



Evolving Trends in Bank-Owned Life Insurance Market

Complimentary Edition – 2023-Q2

September 2023

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Economic Backdrop

Economic Updates

Federal Reserve & Yield Curve

- FOMC participants voted to raise the federal funds rate 25 bps to an upper bound of 5.50% during the July FOMC meeting. Markets are currently not pricing another rate hike in 2023, and a 25 bps cut to the federal funds rate by June 2024.
- The back-end of the treasury curve has increased sharply since the FOMC meeting on July 26th.

Sector Returns

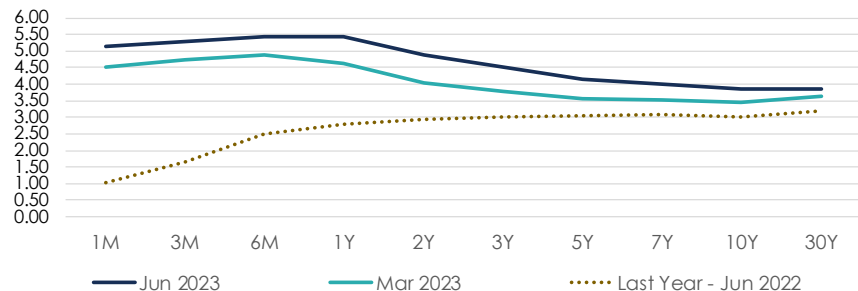
- Volatility in the fixed income markets reduced vs Q1, but almost all sectors had negative absolute Q2 performance, with auto ABS slightly positive. CLOs were a bright spot, returning over 2%.
- The S&P 500 returned 8.74%, lead by IT and consumer discretionary sectors

US Economy

- Fitch downgraded it's US Debt rating, leading to uncertainty in economic outlooks
- US mortgage rates increased to 7.15%, significantly slowing prepayment speeds YOY

Financial Markets Update

US Treasury Yields



	1M	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
Jun 2023	5.14	5.30	5.43	5.42	4.90	4.53	4.16	4.00	3.84	3.86
Mar 2023	4.53	4.75	4.88	4.62	4.03	3.79	3.58	3.54	3.47	3.65
Q Change	0.61	0.55	0.55	0.80	0.87	0.74	0.58	0.46	0.37	0.21
Jun 2022	1.02	1.67	2.49	2.78	2.96	3.01	3.04	3.07	3.02	3.19
Year Change	4.12	3.63	2.95	2.64	1.94	1.52	1.12	0.93	0.82	0.68

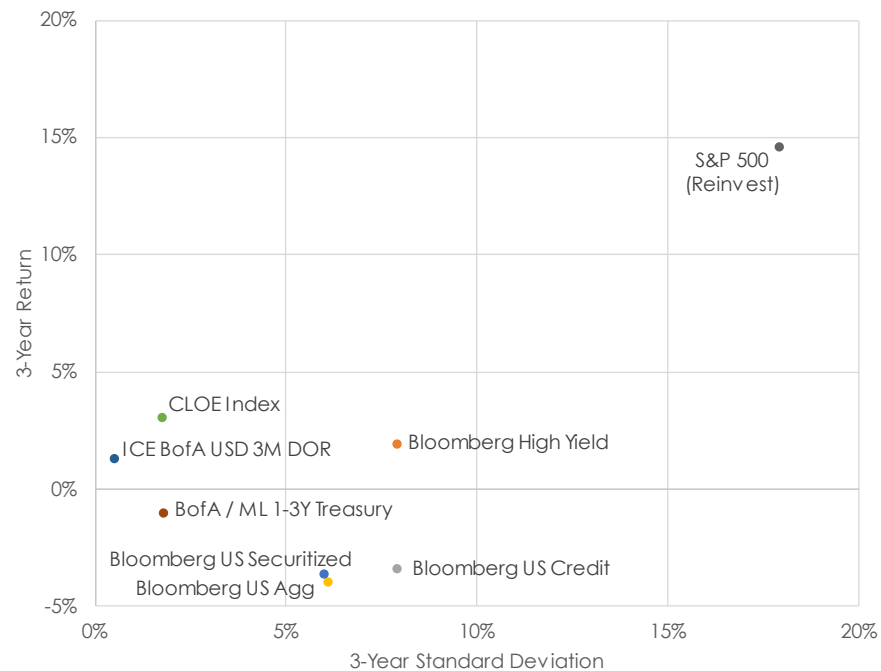
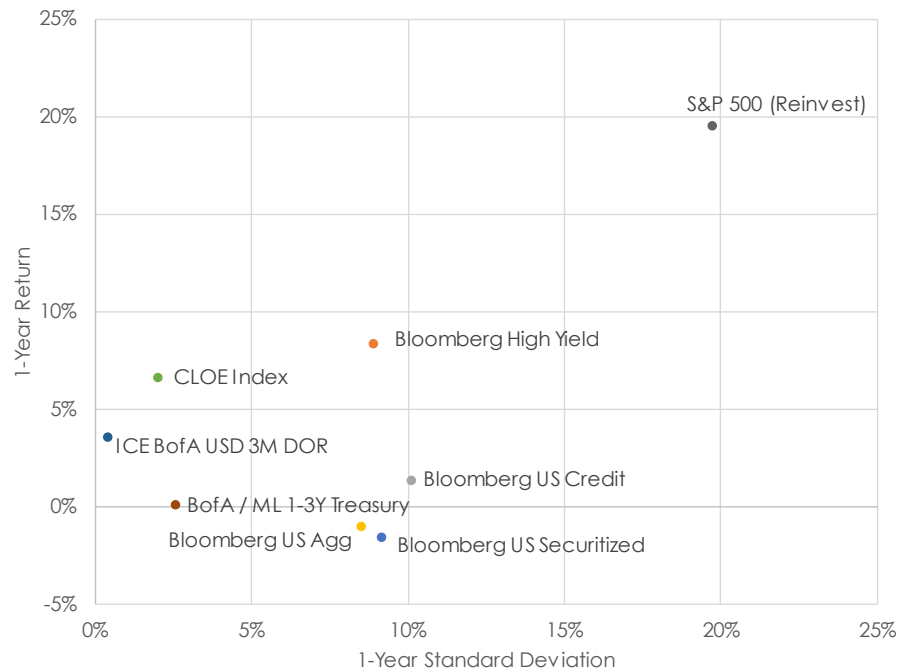
Sector Performance (As of Q2)

	YTW	Duration	OAS	3M Return	12M Return	3Y Return	5Y Return
Treasuries	4.37%	6.20	-0.01%	-1.38%	-2.13%	-4.80%	0.44%
Corporate	5.48%	7.14	1.23%	-0.29%	1.55%	-3.45%	1.76%
CMBS	5.69%	4.45	1.34%	-0.60%	-1.70%	-2.89%	1.29%
ABS	5.52%	2.76	0.68%	-0.12%	1.18%	-0.62%	1.53%
Credit Card ABS	5.39%	2.20	0.51%	-0.24%	-0.08%	-1.73%	0.98%
Auto ABS	5.77%	1.81	0.78%	0.07%	1.05%	-0.36%	1.55%
Agency MBS	4.78%	6.07	0.52%	-0.64%	-1.52%	-3.74%	0.03%
GNMA	4.83%	5.84	0.47%	-0.51%	-1.13%	-3.52%	0.08%
FHLHC	4.86%	4.76	0.63%	-0.83%	-1.74%	-3.90%	-0.03%
FNMA	4.76%	6.18	0.53%	-0.67%	-1.57%	-3.70%	0.08%
AAA CLOE	6.17%	0.04		2.03%	6.70%	3.05%	

*Discount Margin

	3M Return	12M Return	3Y Return	5Y Return
SP 500	8.74%	19.59%	14.60%	12.31%
Energy	-0.89%	18.76%	35.42%	6.61%
Materials	3.31%	15.12%	15.99%	9.75%
Industrials	6.49%	25.16%	17.96%	10.52%
Consumer Discretionary	14.58%	24.73%	9.03%	9.96%
Consumer Staples	0.45%	6.60%	11.91%	11.07%
Health Care	2.95%	5.37%	11.69%	11.79%
Financials	5.33%	9.50%	15.65%	7.20%
IT	17.20%	40.26%	19.96%	21.82%
Telecom	13.07%	17.28%	7.28%	9.28%
Utilities	-2.53%	-3.68%	8.42%	8.23%

1 & 3-Year Benchmark Risk/Return Plots

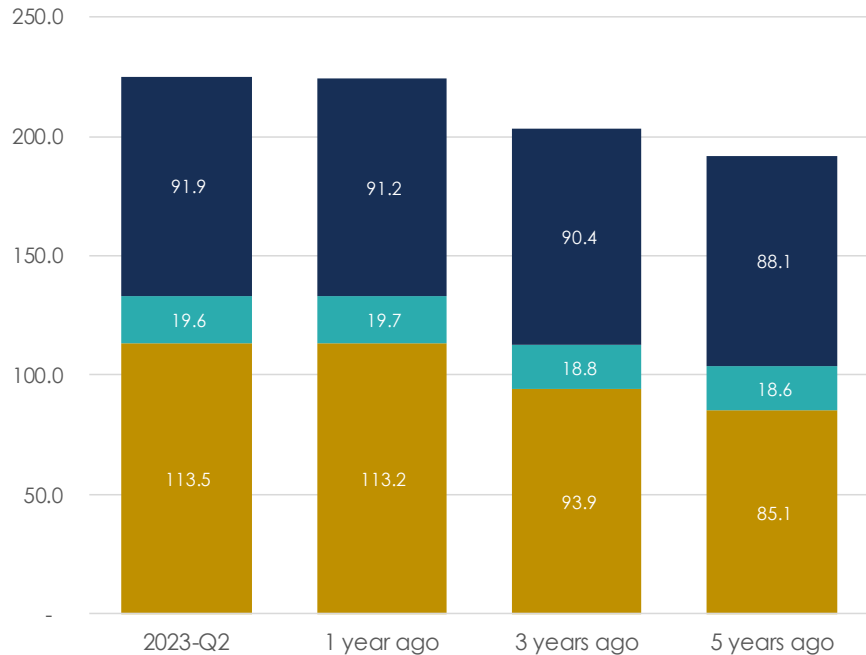


Data as of 2023-Q2

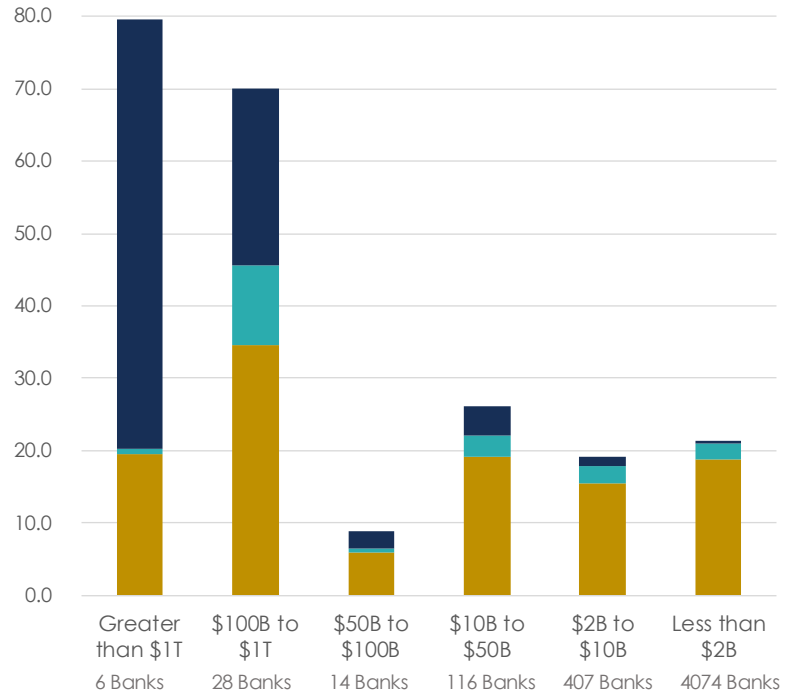
Recent Trends in BOLI

BOLI Market Overview as of 2023-Q2

Total BOLI (\$B) by Type



Current BOLI Type by Institution Total Asset Size



Institutions represent Bank Holding Companies and Stand-Alone Savings & Loans and Banks

BOLI Market Overview as of 2023-Q2

Bank Size	Number of Banks ¹	% Owning BOLI	Total Assets (Billions)	GA BOLI (Billions)	Hybrid BOLI (Billions)	SA BOLI (Billions)	Total BOLI (Billions)	BOLI / Capital	BOLI / Assets
Greater than \$1 Trillion	6	100%	14,028	19.6	0.7	59.3	79.5	7.43%	0.57%
\$100 Billion to \$1 Trillion	28	86%	7,444	34.5	11.0	24.4	70.0	10.24%	0.94%
\$50 Billion to \$100 Billion	14	93%	999	5.9	0.6	2.5	9.0	8.97%	0.90%
\$10 Billion to \$50 Billion	116	82%	2,544	19.2	3.0	3.9	26.1	9.58%	1.03%
\$2 Billion to \$10 Billion	407	84%	1,672	15.6	2.2	1.4	19.2	10.10%	1.15%
Less than \$2 Billion	4,074	66%	1,718	18.8	2.1	0.4	21.3	10.36%	1.24%
TOTALS	4,645	68%	28,405	113.5	19.6	91.9	225.0	8.93%	0.79%

¹ The number of banks represents the number of Top Bank Holding Companies and Stand-Alone Savings & Loan and Banking Institutions. A Bank Holding Company may have several subsidiary banks, but they are not counted individually in this figure.

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BOLI Risk-Weighted Assets Analysis

Bank Size	Number of Banks ¹	% Owning BOLI	SA Exposure (\$B)	SA RWA (\$B)	SA RWA / SA Exposure	Average Bank RW%
Greater than \$1 Trillion	6	100%	58.7	17.3	29.4%	29.3%
\$100 Billion to \$1 Trillion	28	86%	30.1	13.2	44.0%	50.7%
\$50 Billion to \$100 Billion	14	93%	3.0	2.4	80.1%	71.1%
\$10 Billion to \$50 Billion	116	82%	6.1	4.0	65.2%	81.5%
\$2 Billion to \$10 Billion	407	84%	3.3	2.9	86.6%	92.5%
Less than \$2 Billion	4,074	66%	1.8	1.6	92.3%	99.4%
Total	4,645	68%	103.0	41.4	40.2%	94.6%

Observations

- While many banks default to 100%, most large banks (\$25B+) achieve SA RW% between 20%-40%, and account for over half the total SA exposure
- Banks include Hybrid BOLI when reporting SA Exposure and SA RWA in the call report values above. MBSA does have a method for estimating the RW% of SA BOLI only (excluding Hybrid). If interested, please reach out.

Recent BOLI Transaction Counts & Totals

Movement or Transactions of \$10M or More

Time Period	Confirmed Purchases	Amount (Millions)	Likely Purchases	Amount (Millions)	Total Purchases	Amount (Millions)	Confirmed Surrenders	Amount (Millions)	Other Large Decreases	Amount (Millions)	Total Decreases	Amount (Millions)
TOTAL												
2023-Q2	0	0	4	60	4	60	1	-55	2	-445	3	-500
1-Year	10	197	60	3,143	70	3,340	3	-870	27	-1,226	30	-2,096
3-Year	132	9,296	212	6,989	344	16,286	7	-950	39	-1,590	46	-2,539
5-Year	166	12,211	275	8,574	441	20,785	11	-1,056	52	-2,140	63	-3,196
SA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	2	44	8	356	10	400	0	0	6	-165	6	-165
3-Year	6	167	19	731	25	898	2	-55	13	-300	15	-355
5-Year	8	203	24	998	32	1,201	4	-115	18	-627	22	-743
GA												
2023-Q2	0	0	4	60	4	60	1	-55	2	-445	3	-500
1-Year	7	138	48	2,664	55	2,801	3	-870	9	-849	12	-1,719
3-Year	124	9,014	183	6,048	307	15,062	4	-885	14	-1,077	18	-1,961
5-Year	156	11,893	240	7,350	396	19,243	5	-889	22	-1,300	27	-2,189
HYBRID												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	1	15	4	124	5	139	0	0	12	-213	12	-213
3-Year	2	115	10	210	12	325	1	-10	12	-213	13	-223
5-Year	2	115	11	226	13	341	2	-52	12	-213	14	-265

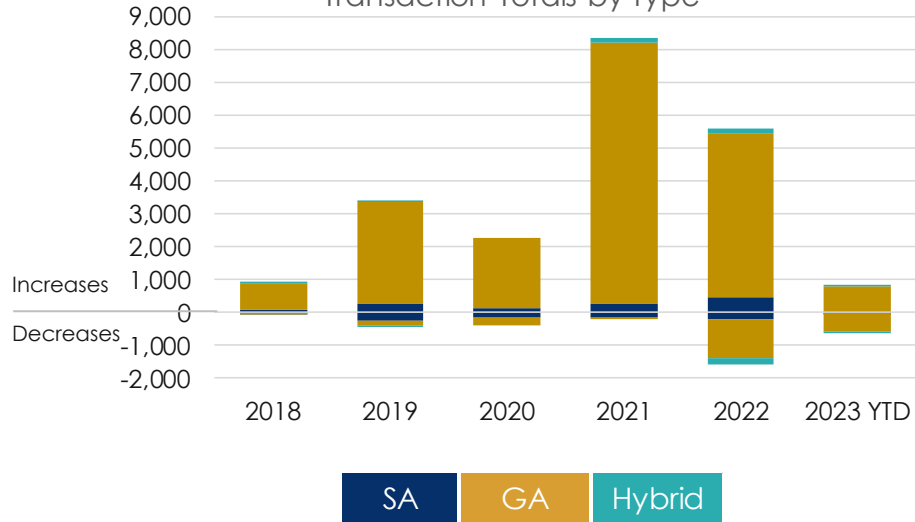
Listings of activity by institution are available upon request

Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

Recent BOLI Transactions

Movement or Transactions of \$10M or More

Transaction Totals by Type



Recent Notable Purchases / Increases

- In 2023-Q1, First Republic's GA increased by \$575 million, and SA increased by \$25 million
- In 2022-Q3, US Bank's GA BOLI increased by ~\$1.24 billion
- In 2022-Q2, Northern Trust purchased \$500 million of GA
- In 2022-Q2, First Republic purchased \$668 million of GA

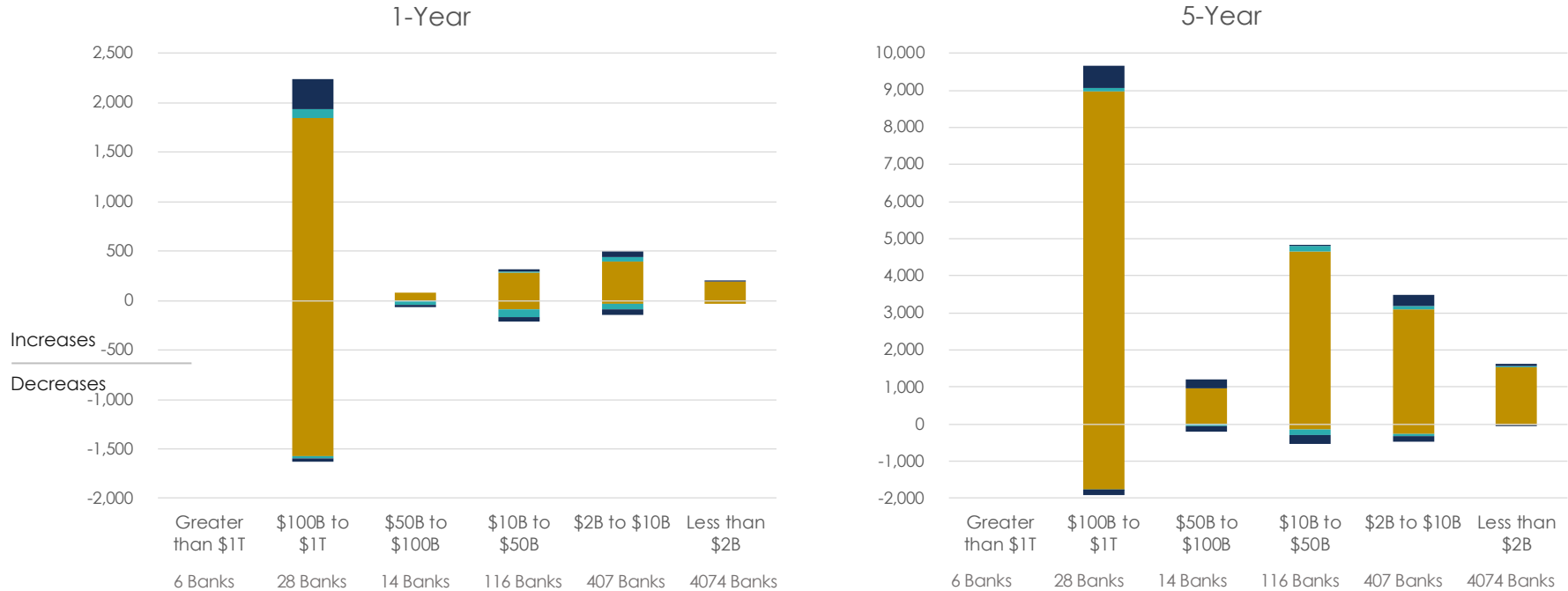
Recent Notable Surrenders / Decreases

- In 2023-Q2, First Citizens' GA decreased by \$427 million following its acquisition of CIT
- In 2023-Q2 Customers Bancorp surrendered \$55 million of GA
- In 2023-Q1 First Citizens surrendered \$55 million of GA
- In 2022-Q4, First Citizens surrendered \$760 million of GA
- In 2022-Q4, 6 banks' HY BOLI decreased \$10-24 million; 4 GA decreases of \$10-17 million and 3 SA decreases of \$30-37 million
- In 2022-Q3, M&T Bank's GA decreased by ~\$325million; However, SA increased \$247 million and HY increased \$82 million

Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

BOLI Transactions by Type and Bank Size

Movement or Transactions of \$10M or More



SA

GA

Hybrid

Listing of activity by institution are available upon request

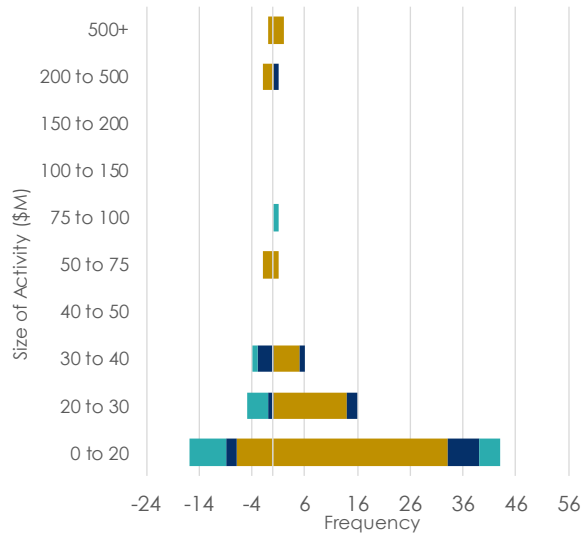
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Frequency of BOLI Transaction Sizes

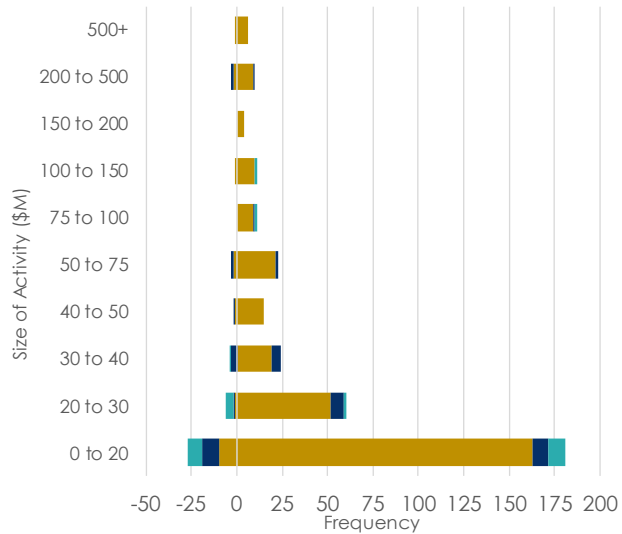
Movement or Transactions of \$10M or More

- Over the past 5 years, over 67% of transactions have been below \$30 Million, while 9% are over \$100 million

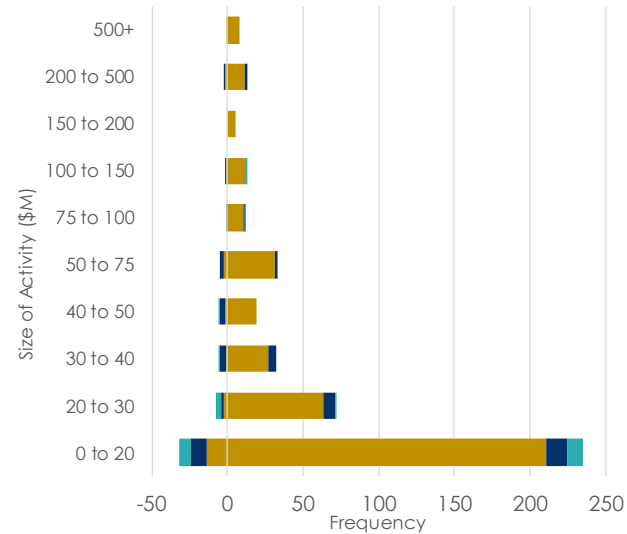
1-Year



3-Year



5-Year



Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

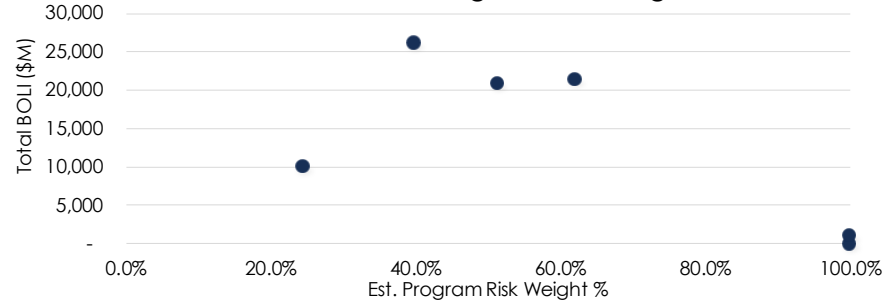
Market Analytics By Bank Size

Banks with over \$1T in Total Assets

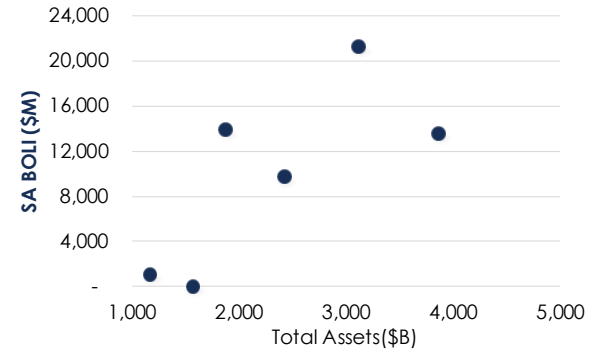
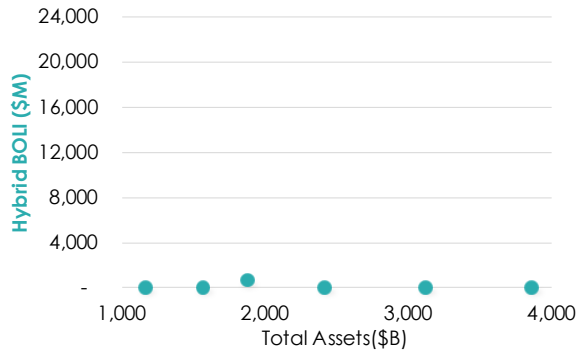
6 of 6 banks own BOLI

	GA (\$M)	Hybrid (\$M)	SA (\$M)	Total BOLI (\$M)	BOLI / Capital
Total	19,584	656	59,289	79,529	7%
Average	3,264	109	9,882	13,255	6%
Last Q # of Increases	-	-	-	-	
Increase Total (\$M)	-	-	-	-	
Last Q # of Decreases	-	-	-	-	
Decrease Total (\$M)	-	-	-	-	

Total BOLI vs Est. Program Risk Weight



Types of BOLI by Bank Asset Size



Recent BOLI Transaction Counts & Totals

Banks with over \$1T in Total Assets

Time Period	Confirmed Purchases	Amount (Millions)	Likely Purchases	Amount (Millions)	Total Purchases	Amount (Millions)	Confirmed Surrenders	Amount (Millions)	Other Large Decreases	Amount (Millions)	Total Decreases	Amount (Millions)
TOTAL												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	0	0	0	0	0	0	0	0	0	0
3-Year	0	0	0	0	0	0	0	0	0	0	0	0
5-Year	0	0	0	0	0	0	0	0	0	0	0	0
SA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	0	0	0	0	0	0	0	0	0	0
3-Year	0	0	0	0	0	0	0	0	0	0	0	0
5-Year	0	0	0	0	0	0	0	0	0	0	0	0
GA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	0	0	0	0	0	0	0	0	0	0
3-Year	0	0	0	0	0	0	0	0	0	0	0	0
5-Year	0	0	0	0	0	0	0	0	0	0	0	0
HYBRID												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	0	0	0	0	0	0	0	0	0	0
3-Year	0	0	0	0	0	0	0	0	0	0	0	0
5-Year	0	0	0	0	0	0	0	0	0	0	0	0

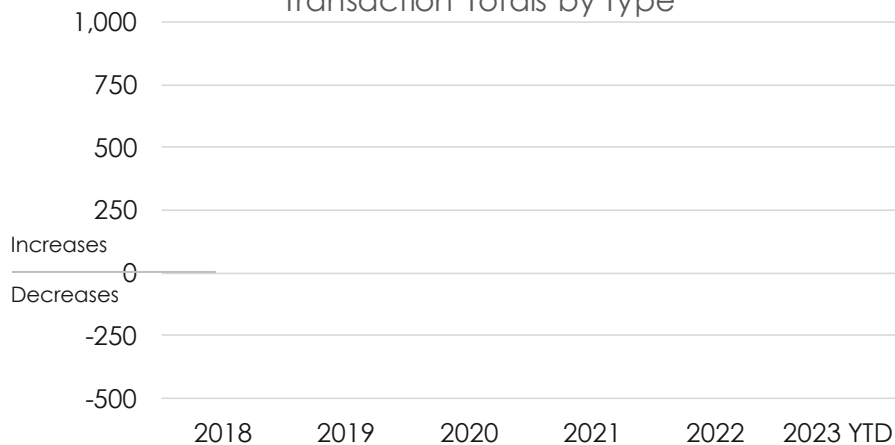
Listings of activity by institution are available upon request

Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

Recent BOLI Transactions

Banks with over \$1T in Total Assets

Transaction Totals by Type



SA

GA

Hybrid

Current Quarter Activity

- [None observed]

Recent Notable Actions

- There have been changes to BOLI assets from M&A activity, but no confirmed purchases.

Frequency of BOLI Transaction Sizes

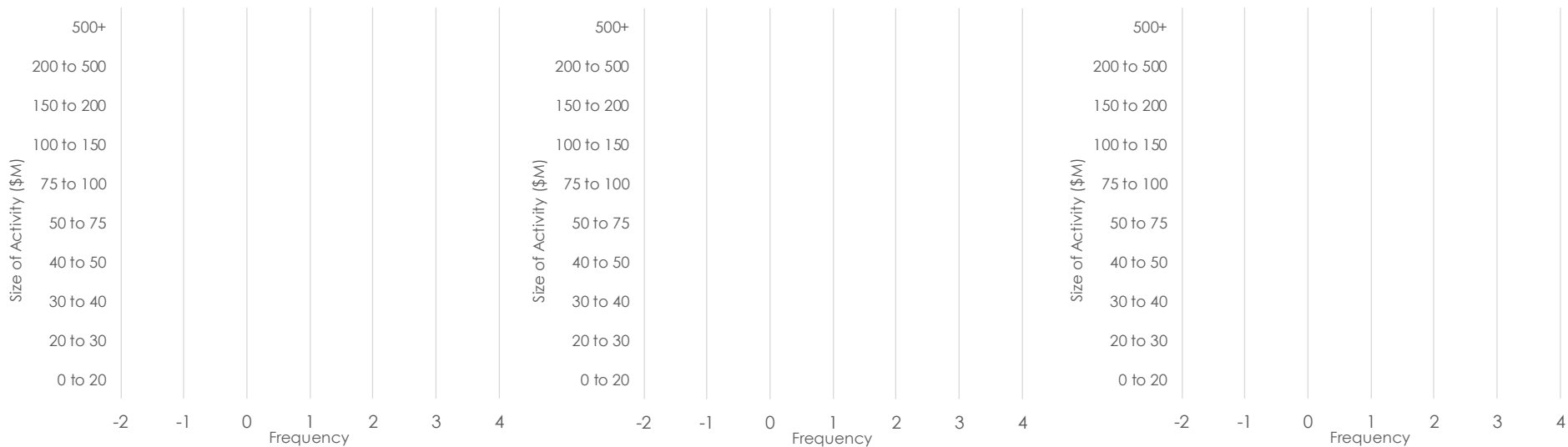
Banks with over \$1T in Total Assets

- While they own over a third of all BOLI, MBSA has not tracked confirmed purchases over the last 5 years for \$1 Trillion+ banks

1-Year

3-Year

5-Year



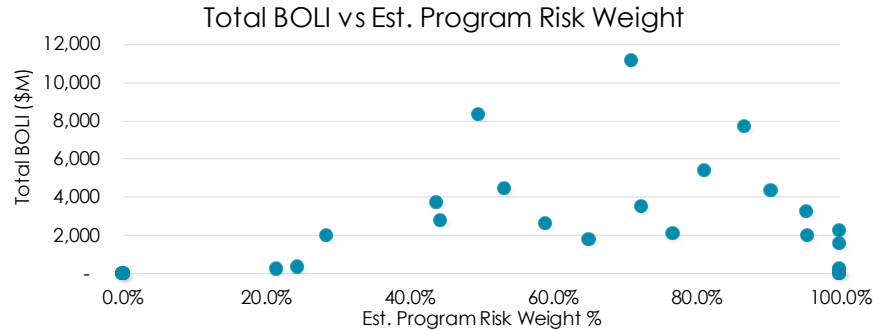
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Market Analytics By Bank Size

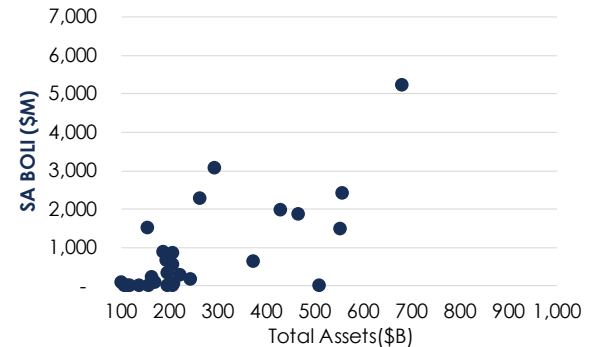
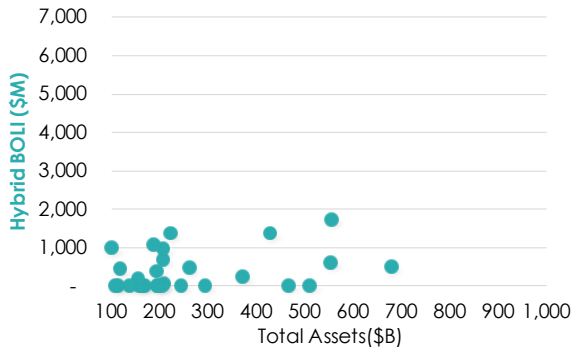
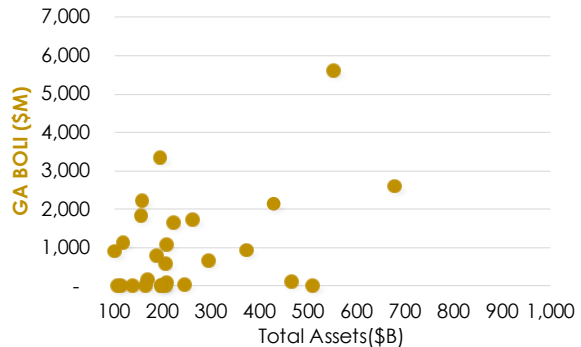
Banks with \$100B to \$1T in Total Assets

24 of 28 banks own BOLI

	GA (\$M)	Hybrid (\$M)	SA (\$M)	Total BOLI (\$M)	BOLI / Capital
Total	34,502	11,031	24,425	69,958	10%
Average	1,232	394	872	2,498	4507%
Last Q # of Increases	-	-	-	-	
Increase Total (\$M)	-	-	-	-	
Last Q # of Decreases	1	-	-	1	
Decrease Total (\$M)	(427)	-	-	(427)	



Types of BOLI by Bank Asset Size



Recent BOLI Transaction Counts & Totals

Banks with \$100B to \$1T in Total Assets

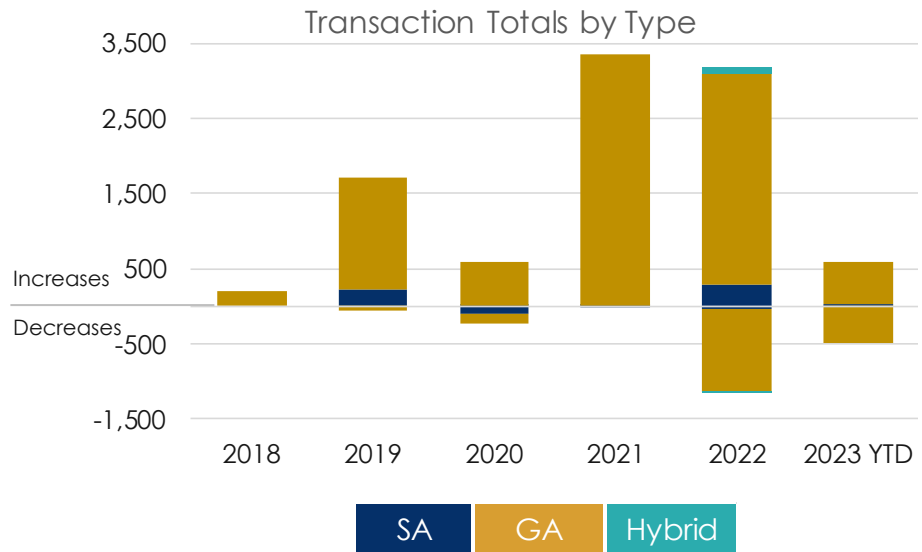
Time Period	Confirmed Purchases	Amount (Millions)	Likely Purchases	Amount (Millions)	Total Purchases	Amount (Millions)	Confirmed Surrenders	Amount (Millions)	Other Large Decreases	Amount (Millions)	Total Decreases	Amount (Millions)
TOTAL												
2023-Q2	0	0	0	0	0	0	0	0	1	-427	1	-427
1-Year	2	50	6	2,188	8	2,238	2	-815	4	-814	6	-1,629
3-Year	18	5,245	7	2,464	25	7,708	2	-815	6	-959	8	-1,774
5-Year	23	6,982	8	2,669	31	9,651	2	-815	8	-1,099	10	-1,914
SA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	1	34	2	272	3	306	0	0	1	-37	1	-37
3-Year	3	72	2	272	5	344	0	0	2	-48	2	-48
5-Year	5	108	3	477	8	585	0	0	3	-141	3	-141
GA												
2023-Q2	0	0	0	0	0	0	0	0	1	-427	1	-427
1-Year	1	16	3	1,834	4	1,850	2	-815	2	-753	4	-1,568
3-Year	15	5,173	4	2,110	19	7,283	2	-815	3	-886	5	-1,701
5-Year	18	6,874	4	2,110	22	8,984	2	-815	4	-934	6	-1,749
HYBRID												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	1	82	1	82	0	0	1	-24	1	-24
3-Year	0	0	1	82	1	82	0	0	1	-24	1	-24
5-Year	0	0	1	82	1	82	0	0	1	-24	1	-24

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Recent BOLI Transactions

Banks with \$100B to \$1T in Total Assets



Current Quarter Activity

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Recent Notable Actions

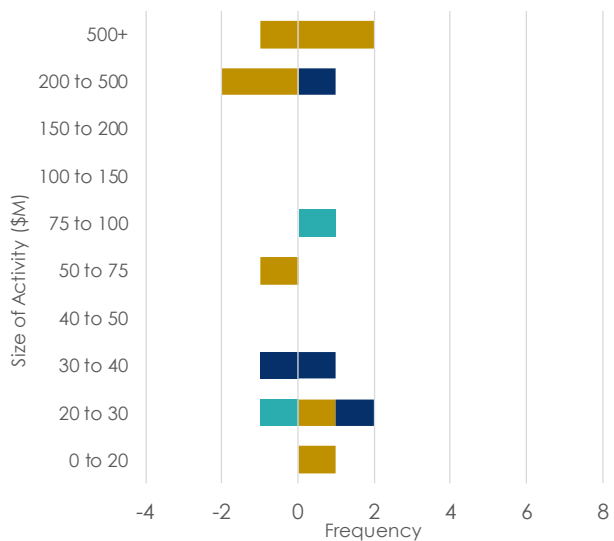
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- In 2022-Q4, First Citizens surrendered \$760 million of GA
- In 2022-Q3, US Bank's GA BOLI increased by ~\$1.24 billion
- In 2022-Q3, First Republic's SA increased by ~\$35 million
- In 2022-Q3, M&T Bank's GA decreased by ~\$325million; However, SA increased \$247 million and HY increased \$82 million
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Frequency of BOLI Transaction Sizes

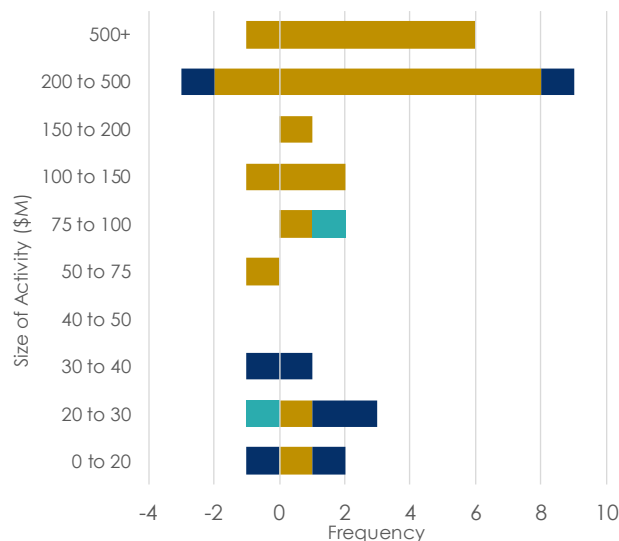
Banks with \$100B to \$1T in Total Assets

- Many recent deals for large banks have been over \$200 million, including six over \$500 million

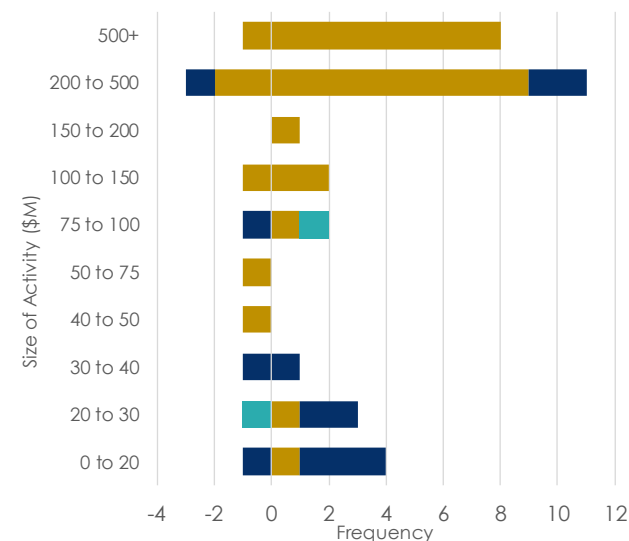
1-Year



3-Year



5-Year

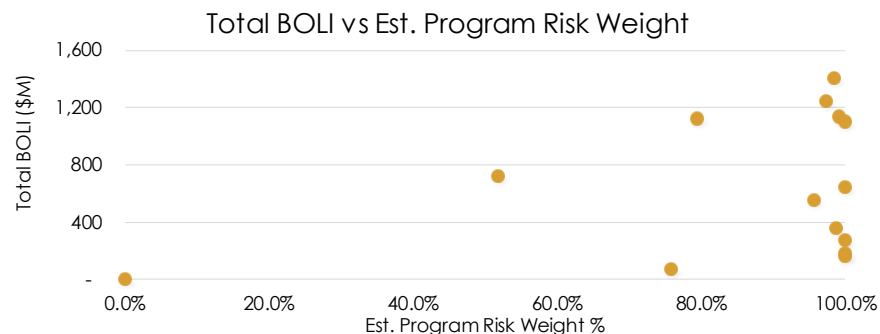


Market Analytics By Bank Size

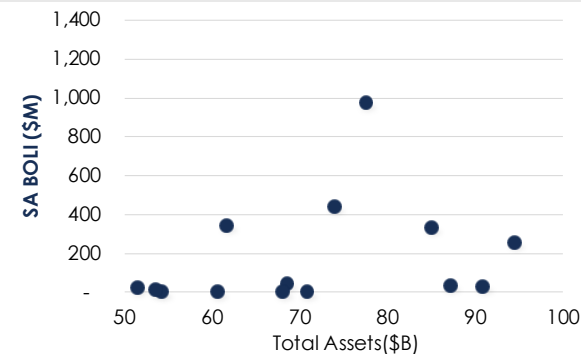
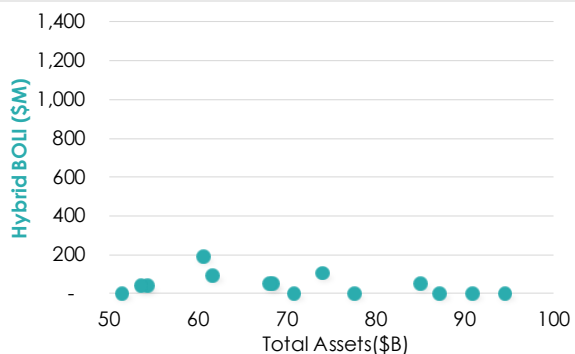
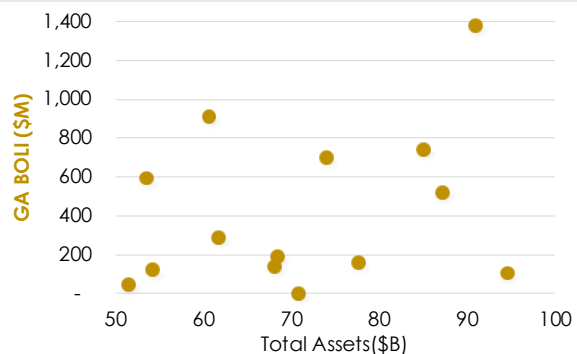
Banks with \$50B to \$100B in Total Assets

13 of 14 banks own BOLI

	GA (\$M)	Hybrid (\$M)	SA (\$M)	Total BOLI (\$M)	BOLI / Capital
Total	5,866	607	2,480	8,953	9%
Average	419	43	177	640	9%
Last Q # of Increases	-	-	-	-	-
Increase Total (\$M)	-	-	-	-	-
Last Q # of Decreases	-	-	-	-	-
Decrease Total (\$M)	-	-	-	-	-



Types of BOLI by Bank Asset Size



Recent BOLI Transaction Counts & Totals

Banks with \$50B to \$100B in Total Assets

Time Period	Confirmed Purchases	Amount (Millions)	Likely Purchases	Amount (Millions)	Total Purchases	Amount (Millions)	Confirmed Surrenders	Amount (Millions)	Other Large Decreases	Amount (Millions)	Total Decreases	Amount (Millions)
TOTAL												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	4	84	4	84	0	0	3	-70	3	-70
3-Year	1	150	10	270	11	420	0	0	3	-70	3	-70
5-Year	6	655	15	545	21	1,200	0	0	5	-205	5	-205
SA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	0	0	0	0	0	0	1	-29	1	-29
3-Year	0	0	6	186	6	186	0	0	1	-29	1	-29
5-Year	0	0	8	222	8	222	0	0	3	-164	3	-164
GA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	4	84	4	84	0	0	0	0	0	0
3-Year	1	150	4	84	5	234	0	0	0	0	0	0
5-Year	6	655	7	323	13	978	0	0	0	0	0	0
HYBRID												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	0	0	0	0	0	0	2	-41	2	-41
3-Year	0	0	0	0	0	0	0	0	2	-41	2	-41
5-Year	0	0	0	0	0	0	0	0	2	-41	2	-41

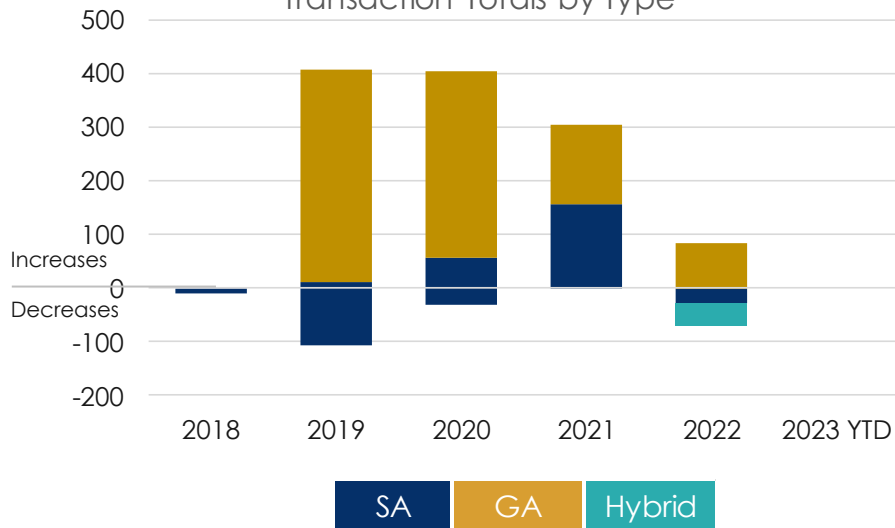
Listings of activity by institution are available upon request

Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

Recent BOLI Transactions

Banks with \$50B to \$100B in Total Assets

Transaction Totals by Type



Current Quarter Activity

- [None Observed]

Recent Notable Actions

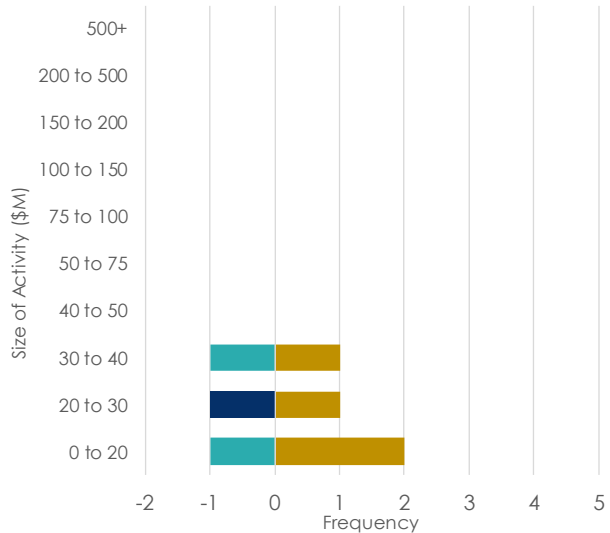
- In 2022-Q4, City National Bank's GA BOLI increased by \$14 million
- In 2022-Q4, Synovus Financial Corp's Hybrid BOLI decreased by \$10 million while its GA BOLI increased by \$10 million
- In 2022-Q3, NY Community Bancorp's GA and HY BOLI each increased by ~\$31 million
- In 2022-Q3, Wintrust Financial Corp's GA and SA BOLI each increased by ~\$29 million
- In 2021-Q3 East West Bank purchased \$150 million of GA
- In 2021 Raymond James's SA BOLI increased by ~\$100 million

Frequency of BOLI Transaction Sizes

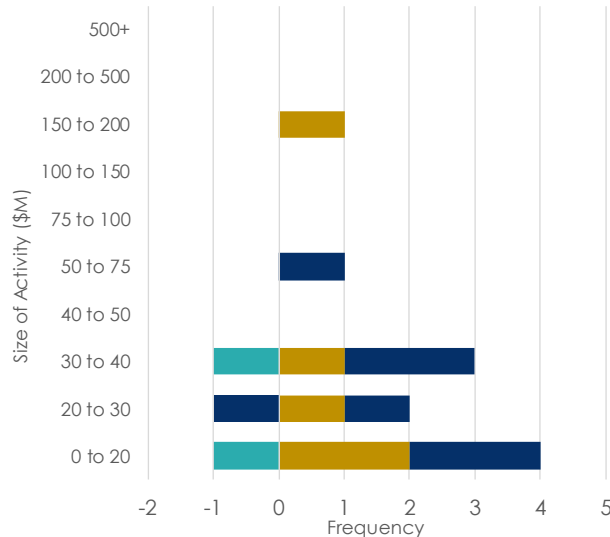
Banks with \$50B to \$100B in Total Assets

- Recent purchases have been fairly spread out in overall size

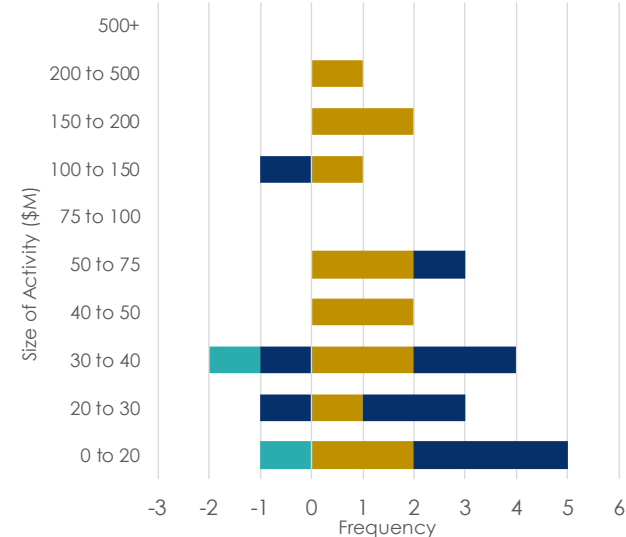
1-Year



3-Year

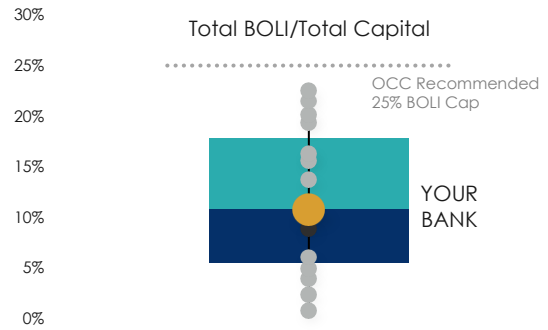
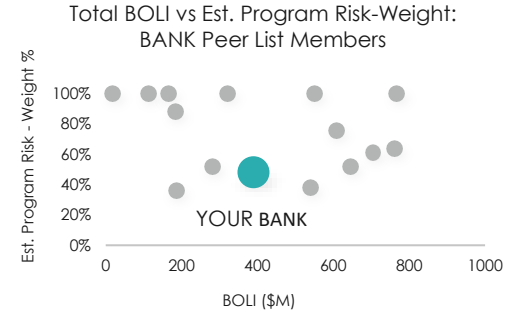
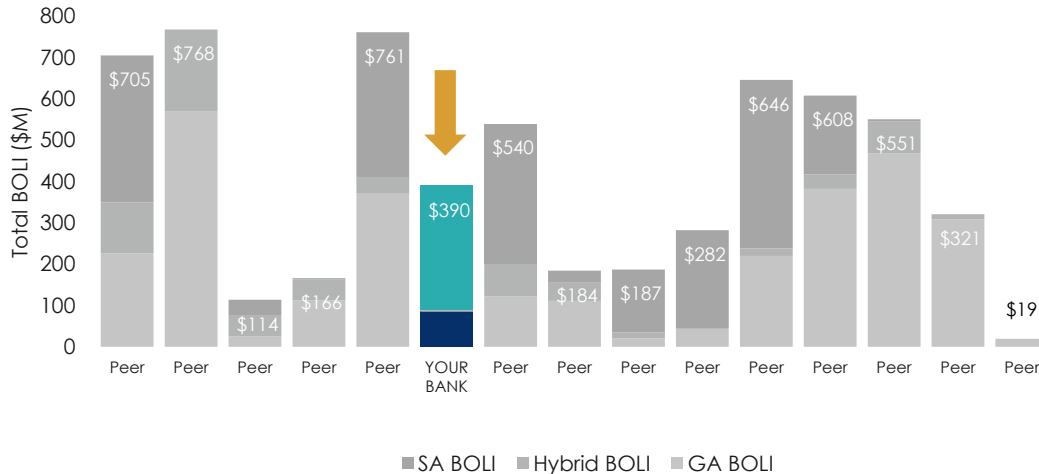


5-Year



CUSTOM PEER BANK REPORTS

- ✓ **Customizable**— Create your peer group & choose which banks to include
- ✓ **Risk Management**— Extensive peer BOLI monitoring
- ✓ **Comprehensive Updates**— Quarterly review of BOLI market activity



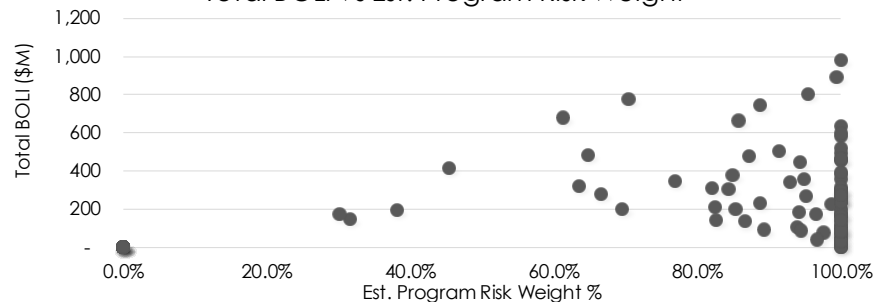
Market Analytics By Bank Size

Banks with \$10B to \$50B in Total Assets

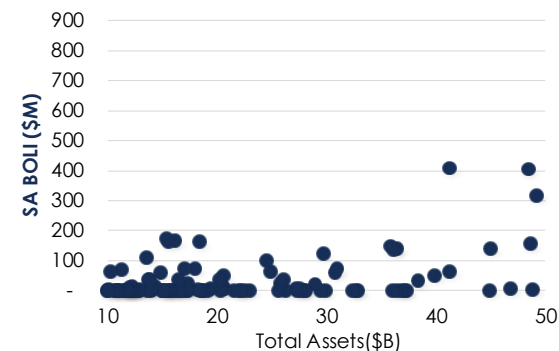
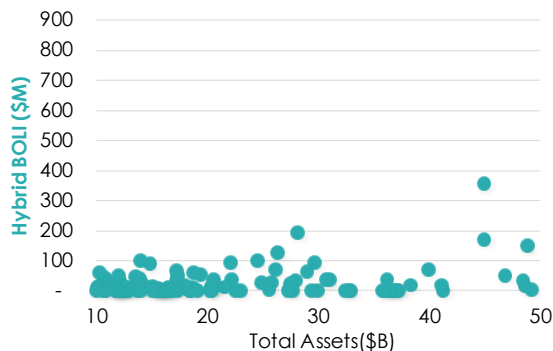
95 of 116 banks own BOLI

	GA (\$M)	Hybrid (\$M)	SA (\$M)	Total BOLI (\$M)	BOLI / Capital
Total	19,184	2,961	3,931	26,076	10%
Average	165	26	34	225	182%
Last Q # of Increases	1	-	-	1	
Increase Total (\$M)	15	-	-	15	
Last Q # of Decreases	2	-	-	2	
Decrease Total (\$M)	(72)	-	-	(72)	

Total BOLI vs Est. Program Risk Weight



Types of BOLI by Bank Asset Size



Recent BOLI Transaction Counts & Totals

Banks with \$10B to \$50B in Total Assets

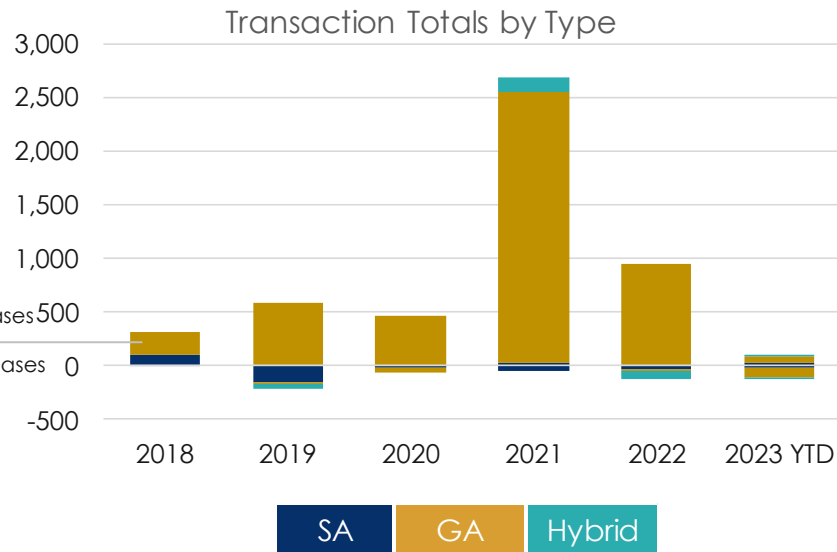
Time Period	Confirmed Purchases	Amount (Millions)	Likely Purchases	Amount (Millions)	Total Purchases	Amount (Millions)	Confirmed Surrenders	Amount (Millions)	Other Large Decreases	Amount (Millions)	Total Decreases	Amount (Millions)
TOTAL												
2023-Q2	0	0	1	15	1	15	1	-55	1	-17	2	-72
1-Year	2	45	16	275	18	319	1	-55	10	-161	11	-216
3-Year	43	2,519	38	1,591	81	4,110	2	-99	12	-191	14	-290
5-Year	48	2,812	48	2,033	96	4,845	6	-206	16	-339	22	-545
SA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	2	22	2	22	0	0	2	-46	2	-46
3-Year	0	0	3	46	3	46	1	-44	3	-61	4	-105
5-Year	0	0	3	46	3	46	3	-105	5	-160	8	-265
GA												
2023-Q2	0	0	1	15	1	15	1	-55	1	-17	2	-72
1-Year	2	45	13	239	15	284	1	-55	2	-31	3	-86
3-Year	42	2,419	33	1,506	75	3,925	1	-55	3	-46	4	-101
5-Year	47	2,712	43	1,947	90	4,660	2	-59	5	-94	7	-154
HYBRID												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	0	0	1	14	1	14	0	0	6	-84	6	-84
3-Year	1	100	2	40	3	140	0	0	6	-84	6	-84
5-Year	1	100	2	40	3	140	1	-42	6	-84	7	-126

Listings of activity by institution are available upon request

Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

Recent BOLI Transactions

Banks with \$10B to \$50B in Total Assets



Current Quarter Activity

- Customer Bancorp surrendered \$55 million of GA
- Mechanics Bank's GA decreased by \$17 million
- Fulton Financial's GA increased by \$15 million

Recent Notable Actions

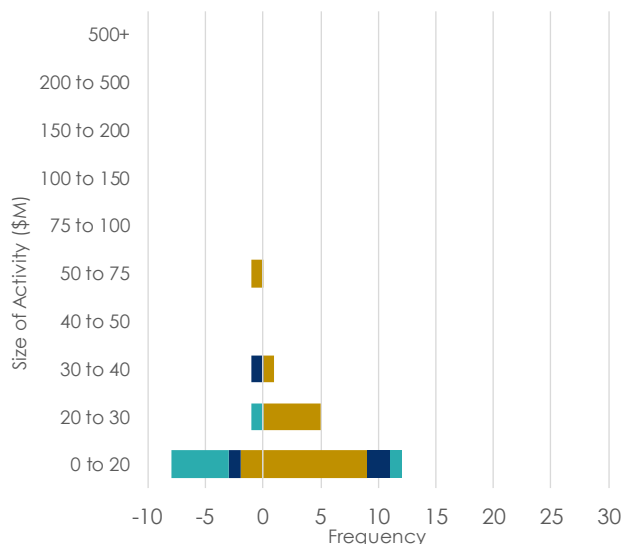
- In 2023-Q1 Dollar Mutual's GA increased by \$25 million
- In 2023-Q1 Hope Bancorp's GA increased by \$10 million
- In 2023-Q1 NexBank's SA increased by \$11 million
- In 2022-Q4, Prosperity Bancshares's SA decreased by \$30 million while GA increased \$30 million
- In 2022-Q3, Fulton Financial's GA increased by ~\$28 million
- In 2022-Q3, Pinnacle purchased \$25 million of GA
- In 2022-Q2, Ameris purchased \$50 million of GA

Frequency of BOLI Transaction Sizes

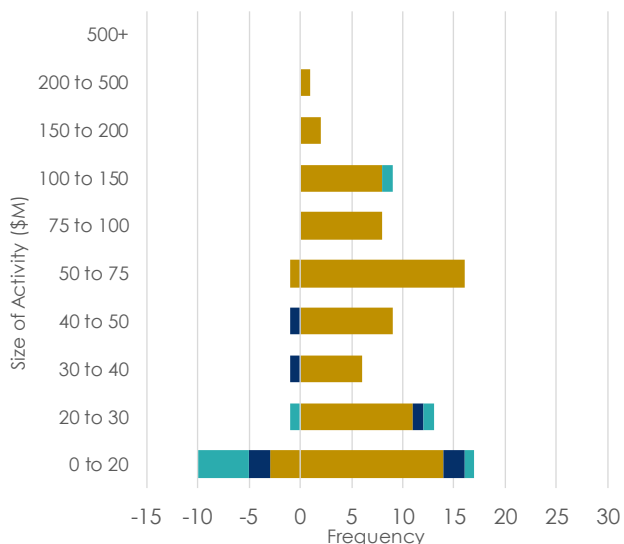
Banks with \$10B to \$50B in Total Assets

- Most purchases for these sized banks have been under \$75 million, and many a reverse action from a decrease of another type of BOLI

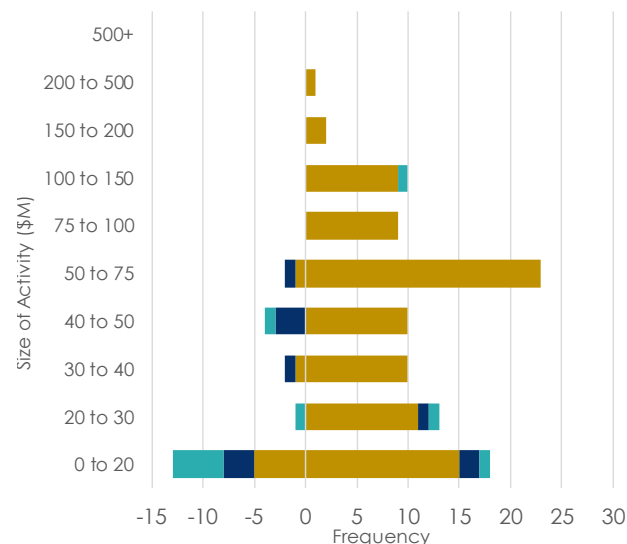
1-Year



3-Year



5-Year



Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

31 Copyright MB Schoen & Associates, Inc.

SA

GA

Hybrid

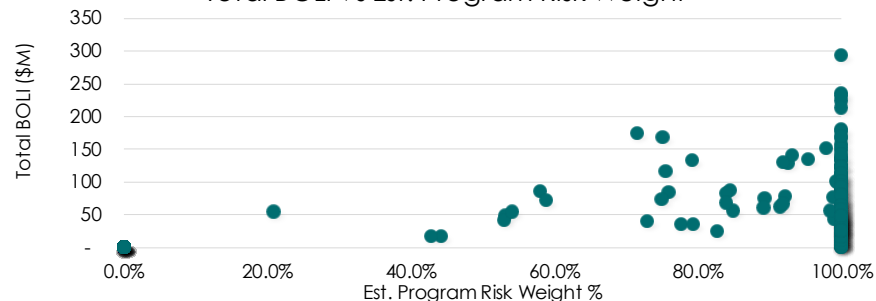
Market Analytics By Bank Size

Banks with \$2B to \$10B in Total Assets

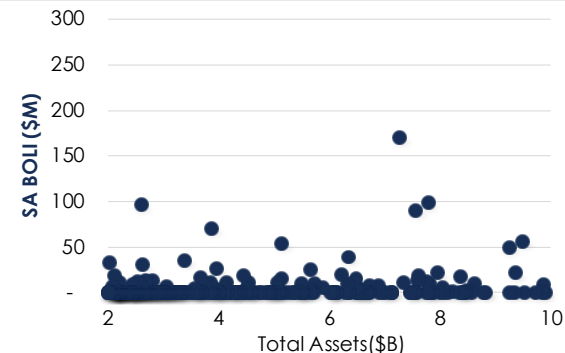
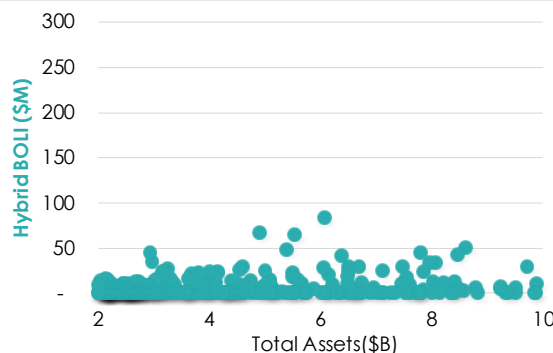
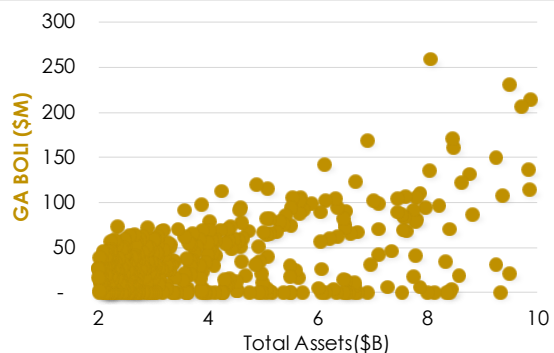
340 of 407 banks own BOLI

	GA (\$M)	Hybrid (\$M)	SA (\$M)	Total BOLI (\$M)	BOLI / Capital
Total	13,990	2,043	1,290	17,324	10%
Average	42	6	4	52	11%
Last Q # of Increases	1	-	-		
Increase Total (\$M)	20	-	-		
Last Q # of Decreases	-	-	-		
Decrease Total (\$M)	-	-	-		

Total BOLI vs Est. Program Risk Weight



Types of BOLI by Bank Asset Size



Recent BOLI Transaction Counts & Totals

Banks with \$2B to \$10B in Total Assets

Time Period	Confirmed Purchases	Amount (Millions)	Likely Purchases	Amount (Millions)	Total Purchases	Amount (Millions)	Confirmed Surrenders	Amount (Millions)	Other Large Decreases	Amount (Millions)	Total Decreases	Amount (Millions)
TOTAL												
2023-Q2	0	0	1	20	1	20	0	0	0	0	0	0
1-Year	6	102	22	392	28	494	0	0	7	-144	7	-144
3-Year	62	1,294	79	1,583	141	2,877	3	-36	14	-323	17	-359
5-Year	77	1,616	96	1,860	173	3,476	3	-36	19	-451	22	-487
SA												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	1	10	3	47	4	57	0	0	2	-53	2	-53
3-Year	3	95	6	188	9	283	1	-11	6	-152	7	-163
5-Year	3	95	7	204	10	299	1	-11	6	-152	7	-163
GA												
2023-Q2	0	0	1	20	1	20	0	0	0	0	0	0
1-Year	4	77	17	317	21	394	0	0	2	-28	2	-28
3-Year	58	1,184	68	1,326	126	2,510	1	-15	5	-108	6	-123
5-Year	73	1,506	84	1,587	157	3,093	1	-15	10	-236	11	-250
HYBRID												
2023-Q2	0	0	0	0	0	0	0	0	0	0	0	0
1-Year	1	15	2	28	3	43	0	0	3	-63	3	-63
3-Year	1	15	5	69	6	84	1	-10	3	-63	4	-73
5-Year	1	15	5	69	6	84	1	-10	3	-63	4	-73

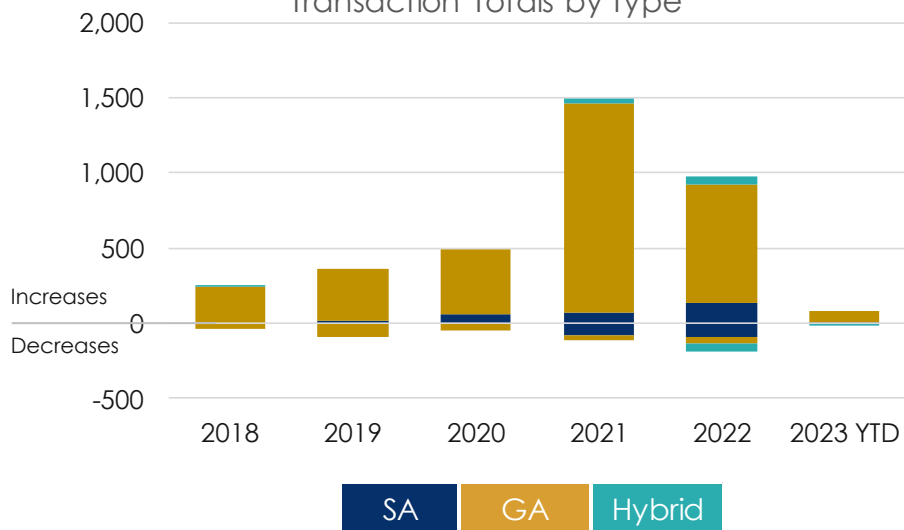
Listings of activity by institution are available upon request

Data Sources: FFIEC Call Report Data, SEC 10-Q Filings, SEC 10-K Filings | MBSA only tracks movement in excess of \$10 million

Recent BOLI Transactions

Banks with \$2B to \$10B in Total Assets

Transaction Totals by Type



Current Quarter Activity

- CTBC Bank Corp's GA increased by \$20 million

Recent Notable Actions

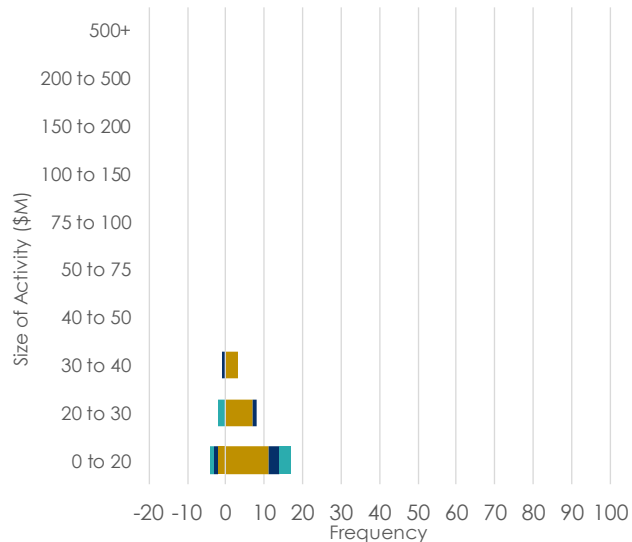
- In 2023-Q1 Big Poppy's GA increased by \$25 million
- In 2023-Q1 Fishback Financial's GA increased by \$25 million
- In 2022-Q4, Encore Bank's GA increased \$35 million
- In 2022-Q4, Lakeland Financial Corp's SA decreased by \$33 million while it's GA increased by \$33 million
- In 2022-Q3, Stock Yards Bancorp purchased \$30 million of GA
- In 2022-Q3, Horizon purchased \$25 million of GA, \$15 million of HY & \$10 million of SA
- In 2022-Q2, Connectone purchased \$30 million of GA
- In 2022-Q2, Peoples Bancorp purchased \$30 million of GA

Frequency of BOLI Transaction Sizes

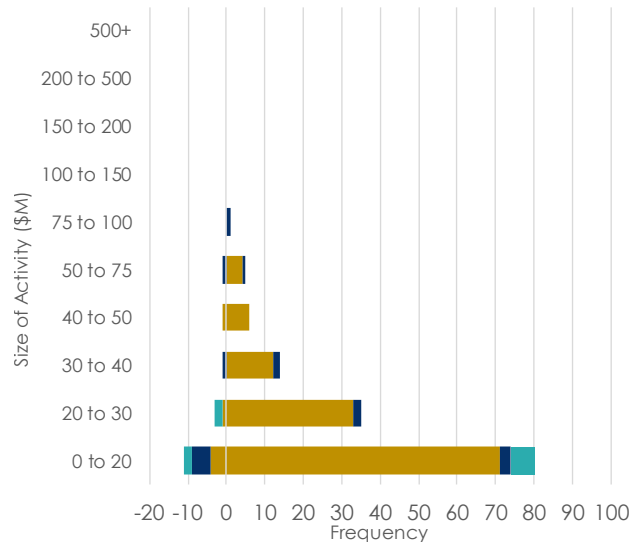
Banks with \$2B to \$10B in Total Assets

- This bank tier has only seen one recent purchase over \$75 million, with the majority under \$30 million
- Purchase activity increased significantly in 2021 compared to 2018-2020

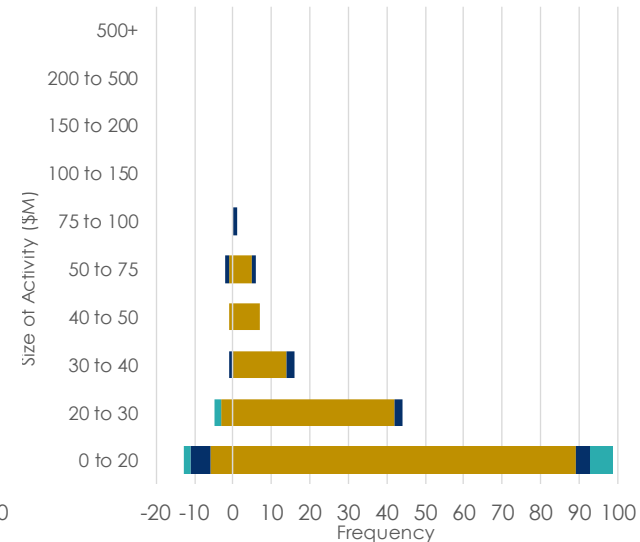
1-Year



3-Year



5-Year



BOLI Industry Allocations & Analytics

MBSA BOLI Industry Allocations Study

Our ongoing study attempts to track how SA BOLI is allocated over time

Gathered SA BOLI AUM data is categorized into portfolio types

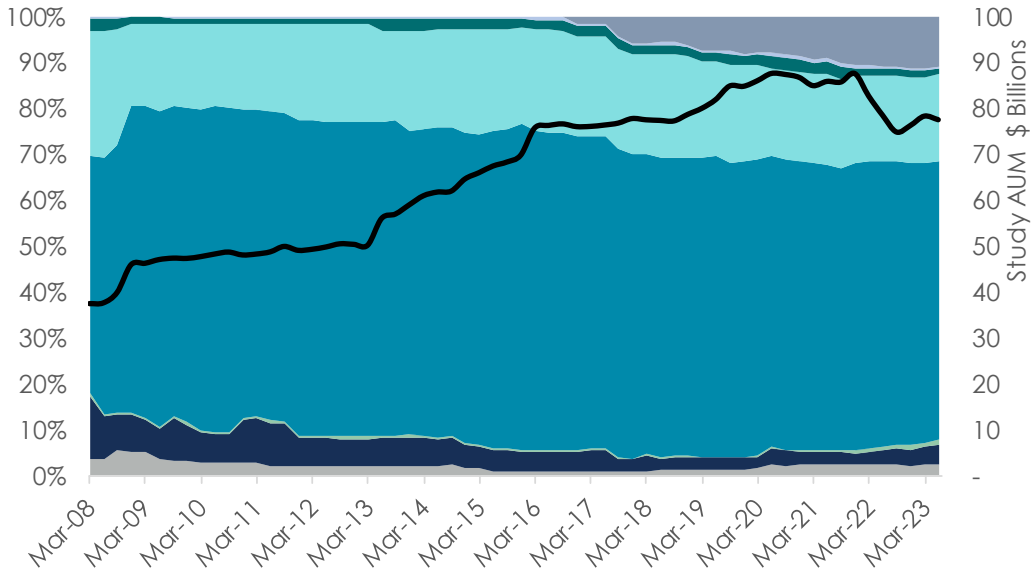
- Capital Efficient / Multi-Sector / Target RW
- High Yield
- Credit
- Core Fixed Income
- MBS / Securitized (ABS / CMBS)
- CLO / Bank Loan
- Short Duration
- Government

Portfolio types represent full portfolio MVs and do not look through to the holdings sector weights

Currently comprises \$78 billion – a massive share of the industry

SA BOLI Industry Allocations

SA BOLI Allocations Over Time



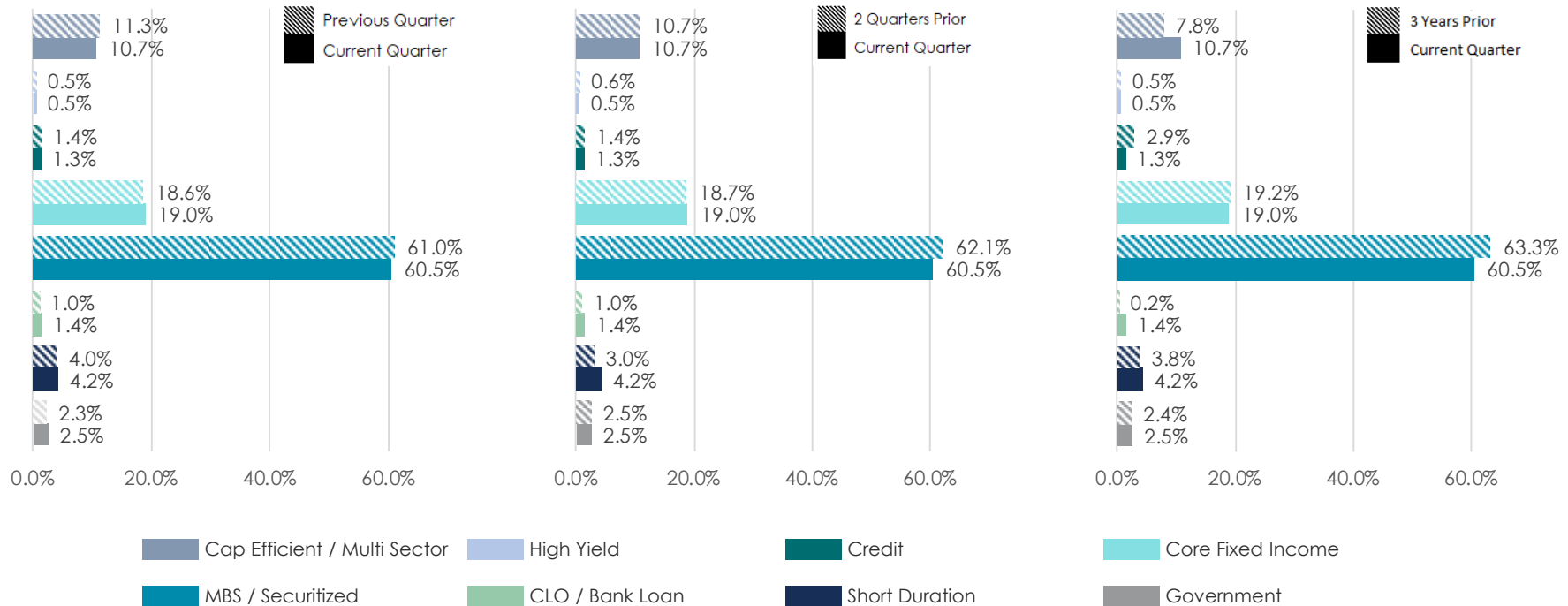
2023-Q2 Weights

Cap Efficient / Multi Sector	10.7%
High Yield	0.5%
Credit	1.3%
Core Fixed Income	19.0%
MBS / Securitized	60.5%
CLO / Bank Loan	1.4%
Short Duration	4.2%
Government	2.5%

— Black line (right axis) shows aggregate assets comprised in our study (number of participants have grown over time)

The aggregate assets black line decreases in 2022 due to the study's assets reported at MV which suffered losses while wrapped BOLI is reported as BV on Bank Call Reports

Recent Allocation Changes



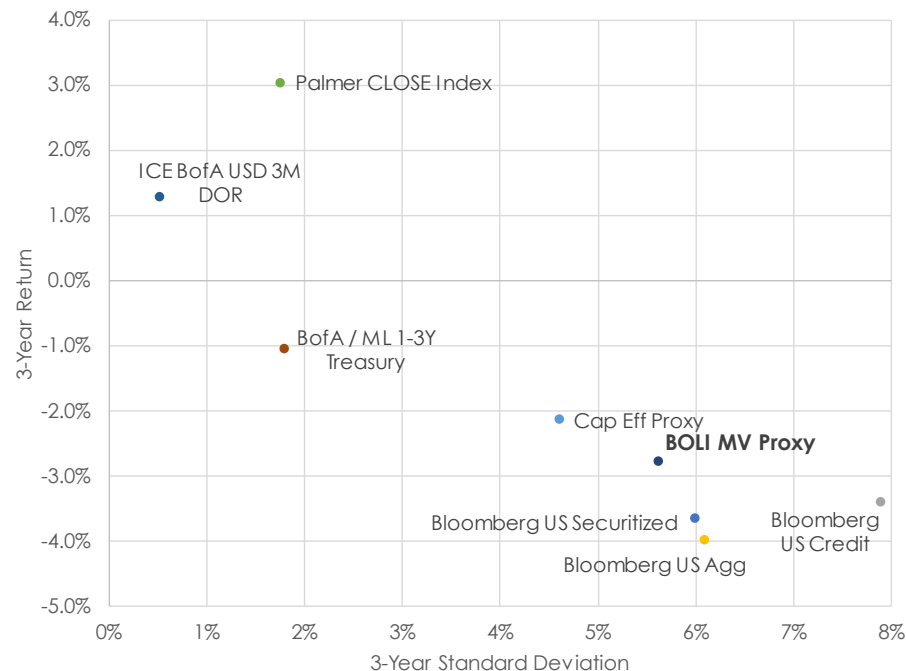
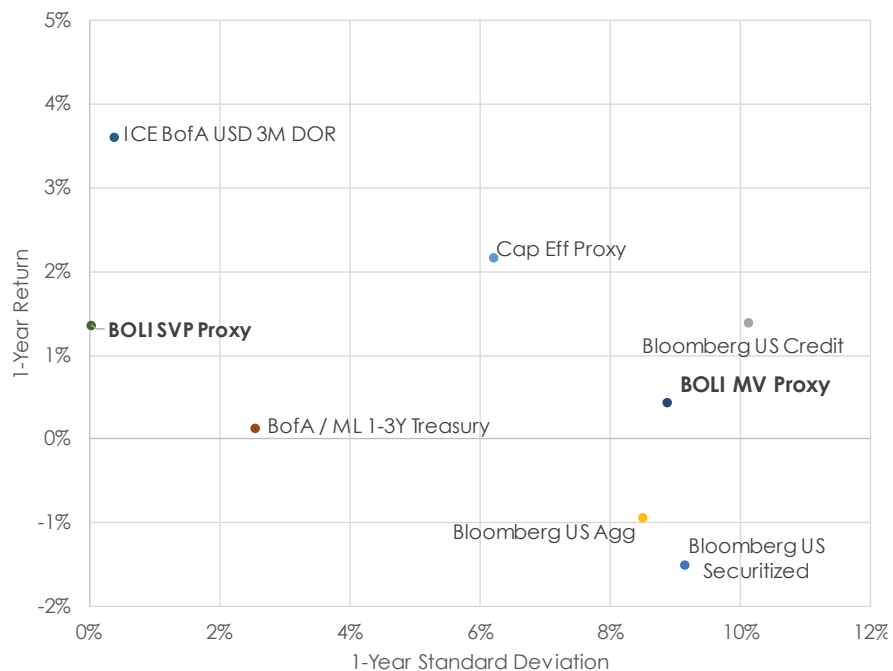
Investment Performance Proxy

Using common benchmarks for the categories, a proxy for the industry's SA Q2 MV performance is estimated at -0.48%

	Benchmark	Quarter	1-Year	3-Year	5-Year	Weights
Cap Efficient / Multi Sector	[Proxied by a sector blend]	0.07%	2.17%	-0.92%	1.79%	10.68%
High Yield	<i>Bloomberg High Yield</i>	1.23%	8.38%	1.92%	3.29%	0.46%
Credit	<i>Bloomberg US Credit</i>	-0.31%	1.39%	-3.38%	1.65%	1.29%
Core Fixed Income	<i>Bloomberg US Agg</i>	-0.84%	-0.94%	-3.96%	0.77%	18.97%
MBS / Securitized	<i>Bloomberg US Securitized</i>	-0.63%	-1.50%	-3.64%	0.13%	60.47%
CLO / Bank Loan	<i>CLOE Index</i>	2.12%	6.77%	3.08%	2.81%	1.44%
Short Duration	<i>ICE BofA USD 3M DOR</i>	1.20%	3.62%	1.29%	1.71%	4.16%
Government	<i>BofA / ML 1-3Y Treasury</i>	-0.57%	0.13%	-1.05%	0.94%	2.52%
Industry Proxy MV Performance using rolling weights:		-0.48%	-0.59%	-3.11%	0.61%	
Industry Proxy Stable Value Performance:		0.45%	1.68%	2.02%	2.22%	

Stable Value performance represents book value growth of the industry proxy under a standard crediting rate formula beginning (MV=BV) in 2013

1 & 3-Year Risk/Return Plots with BOLI



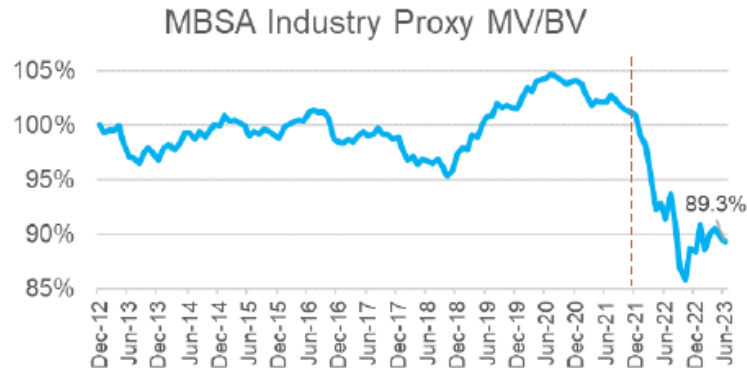
Data as of 2023-Q2

Industry MV/BV Ratio Developments

Ratios increased strongly in January but gave nearly all the gains back in February before rebounding again (although more mildly) in March. Overall, ratios increased ~2% from Q4 to Q1

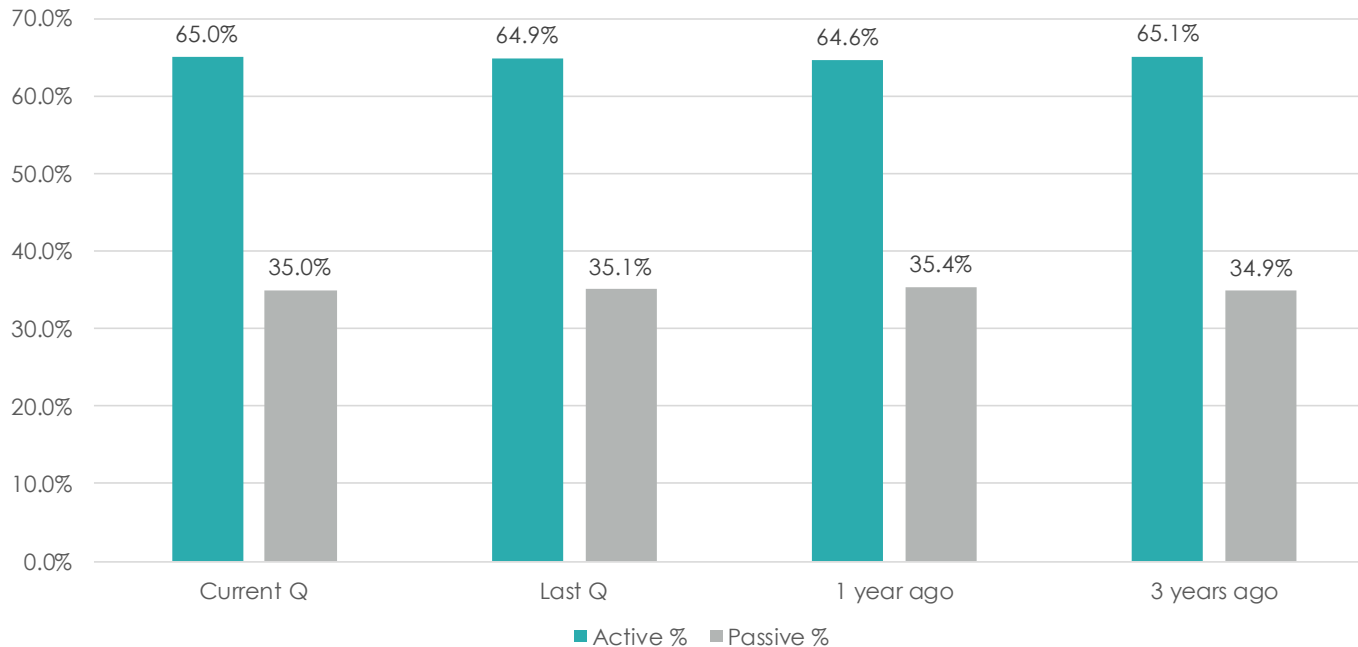
- MBSA began compiling market value and book value data to monitor the overall MV/BV ratios of BOLI allocations
 - ❖ As of Q1, the total MV in the carrier aggregate values was ~\$50 billion
- Additionally, using our proxy MV and BV performance monitoring from the prior pages, we calculate a proxy overall MV/BV ratio for the industry

	Carrier Aggregate MV/BV	MBSA Industry Proxy MV/BV
12/31/2021	100.9%	100.9%
3/31/2022	95.1%	95.5%
6/30/2022	91.1%	91.2%
9/30/2022	86.5%	86.7%
12/31/2022	88.2%	88.2%
3/31/2023	89.9%	90.2%
6/30/2023	89.1%	89.3%



Stable Value performance represents book value growth of the industry proxy under a standard crediting rate formula beginning (MV=BV) in 2013

Active / Passive Management Breakdown



Legislative, Regulatory, Judicial, Tax and Accounting Updates

Noteworthy Judicial Developments

COI Litigation – PHL Variable Granted Summary Judgment (Jun)

- On May 31 PHL Variable Life Insurance Company (“PHL”), a member of The Phoenix Companies, Inc., was granted summary judgment in its defense against allegations of improper cost of insurance (COI) rate increases for a group of policies. Plaintiff was a trustee for a trust that owned policies acquired via life settlements. Thirteen policies were at issue in this case. They were issued by PHL in 2007 and 2008.
- In 2011 PHL increased the COI rates on the policies. PHL asserts that the COI increases were actuarially justified because the premium funding pattern of the impacted policies differed materially from original pricing projections. In particular, the policies in question were funded with large upfront premiums and minimal ongoing premiums to keep the policies in force.
- Plaintiffs contend that the COI rate increases were designed and executed in order to induce life settlement investors to forego premium payments and allow the policies to lapse.
- The policy provision required PHL to determine COI rates “based on [PHL’s] expectations of future mortality, persistency, investment earnings, expense experience, capital and reserve requirements, and tax assumptions.” Plaintiffs asserted that basing COI rates on “premium funding levels” (i.e., the amount and pattern of premium payments) was not within the prescribed factors. However, the judge ruled that “investment earnings” inherently encompasses premium funding levels, noting that “...the amount available to invest, and expectations about the amount available to invest in the future, is unambiguously a permissible consideration under the ‘expectations of . . . investment earnings’ factor.”
- The court’s opinion included references to a prior case against PHL (Fleisher v. Phoenix Life Insurance Company No. 11-cv-8405(CM) (S.D. NY)). In our [May 2015 LRA Update](#), we noted that the judge in that case interpreted the term “based on” to be an exhaustive list of factors; not a listing of primary factors. As we reported, the Fleisher matter settled.

Docket: Jakobovits v. PHL Variable Insurance Company No. 17-CV-3527-ARR-RER (E.D. NY)

Noteworthy Judicial Developments

Litigation Related to the MOVEit Data Breach (Aug)

- In the aftermath of the well-publicized data breach involving Progress Software's MOVEit file transfer software, a large number of class action complaints have been filed across the country. Many name Progress Software and Pension Benefit Information ("PBI", a leading death audit service provider) as defendants.
- Several insurers that were customers of PBI have been named as defendants also, including
 - ❖ Athene Annuity and Life Company (*Weissman v. Athene*; 1:2023cv3999)
 - ❖ Corebridge Financial (*Newman v. Corebridge*; 4:23-cv-02967)
 - ❖ Genworth Financial (multiple)
 - ❖ Talcott Resolution Life Insurance Company (*Guitang v. Talcott*; 3:23-cv-01087)
- A Judicial Panel on Multidistrict Litigation is considering a motion to transfer and centralize all the related actions to the US District Court for the District of Minnesota. A hearing is scheduled for September 28 on this matter.
- We will continue to monitor this litigation activity.

Noteworthy Tax Developments

IRS Reportable Policy Sales Proposed Rule – Update (Jun)

- As we covered last month, the IRS has proposed rule changes for the application of the transfer for valuable consideration rules under the reportable policy sale ("RPS") regulations arising in connection with IRC § 1035 exchanges of life insurance contracts and certain transfers of policies under business reorganizations. The [comment period](#) is open through July 10. We are supportive of the proposed updates.
- As a brief reminder, the proposed updates include a new exception from the definition of RPS for certain direct acquisitions of interests in life insurance contracts by C corporations that arise as part of ordinary course mergers and acquisitions where life insurance constitutes a de minimis amount of the total assets being acquired. The American Bankers Association (ABA) refers to this as the "De Minimis Exception."
- On June 29 the ABA submitted a comment letter related to the business reorganization change. The ABA encourages an expansion of the De Minimis Exception to apply to certain taxable transactions and that it can apply to acquisitions involving holding companies that may not, by themselves, meet the standard of an "active trade or business."
- Suggested Application to Taxable Transactions
 - ❖ The proposed regulations require the business acquisition to qualify as a tax-free reorganization under Section 368(a). The ABA notes that many bank acquisitions are structured as taxable mergers whereby, for non-tax business and regulatory reasons, target bank's holding company ("Target Holdco"), which may hold some insurance contracts, does not survive.
 - ❖ The ABA suggests that the IRS remove paragraph (D) of the De Minimis Exception.

Continued...

Noteworthy Tax Developments

IRS Reportable Policy Sales Proposed Rule – Update (Jun) Continued

- Suggested Modification for “Active Trade or Business”

- ❖ The proposed regulations limit the applicability of the De Minimis Exception to the acquisition of a target C corporation that actively conducts a trade or business.
- ❖ The ABA notes that acquisitive transactions often occur at the holding company level and that a holding company may not meet the “active trade or business” standard under Section 367 regulations. Therefore, ABA recommends either removing the paragraph that includes this requirement from the final regulations (because it is unnecessarily restrictive) or modifying it to include a C corporation that is engaged in an active trade or business or is a member of an affiliated group that includes one or more members that are engaged in an active trade or business (emphasis added).

- Our Reaction to the ABA Comment Letter

- ❖ We are supportive of the ABA’s suggestions and believe that they could be helpful. Note that it is our understanding that even if these suggestions were included, an entity would still need to satisfy the prior law’s exceptions to transfer for value rules under IRC § 101(a)(2). A tax-free reorganization under § 368(a) would likely satisfy the so-called “carryover basis” exception under IRC § 101(a)(2)(A). It is not clear to us that taxable reorganizations as described in the ABA letter would effectively navigate the transfer for value rules notwithstanding a potential exemption to the RPS rules.
- ❖ The ABA letter did not comment on the 1035 Exchange aspects of the proposed rule.

Noteworthy Tax Developments

IRS Reportable Policy Sales Proposed Rule Update – Review of Comment Letters Submitted (Jun)

- As we have covered the past couple of months, the IRS has proposed rule changes for the application of the transfer for valuable consideration rules under the reportable policy sale (“RPS”) regulations arising in connection with IRC § 1035 exchanges of life insurance contracts and certain transfers of policies under business reorganizations. The comment period was open through July 10. In total, five comment letters were submitted. Last month, we highlighted the American Bankers Association letter.
- Finseca, American Council of Life Insurers (ACLI), Prudential and Financial Solutions Partners, and International Bancshares Corporation submitted comments in July. We identify highlights of each below.
- ACLI
 - ❖ The ACLI comment letter focused on the information reporting requirements and provided suggestions for how best to accomplish the goal of maintaining the correct distinction of whether or not a policy that is exchanged pursuant to section 1035 is an RPS.
 - ❖ The ACLI expressed agreement with the Proposed Regulations position that a 1035 exchange is not an RPS.
- Finseca
 - ❖ With respect to section 1035 exchanges, Finseca cautioned that a life insurance policy must qualify under applicable state insurance laws (particularly insurable interest laws) to qualify for the federal tax treatment under section 7702(a). As such, Finseca suggested that IRS and Treasury may wish to clarify that a contract issued as part of a purported section 1035 exchange remains subject to other requirements of the tax code
 - ❖ With respect to ordinary course business transactions, Finseca encouraged the IRS to extend the “de minimis exemption” to transactions other than those qualifying under section 368(a) and to expand the applicability to entities other than C corporations. Finseca provided a six-page annex analyzing the potential tax treatment of various possible transactions and an assessment of how likely a transaction would be to **not give rise to a reportable policy sale.**

Continued...

Noteworthy Tax Developments

IRS Reportable Policy Sales Proposed Rule Update – Review of Comment Letters Submitted (Jun) Continued

- International Bancshares Corporation (IBC)
 - ❖ IBC supports the proposed regulations as it relates to section 1035 exchanges. As reflected in the following excerpt, the bank appears to interpret the changes as negating (or possibly negating) the applicability of section 264(f) as it relates to exchanges of policies on former employees.
 - We applaud Treasury for modifying the final regulations to allow employers to pursue Section 1035 exchanges covering the lives of persons who are no longer actively employed. Although we understand that the Proposed Regulations render the employee exception in Revenue Ruling 2011-9 moot, we believe the Proposed Regulations could make this important point more clearly.
 - ❖ IBC concurred with the proposed regulation to maintain a contract's RPS status after a 1035 exchange.
 - ❖ IBC requested confirmation of certain guidance set forth in IRS Notice 2009-48 (presumably, that such guidance continues to apply). IBC also requested confirmation that “an enhancement of policy cash value by the new carrier to offset a loss of the exchanged value from the old policy would not be treated as a taxable event.”
- Prudential and Financial Solutions Partners
 - ❖ Davis & Harman LLP (“D&H”) submitted a comment letter on behalf of Prudential and Financial Solutions Partners. D&H fully supports the proposed regulations, and in particular the provisions regarding exchanges under section 1035. This comment letter provided additional thoughts in support of the conclusions reached by the proposed regulations, including
 - The Proposed Regulations correctly conclude that a section 1035 exchange, in and of itself, is not a “transfer” of the newly-issued contract received in the exchange.
 - Issuing a policy is not a transfer.
 - Section 1035 exchanges have never triggered the transfer-for-value rule.
- Continued...

Noteworthy Tax Developments

IRS Reportable Policy Sales Proposed Rule Update – Review of Comment Letters Submitted (Jun) Continued

- Prudential and Financial Solutions Partners
 - ❖ Davis & Harman LLP (“D&H”) thoughts (continued)
 - If issuance of a policy in a 1035 exchange were treated as a “transfer” under the transfer-for-value rule, the carryover basis exception would never apply.
 - The Proposed Regulations are not inconsistent with section 101(j).
 - State insurable interest laws remain relevant.
 - ❖ We find the D&H analysis and conclusions persuasive throughout.

IRS Sets Hearing Date for Reportable Policy Sales Proposed Rules (Aug)

- On August 23 the IRS issued a [notice of hearing](#) on its recent proposed changes relating to the transfer for valuable consideration rules associated with 1035 exchanges of life insurance contracts and other life insurance contract transactions.
- The hearing is set for September 28.

Noteworthy Accounting Developments

[None covered this quarter]

- For prior recent developments, see historical LRJA updates on our [website](#).

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LEGISLATIVE, REGULATORY, JUDICIAL,
AND ACCOUNTING DEVELOPMENTS



Noteworthy Regulatory Developments

Banking Regulators Finalize Interagency Guidance on Third-Party Relationships (Jun)

- On June 6 the banking regulators released final [Interagency Guidance on Third-Party Relationships](#). This guidance rescinds and replaces previous guidance, including OCC Bulletin 2013-29.
- In the new guidance, the regulators emphasize that the use of third parties does not diminish banking organizations' responsibilities to ensure that activities are performed in a safe and sound manner. Similar to the proposed guidance released in July 2021, the final guidance establishes a principles-based approach to third-party risk management and sets forth a Third-Party Relationship Life Cycle. The guidance includes suggestions on how banks might approach each stage.
- Stages of the Third-Party Relationship Life Cycle include Planning; Due Diligence and Third-Party Selection; Contract Negotiation; Ongoing Monitoring and Termination. The guidance acknowledges that banks can align the activities and oversight processes to the risks posed by any particular third-party relationship. More oversight is expected for activities that are deemed critical in nature
- Aspects of the final guidance that appear relevant and useful for banks with respect to managing BOLI third-party relationships include (note this outline is not intended to be comprehensive)
 - ❖ Planning
 - Identifying and assessing the benefits and the risks associated with the business arrangement;
 - Evaluating the estimated costs, including estimated direct contractual costs and indirect costs expended to augment or alter banking organization staffing, systems, processes, and technology;
 - Understanding potential information security implications, including access to the banking organization's systems and to its confidential information;

Continued...

Noteworthy Regulatory Developments

Banking Regulators Finalize Interagency Guidance on Third-Party Relationships (Jun)

❖ Planning (continued)

- Determining how the banking organization will select, assess, and oversee the third party; and
- Outlining the banking organization's contingency plans in the event the banking organization needs to transition the activity to another third party or bring it in-house

❖ Due Diligence and Third-Party Selection

- A review of the third party's overall business strategy and service philosophies;
- An assessment of the third party's financial condition;
- An evaluation of the third party's depth of resources (including staffing) and previous experience in performing the activity;
- An evaluation of the qualifications and experience of the third party's principals and other key personnel related to the activity to be performed;
- An evaluation of the effectiveness of the third party's overall risk management, including governance processes and SOC audit assessments;
- Assessment of the third party's information security program, including its consistency with the banking organization's information security program;
- An assessment of the third party's operational resilience and business continuity planning;
- An evaluation of the volume and types of subcontracted activities and the degree to which the third party relies on subcontractors; and
- An evaluation of whether the third party has appropriate insurance coverage to mitigate potential losses

❖ Contract Negotiation

- Clearly identify the rights and responsibilities of each party;

Continued...

Noteworthy Regulatory Developments

Banking Regulators Finalize Interagency Guidance on Third-Party Relationships (Jun)

- ❖ Contract Negotiation (continued)
 - Consider contract provisions that specify the third party's obligation for retention and provision of timely, accurate, and comprehensive information to allow the banking organization to monitor risks and performance and to comply with applicable laws and regulations;
 - Establish the banking organization's right to audit and provide for remediation when issues are identified;
 - Describe all costs and compensation arrangements;
 - Address when and how the third party should notify the banking organization of its use or intent to use a subcontractor; and
 - Protect the ability of the banking organization to change third parties when appropriate without undue restrictions, limitations, or cost.
- ❖ • Ongoing Monitoring
 - Effective third-party risk management includes ongoing monitoring throughout the duration of the third-party relationship, commensurate with the level of risk and complexity of the relationship and the activity performed by the third party.
 - Typical monitoring activities include (1) review of reports regarding the third party's performance and the effectiveness of its controls; (2) periodic visits and meetings with third-party representatives to discuss performance and operational issues; and (3) regular testing of the banking organization's controls that manage risks from its third-party relationships.
- ❖ Termination
 - Consider options for an effective transition of services, such as potential alternate third parties to perform the activity;
 - Evaluate relevant capabilities, resources, and the time frame required to transition the activity to another third party or bring in-house while still managing legal, regulatory, customer, and other impacts that might arise; and
 - Consider costs and fees associated with termination.
- Citations: OCC ([Bulletin 2023-17](#)) and FDIC ([FIL-29-2023](#)).

Noteworthy Regulatory Developments

Bank Regulatory Policy Update (Jun)

- The developments covered below do not have direct impact on BOLI/COLI programs; however, given the current climate and focus on regulatory updates in the aftermath of recent bank failures, we will continue to monitor the perspectives of bank regulatory leaders.
- [FDIC Chairman Gruenberg's Speech \(Peterson Institute\)](#)
- On June 22 FDIC Chairman Martin Gruenberg [spoke](#) at the Peterson Institute. His remarks focused on efforts to finalize the Basel III capital standards in the US. He highlighted four areas of risk under the final phase of Basel III:
 - ❖ Credit risk
 - Chairman Gruenberg reiterated that the FDIC has long had concerns about the use of internal models in establishing minimum capital requirements for credit risk.
 - He advocates for use of a standardized approach for credit risk in lieu of the model-based approach to enhance transparency and comparability of the risk-based capital framework
 - ❖ Market risk
 - He provided a brief background leading up to the Fundamental Review of the Trading Book (FRTB) and expressed support for these reforms.
 - ❖ Operational risk
 - He notes that operational risk exposures have been, and continue to be, a persistent and growing risk for financial institutions (including settlements over conduct and ongoing exposure to ransomware and other cybersecurity risks).
 - The operational risk framework in the United States is currently based on the advanced measurement approach framework. Similar to his views on credit risk, Mr. Gruenberg prefers the revised Basel III approach that replaces the internal model-based approach with a standardized approach that is adjusted for banks' own historical loss experience

Noteworthy Regulatory Developments

Bank Regulatory Policy Update (Jun) Continued

❖ Risk associated with financial derivatives

- He notes that the credit valuation adjustment (CVA) was a major source of losses for banks with derivative trading operations during the global financial crisis. The Basel III reforms would improve the estimation of CVA risk by introducing new frameworks that would be consistent with the more robust methodology under the revised market risk framework.
- Chairman Gruenberg also discussed the potential scope of these final reforms and appeared to be in favor of applying the new rules to banks with assets over \$100 billion. He stated that community banks would not be impacted by these reforms.
- [FRB Governor Bowman's Speech \(Salzburg, Australia\)](#)
- On June 25 FRB Governor Michelle Bowman delivered a [speech](#) at the Salzburg Global Seminar on Global Turbulence and Financial Resilience. Her remarks addressed the importance of a responsive (adapts quickly to changing economic conditions, etc.) and responsible (changes that take into account intended and unintended consequences) regulatory framework. She advocates for an independent third party to fully analyze recent events prior to pursuing regulatory reforms (although she is supportive of renewed supervisory focus on liquidity and interest rate risk in particular). Ms. Bowman believes revisions to liquidity requirements may be more effective than increases in capital for a broad set of banks.

Noteworthy Regulatory Developments

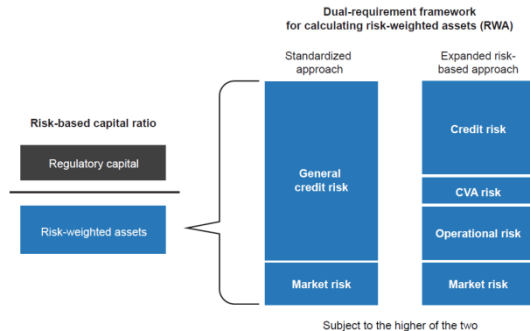
FRB Releases Results of Annual Bank Stress Tests (Jun)

- On June 28 the FRB released the [results](#) of its annual bank stress test. This year's stress test included a severe global recession with a 40% decline in commercial real estate prices, a substantial increase in office vacancies, and a 38% decline in house prices. The unemployment rate rose by 6.4% to a peak of 10% and economic output declined commensurately.
- All 23 banks tested remained above their minimum capital requirements under the stress test. The aggregate common equity RBC ratio was projected to decline by 2.3% to a minimum of 10.1%.
- The full report on the findings is available [here](#).

Noteworthy Regulatory Developments

Banking Regulators Release Proposed Updates to Basel III Capital Rules (Jul)

- On July 27 the banking regulators released proposed rules to implement the final components of the Basel III agreement and to implement certain changes in response to the recent banking turmoil. The proposal primarily applies to banks with \$100 billion or more in total consolidated assets.
- Noteworthy proposed updates include
 - Replacing the internal-models-based capital requirements for credit and operational risk (i.e., the so-called advanced approaches) with a new "expanded risk-based approach";
 - NOTE: We anticipate that these changes, if finalized, will have material implications for how large banks calculate RWA for BOLI programs.**
 - Maintaining the existing requirement for advanced approach banks to calculate RWA under two approaches (i.e., standardized and advanced measurements); however, as noted in the first item, the advanced measurements will be replaced with the expanded risk-based approach;



Continued...

Noteworthy Regulatory Developments

Banking Regulators Release Proposed Updates to Basel III Capital Rules (Jul) Continued

- Noteworthy proposed updates include (continued)
 - ❖ Requiring banks with assets between \$100-\$700 billion to include unrealized gains and losses on AFS portfolios in the calculation of regulatory capital;
 - ❖ Replacing the current approaches for measuring capital requirements for credit valuation adjustment (CVA) risk for OTC derivative contracts with non-model-based approaches, including a less burdensome option intended for less complex banking organizations; and
 - ❖ Incorporating a number of changes to disclosure requirements – including information reported in call reports.
- The expanded risk-based approach incorporates changes to the risk-weighting of a number of exposure types, including
 - ❖ Exposures to banks and depository institutions (base risk weight increased from 20% to 40%);
 - ❖ Corporate exposures (65% RW for investment grade exposure to an entity that has a publicly traded security outstanding, and a 100% RW to most other corporate exposures)
 - ❖ Derivatives (refinements to the SA-CCR methodology)
 - ❖ Equity exposures, including exposures to investment funds (remove the 100% RW category for “non-significant equity exposures”, increase the RW for exposures to leveraged investment firms, and implement a floor RW of 20% for investment funds)
 - ❖ Investment fund exposures in particular (in addition to the changes described above, the rule would largely require the full look-through approach if the institution has sufficient information to calculate RWA for each of the exposures held by the fund and mandate a 1250% risk-weight if a bank was unable to perform either the full or alternative modified look through)
 - ❖ Securitizations (would establish a new “securitization standardized approach” [SEC-SA] to replace the SSFA)
 - ❖ Subordinated debt instruments (would be subject to a new definition and generally an RW of 150%)
- Continued...

Noteworthy Regulatory Developments

Banking Regulators Release Proposed Updates to Basel III Capital Rules (Jul) Continued

- The proposal sets forth a timeline and transition period whereby the expanded RWA and the AOCI inclusion in capital would be phased in over three years starting July 1, 2025. Other elements of the calculation of regulatory capital would apply upon the effective date of the rule.
- The regulators estimate an aggregate 16% increase in common equity tier 1 capital requirements for affected banks from these proposals.
- Comments on the proposal are open through November 30.
- In the coming weeks, we will review this proposal more closely and further summarize the potential implications for risk weighting BOLI exposures.

Noteworthy Legislative Developments

Senate Banking Committee Members Propose Bill to Claw Back Executive Compensation (Jun)

- On June 1 a bipartisan group of senators including Elizabeth Warren (D-Mass.) and J.D. Vance (R-Ohio) joined Senators Catherine Cortez Masto (D-Nev.), Josh Hawley (R-Mo.), and Mike Braun (R-Ind.), to update their original legislation and introduce Senate Bill ([S. 1045](#)), the [Failed Bank Executives Clawback Act](#).
- Under the Act, federal regulators would be required to claw back up to three years of compensation received by bank executives, board members, controlling shareholders and other key decision-makers in the event of a failure or resolution.
- The proposed bill lacks clarity on how the failed bank would approach the claw back determination (including the amount to be clawed back). The provision states (emphasis added):
 - ❖ **REQUIRED CLAW BACKS**— In the case of insolvency, resolution, or the appointment of the [FDIC] as receiver of any insured depository institution with total assets more than \$10,000,000,000, the [FDIC] **shall claw back all or part of the covered compensation** received by any covered party with respect to the insured depository institution during the preceding 3 years.
- A similar bill ([H.R. 2972](#)) sponsored by Rep. Porter (D-CA) has been introduced in the House

Other Noteworthy Developments

CA Attorney General Seeks Information From Employers on Compliance with CCPA (Jul)

- On July 14 California Attorney General Rob Bonta [announced an investigative sweep](#), through inquiry letters sent to large California employers requesting information on the companies' compliance with the California Consumer Privacy Act (CCPA) with respect to the personal information of employees and job applicants. Prior to 2023, the CCPA exempted personnel data from the act; however, that exemption expired on January 1, 2023 (when the CA legislature did not extend the exemption).
- As such, covered businesses must comply with the CCPA as it relates to employee data. Businesses subject to the CCPA have specific legal obligations, such as providing notice of privacy practices and fulfilling consumer requests to exercise their rights to access, delete, and opt out of the sale and sharing of personal information.
- In a separate development, the Superior Court of California (Sacramento Division) issued a ruling on June 30 delaying enforcement of regulations under the California Privacy Rights Act of 2020 ("CPRA") until one year after adoption (March 29, 2024). The Court also ruled that future CPRA regulations could not be enforceable until one year after adoption.
- Several law firms, including [Gibson Dunn](#) and [Groom Law Group](#) have provided helpful summaries of this development.

Docket: *California Chamber of Commerce vs. California Privacy Protection Agency 34-2023-80004106-CU-WM-GDS*

Other Noteworthy Developments

Society of Actuaries U.S. Individual Life COVID-19 Reported Claims Analysis (Jul)

- The Society of Actuaries released an [updated report](#) on the impact of COVID-19 on the individual life insurance industry's mortality experience. This report documents a high-level analysis of the claims that have been reported through December 31, 2022.
- Below is a table from the report that presents claim counts for each quarter since 2020 as a ratio to an average determined from 2017-2019. It shows that claims for insureds age 70+ appear to remain elevated.

REPORTED CLAIMS – RATIO OF CLAIMS BY QUARTER AND ATTAINED AGE TO HISTORICAL AVERAGE (2017-2019)
FOR INDIVIDUAL LIFE FULLY UNDERWRITTEN POLICIES BY CLAIM COUNT

Quarter Reported	Under 50	50-59	60-69	70-79	80-89	90+	All Ages
2020 Q1	103%	98%	104%	104%	96%	97%	100%
2020 Q2	111%	108%	113%	118%	112%	117%	114%
2020 Q3	116%	106%	113%	121%	113%	121%	116%
2020 Q4	114%	114%	122%	127%	120%	123%	122%
2021 Q1	114%	117%	123%	132%	113%	110%	118%
2021 Q2	113%	105%	104%	110%	94%	96%	101%
2021 Q3	138%	132%	121%	122%	107%	108%	115%
2021 Q4	130%	126%	125%	125%	111%	107%	116%
2022 Q1	125%	115%	119%	123%	106%	104%	112%
2022 Q2	106%	90%	98%	105%	95%	96%	98%
2022 Q3	111%	91%	102%	114%	105%	107%	107%
2022 Q4	105%	92%	101%	109%	103%	104%	104%

Insurance Company and Counterparty Updates

Current S&P Financial Strength Ratings

Insurance Carriers Rated AAA

- None

Insurance Carriers Rated AA+

- Guardian Life Insurance Company of America
- Massachusetts Mutual Life Insurance Co.
- New York Life Insurance and Annuity Corporation
- New York Life Insurance Company
- Northwestern Mutual Life Insurance Company
- USAA Life Insurance Company

Insurance Carriers Rated AA

- Canada Life Assurance Co. (US Branch)
- Empower Annuity Insurance Company of America
- Zurich Insurance Company

Insurance Carriers Rated AA-

- John Hancock Life Insurance Company (USA)
- Metropolitan Life Insurance Company
- Metropolitan Tower Life Insurance Company
- Pacific Life Insurance Company
- Pruco Life Insurance Company
- Prudential Insurance Company of America
- West Coast Life Insurance Company

Insurance Carriers Rated A+

- American General Life Insurance Company
- Ameritas Life Insurance Corp
- Athene Annuity and Life Company
- Brighthouse Life Insurance Company
- Equitable Financial Life Insurance Company
- Equitable Financial Life Insurance Company of America
- Lincoln National Life Insurance Company
- Midland National Life Insurance Company
- MONY Life Insurance Company
- National Life Insurance Company of Vermont
- Nationwide Life & Annuity Insurance Company
- Nationwide Life Insurance Company
- Principal Life Insurance Company
- Reliastar Life Insurance Company
- Transamerica Life Insurance Company
- U.S. Life Insurance Company in The City of NY

Insurance Carriers Rated A

- Connecticut General Life Insurance Company
- Jackson National Life Insurance Company
- Symetra Life Insurance Company
- Zurich American Life Insurance Company

Insurance Carriers Rated BBB+

- Delaware Life Insurance Company
- Talcott Resolution Life Insurance Company

*Categories based on S&P's Financial Strength Rating as August 17, 2023

Current Moody's Financial Strength Ratings

Insurance Carriers Rated Aaa

- New York Life Insurance and Annuity Corporation
- New York Life Insurance Company
- Northwestern Mutual Life Insurance Company

Insurance Carriers Rated Aa1

- Guardian Life Insurance Company of America
- USAA Life Insurance Company

Insurance Carriers Rated Aa2

- None

Insurance Carriers Rated Aa3

- Canada Life Assurance Co. (US Branch)
- Empower Annuity Insurance Company of America
- Massachusetts Mutual Life Insurance Co.
- Metropolitan Life Insurance Company
- Metropolitan Tower Life Insurance Company
- Pacific Life Insurance Company
- Pruco Life Insurance Company
- Prudential Insurance Company of America
- Zurich Insurance Company

Insurance Carriers Rated A1

- Athene Annuity and Life Company
- Equitable Financial Life Insurance Company
- Equitable Financial Life Insurance Co. of America
- John Hancock Life Insurance Company (USA)
- Lincoln National Life Insurance Company
- MONY Life Insurance Company
- National Life Insurance Company of Vermont
- Nationwide Life & Annuity Insurance Company
- Nationwide Life Insurance Company
- Principal Life Insurance Company
- Symetra Life Insurance Company
- Transamerica Life Insurance Company
- West Coast Life Insurance Company

Insurance Carriers Rated A2

- American General Life Insurance Company
- Connecticut General Life Insurance Company
- Jackson National Life Insurance Company
- Reliastar Life Insurance Company
- U.S. Life Insurance Company in The City of NY

Insurance Carriers Rated A3

- Brighthouse Life Insurance Company

Insurance Carriers Rated Baa1

- Security Life of Denver Insurance Company

Insurance Carriers Rated Baa2

- Talcott Resolution Life Insurance Company

*Categories based on Moody's Insurance Financial Strength Rating as of August 17, 2023

Ratings or Outlook Revisions

Aegon N.V.

- Rating **downgraded** from A3 to Baa1 by Moody's (Jul)

Allstate Corporation

- Rating **downgraded** from A- to BBB+ by Fitch (Jun)

American International Group, Inc.

- Outlook changed from stable to **positive** by Moody's (Jul)

Talcott Resolution Life Insurance Company

- Fitch assigned an A- rating with a **stable** outlook; rating was previously withdrawn at BBB+ in 2014 (Aug)

United State of America

- Rating **downgraded** from AAA to AA+ by Fitch; rating downgrade includes US Treasury and agency obligations (Aug)

NEED UP TO DATE COUNTERPARTY TRACKING ?

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Industry Developments

AIG Secondary Offering of Corebridge Financial Stock (Jun)

- On June 12, 2023, AIG completed its secondary offering of Corebridge Financial common stock. The secondary offering was 65 million shares with the option to purchase an additional 9.75 million shares. The 65 million shares represented ~10% of AIG's Corebridge stake before the secondary offering. AIG remains the largest individual owner of Corebridge stock, holding 66% of the outstanding shares.

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Custom Reports

Net Rating Changes by Period (Number of Notches)					
2022 Q1	2021 Q4	2022 YTD	2021	2020	2019
-	-	-	-	-	1
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-2	-	1
-	-	-	-1	-	-
-	-	-	-1	-	-1
-	-	-	-	-	-
-	-	-	-	-	1
-	-	-	-	-	-

Custom reports show historical changes to ratings to view stability and trends over time

Insurance Carriers	Current Financial Strength Ratings			Net Rating Changes by Period (Number of Notches)											
	Agency	Rating	Outlook	2019 Q4	2019 Q3	2019 YTD	2018	2017	2016	2015	2014	2013	2012	2011	2010
Carrier 1	S&P	A+	Stable	-	-	-	-	-	-	-	-	-	-	-	-1
	Fitch	A+	Positive	-	-	-	1	-	-	1	-	-	-	-	-1
	Moody's	A2	Stable	-	-1	-1	-	-	-	-	-	-	-	-	-
Carrier 2	S&P	AA	Stable	-	-	-	-	-	-	-	-	-	-	-	-
	Fitch	AA	Stable	-	-	-	-	-	-	-	-	-	-	-	-1
	Moody's	Aa3	Stable	-	-	-	-	-	-	-	-	-	-	-	-
Carrier 3	S&P	A	Negative	-	-	-	-2	-	-	-	1	1	-	-	-
	Fitch	A	Stable	-	-	-	-1	-	-	-	1	-	-	-	-
	Moody's	A2	Stable	-	-	-	-1	-	-	-	1	-	-	-	-

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