# MAINE REVENUE SERVICES

## MODERNIZATION OF THE FINANCIAL SERVICES INDUSTRY

A REPORT PREPARED FOR THE
JOINT STANDING COMMITTEE ON TAXATION
AND THE
JOINT STANDING COMMITTEE ON BANKING AND INSURANCE

Anthony J. Neves
State Tax Assessor
October 2000

## INDEX

## I. BACKGROUND

In recent years, modernization in the financial services industry has created substantial change in the way banks, insurance companies, brokerage firms, and other business entities have traditionally conducted business. Law changes at both the federal and state level have allowed or accelerated these changes. In 1997, the State of Maine enacted the Universal Bank Charter Act (P.L. 1997, c. 315). At the federal level, the President signed the Financial Modernization Act of 1999 (P.L. 106-102) on November 12, 1999. As a result of these law and regulatory changes, banks now sell insurance, mutual funds and securities, and provide real estate-related services, tax planning and preparation services, financial consulting and investment advice, data processing services, and other services in addition to traditional deposit and loan services. Other businesses in the financial services industry offer mortgages, credit cards, loans and other consumer credit products that were once primarily limited to financial institutions. Insurance companies sell annuities tied to investments in mutual funds and other securities. Securities brokerage firms offer checking and credit card services to their customers. The financial services industry has the potential to change dramatically.

In response to this situation, Maine State Government formed two review groups to study the financial services industry and the current tax laws relating to the industry. Governor Angus S. King, Jr. issued Maine Executive Order No. 3 FY 97/98 (May 27, 1998) establishing the Financial Services Taxation Advisory Group. On July 31, 1998, by order of the President of the Senate and the Speaker of the House of Representatives, the Special Commission on Financial Services Taxation was established. Both of these groups met, sometimes separately and sometimes together, during the latter part of 1998. Their efforts resulted in similar conclusions. Briefly, the two groups recommended that Maine Revenue Services monitor developments and report annually to the Legislature on

> ... any changes in revenue in the bank franchise tax, insurance premium tax or corporate income tax directly or indirectly resulting from the expansion of financial services entities into non-traditional lines of business; any issues and trends resulting from the expansion of traditional financial services entities into insurance sales and underwriting, sales of securities and mutual funds, investment banking and other types of financial services; and any activities of other states and the Multistate Tax Commission related to the taxation of financial services.

From *Final Report of the Special Commission on Financial Services Taxation*, December 1998.

The Committee on Taxation, by letter dated May 20, 1999 (Exhibit A), formally requested that Maine Revenue Services monitor developments in the financial services industry and report annually to the Joint Standing Committee on Taxation and to the Joint Standing Committee on Banking and Insurance.

## II. TRENDS IN BUSINESS ACTIVITY IN THE FINANCIAL SERVICES INDUSTRY

**A. National:** An article published by the CNN Financial Network (http.cnnfn.com) entitled "Bank merger law; fruitless?" is attached as Exhibit C. The article points out, in spite of the original excitement caused by the law changes, that the overall impact on the industry has been minor. Based on the Bureau's research, this article accurately reflects the general sentiment about the results of deregulation of the banking industry.

**B. Maine:** Maine banks are participating in consolidation and modernization activities. Most of the activity to date has involved acquisition of other banks or certain branches of other banks. Several of the larger Maine banks have expanded into the sales of insurance and stock brokerage services, some by acquisition and others through internal development.

## III. IMPACT OF INDUSTRY STRUCTURAL CHANGES ON MAINE REVENUES

**A. Survey Results:** Maine Revenue Services designed a survey form that was mailed to 73 taxpayers (financial institutions) who had filed a Maine Franchise Tax return in any of the three previous tax years (see Exhibit B). Every effort was made to keep the survey form as simple as possible yet comprehensive enough to gauge the financial impact of structural changes on Maine's financial services industry. The survey form was designed to solicit information from Maine taxpayers regarding their activities in the sales of insurance excluding credit life/disability lines, sales of securities excluding transactions in the trust services area, and the related tax consequences of those activities. The Bureau received completed survey forms from 49 taxpayers. Of the non-responders, 13 are now either out of business because of mergers or acquisitions or are out-of-state banks with very little Maine activity. The Bureau was able to estimate the activity of the remaining 11 non-responders by researching franchise tax returns and other financial information such as Standard and Poor's stock reports.

The following amounts are an estimate of Maine revenue loss for tax year 1998 as reported on the survey forms.

FINANCIAL IMPACT ON MAINE REVENUES:

| | |
|---|---|
| Maine Income Tax that insurance/ brokerage activities would have generated: | $71,031 |
| Maine Franchise Tax paid related to insurance/ brokerage activities: | $11,850 |
| Estimated Maine State revenue loss: | $59,181 |

The income amounts reported for tax year 1998 from activities other than bank fees are small in relation to the sum reported from bank fees. Several taxpayers responded that they had expanded into these activities, but the resulting tax consequences were minimal because they were in the beginning phases of the process. **The estimated tax reported did indicate that this trend could later result in a significant reduction of overall tax revenue as these activities are taxed at franchise tax rates (1% of book net income plus 8 cents per $1,000 of the financial institution's Maine assets) rather than at income tax rates (2% to 8.5% if individual or 3.5% to 8.93% if corporation of Maine net income).** Tax year 1998 was used for the survey because it is the most recent tax year for which all returns are available.

**B. Maine Franchise Tax Return Statistics:** The following amounts were summarized from Maine franchise tax returns (unaudited) filed by taxpayers through June 2000. Returns for tax year 1999 were not included because tax year 1998 is the most recent year for which all returns are available. The Total Maine Tax column is less than the sum of Maine Tax on Income and Maine Tax on Assets because tax credits have been subtracted.

| Tax Year | Number of Filers | Maine Net Income | Maine Assets End-of-Year | Tax on Maine Income | Tax on Maine Assets | Total Maine Tax |
|---|---|---|---|---|---|---|
| 1994 | 78 | $145,294,971 | $15,867,785,070 | $1,579,137 | $1,268,503 | $2,641,199 |
| 1995 | 77 | $180,978,832 | $16,741,843,556 | $1,927,926 | $1,338,761 | $3,137,256 |
| 1996 | 72 | $180,743,628 | $16,010,802,287 | $1,878,309 | $1,280,721 | $2,594,101 |
| 1997 | 75 | $182,088,767 | $17,337,260,834 | $1,892,911 | $1,384,765 | $2,713,867 |
| 1998 | 87 | $204,838,151 | $19,870,086,107 | $2,052,456 | $1,589,575 | $3,030,147 |

## IV. NEW DEVELOPMENTS

**A. Other States:** The Bureau searched the Internet Web sites of all the other states looking for law changes related to financial services industry modernization. We found only one change that <u>may</u> be related to industry modernization.

> **Massachusetts:** In 1995, Massachusetts enacted legislation that changed the taxation of banks and financial institutions. This legislation replaced the former tax on banks with an excise tax on a broader category of entities falling within the new definition of "financial institution." There was a grandfather clause in the legislation that allowed certain businesses that were not previously taxed as banks that fall under the new definition to continue to file corporate tax returns for a four-year period. That period has now expired.

**B. Multistate Tax Commission:** Dan Bucks, Executive Director of the Multistate Tax Commission, informed the Bureau that member states of the Commission have expressed a need for financial services model tax legislation for the business changes/activity now allowed in this industry by deregulation. MTC has an ongoing project studying deregulation, industry change and taxation. The initial and primary focus of this project is on the electric utility industry. However, the project is expanding its focus to review changes in the financial services industry. The goal for 2000-2001 is to survey Deregulation Project States on tax rules and tax issues relating to financial services. The project states are Alabama, Arkansas, Colorado, Idaho, Kentucky, Missouri, Montana, New Mexico, Oregon, and Washington.

The Commission's Internet Web site currently contains no information regarding recent work by the Commission on financial services taxation.

**C. Federation of Tax Administrators ("FTA"):** In a recent telephone conversation with Harley Duncan, Executive Director of the FTA, he stated that he was not aware of any organized effort to study the states' financial services taxation issues.

The FTA's Internet Web site did not contain any information that indicates new initiatives on the taxation of financial services.

## V. SUMMARY

Based on the information gathered for this report, the Bureau believes that the financial services industry convergence has not yet significantly impacted Maine's tax revenues. The surveys, although not perfect instruments, clearly indicate that the fiscal costs are minimal. The unaudited tax return data also indicate that the Maine net income has not increased much on a year-over-year basis. The letters (Exhibits D & E) provided by the Maine Bureau of Banking and the Maine Association of Community Banks all support the survey results: deregulation of financial institutions has yet to significantly affect Maine revenues. However, with the removal of federal regulatory barriers on financial services companies to engage in previously restricted lines of business, there are increasing opportunities for affiliations and expansions of Maine financial service companies to reduce effective tax burdens. Certain of the restructuring and consolidation will highlight tax equity issues and the desirability of a unified financial services industry tax policy.

Exhibit A (1)

SENATE

RICHARD P. RUHLIN, DISTRICT 6, CHAIR
BEVERLY C. DAGGETT, DISTRICT 15
S. PETER MILLS, DISTRICT 13

JULIE JONES, LEGISLATIVE ANALYST
TRISH MASON, COMMITTEE CLERK

STATE OF MAINE

HOUSE

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JOHN T. BUCK, YARMOUTH
PETER E. CIANCHETTE, SOUTH PORTLAND

ONE HUNDRED AND NINETEENTH LEGISLATURE

COMMITTEE ON TAXATION

May 20, 1999

Anthony J. Neves
State Tax Assessor
Bureau of Revenue Service
24 State House Station
Augusta, ME 04333

Dear Mr. Neves:

As you are aware, The Joint Standing Committee on Taxation has had under consideration this session, **LD 458, AN Act to Ensure Fair Taxation of Insurance and Securities Sales.** This bill proposed to tax income of a financial institution from sales of insurance or securities under the corporate income tax rather than the franchise tax on financial institutions.

LD 458 addressed inequalities in the taxation of sectors of the financial services industry that result from deregulation in the banking sector and the convergence of banking, insurance and securities management. As financial institutions begin to sell insurance or acquire insurance agencies or securities brokerages, insurance sales become covered under the franchise tax on financial institutions rather than the income tax on insurance agencies. The disparity in tax treatment has resulted in competitive disadvantages for some firms over others. The Committee is deeply concerned about this recent development and intends to pursue an appropriate remedy.

These issues, along with a variety of others, were addressed over the past year by two separate study groups -- one appointed by the Governor and one appointed by the President of the Senate and the Speaker of the House. These groups identified significant uncertainty regarding the direction of changes in the financial services field and recommended that the Bureau of Revenue Services monitor developments and report annually to the Legislature

> "...any changes in revenue in the bank franchise tax, insurance premium tax or corporate income tax directly or indirectly resulting from the expansion of financial services entities into non-traditional lines of business; any issues and trends resulting from the expansion of traditional financial services entities into

Exhibit A (2)

insurance sales and underwriting, sales of securities and mutual funds, investment banking and other types of financial services ; and any significant activities of other states and the Multistate Tax Commission related to the taxation of financial services."

Maine is not alone in confronting these issues. The Committee believes that, while these issues are important and in need of further consideration, we are reluctant to make changes in the law prematurely, before more of the implications are clear. We are especially concerned about the impact of potential changes on businesses in Maine and the State's ability to attract high-quality jobs. The Committee was informed that the Multistate Tax Commission will be addressing these issues in future work. The Committee believes that it is in the best interests of the State to delay until next year actions on these issues pending receipt of more information from your office.

In order that we may have appropriate information available to us as these issues progress, we request that you monitor developments in this field and report annually to this Committee and to the Joint Standing Committee on Banking and Insurance regarding trends in business activity in the financial services industry; the impact of structural changes on the various tax lines and developments on the national level that have an impact on Maine or present options that the Legislature might want to consider.

Thank you for your assistance.

Sincerely:

Sen. Richard P. Ruhlin
Senate Chair

Sincerely:

Rep. Kenneth T. Gagnon
House Chair

cc: Joint Standing Committee on Banking and Insurance

Exhibit B (1)

ANGUS S. KING, JR
GOVERNOR

Maine Revenue Services
312 Canco Road
Portland, Maine
04103

JANET E. WALDRON
COMMISSIONER OF
ADMINISTRATIVE & FINANCIAL SERVICES

ANTHONY J. NEVES
EXECUTIVE DIRECTOR

# Franchise Tax Questionnaire

**This questionnaire applies to the Maine Franchise Tax Filer's unitary group of corporations as defined by Maine tax law.**

**Taxpayer Information**

Company name ______________________ Federal Identification # ____________________

address ______________________ Contact person(s) ____________________

______________________ ____________________

______________________ Telephone # ____________________

1) Please provide the fees, income, or sales for the various lines of **Maine** business activity your institution was engaged in for the calendar/fiscal year beginning in 1998 and 1997.

| | 1998 | 1997 |
|---|---|---|
| Banking fees, trust services, interest income, credit life/disability insurance, etc. | $__________ | $__________ |
| Fees from the sale/management of stocks/securities * | __________ | __________ |
| Commissions on insurance sales and related services (excluding credit life/disability insurance) | __________ | __________ |
| Real estate related services * | __________ | __________ |
| Tax planning and preparation * | __________ | __________ |
| Financial consulting * | __________ | __________ |
| Investment advice * | __________ | __________ |

Phone (207) 822-6373 1-800-525-7630 (TDD) Fax (207) 822-6394 e-mail: Terry. M. Shirley@state.me.us

Data processing income * ________ ________

Other (please define and list the sales volume) * ________ ________

________________________ ________ ________

________________________ ________ ________

________________________ ________ ________

________________________ ________ ________

* exclude fees earned by your company's trust department

2) Did your financial institution engage in **insurance** (excluding credit life/ disability line) or **securities brokerage** ( not including trust services) activities during your entities' calendar/fiscal year? (Please check one.) YES ______ NO ______

3) If the answer to question #2 is **no**, then stop here and submit this questionnaire.

If the answer to question #2 is **yes**, proceed to question #4.

4) Please answer the following questions:

<u>Tax calculation for determining the revenue impact to the state of Maine:</u>

a) For the calendar/fiscal year beginning in 1998, determine the Maine Taxable Income (see Form 1120-ME) for the insurance ° and stock/securities sales and management °° segments of your business. Multiply the result times the applicable Maine income tax rates. For regular (C) corporations, use Maine corporate income tax rates. For flow-through entities, use Maine's individual income tax rates.
Enter tax here $__________

b) For the calendar/fiscal year beginning in 1998, how much Maine Franchise Tax was paid by your company that related to your financial institution's insurance ° and stock/securities sales and management °°? Enter tax here $__________

Subtract line 4a from line 4b and enter result here. $__________

° excluding credit life/disability insurance transactions.
°° excluding trust service transactions

Exhibit B (3)

5a) Please provide MRS with a short narrative (no more than three pages in length) on the significant business changes your company **has undergone** in recent years due to the deregulation/consolidation in the financial services industry.

b) As part of the narrative, also provide any **future** plans which may be implemented by your company as a result of this deregulation/consolidation in the financial services industry.

Please mail this questionnaire to:

Maine Revenue Services
Attn: Terry M. Shirley, Tax Analyst
312 Canco Road
Portland, Maine 04103

If you have any questions regarding this questionnaire, contact Terry M. Shirley at phone: (207) 822-6373

***November 24, 1999***

news: **Deals**


# Bank merger law; fruitless?

## After repeal of Glass-Steagall Act many are waiting - and waiting - for mergers

By Staff Writer Jake Ulick
May 19, 2000: 2:36 p.m. ET

NEW YORK (CNNfn) - It had such a bold, sweeping ring to it -- President Clinton overturning Depression-era banking laws.

With a stroke of a pen, banks, brokers and insurance firms can now enter each others' businesses; promising a wave of mergers across the land and a revolution in the way consumers buy financial services.

But it hasn't happened.

In the six months since the partial repeal of the Glass-Steagall Act of 1933, only a handful of small-scale merger activity has occurred -- none of it involving insurance firms.

Analysts now credit the Internet with the changes in how people buy mutual funds, mortgages and car insurance, and not the new law, the Gramm-Leach-Bliley Act, which was signed last November to amend Glass-Steagall.

"It hasn't been the big bang event that some people thought it would be," said Kevin Timmons, senior banking analyst at First Albany.

No one calls the new law a failure. And many say it's too soon to measure any impact. Still, the banking landscape of today looks pretty much like it did before Gramm-Leach-Bliley's passage.

Glass-Steagall was enacted after the Great Depression to insulate banks from collapse, similar to other financial reforms pushed through during the 1930s. But over the years, Wall Street came to view the restrictions on combining banks with other businesses as burdensome and unnecessary.

And now that it has been partially overturned, analysts are awaiting results.

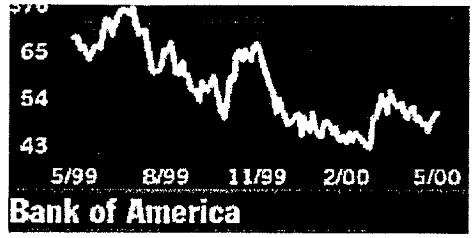
"No one has got this thing completely figured out yet," said Todd Davenport, editor of the bank and thrift group at SNL Securities.

There are several reasons for the head scratching.

Financial stocks performed poorly in the past year, giving banks less muscle to make acquisitions that are allowed under the new law. J.P. Morgan (JPM: Research, Estimates), Bank of America (BAC: Research, Estimates), and Wells Fargo (WFC: Research, Estimates) all lost value in the last 52 weeks.

"For banks, in particular, their currencies are so depressed now that they can't make the acquisitions they had contemplated," Davenport said.

Insurers such as Allstate (ALL: Research, Estimates); Unumprovident (UNM: Research, Estimates); and Chubb Corp. (CB: Research, Estimates) posted mixed performances. Only brokers saw solid gains. Shares of Lehman Brothers (LEH: Research, Estimates) and Merrill Lynch (MER: Research, Estimates) surged in the last year. But Charles Schwab (SCH: Research, Estimates), the nation's biggest discount broker, fell 18 percent in the last 52 weeks.




### 1998: Year of the bank merger

At the same time, some of the top mergers in the financial services industry were announced before the new legislation, as executives anticipated its passing. Meanwhile, the Federal Reserve had already loosened restrictions in the Bank Holding Company Act of 1956, permitting an array of marriages.

In 1998, Wells Fargo bought Norwest for $34 billion. That deal came two months after BankAmerica Corp. merged with NationsBank Corp. in a $60 billion hookup.

**Top Five U.S. Financial Mergers**

| | | |
|---|---|---|
| Travelers Group<br>Citicorp | $72B | 4.1998 |
| NationsBank<br>BankAmerica | $61B | 4.1998 |
| Norwest<br>Wells Fargo | $34B | 6.1998 |
| BANC ONE<br>First Chicago NBD | $29B | 4.1998 |
| Berkshire Hathaway<br>General RE | $22B | 6.1998 |

*Source: Thomson Financial Securities Data*

In the same month, Travelers Group Inc. and Citicorp merged in a deal worth $70 billion to form Citigroup Inc. (C: Research, Estimates), the world's No. 1 financial services company.

All those deals were approved.

At the same time, many brokers were bought before financial stocks began falling in late 1998. Citigroup got Salomon Smith Barney, Deutsche Bank snapped up B.T. Alex Brown and BankBoston secured Robertson Stephens.

### Schwab, U.S. Trust a standout

Still, one hybrid merger did materialize since November: Charles Schwab in January agreed to acquire U.S. Trust, combining the king of bargain brokers with one of the nation's leading wealth management firms.

But conspicuously absent are the insurers. On reflection, some analysts say banks may be reluctant to enter the slow-growth business of underwriting. And then there's the complex regulation; individual states govern the insurance business.

"I don't know that [banks and insurers] really have many synergies," said Tom McCandless, banking analyst at CIBC World Markets. Still, McCandless predicts more financial consolidation ahead.

Meanwhile, many banks through partnerships have opted to simply sell insurance but not underwrite it.

A spokeswoman for Sen. Phil Gramm, R-Texas, one of the bill's sponsors, said six months is too small a window to evaluate the new law. Gramm's office said a lot of the regulatory changes haven't taken effect.

The law's advocates, meanwhile, point to the other features, which include a series of privacy provisions to protect customers' confidentiality and a strengthening of fair lending laws to those with low incomes.

### Services explode

The physical landscape of banking may look the same since Gramm-Leach-Bliley. But the business is unmistakably altered. Many credit the Internet.

Most banks offer online accounts and sell mutual funds. Americans increasingly are applying for mortgages online. Brokers such as Salomon Smith Barney offer the kind of financial advice that once came only from accountants. Mutual fund companies such as Vanguard are quick to dispense tax-saving tips.

"Banks are now recognized as providers of financial services," said Andrew Collins, of ING Barings.

They've also treated the Internet like a land grab. CheckFree Holdings Corp. in April acquired Bank of America's electronic billing and payment assets in exchange for CheckFree (CKFR: Research, Estimates) shares. The deal gave the bank a stake in CheckFree, an electronic financial services and software provider. Fannie Mae has online partnerships with e-Loan (EELN: Research, Estimates) and mortgage.com (MDCM: Research, Estimates).

**By 2003:**

One in five Americans will be applying for mortgages online.

One in three will manage their bank accounts online.

Nearly half of all Americans who own stocks will trade online.

Source: Jupiter Communications

Microsoft has a mortgage and home-buying Web site that claims faster approval and cost savings for consumers shopping for a home online.

HSBC Holdings and Merrill Lynch in April each committed $500 million to fund a new online banking unit. E*Trade Group Inc. in March agreed to acquire the largest independent network of automated teller machines in the United States.

"More and more people are going after the consumer," said Chip Dickson, banking analyst at Salomon Smith Barney.

More of them, yes. But analysts are also waiting, in a sense, for fewer of them.

"There's no doubt in my mind that all the big financial companies are looking at each other [as merger partners]," First Albany's Timmons said. "You've got to give it a couple of years."

After all, the Glass-Steagall Act of 1933 wasn't changed overnight.

**stories**

U.S. deal on bank reform - Oct. 22, 1999

Advocates assail bank deal - Oct. 22, 1999

Rating your bank - May 17, 2000

**sites**

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Exhibit C



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Exhibit D (1)

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF BANKING
36 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0036

ANGUS S. KING, JR.
GOVERNOR

HOWARD R. GRAY, JR.
SUPERINTENDENT

August 10, 2000

Jerome Gerard
Deputy State Tax Assessor
Maine Revenue Service
24 State House Station
Augusta, ME 04333-0024

Dear Mr. Gerard:

You have asked that the Bureau of Banking provide Maine Revenue Services with a summary of law changes that have precipitated the convergence of the financial services industries over the past several years.

During the course of the last several years, the financial services industry in Maine, as well as across the nation, has undergone considerable change.
This change has primarily occurred for the following reasons: competition among providers of financial services, including state and federally chartered banks and non-bank entities; demands from the consuming public; and the perceived need regarding an institution's financial viability in a global marketplace. These compelling forces have driven the financial services industry to seek regulatory and legislative relief from restrictive state and/or federal law through financial modernization proposals.

Under the Glass Steagall Act of 1933, banks were prohibited from affiliating with securities and insurance firms. Some inroads for banks to enter the securities business developed mostly through federal regulatory rulings over the past decade. Until 1993, Maine financial institutions were prohibited from engaging in most insurance-related activities by virtue of state insurance licensing and anti-affiliation laws. During this time frame, however, companies such as Merrill Lynch, Advest, State Farm Insurance, and John Hancock Insurance utilized federal law to organize and operate federally chartered thrifts and banks through which those organizations have engaged in a myriad of banking activities. This placed additional pressure on banks that could not offer a broad range of competitive insurance or securities products and services. The landscape has changed dramatically over the past several years and banks, insurance companies, and securities firms can now compete more directly in the financial services business.

Exhibit D (2)



The following lists some of the major court cases, regulatory rulings, and legislative changes that have set the stage for the convergence of the financial services industry:

- In 1982, the Federal Home Loan Bank Board issued a resolution that permitted savings and loan associations to broker securities as well as offer investment advice;
- In 1982 and 1984, the Federal Deposit Insurance Corporation issued rulings that established the guidelines permitting banks to affiliate with securities companies or acquire/establish a securities subsidiary. Restrictions on underwriting, trust department and lending activities, were imposed as well as investment limitations and notification requirements.
- In 1983, the Comptroller of the Currency opined that the Glass-Steagall Act did not preclude a national bank from engaging in the business of providing investment advice or providing discount brokerage services.
- In 1985, the Maine Bureau of Banking issued Regulation #22, which provided the regulatory framework for Maine chartered financial institutions to engage in securities activities previously authorized for their federally chartered counterparts.
- In 1993, the Comptroller of the Currency issued an interpretative ruling of the National Banking Act that permitted national banks to sell annuities.
- In 1993, the State Legislature amended the Maine Banking Code to authorize financial institutions to sell or arrange for the sale of annuities purchased from a licensed insurance company;
- In 1996, the United State Supreme Court in *Barnett Bank of Marion County, NA vs. Nelson, Florida Insurance Commissioner*, clarified the right of national banks to sell insurance from a place with a population of less than 5,000, despite the existence of state laws which prohibited or restricted the sale of insurance by financial institutions.
- In 1997, the Maine Legislature enacted PL 1997, c.315, permitting state chartered banks to become licensed to sell full lines of insurance.
- In 1999, the Federal Congress passed the Gramm-Leach-Bliley Act, repealing portions of the Glass-Steagall Act and permitting banks to affiliate with insurance and securities firms.

Exhibit D (3)



The gradual breaking down of the legal and regulatory barriers restricting the affiliation of banks, insurance and securities firms has enabled Maine financial institutions to affiliate or otherwise establish partnerships to provide Maine consumers with a wider array of financial services. To date, the following affiliations have taken place:

- 1997, Peoples Heritage Bank acquired Morse, Payson, & Noyes.
- 1997, Peoples Heritage Bank acquired Brown Insurance Agency, merging it into Morse, Payson, and Noyes.
- Morse, Payson, and Noyes acquired Catalano Insurance Agency, Inc.
- 1998 Morse, Payson, and Noyes acquired Brooks Insurance Agency.
- 1998 Bangor Savings Bank established Bangor Insurance Services, Inc. and affiliated with Sargent, Tyler & West Insurance.
- 1998, Bangor Savings Bank acquired Livada Securities, Inc.
- 1999 Morse, Payson, and Noyes acquired A.D. Davis, Inc.
- 1999, Franklin Savings acquired Bean Financial Inc.
- 1999, Kennebunk Savings Bank acquired Morris Insurance Services
- 2000, Bar Harbor Bankshares acquired Dirigo Investments, Inc.

I hope that this proves helpful. I look forward to receiving a copy of your report to the Legislature relating to this issue.

Very truly yours,

Colette L. Mooney

Colette L. Mooney
Deputy Bank Superintendent

Clm/jo

JUL 26 2000

*Exhibit E*

**MAINE ASSOCIATION OF COMMUNITY BANKS**

July 21, 2000

Mr. Jerome Gerard
Maine Revenue Services
State House Station
Augusta, ME 0411

Dear Jerry:

As requested, I have found some additional information regarding the few bank acquisitions of insurance and securities firms. I know you have talked with Colette at the Bureau and I have talked to Bob Studley at the Bureau to review this list. I believe this is what is currently in place and in the order of occurrence..

- Peoples Heritage Bank (state-chartered at the time) purchased Morse, Payson & Noyes in the last quarter of 1997 (97:4). Since then, M, P & N has purchased a number of agencies located in other states and the bank has converted to a national bank charter.

- Bangor Savings Bank created Bangor Insurance Agency in early 1998 and purchased Livada Securities in the second or third quarter of 1998.

- Franklin Savings Bank buys Western Mountain Financial and becomes itself a broker/dealer in early 1999.

- Kennebunk Savings Bank buys Morris Insurance Agency in the second quarter of 1999.

- Bar Harbor Bank & Trust buys Dirigo Investments, a broker/dealer in the first quarter of 2000.

Best regards,

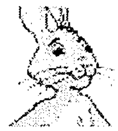
Christopher W. Pinkham
President
(207) 791-8401
*pinkhamc@mecb.com*

JUL 24 2000

489 Congress Street • Portland, Maine 04101-3401 (207) 791-8400 • FAX (207) 774-5693

Exhibit F









# You Can Bank on More Mergers

*By Kelly Whitman*
8/25/00 8:30 AM ET

Consolidation among insurance and financial services firms in the wake of the Gramm-Leach-Bliley Act has been much more muted than anticipated. Only recently have banks begun to expand into insurance, and most of this activity has been on a small scale, not the mega-merger variety portended by the Citibank-Travelers Group union. However, life insurer MetLife recently announced its intent to purchase New Jersey-based Grand Bank, signaling one of the first forays by a life insurance firm into retail banking and perhaps inaugurating a new period of increased bank/insurer merger activity.

The Gramm-Leach-Bliley Act removed the barriers among insurers, commercial banks and brokerages. These barriers were erected with the Depression-era Glass-Steagall Act, which sought to maintain the stability of commercial banks by preventing them from engaging in risky investment behavior. The much-lauded repeal of Glass-Steagall last November promised to usher in a new era of deregulation, where firms could now offer one-stop-shopping for financial services, allowing new avenues for growth in an increasingly competitive marketplace.

The past nine months have been anticlimactic, however, with most activity occurring on a local, small-scale level, and very little of this activity involving insurers. However, there are several factors that have discouraged merger activity between insurers and other financial services thus far.

First, financial stocks have been performing poorly over the past year, reducing the ability of banks to make large acquisitions. Indeed, S&P's index of bank stocks was down 16% year over year in June. Similarly, insurers including Allstate and Chubb Corp. have also been struggling over the past year, as soft pricing in recent years has impaired revenue growth. As a result, neither banks nor insurers are in much of a position to enter into large-scale merger and acquisition deals.

Moreover, the insurance underwriting business has not been particularly lucrative recently, particularly for property and casualty insurers. Excess capital in the industry has led to tremendous competition, as insurers have underpriced policies in order to gain market share. As a result, premium growth has been constrained and underwriting losses have mounted in both personal and commercial insurance lines.

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However, there is evidence that the property and casualty insurance industry has turned a corner, as many insurers have been successful in pushing through substantially higher premium prices through the first half of this year.

Nevertheless, until conditions in the industry improve significantly, the awaited wave of acquisitions may remain just a trickle. Indeed, instead of acquiring underwriting businesses, many commercial banks have entered into distribution arrangements with insurance firms. This way, other financial institutions receive commissions for selling policies, yet do not undertake any of the underwriting risk involved.

The life insurance industry, however, will likely see more activity. The primary driver of growth in the industry is the increased popularity of the variable annuity, an equity-based policy that features fixed premiums, for which the death benefit and cash value depend upon the investment performance of a separate asset fund. These types of annuities are also used in pensions, 401(k) plans and Individual Retirement Accounts.

Those life insurance firms that depend upon equity based investment to drive top-line growth are also the most vulnerable for acquisition. Other financial services industries, particularly mutual fund companies, have more experience in equity-based investment. For this reason, life insurance companies will most likely be the acquisition targets of well-capitalized banks looking to extend their reach in the financial marketplace.

Among the more aggressive insurers, several firms including MetLife and John Hancock have demutualized over the past year, converting from mutual insurance companies (owned by policyholders) to publicly traded insurance companies (owned by stockholders). Firms have been doing this in order to improve their long-term growth prospects, as becoming a stockholder-owned company makes it easier to raise funds and acquire other companies. MetLife's demutualization early this year was a necessary step toward expanding into the retail banking business. The company pays over $25 billion annually in policyholder claims; the acquisition of Grand Bank allows them to retain these funds and broaden the scope of customer services they offer.

Increased competitive pressure has already generated heavy consolidation activity within the insurance, commercial banking and brokerage industries. Though the pace of merger activity between these industries has been limited thus far, as firms have taken baby steps into the deregulated market, financial services will increasingly become more integrated as those baby steps accelerate to a faster gait.



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