AdvisorFacts

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Long-Term Performance of General Account BOLI

In 2018, drawing on over 25 years of experience placing and administering $59 billion of bank-owned life insurance (BOLI), Newport Group conducted a study of General Account policy performance. The analysis was completed using a material number of BOLI policies purchased during the 1990s. These policies included a cross-section of insurance carriers and policy owners, and compared policy performance to comparable bank-eligible investment options.

The study showed that pre-tax equivalent General Account BOLI yields outperformed a wide variety of benchmark indices, including the Barclays U.S. Aggregate, Muni Bond: 1-10 Year and AA Muni Index over the one, three, five and 10 year periods ending June 30, 2018. These returns only considered changes in policy cash value and did not include any incremental earnings from policy claims.

The steady return characteristics coupled with low credit risks also showed General Account BOLI had a significantly lower standard deviation and significantly higher Sharpe Ratio than the benchmark indices during the 12-year period ending June 30, 2018.

This study validates the value General Account BOLI can provide banks over both the short and long-term relative to other assets banks might own. Under ASC 325, BOLI is recorded at its net realizable value, which for a BOLI policy is generally its cash surrender value. General Account policies eliminate any mark to market risk, which makes earnings from General Account policies steady and predictable relative to assets typically held in a bank's investment portfolio.

As of June 30, 2018, U.S. banks owned just over $190 billion of BOLI, of which $102 billion was General or Hybrid Account, and $88 billion was Separate Account. Each of these types of BOLI present banks with different risk/return characteristics. Identifying and understanding these characteristics prior to the purchase is especially important given the implicit duration of a life insurance policy. These policies will likely remain respective bank balance sheets well past the tenure of the persons making the purchase decisions.

With a General Account policy, a bank has exposure to the carrier, which in turn bears any mark to market or default risk in the underlying General Account portfolio. This structure, paired with the tax advantages of life insurance, give General Account policies a high return/low risk profile relative to other bank eligible assets.