

BOLI Market Update Q1-2023:

Investment in Bank Owned Life Insurance Market Remains Consistent

Q1-2023 BOLI Activity

Our analysis of Q1-2023 FDIC call report data shows the total premium and total estimated purchases for [BOLI](#) investment remained steady through Q1. There were an estimated 78 BOLI purchases of \$1 million or greater in Q1-2023. These 78 purchases totaled approximately \$901.77 million of estimated premium written. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q1-2023 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	7	\$31.62 Million
Additional Purchase	71	\$870.15 Million
Total	78	\$901.77 Million

High purchase: \$580M | Average purchase: \$11.5M | Median purchase: \$2.5M

It should be noted that the data in the table above does include one large purchase of approximately \$580 million. If that purchase is excluded, the estimated total premium drops to \$321.77 million and the average purchase drops to \$4.2 million, both a slight decline from Q4-2022.

According to the FDIC Quarterly Banking Profile, the banking industry remained resilient in spite of continued stress. Net income remained high when compared to historical measures, asset quality is favorable, and the industry remains well capitalized. The FDIC does note the more lasting effects of the industry response to this stress may not be fully apparent until second quarter results are available. Given the continued downside risks of inflation, rising market interest rates, and continued economic uncertainty, financial institutions continue to look to BOLI as an advantageous alternative investment to help offset the cost of employee benefit expenses.

Treasury yields again fluctuated over the first quarter with the 10-year Treasury reaching a high of 4.08% on 03/02/2023 and a low of 3.37% on 01/18/2023. More recently, the 10-year treasury has risen slightly to start June and closed at 3.79% as of 06/07/2023. Following an aggressive campaign of rate hikes over the last 14

months, Federal Reserve Chair Jay Powell has said future rate decisions will be made on a “meeting by meeting” basis.

Taking into consideration these continued headwinds, BOLI remains an attractive regulatory approved investment alternative. [BOLI](#) offers predictable and steady yields, no mark-to-market risk, tax-deferred earnings and minimum interest rates guarantees.

Table 3. Comparison of Sample Yield on \$10M BOLI Purchase vs. 10-Year Treasury

Year	BOLI		10-Year Treasury	
	Cumulative IRR On Cash Value	Pre-Tax Equiv IRR On Cash Value	Annual Yield	After-Tax Yield
1	4.37%	6.16%	3.79%	2.99%
5	4.34%	6.12%	3.79%	2.99%
10	4.34%	6.11%	3.79%	2.99%
15	4.32%	6.08%	3.79%	2.99%
20	4.28%	6.03%	3.79%	2.99%
25	4.24%	5.97%	3.79%	2.99%

Bank Owned Life Insurance - BOLI

[Bank-Owned Life Insurance \(BOLI\)](#) is life insurance purchased by a bank on its key employees (typically limited to the top 35% most highly compensated employees). BOLI is a stable, low-risk source of financing that can generate gains to offset the rapidly rising cost of providing employee benefits, such as medical, group life, supplemental life, and qualified retirement plan expenses.

BOLI can also be used as a tool to informally fund nonqualified executive benefit plans. Typically, the bank pays the premiums and is the owner and beneficiary of the insurance policies. The death benefit proceeds can be used to defray the costs of overall health and employee benefits for the bank.

If you would like to [learn more](#) about BOLI or have a relationship with a bank that you believe could be a good prospect, please contact Michael Nolan, NolanM@nolanfinancial.com, or Kenton Quick, QuickK@nolanfinancial.com, or by phone at (888) 886-9128.

Sources and Assumptions

1. Q1-2023 FDIC call report data for U.S. banks.
2. BOLI yield based on sample 45-year-old male insured with guaranteed issue underwriting on a \$10M BOLI transaction. Pre-tax equivalent BOLI IRR assumes a 29% combined corporate tax rate (21% federal and 8% state). 10-year Treasury yield as of 06/07/2023. After-tax Treasury yield assumes a 21% federal corporate tax rate.