Cash Value Life Insurance: A Cornerstone Asset Of a Bank

By Barry Dyke

November 24, 2008

Cash value life insurance is one of the most important assets of a bank, particularly America's large banks.

Banks purchase so much cash value life insurance that life insurance of this type has its own name BOLI (bank-owned-life-insurance). Banks own so much BOLI that the banks could be considered life insurance companies unto themselves. According to the Federal Deposit Insurance Corporation (FDIC) and the General Accounting Office (GAO), BOLI is a cornerstone of a bank and one most important assets in the nation's banking and financial systems.

At the end of 2004, 3,474 of the America's banks owned, in the aggregate, $65.8 billion of BOLI. At the end of 2006, 4,082 of the nation's banks owned BOLI. Aggregate cash values of BOLI soared to $106.82 billion, a 62 percent increase over 24 months. At the end of 2007, banks increased total holdings in BOLI to $120.03 billion. The total life insurance (death benefit) to the bank is approximately five times the total cash surrender value (see table below).

According to a study done by the GAO in 2004, approximately 88 percent of the cash surrender value BOLI is owned and concentrated in large commercial banks and thrifts. The remaining 12 percent of BOLI is distributed to the remaining 3,100 banks.

Banks purchase massive amounts of cash value life insurance (BOLI) for sound economic reasons. One reason, life insurers, particularly mutual ones, are more stable than today's banks because they are not highly leveraged. Life insurers also have excellent track records in preserving and protecting an investor's capital. During the Great Depression, when mutual funds collapsed and more than 10,000 banks failed, cash value life and annuity products with legal reserve companies remained 99.9 percent safe. Life insurance also has excellent tax benefits. Account balances grow tax-deferred and this increase improves the bank's income statement. At the death of a bank employee, the life insurance benefit comes into the bank income tax-free. Finally, life insurance is an ideal product to fund numerous employee benefits such as life insurance, disability, severance pay, long term health care and executive retirement plans commonly known as SERPs (selective-executive-retirement-plans).

The BOLI banks purchase resides in their Tier One Capital—their most important asset. Tier One Capital is the reserves and foundation of a bank, and cushions the bank in times of adversity. All banks want a strong Tier One Capital, as it determines the total amount of money the bank can lend to the public, which is a bank's life blood.

Tier One Capital is generally comprised of safe-liquid assets such as cash, gold bullion, loans from the federal government, demand deposits, short term notes, and bank-owned life insurance (BOLI). The Office of Thrift Supervision in 2004 ruled that separate account BOLI is to be given a risk weighting of 20 percent, which makes cash value life insurance a highly desirable asset in light of federal banking regulations. Regulators do not allow equity investments in Tier One Capital as they are considered too volatile.

Many banks own more in BOLI than they do in their premises, other fixed assets and all other real estate combined. Banks ownership of life insurance is as follows, according to the FDIC figures June 30, 2008. Cash surrender value (CVS)-balance sheet equity of life insurance to the bank. Life insurance benefit to the bank is roughly five times the CVS.

Bank	Total Tier One Capital 6/30/2008 $$/Billions	Holdings Life Ins/CSV 6/30/2007 $$/Billions	Holdings Life Ins/CSV 6/30/2008 $$/Billions	Life Ins As a % of Bank Tier One	Bank premises Oth. Assets,RE $$/Billions % of Tier One
Bank of Am.	$112.6	$14.65	$18.99	16.86%	$10.68-9.480%
JPMorgan	$111.7	$12.21	$12.63	11.30%	$12.42-11.11%
Citibank	$87.95	$3.409	$4.095	04.60%	$7.345-8.351%
Wachovia	$47.23	$13.49	$14.65	31.02%	$5.318-11.25%
Wells Fargo	$36.57	$4.620	$5.580	15.25%	$5.140-14.07%
U.S. Bancorp	$14.41	$4.510	$4.710	32.68%	$2.030-14-14%
BNYMellon	$10.46	$2.670	$2.670	25.52%	$1.370-13.13%
Regions Bank	$10.46	$1.278	$2.313	23.13%	$2.867-28.67%
BB&T Corp	$8.760	$2.450	$2.670	30.47%	$1.770-20.30%
PNC Bank	$8.710	$2.007	$2.170	24.98%	$1.758-20.17%
KeyBank	$7.020	$2.630	$2.720	38.80%	$0.709-10.09%
Bank West	$6.225	$1.324	$1.570	24.20%	$0.818-13.14%
Sovereign	$5.830	$1.757	$1.813	31.09%	$0.647-11.09%
M&T Bank	$4.003	$1.094	$1.218	30.45%	$0.415-10.37%
Harris Nat'l	$3.801	$1.212	$1.282	33.72%	$1.281-33.62%
Huntington	$3.292	$1.133	$1.338	40.64%	$0.598-18.16%

Barry James Dyke has been in the financial service and life insurance business since 1982. He also founded a pension consulting business, a third-party administration firm and a registered investment advisory firm. For more information on his book The Pirates of Manhattan, vist www.ThePiratesofManhattan.com. Barry can be contacted at barry@thepiratesofmanhattan.com or 800-335-5013.