

Five Reasons to Consider General Account BOLI

As banks look for tax-efficient ways to fund their employee benefit programs, increase assets and diversify holdings, the market for Bank-Owned Life Insurance (BOLI) products—and general account BOLI in particular—continues to heat up.

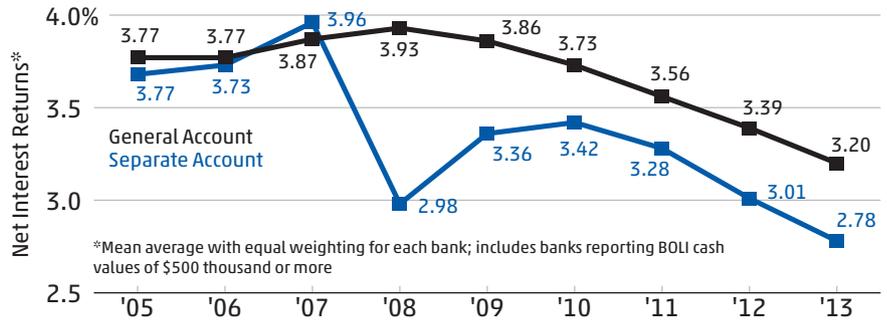
But BOLI can be structured in different ways. Separate account and then hybrid BOLI product chassis came into vogue as banks sought ways to achieve lower risk weighting and increase profit margins by chasing yields. There was risk to this approach. Many separate account BOLI products were particularly hard hit in the 2008-2009 mortgage-backed securities crisis, forcing even some of the larger banks to reconsider the advantages of a general account BOLI product. Mel Todd, an expert in BOLI analysis and a principal at Coli Consulting Group in Greensboro, North Carolina, predicts that the general account BOLI product will become increasingly viable for five key reasons.

[#1] General account BOLI limits catastrophic downside risk. This BOLI structure provides attractive guaranteed minimum interest rates and desirable preservation of principal against investment losses whereas the ultimate risk with variable separate account BOLI is complete loss of principal. Also, general account BOLI isn't burdened with the surrender restrictions typically imposed by separate account products.

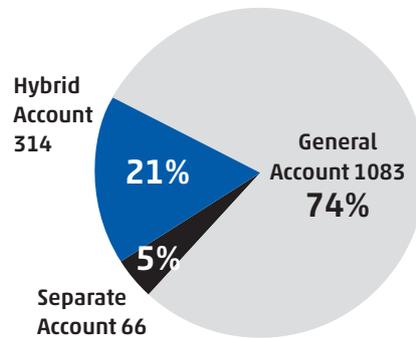
[#2] By purchasing general account BOLI, banks have the opportunity to gain exposure to investment asset classes that banks themselves are not permitted by their regulators to directly purchase or own. "The general accounts of highly rated carriers are much larger and more diversified pools of assets than the portfolios backing either separate account or hybrid products," explained Jeffrey Hug, Vice President, Massachusetts Mutual Life Insurance Company. "This diversification allows for asset class investments such as private equity, real estate and direct commercial mortgage loans plus other asset classes not available to separate account or hybrid. Not only are there higher returns over a full investment cycle, diversification also helps spread risk in a given portfolio to prevent what occurred in the 2008-2009 mortgage-backed security crisis."

[#3] Basel III imposes new analysis and oversight requirements on banks and can cause separate account products to carry higher risk weightings. According to Mr. Todd,

BOLITracker™ Average Calendar Year Net Interest Return for Banks Reporting 100% of BOLI Cash Values in a Single Product Type



Number of BOLI Purchases by Product Type for the 24-month period ending 6/30/14*



*Source: BOLITracker™; Purchases of \$250,000 or more

some of the larger banks are now struggling as to what to do with their BOLI separate account holdings that could potentially carry a risk weighting as high as 1250%. In order to justify lower risk weightings with some separate account products, some banks now face allocating additional resources and incurring more expenses than they did prior to Basel III.

[#4] General account BOLI is simpler to understand and monitor. "This makes general account BOLI attractive to community banks that may not have the internal resources to monitor assets on an ongoing basis," said Mr. Todd. "In fact, it's our position that general account or hybrid BOLI are the only BOLI products a community bank should ever consider."

[#5] Historically, general account products have outperformed separate account products. Based on COLI Consulting Group's analysis of realized BOLI net interest returns

Know Your BOLI Provider

Not all BOLI products are created the same. "When shopping for BOLI, it's important to do your homework," said Mr. Todd. "Look carefully at the carrier's products, the financial strength of the carrier, the return and, of course, the underlying guarantee."

Key questions to ask when choosing a BOLI carrier:

- How long has the carrier been in business?
- What is its approach to risk management?
- What are its financial strength ratings?
- Does it have a Comdex score close to 100?
- What are its capital reserves?

over the past 10 years (chart above), general account BOLI products were observed to have outperformed separate account products by an average of 32 basis points per year.

More recently, over a 12-month period ending 6/30/14, general account BOLI outpaced separate and hybrid account BOLI in terms of net interest returns with general accounts providing a 3.10% return, separate accounts a 2.67% return and hybrid accounts providing a 2.87% return.¹



We'll help you get there.®

¹BOLITracker™ Report II, Net Interest Returns, Coli Consulting Group, LLC 2014

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