New York, NY 10041. Tel. 212-438-2000. Fax. 212-438-7290. http://www.standardandpoors.com — Monitors the credit quality of bonds and other financial instruments of corporations, governments and supranational entities.

**Surety Association of America** • 1101 Connecticut Ave., NW, Suite 800, Washington, DC 20036. Tel. 202-463-0600. Fax. 202-463-0606. http://www.surety.org — Statistical, rating, development, and advisory organization for surety companies.

**Thomson Financial** • Metro Center, One Station Place, Stamford, CT 06902. Tel. 203-969-8700. Fax. 203-977-8354. http://www.thomson.com/financial/financial.jsp — Complete source for integrated information and technology applications in the global financial services industry.

**TowerGroup** • Two Charles River Place, 63 Kendrick St., Needham, MA 02494-2708. Tel. 781-292-5200. Fax. 781-449-6982. http://www.towergroup.com/ — Research and advisory firm focused exclusively on the global financial services industry.

**Weather Risk Management Association (WRMA)** • 1156 15th St., NW, Suite 900, Washington, DC 20005. Tel. 202-289-3800. Fax. 202-393-9741. http://wrma.org — The goal of the WRMA is to serve the weather risk management industry by providing forums for discussion and interaction with others associated with financial weather products.

**Ward Group** • 11500 Northlake Dr., Suite 305, Cincinnati, OH 45249-1662. Tel. 513-791-0303. Fax: 513-985-3442. http://www.wardinc.com — Management consulting firm specializing in the insurance industry.

**Note:** Company names in charts in this book may vary. They appear as printed in the original source.

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