BOLI Pre-Purchase Analysis

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Sound Risk Management Process for Your Financial Institution

Before entering into any Bank Owned Life Insurance (BOLI) arrangement, it's important to take the time for a thoughtful pre-purchase analysis. This process helps ensure that bank decision makers fully understand the opportunity and the risks, meeting both regulatory expectations and the standards of prudent financial management.

Banks must follow safe and sound banking practices when purchasing and maintaining BOLI. These practices include robust oversight from the financial institution's senior management, executive leadership, and its board, as well as detailed pre-purchase evaluations and clear policies governing risk monitoring, audits and controls.

A critical part of the pre-purchase process is due diligence. Thorough due diligence helps ensure that bank decision-makers fully understand the specific risks, benefits, and structural features of BOLI products. **The Interagency Statement on the Purchase and Risk Management of Life Insurance** (OCC 2004-56) outlines key actions to take before engaging in a BOLI arrangement.

Key components of the BOLI pre-purchase process

Define the Purpose, Product Fit and Benefits

- Clarify your bank's insurance needs and financial objectives.
- Assess how BOLI supports these goals.
- Evaluate various BOLI product options and cost-benefit scenarios.

Quantify Insurance Requirements

- Estimate the financial obligation or exposure to be covered.
- Apply sound financial and actuarial assumptions to help determine purchase amount.
- Measure the potential impact on earnings.

Evaluate Provider Capabilities

- Assess the provider's experience, financial strength and reputation.
- Review vendor/provider's technical knowledge and administrative support capabilities.

Review BOLI Product Characteristics

- Ensure alignment with institutional objectives and risk tolerance.
- Consider account structure (General, Separate, or Hybrid).
- Determine if the product is a Modified Endowment Contract (MEC).
- Understand crediting rate methodologies.

Assess Carrier Suitability

- Review pricing, service capabilities and product design.
- Evaluate financial stability and historical performance.

Review Employee Compensation Arrangements (if applicable)

- Determine and document any additional benefits under split-dollar plans.
- Conduct compensation analysis to ensure reasonableness.
- Consult tax and legal advisors as needed.

Identify and Evaluate Risks

- Consider exposure across various dimensions:
  - Liquidity
  - Operational/transactional
  - Credit
  - Interest rate
  - Legal/compliance
  - Reputation
  - Pricing

Consider Alternatives

- Analyze the pros and cons of other funding strategies for benefits or executive compensation.
- Evaluate the use of BOLI as a key person life insurance strategy.

Document the Decision

- Maintain a full report detailing the analysis, product type and total BOLI holdings.

Your bank: Working with an experienced provider to help you achieve your goals and objectives

Given the complexity of BOLI transactions, working with an experienced advisor or consultant can be extremely important. A knowledgeable executive benefits team can help your institution navigate regulatory expectations, assist with due diligence, and support implementation and long-term program administration.

To learn more, contact executivebenefitssolutions@onedigital.com.

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