



BANK-OWNED LIFE INSURANCE (BOLI) – SURVEY RESULTS 2018

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INTRODUCTION & EXECUTIVE SUMMARY

INTRODUCTION

After the 2017 inaugural survey, we received feedback from several participants on topics, length, and frequency of the survey. Most agreed the findings were valuable and encouraged us to repeat the survey in 2018.

While we were satisfied with the level of participation in our initial survey, we expected increased participation in subsequent years. Unfortunately, although we increased the number of invitations and left the survey open longer than the previous year, the total participation fell slightly. We suspect a number of factors contribute to folks' willingness to participate in this survey, including:

- Overall workloads and time constraints;
- The length and complexity of our survey; and
- BOLI as the subject matter (not the fastest evolving area of the financial markets).

While we actively seek to balance the length and complexity with the usefulness of the information and findings, we feel the survey may have been too cumbersome. We welcome unvarnished views and will discuss options for 2019.

Setting aside the disappointing overall participation, we continue to believe that the survey results reflect strong participation from the largest banks. We have done our best to present the results without bias. It is our hope that the information is presented clearly and provides insight and value.

Sincere thanks to everyone who invested the time out of your demanding schedules to participate. Also, a special thank you to those who assisted in spreading the word and invitations to participate.

EXECUTIVE SUMMARY

Distribution

- Survey Links were shared with over 100 banking institutions, both with and without existing BOLI, and spanning a wide range of sizes
- 11 full responses were received, representing 10 banks, all of which own BOLI

Highlights & Reflections

- **Death Claim Processing:** For many questions, we asked participants how the topic compared to last year (e.g., more of a concern, less of a concern, or unchanged). On the topic of Death Claim processing, nearly half of the respondents indicated that they were “more concerned” than the prior year.
- **Tax Reform Impact:** When asked how significant an impact the TCJA had on “YOUR BOLI”, most respondents indicated a “Minor Detrimental” impact (6). Only 3 respondents chose “Moderate Detrimental” and no one selected “Significant Detrimental.”
- **New BOLI Purchases:** Most respondents indicated that their institutions were Very Unlikely to purchase new BOLI during the next 2 years.

DEMOGRAPHICS

BANK PROFILES

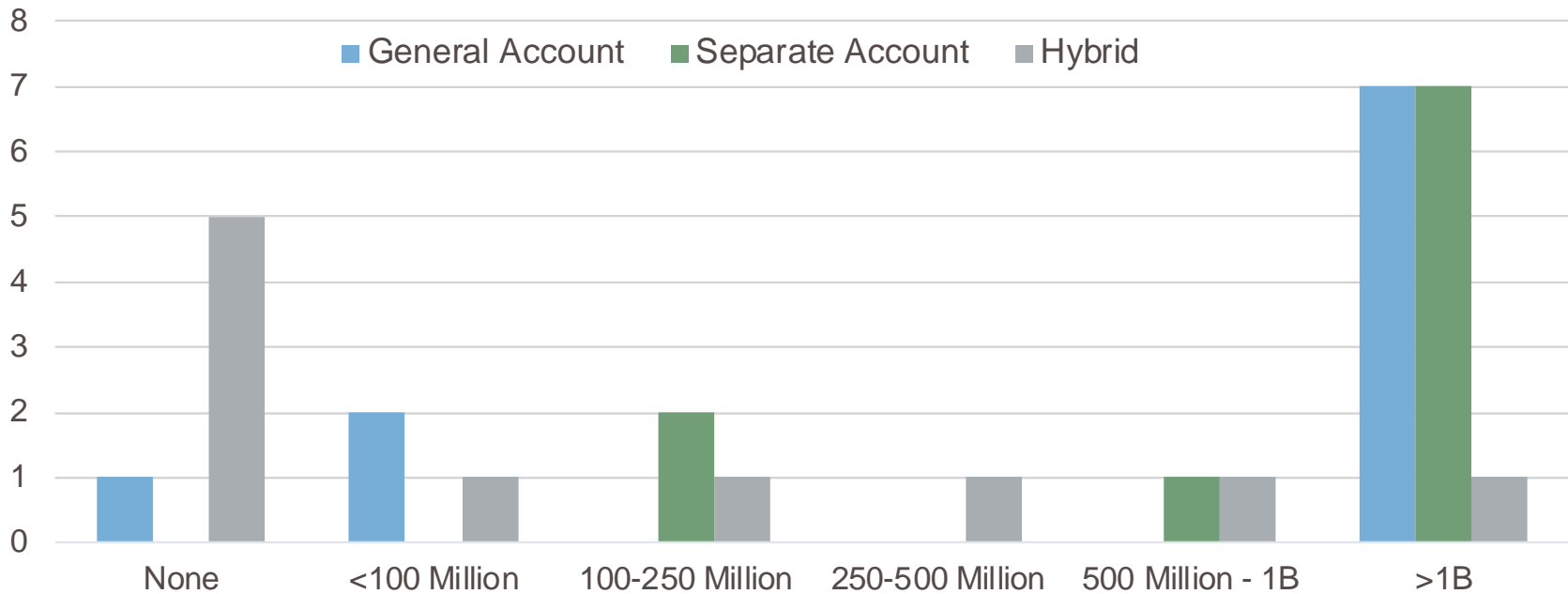
■ State Banks



■ National Banks



■ BOLI Assets



OWNER PROFILES

■ BOLI Program Role



Executive Management



Mid-Level Management



Day-to-Day Operations



Subject Matter Expert (e.g., legal, tax, risk, actuarial, etc.)

■ BOLI Program Tenure

1-3 Years



4-7 Years



8-10 Years

10+ Years



OWNER PROFILES

■ BOLI Program Responsibilities

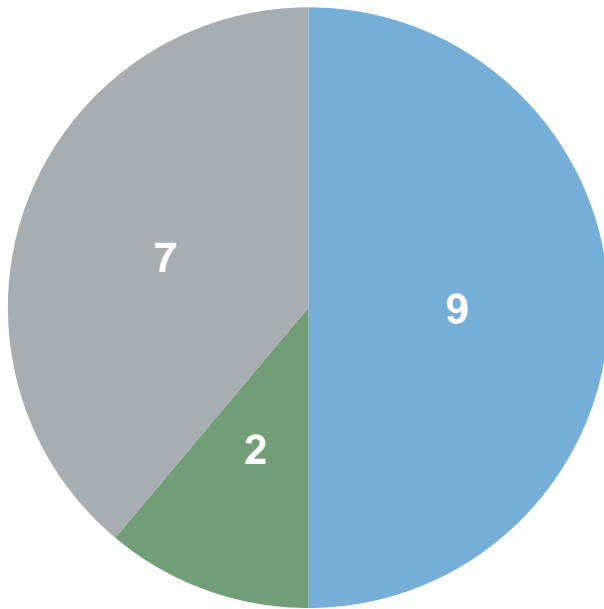
- Day-to-Day Program Management 9
- Senior Management – Oversight 8
- Monitoring Administration and/or Third Party Administrators 7
- Monitoring Investment Performance 6
- Primary Decision Maker for Reallocations 6
- Monitoring Credit Risk 5
- Monitoring Legal/Compliance Risk 5
- Monitoring Tax Risk and Issues 5
- Primary Decision Maker for New BOLI Transactions 5

The average, and most frequent number of responsibilities indicated was 5

BOLI ECONOMIC FACTORS

BOLI PERFORMANCE

- How do you measure the performance of your BOLI assets (excluding BOLI that is used to hedge deferred compensation plans and BOLI held in VEBAs)?
 - If multiple, select top 2.



Yield/ROA (Pre-Tax/After Tax)

Return On Capital

Risk-Adjusted Returns

BOLI PERFORMANCE

- How do you measure the performance of your BOLI assets?

If Return on Capital

What do you identify as the capital requirement for BOLI?

Basel III RWA	3
Leverage Ratio	
Greater of Basel III or Leverage Ratio	1
Risk Capital	
Internally Derived Fixed Percentage (e.g., 10%)	1
Other*	2

* Submitted Response: "TCE"

What do you consider the most conceptually appropriate way of viewing BOLI funding cost?

LIBOR	
LIBOR plus a spread	1
5-year swap rates	1
Blended rate based on BOLI duration	5

In determining BOLI funding cost, what type of rate is used?

Current (or recent) spot rate	2
Moving average (i.e., tractor/caterpillar)	4
Other	1

7

BOLI PERFORMANCE

- How do you measure the performance of your BOLI assets?

If Risk-Adjusted Returns

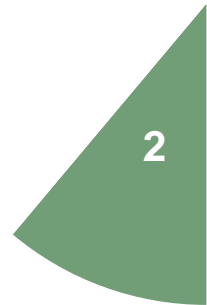
What do you identify as the measurement of risk for BOLI?

Variability of Returns

Effective Basel III RWA % 1

Duration 1

Weighted Average Credit Quality

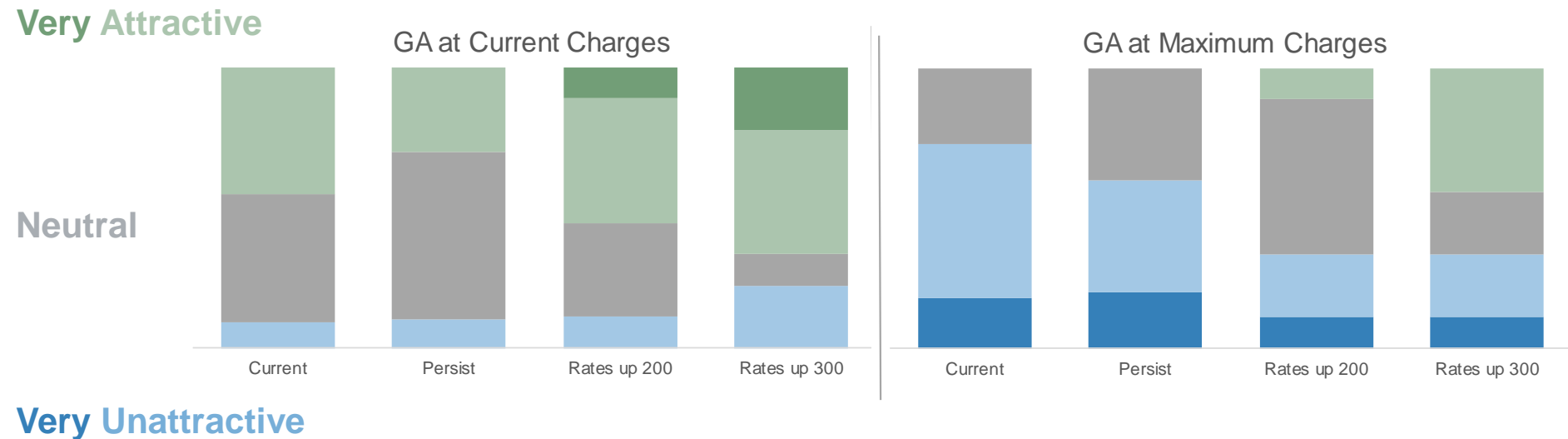


ATTRACTIVENESS OF BOLI YIELDS

Participants were asked to rate the attractiveness of general account BOLI yields at both current and maximum charges under 4 scenarios

- Current = Current BOLI Yields
- Persist = Longer-term BOLI yields if interest rates persist in a range similar to current
- Rates up 200 = Longer-term BOLI yields if interest rates gradually rise ~200 bps / ~300 bps

Response Frequencies



ATTRACTIVENESS OF BOLI YIELDS

Participants were asked to rate the attractiveness of separate account BOLI yields at both current and maximum charges under 4 scenarios

- Current = Current BOLI Yields
- Persist = Longer-term BOLI yields if interest rates persist in a range similar to current
- Rates up 200 = Longer-term BOLI yields if interest rates gradually rise ~200 bps / ~300 bps

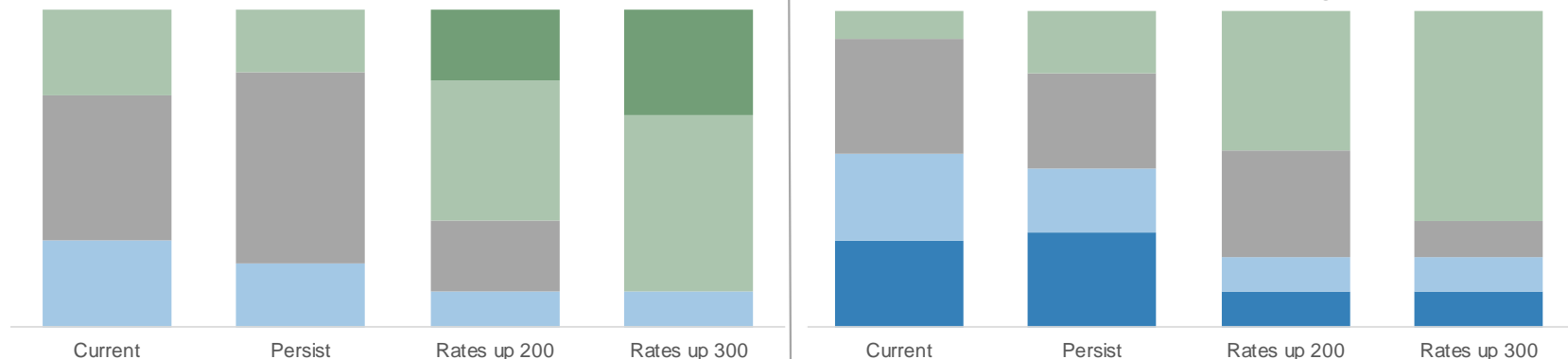
Response Frequencies

Very Attractive

SA at Current Charges

SA at Maximum Charges

Neutral

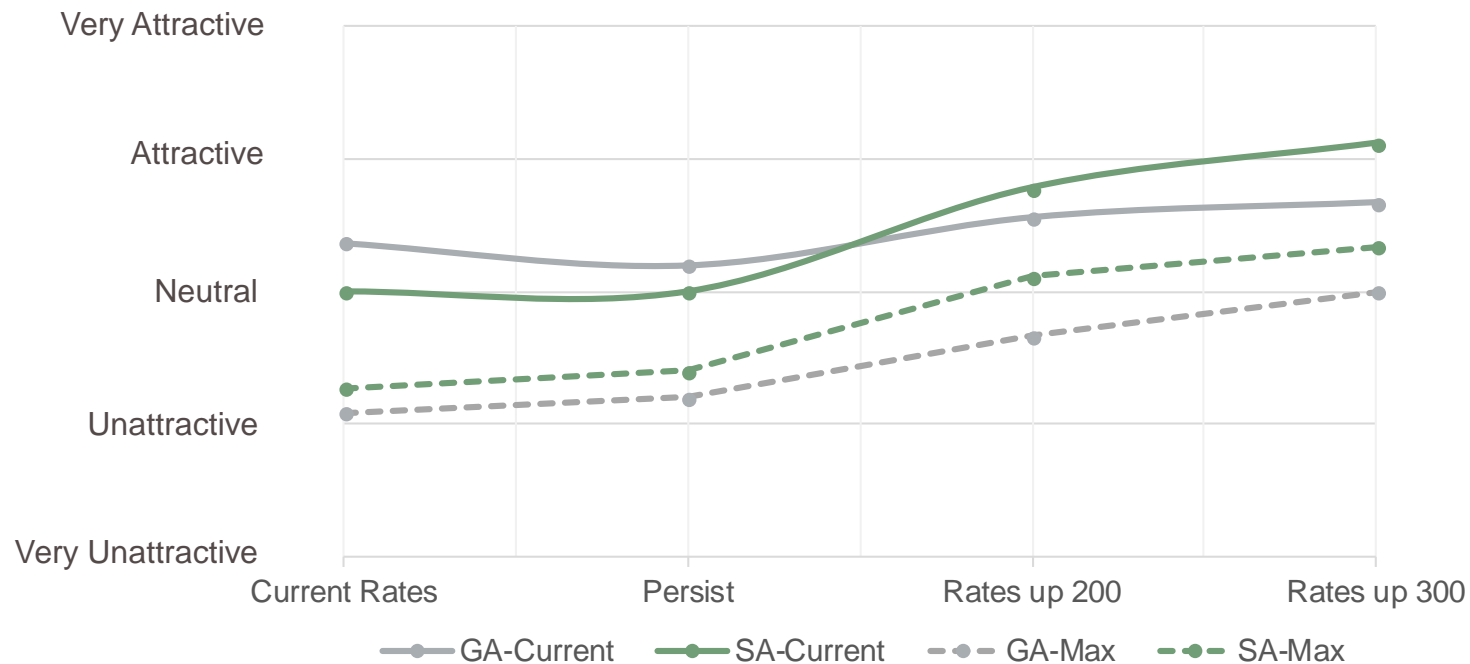


Very Unattractive

ATTRACTIVENESS OF BOLI YIELDS

Response Averages

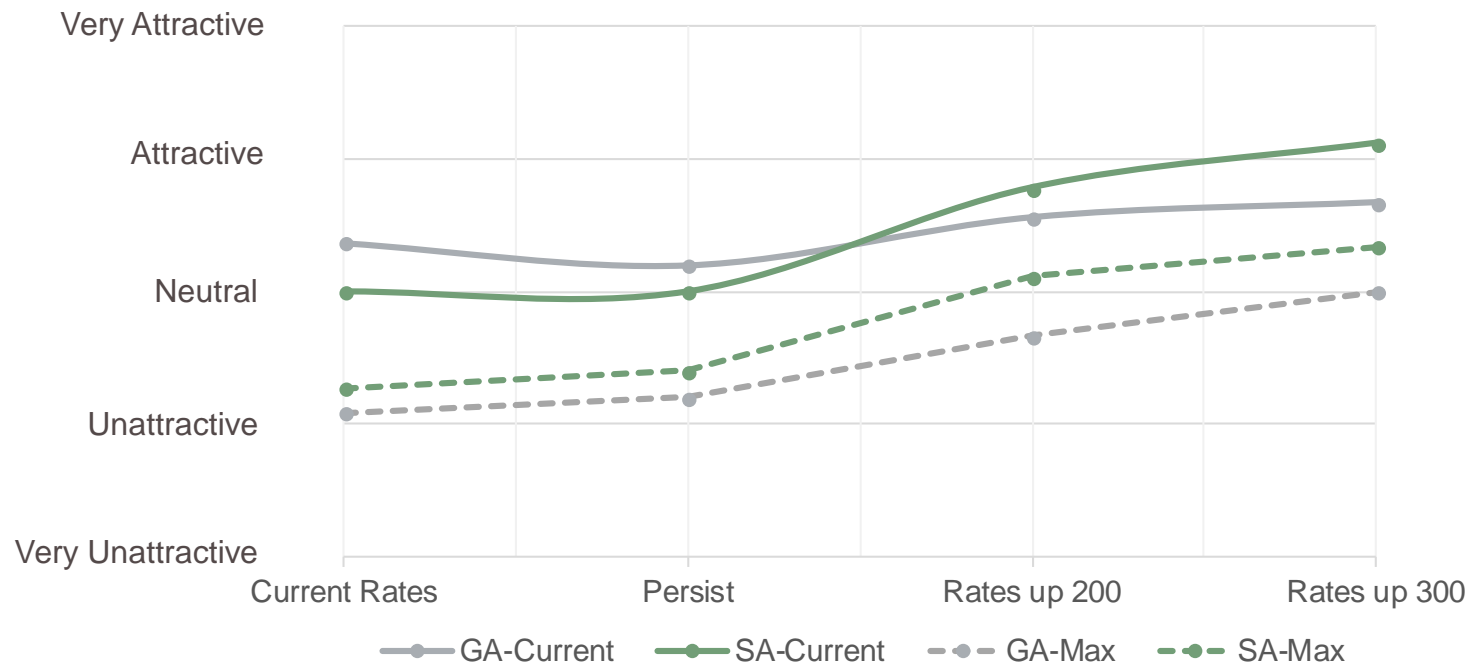
- For current charges, GA was deemed more attractive than SA under current interest rates, but dipped and was subsequently passed by SA in higher interest rate environments
- For maximum charges, both SA and GA attractiveness increased as rates increased, with SA slightly more attractive throughout the range



ATTRACTIVENESS OF BOLI YIELDS

Response Rationale

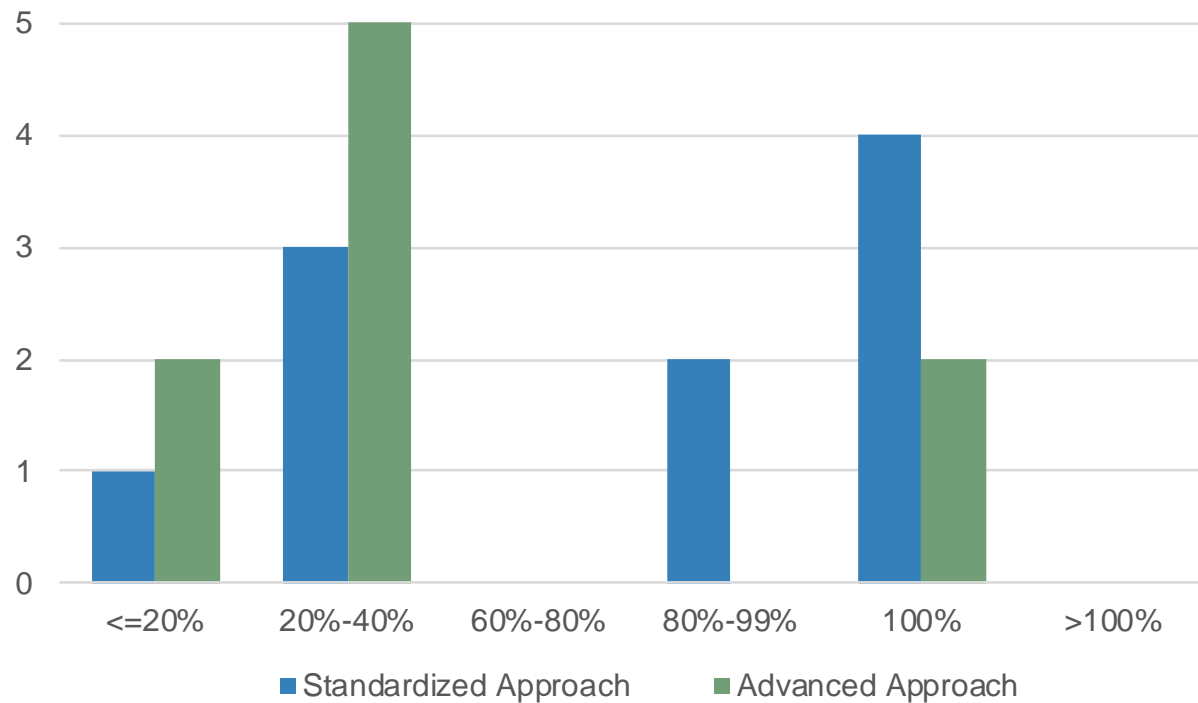
- For respondents that deemed GA more attractive than SA, the most popular factor indicated for that choice was insurance companies' ability to generate attractive long-term investment results
- For those choosing SA as more attractive, the top factor indicated was a more transparent and competitive cost structure



GENERAL ACCOUNT

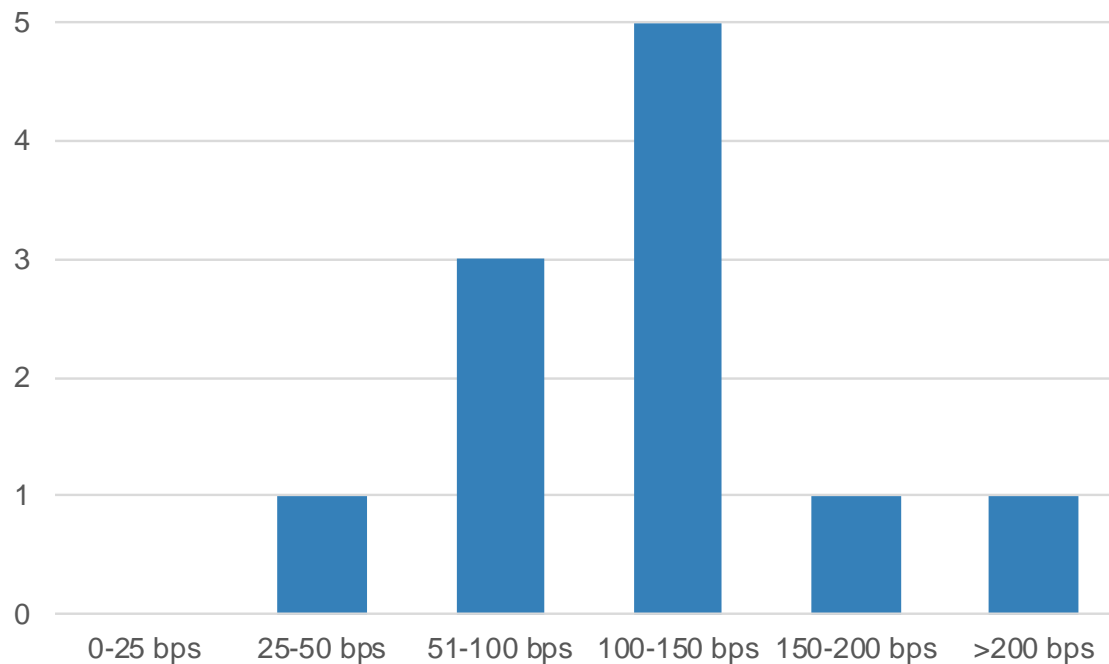
GA RISK WEIGHTING

- What is the effective overall risk-weight of your GA BOLI holdings?



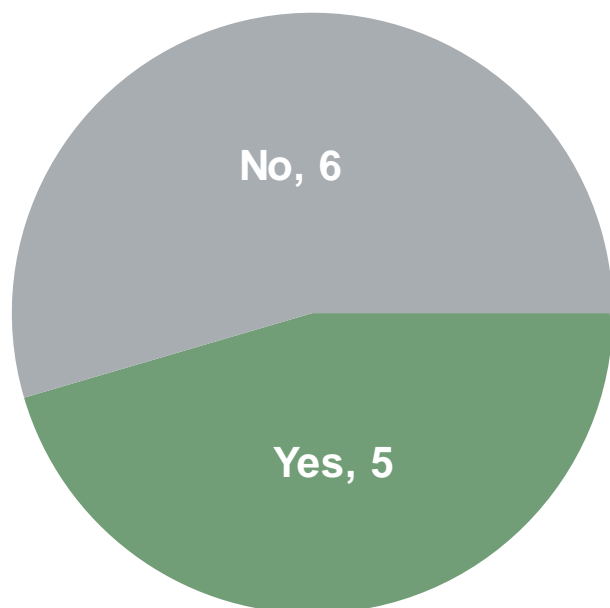
GA CARRIER SPREAD ON INVESTED ASSETS

- What do you think GA BOLI carriers target, on average, as the long-term spread between the return on invested assets and the policies' crediting rate?



GA INVESTMENT PORTFOLIO MONITORING

- Does your institution attempt to monitor the composition of your GA carriers' investment portfolios?



Is this something that would be of interest in the future?

Yes 4

No 2

How well does it work?

We have a strong sense of the compositions and find that relative positioning explains, at least in part, GA crediting rates

We have some understanding of relative portfolio compositions, but do not find that relative positioning explains GA crediting rates 3

We have relatively little sense of the composition

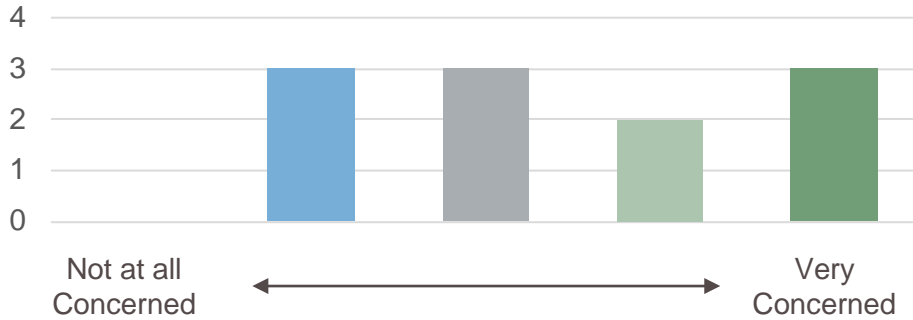
We have been unable to glean meaningful information in this regard 2

BOLI CONCERNS

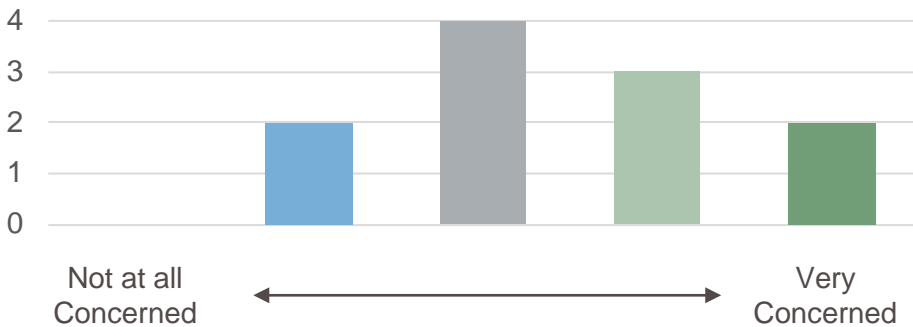
INCREASING COI

How concerned are you about increasing Cost of Insurance (COI) rates?

Existing Policies that have already been impacted



Exposure to similar actions from other carriers

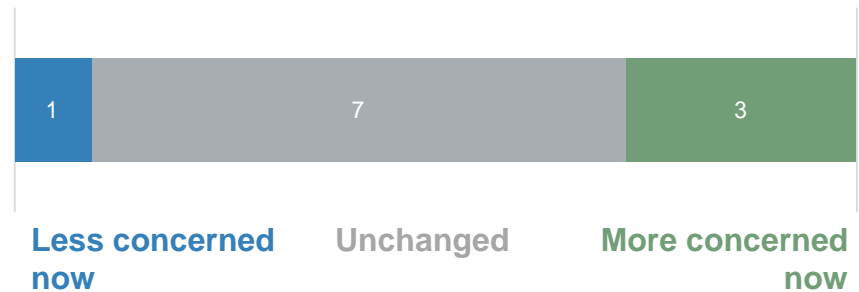


6/11 Expressed elevated concern for increasing COIs



Have you taken any action to address the concern?		Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?	
No	1	Yes	
No, but actively deliberating	3	No	2
Yes, internally	1	Don't know / N/A	4
Yes, external assistance			
Don't know / N/A	1		

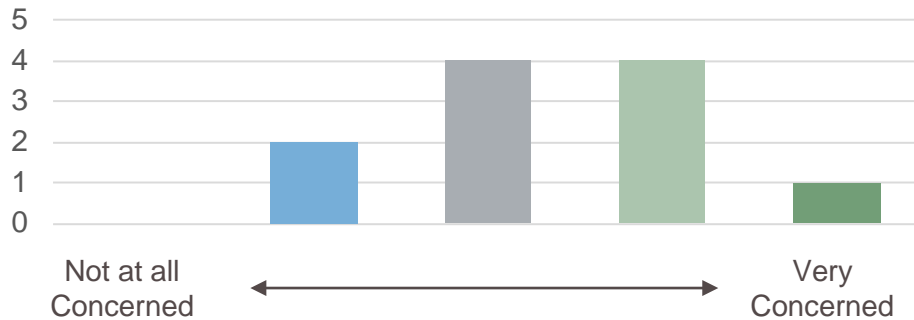
Has your level of concern changed over the last year?



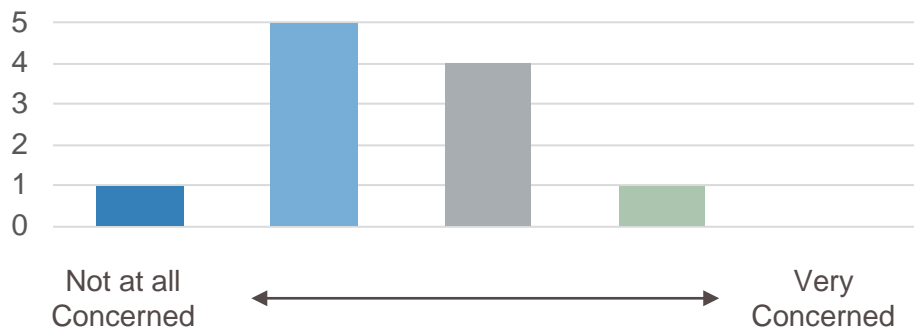
POLICY LAPSES

How concerned are you about the risk that policies will lapse?

If low interest rate environment persists another 5-10 years



If interest rates rise to more historical norms within 5 years



6/11 Expressed elevated concern for policy lapses



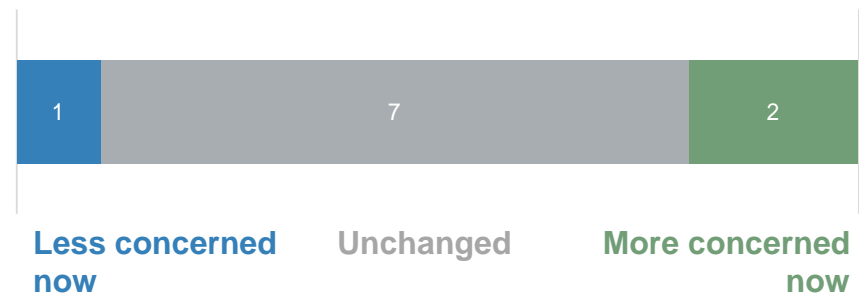
Have you taken any action to address the concern?

No	
No, but actively deliberating	3
Yes, internally	1
Yes, external assistance	1
Don't know / N/A	1

Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?

Yes	1
No	
Don't know / N/A	5

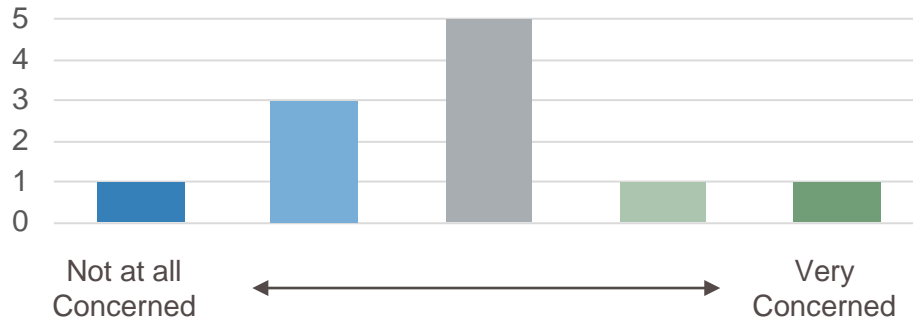
Has your level of concern changed over the last year?



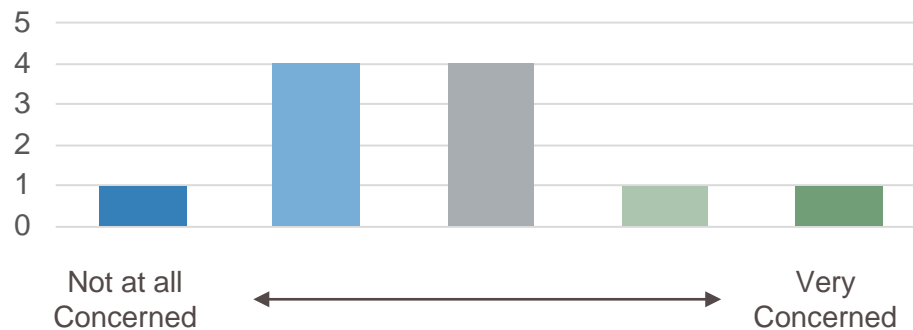
INVESTMENT FLEXIBILITY

How concerned are you about Separate Account BOLI Investment flexibility and/or restrictions?

- Arising from regulatory considerations (e.g., permissibility or restrictions of certain classes of assets)



- Arising from stable value agreement (SVA) considerations (inability to reallocate or requiring permission to do so)

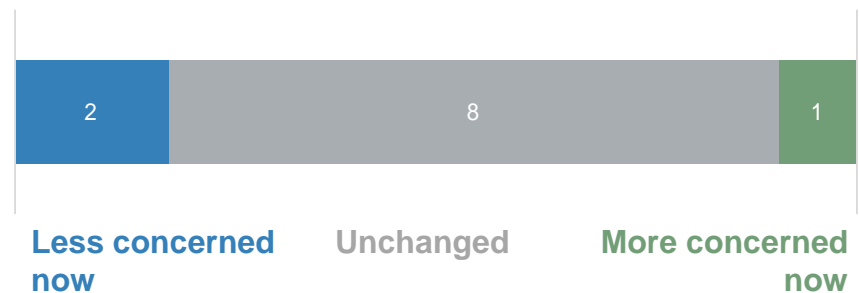


4/11 Expressed elevated concern for SA flexibility



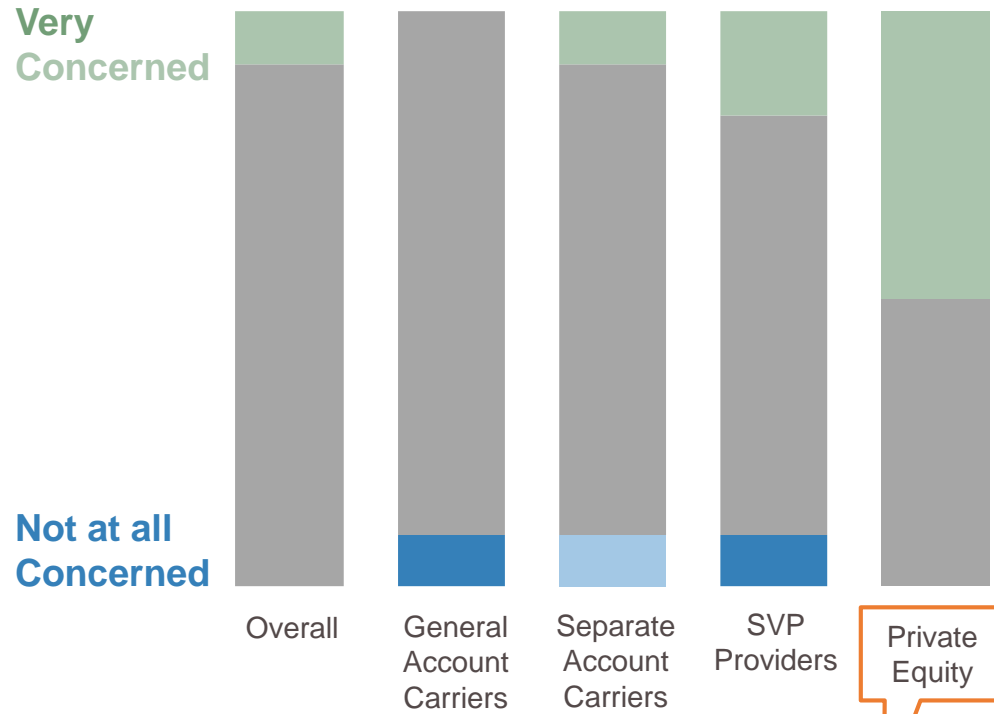
Have you taken any action to address the concern?		Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?	
No	1	Yes	2
No, but actively deliberating		No	1
Yes, internally	1	Don't know / N/A	1
Yes, external assistance	2		
Don't know / N/A			

Has your level of concern changed over the last year?



RUN OFF BUSINESSES

- How concerned are you about exposure to businesses in run-off?



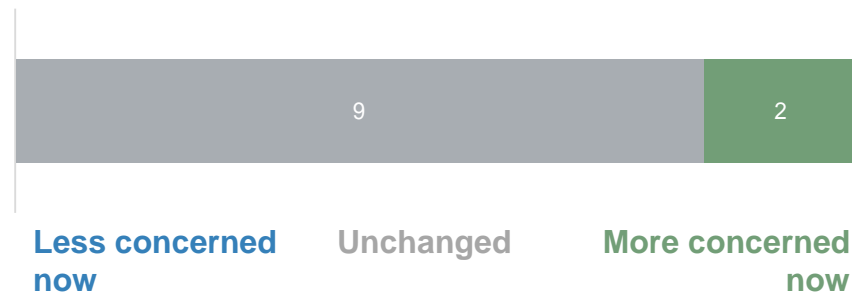
How concerned would you be if a private equity investment group acquired a run-off block of business that included BOLI policies you owned?

5/11 Expressed elevated concern for private equity exposure



Have you taken any action to address the concern?		Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?	
No	2	Yes	1
No, but actively deliberating	1	No	2
Yes, internally		Don't know / N/A	2
Yes, external assistance	1		
Don't know / N/A	1		

- Has your level of concern changed over the last year?



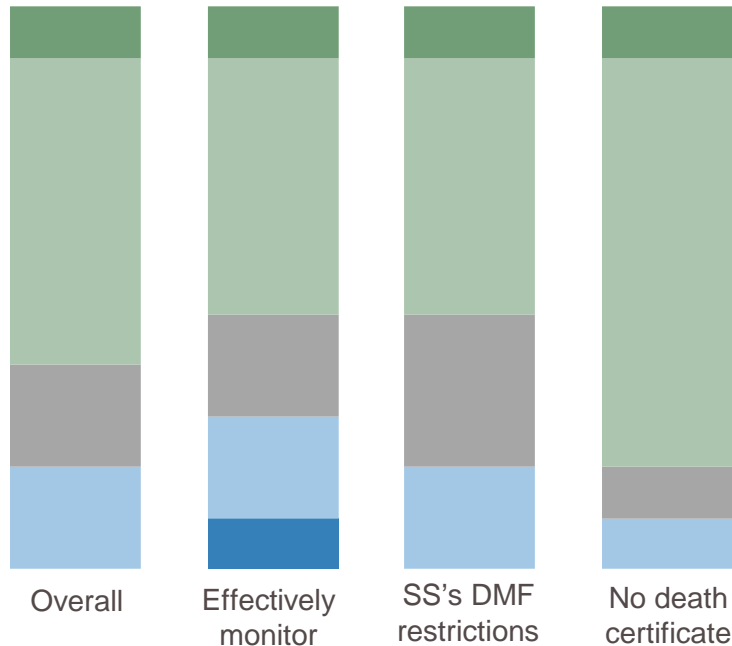
DEATH CLAIMS

How concerned are you about death claim processing?

- Overall
- Ability to effectively monitor for claims
- Social Security's Death Master File restrictions – impact on claim IDs
- Ability to process claims without procuring death certificates

Very Concerned

Not at all Concerned

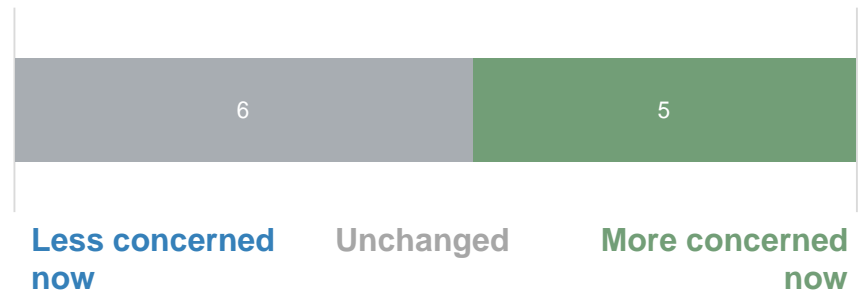


6/11 Expressed elevated concern for death claim processing



Have you taken any action to address the concern?	Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?
No	Yes 1
No, but actively deliberating 2	No 2
Yes, internally	Don't know / N/A 3
Yes, external assistance 4	
Don't know / N/A	

Has your level of concern changed over the last year?



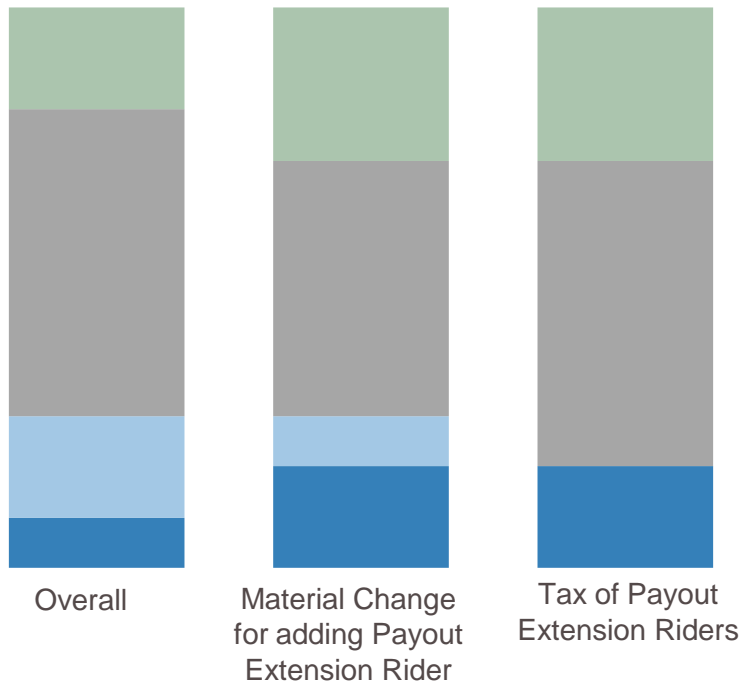
MATURITIES / ENDOWMENTS

How concerned are you about policies maturing/ending prior to death?

- Overall
- Uncertainty of tax treatment of adding payout extension riders (e.g., "material change" considerations)
- Uncertainty of tax treatment of payout extension riders

Very Concerned

Not at all Concerned

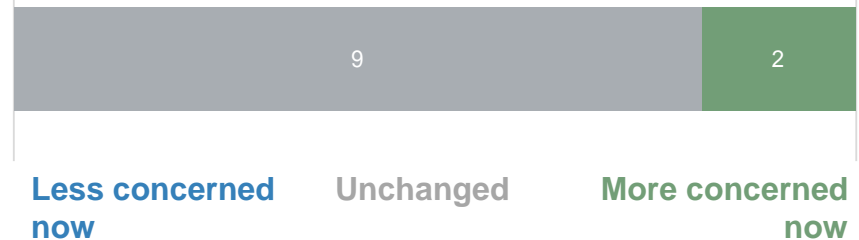


1/11 Expressed elevated concern for maturities or endowments



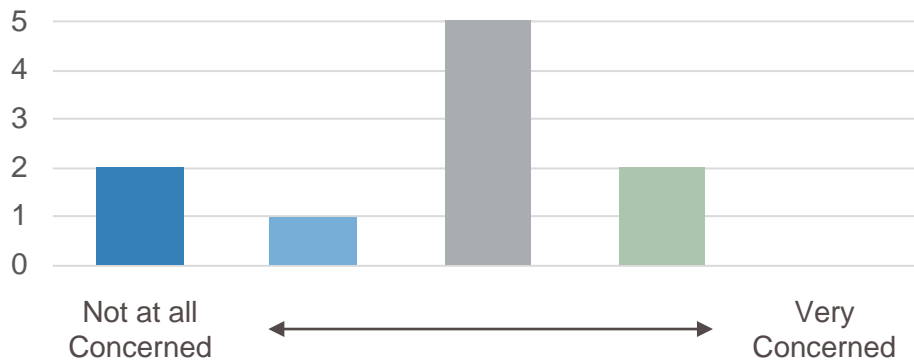
Have you taken any action to address the concern?	Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?
No	Yes
No, but actively deliberating	No
Yes, internally	Don't know / N/A
Yes, external assistance	1
Don't know / N/A	1

Has your level of concern changed over the last year?



HEADLINE RISK

- How concerned are you about headline/reputation risk stemming from public misconceptions about profiting from deaths?

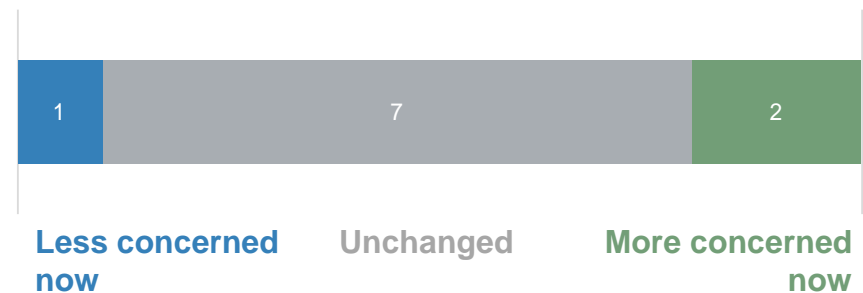


2/11 Expressed elevated concern for maturities or endowments



Have you taken any action to address the concern?		Do you anticipate actions (by your firm or the industry) will alleviate the concern in the next 2 years?	
		Yes	No
No			
No, but actively deliberating	1		
Yes, internally			
Yes, external assistance	1		
Don't know / N/A		Don't know / N/A	2

- Has your level of concern changed over the last year?

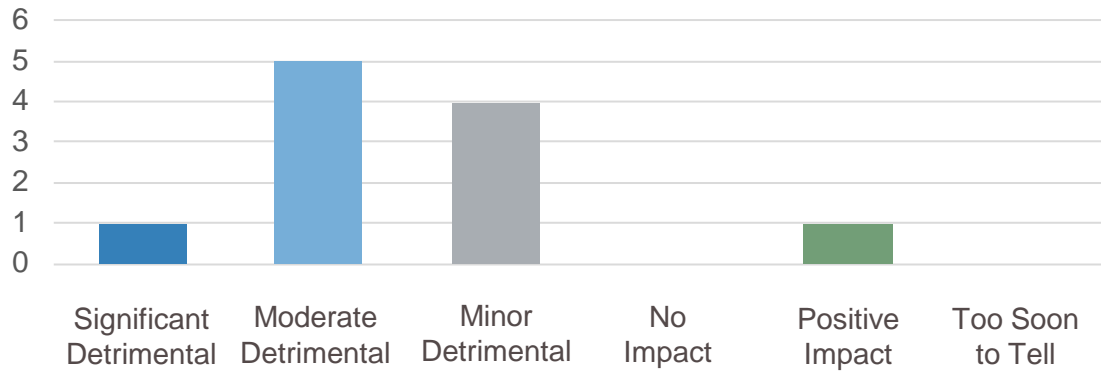


IMPACT OF TAX CUTS AND JOBS ACT (TCJA)

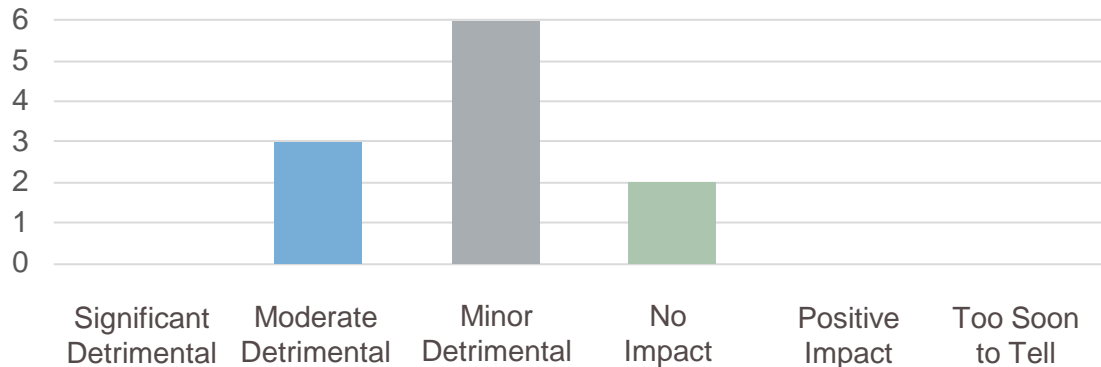
SIGNIFICANCE

Overall, how significant an impact did the TCJA have on the:

BOLI Industry?



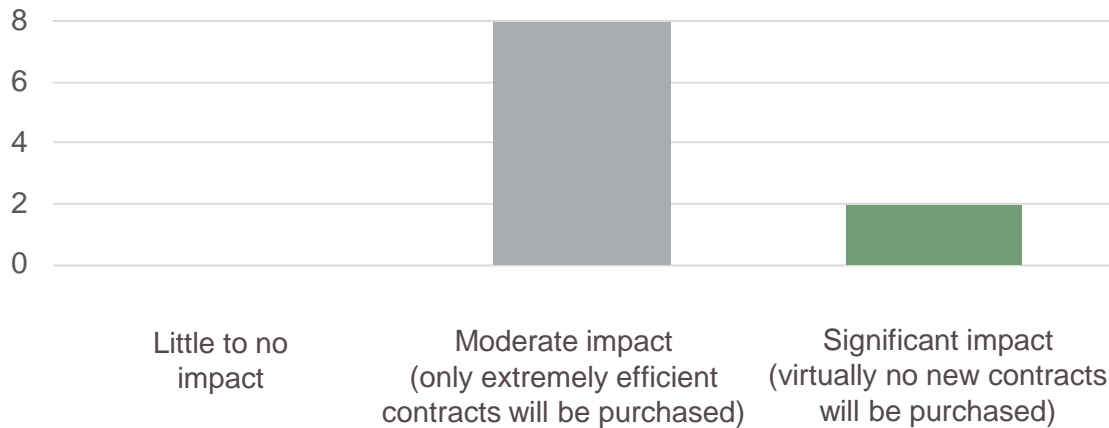
YOUR BOLI?



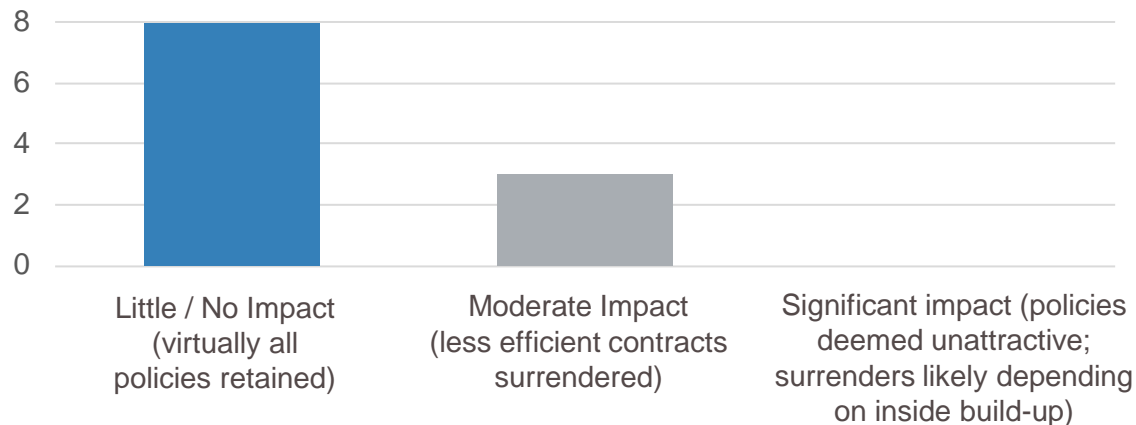
SIGNIFICANCE

■ How will the BOLI markets be impacted by the lower 21% Corporate Tax Rate?

■ New Purchase Market

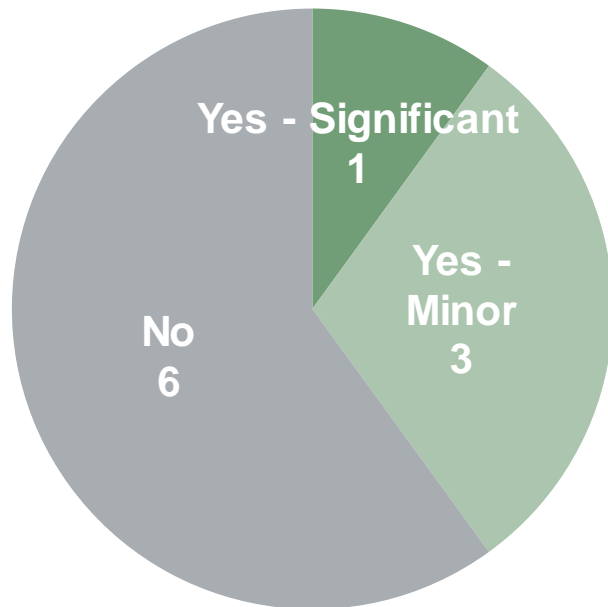


■ Existing BOLI Market



STABLE VALUE IMPACT

- Did the TCJA impact any of your stable value agreements?



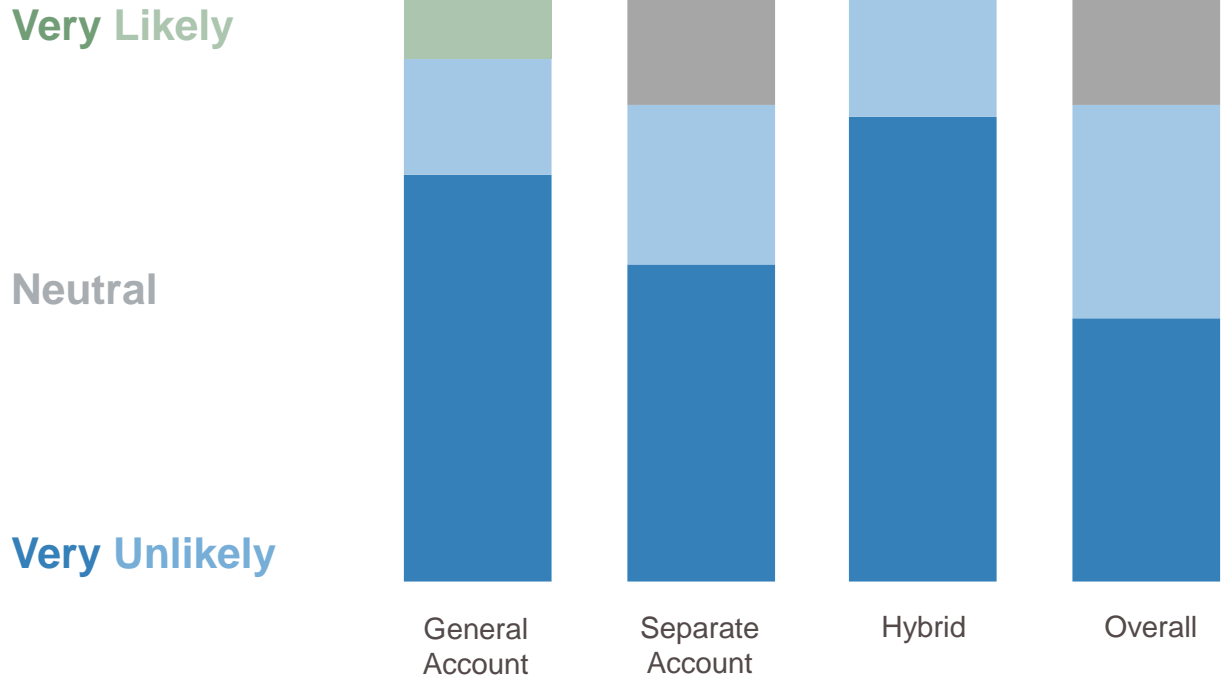
What is the status of the resolution?

Fully resolved	1
In process - resolution likely	3
In process - resolution unlikely	
No resolution	

NEW PURCHASE

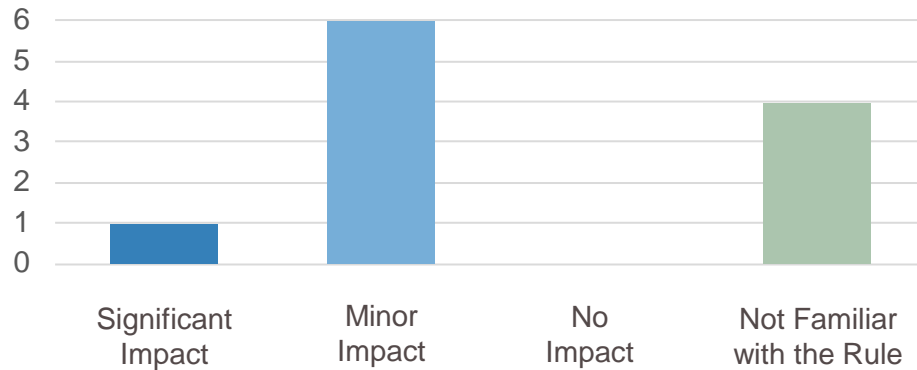
- In light of the TCJA, how likely is your institution to purchase new BOLI in the next 2 years?

Response Frequencies



REPORTABLE POLICY SALE

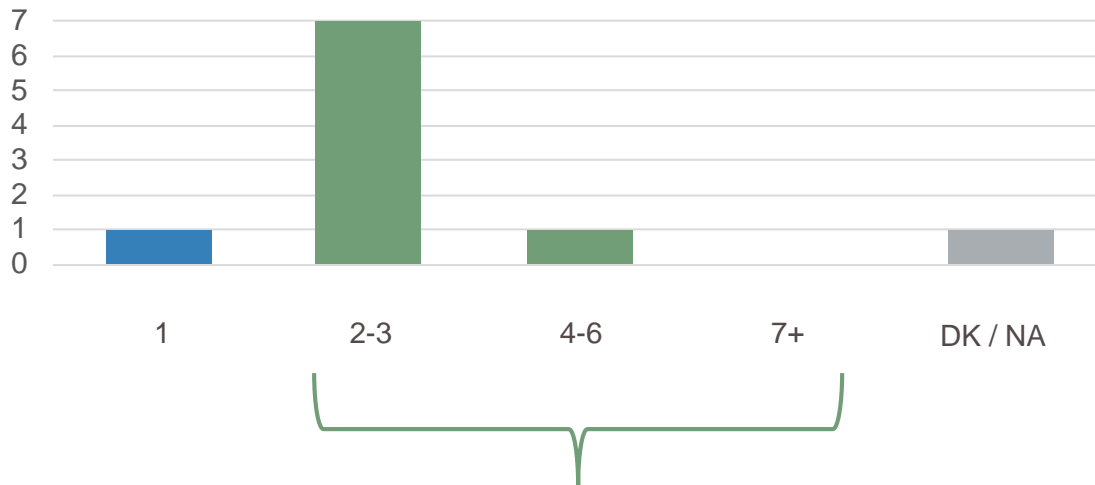
- How significant an impact do you think the new transfer for value ("reportable policy sale") rules will have on BOLI?



BOLI VENDORS

BOLI VENDORS

- How many BOLI vendor businesses (brokers, agents, consultants, administrators) do you interact with in managing your BOLI program?

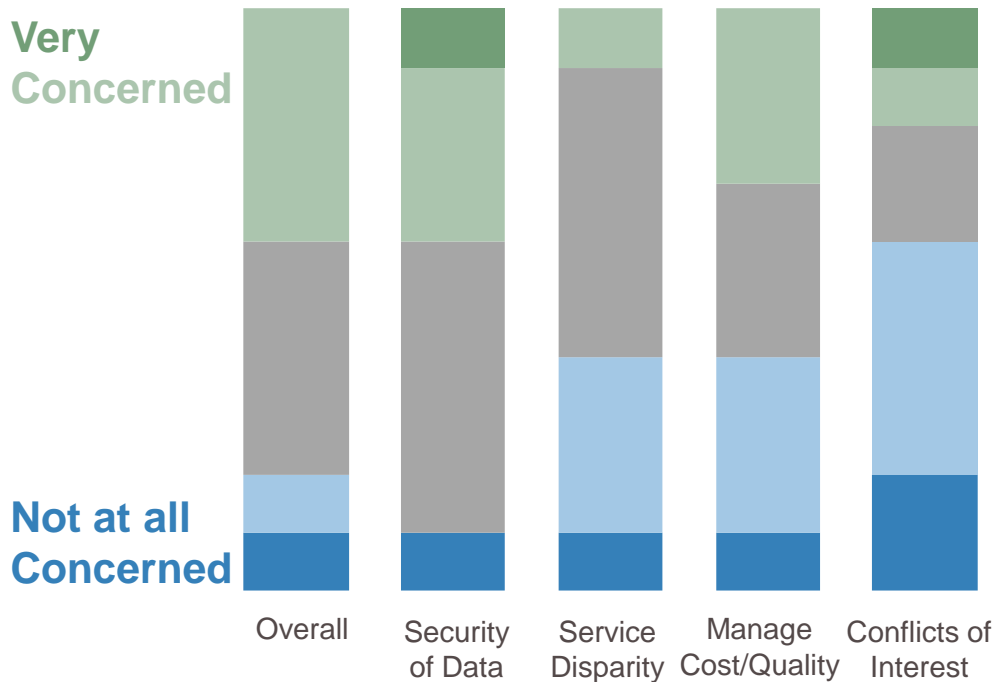


- 7 of the 9 responses of 2-7+ vendors subsequently indicated that they consider one or two of the vendors to be the primary administrative service provider(s) for their program

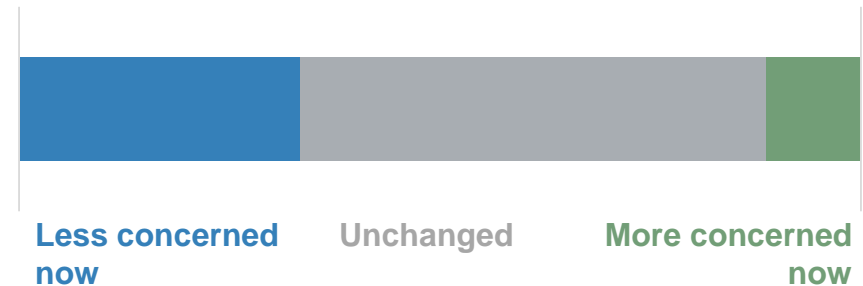
VENDOR MANAGEMENT

How concerned are you about third-party vendor management?

- Overall
- Security of sensitive data
- Disparity in services and expertise of existing BOLI vendors
- Ability to effectively manage cost/quality of work provided
- Conflicts of interest



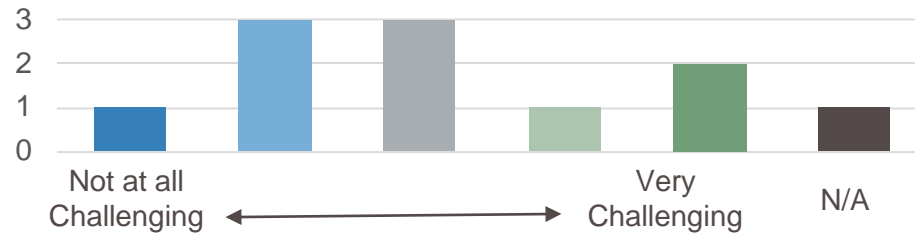
Has your level of concern changed over the last year?



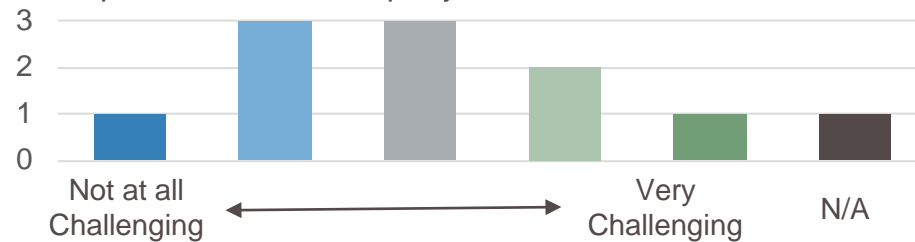
BOLI VENDOR OVERSIGHT

- With regard to BOLI vendor management oversight, how challenging is it to comply with the following aspects of OCC 2013-29?

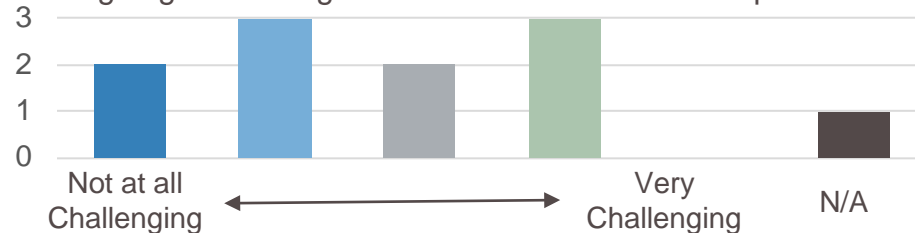
- Ability to assess and understand the direct and indirect costs involved in the third-party relationship (i.e., have you obtained representations of full compensation transparency?)



- Effecting written contracts with all BOLI vendors that outline the rights and responsibilities of each party



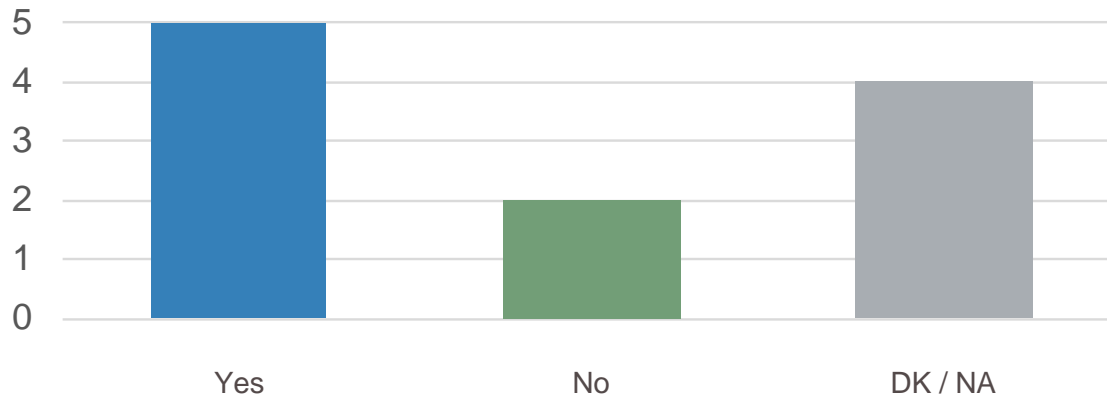
- Ongoing monitoring of the vendor's activities and performance



- All Participants indicated no year over year change in difficulty with complying to aspects of OCC 2013-29

BOLI VENDOR COMPENSATION

- If you were to change BOLI vendors, do you know whether and to what extent compensation being paid to the previous vendor by the carrier can be eliminated or redirected?

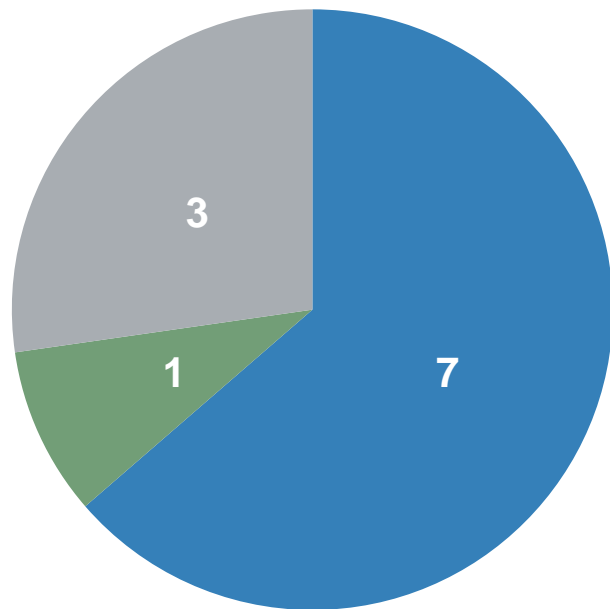


- 2017's survey had 3 yesses and 6 noes.

BASEL III

BASEL III APPROACH

- Does your institution use a full look-through (“FLT”) approach or one of the modified look-through approaches?



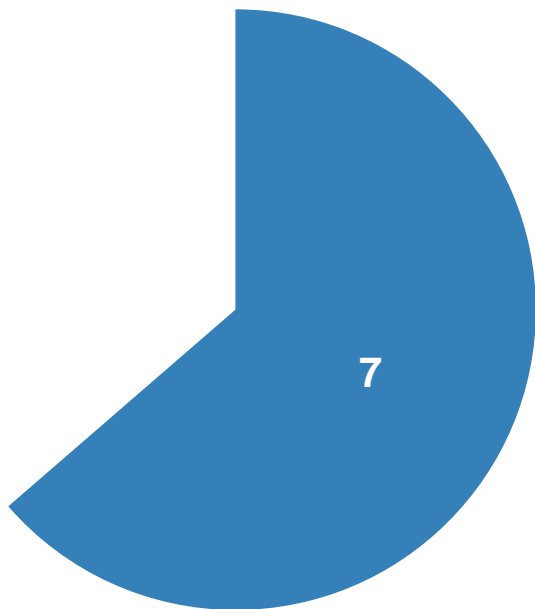
Full look-through ("FLT")

Modified look-through

Don't know / N/A

FULL LOOK THROUGH

- Does your institution use a full look-through (“FLT”) approach or one of the modified look-through approaches?



If Full look-through ("FLT")

How frequently does your institution perform Basel III FLT computations?

Monthly	3
Quarterly	4
Annually	
Don't know / NA	

What "as of" date is used for portfolio holdings and carrying values?

Carrying Value Date	3
1-Month Lag	4
2-Month Lag	
3-Month Lag	
Don't know / NA	2

What is the effective overall risk weight of your separate account investment allocations?

Less than 20% (before floor)	1
20%-30%	3
31%-50%	1
51%-100%	1
Don't know / NA	1

MODIFIED LOOK-THROUGH

- Does your institution use a full look-through (“FLT”) approach or one of the modified look-through approaches?

If Modified look-through

What is the effective overall risk weight of your separate account investment allocations?

Less than 20% (before floor)

20%-30%

31%-50%

51%-100%

Don't know / NA

Would you employ a full-look-through (“FLT”) if it resulted in a material reduction in RWA?

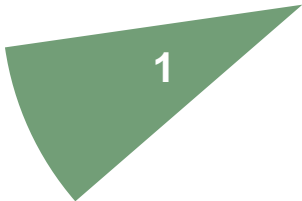
Yes

No

Don't know / N/A

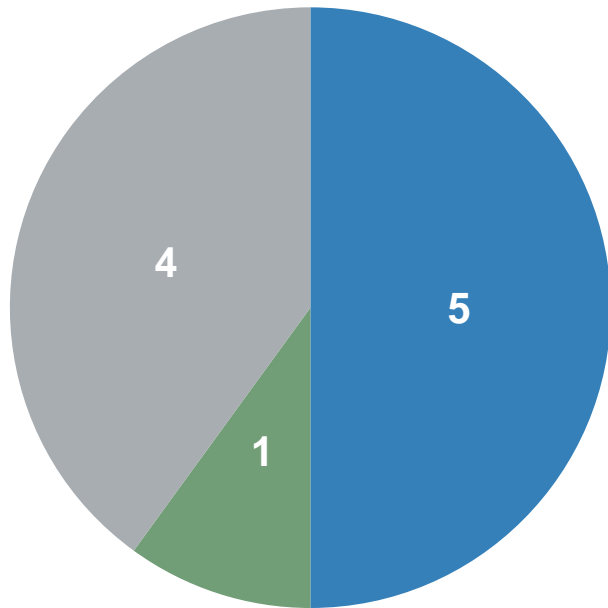
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HYBRID TREATMENT

- How does your firm treat Hybrid BOLI exposures?



GA 100% Risk-Weight

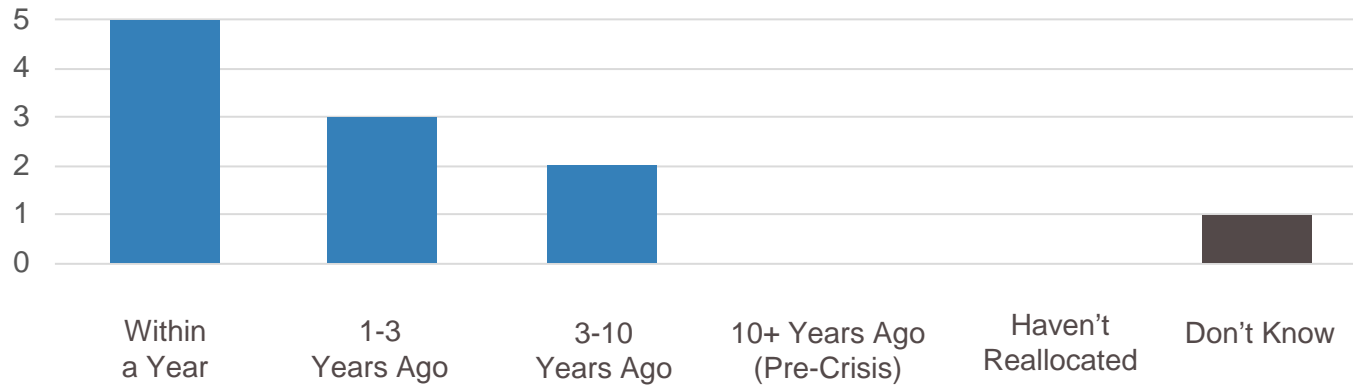
SA Investment Fund Exposure

Don't know / N/A

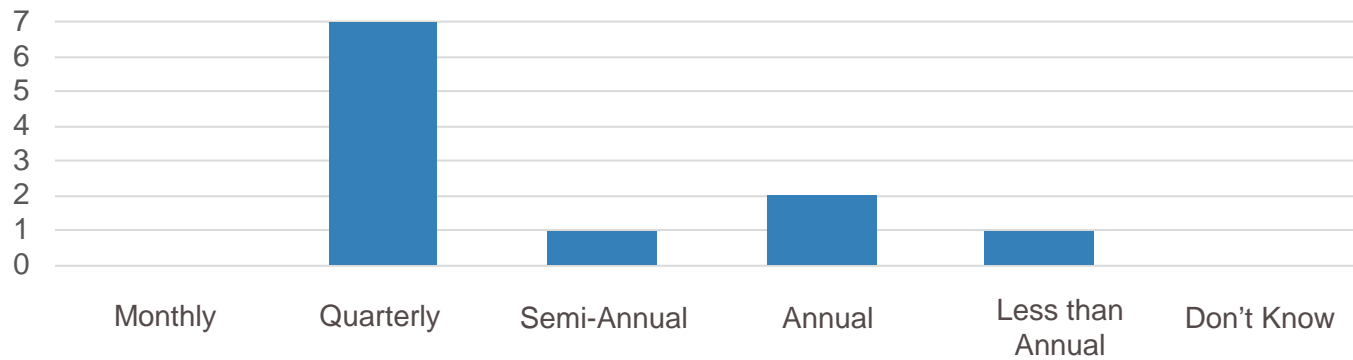
SEPARATE ACCOUNT INVESTMENT FACTORS

REALLOCATIONS

- When was the last time your firm made a material reallocation of your separate account allocations (excluding mirror plans)?

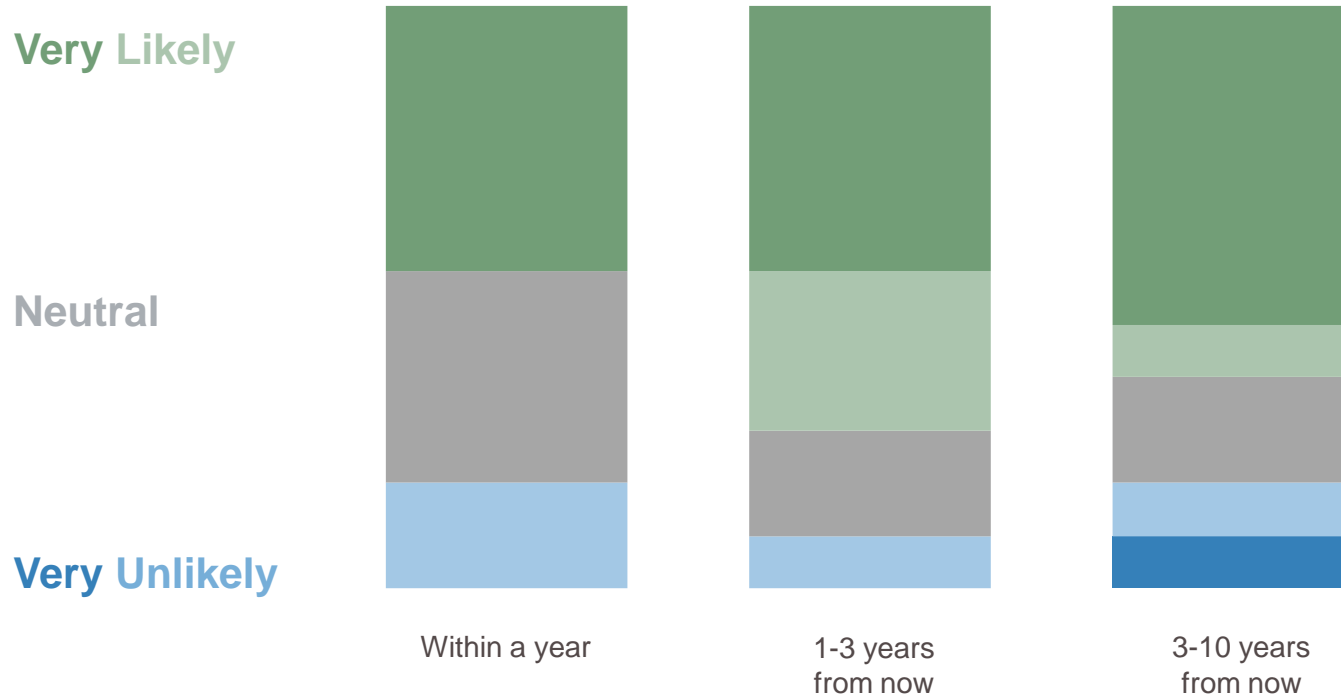


- How frequently does your firm evaluate its SA BOLI investment allocations in the context of considering changes/reallocations (excluding mirror plans)?



FUTURE ALLOCATION CHANGES

- How likely is your firm to modify your current SA investment allocations (excluding mirror plans)?



ALLOCATION CONSIDERATIONS

- Please select the **THREE** most significant considerations that impact your SA BOLI investment allocation decisions.

Consideration	Selected	Ranked 1 st (3pts)	Ranked 2 nd (2 pts)	Ranked 3 rd (1pt)	Point total
Highest expected risk-adjusted return	6	2	3	1	13
Investment manager's track record relative to benchmark	5	2	2	1	11
Investment guidelines or risk parameters	5	2	2	1	11
Investment manager's track record relative to peers	4	1		3	6
SVP Provider considerations (i.e., will SVP provider allow the allocation?)	3	1	1	1	6
Highest expected return on capital	2	1	1		5
Investment management fees	3			3	3
Lowest possible risk weight	1	1			3
Preference for passive management	1		1		2

SVP APPROVAL

- Does your SVP agreement require the approval of the SVP provider to change investment allocations?

No; our contracts generally specify a list of available investment divisions that are permissible. 4

No; our contracts specify at least one investment division that is available for reallocation without requiring the SVP provider's approval. 1

Yes; our contracts require the SVP provider(s) to agree to any changes in the investment allocation. 3

Combination; some of our contracts allow us to reallocate without the SVP provider's prior approval while others require SVP provider approval. 1

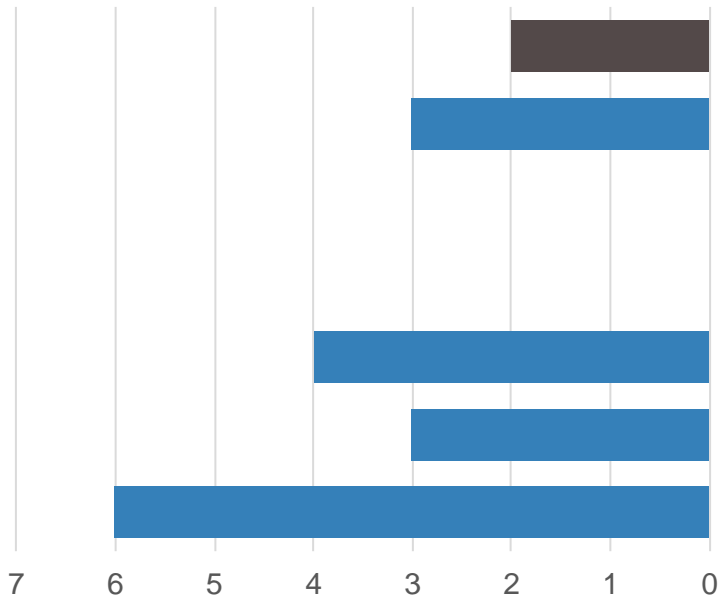
N/A; we do not utilize SVP agreements. 1

Don't know; I am not certain how my SVP agreements function regarding investment reallocations. 1

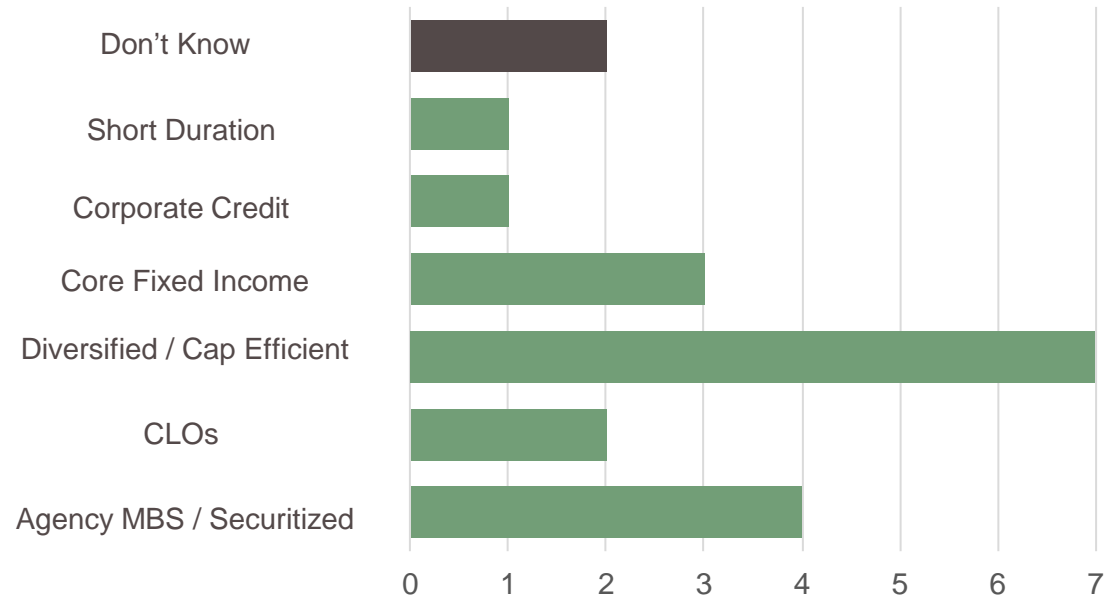
OPTIMAL SA BOLI ALLOCATION

- Which investment strategy do you think is optimal for SA BOLI? (Multiple selections allowed).

Currently

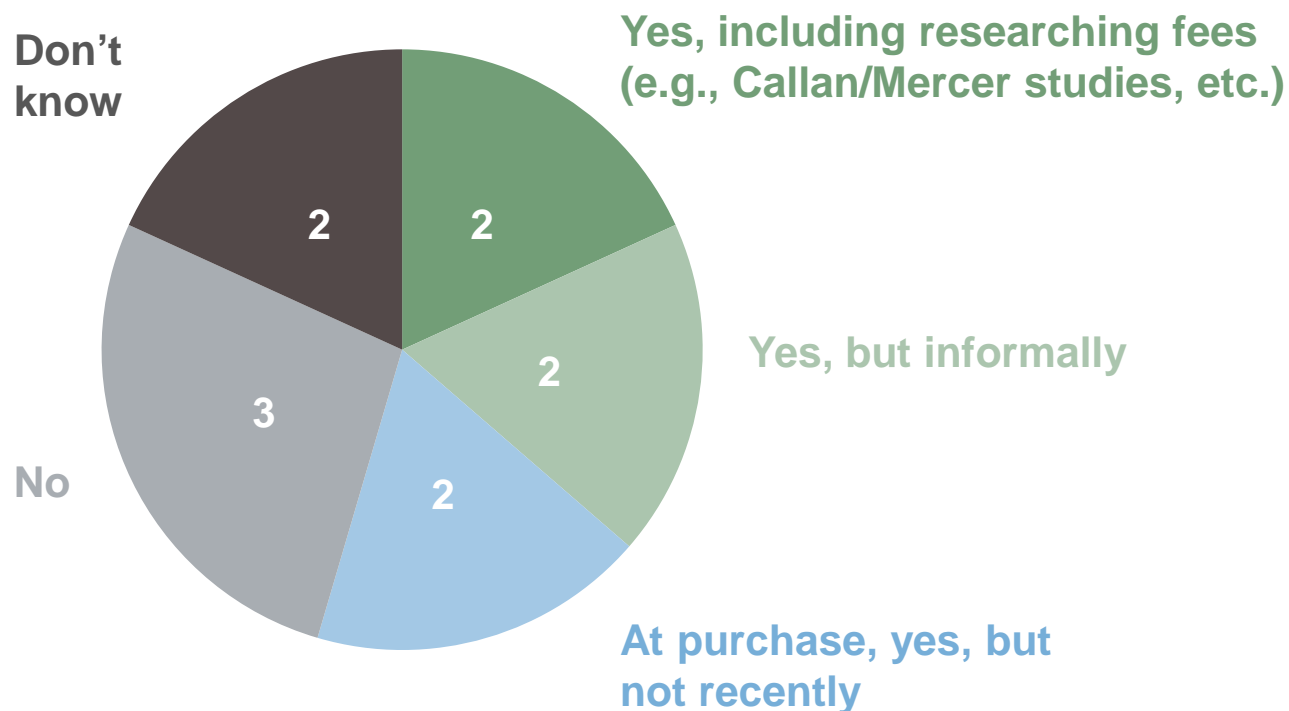


In the Future



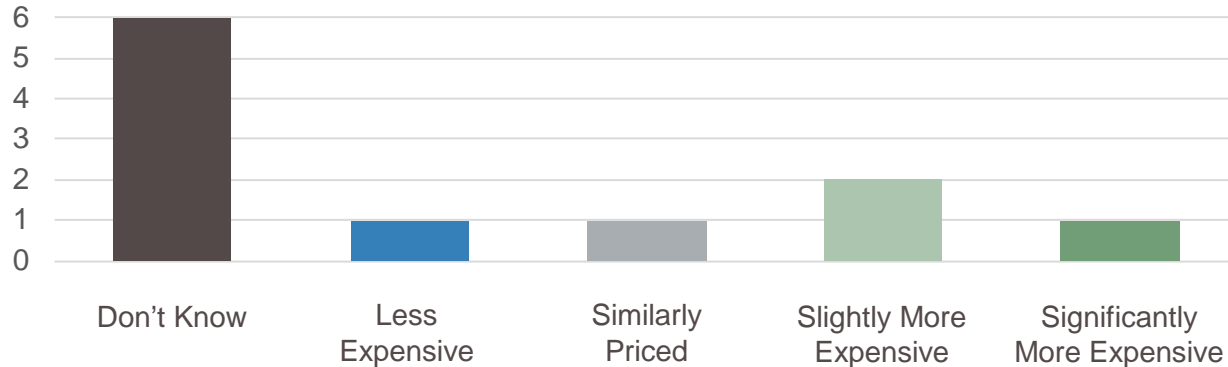
INVESTMENT MANAGEMENT FEES

- Do you compare your BOLI SA investment management fees to other institutional asset management fees (e.g., 401k, pension)?



INVESTMENT MANAGEMENT FEES

- How do your BOLI investment management fees compare to other institutional asset management fees?



- Do you think BOLI carriers will be effective at negotiating lower IMFs with incumbent managers or, offering replacement managers with more competitive IMFs?

Not likely (because existing IMFs are in line with other institutional asset management fees)

1

Not likely (because carrier has insufficient incentive)

3

Yes (but with mild resistance/reluctance from carrier and/or managers)

5

Yes (carriers will agree that BOLI IMFs are higher than other institutional asset management fees)

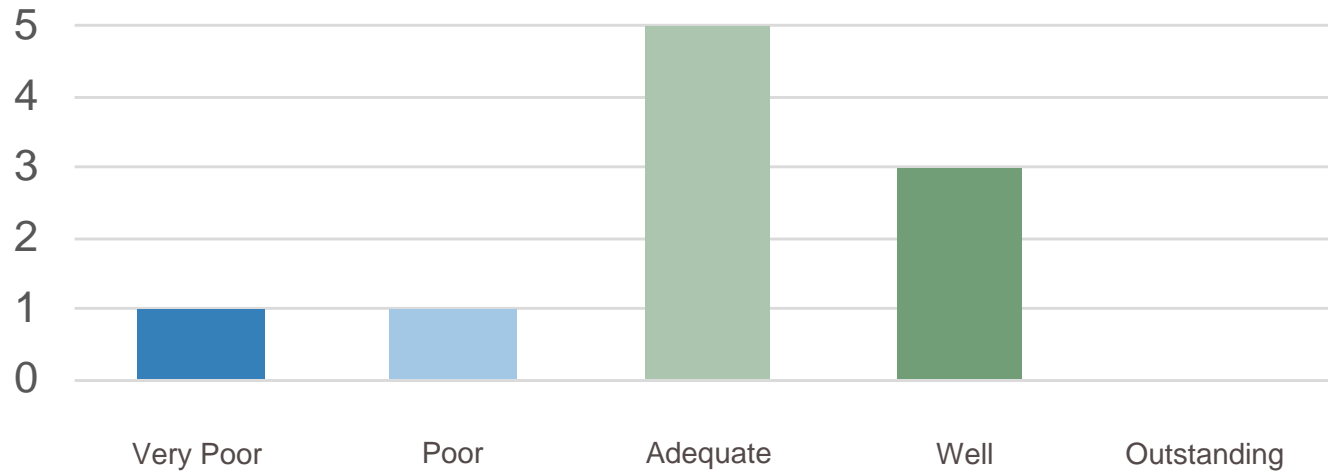
Don't know / NA

2

STABLE VALUE

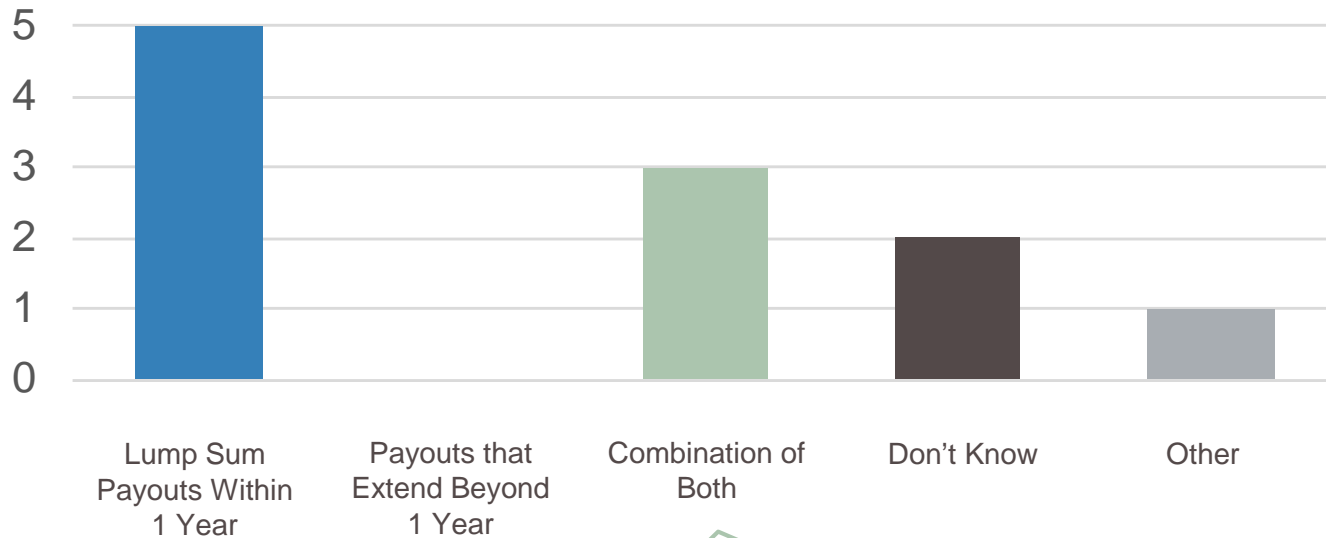
STABLE VALUE PROVIDER VALUE

- How well are existing SVP providers meeting your needs?



STABLE VALUE SURRENDER SETTLEMENT

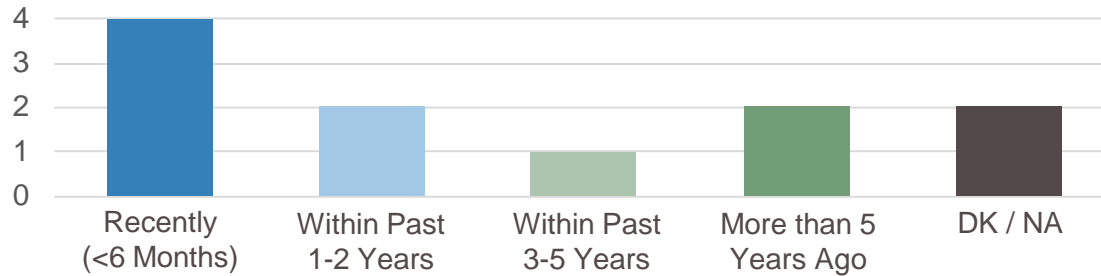
- What form of stable value settlement do your SVP agreements provide upon surrender?



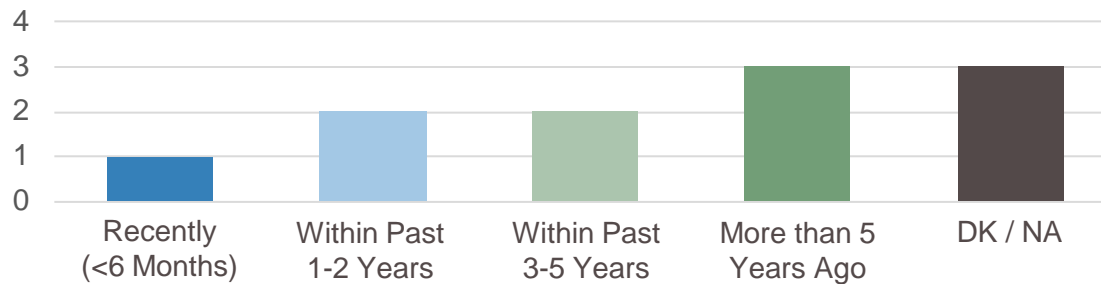
For payouts beyond a year, when asked what approach is used to satisfy book value accounting requirements, all 3 indicated that their agreements do not require discounting because the post-surrender participation in the cash surrender value is unchanged.

STABLE VALUE FEATURES

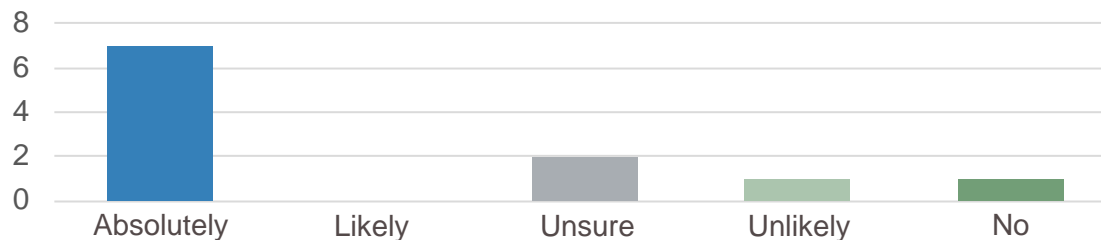
- When was the last time you vetted a new Stable Value Agreement?



- When was the last time you adopted a new Stable Value Agreement?



- Do you intend to evaluate new SVP features for potential adoption within the next 1-2 Years?



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