

BOLI Market Update Q2-2023: Investment in Bank Owned Life Insurance Market Cools

Q2-2023 BOLI Activity

Our analysis of Q2-2023 FDIC call report data shows the total premium and total estimated purchases for [BOLI](#) investment cooled during Q2. There were an estimated 46 BOLI purchases of \$1 million or greater in Q2-2023. These 46 purchases totaled approximately \$192.69 million of estimated premium written. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q2-2023 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	3	\$10.89 Million
Additional Purchase	43	\$181.80 Million
Total	46	\$192.69 Million

High purchase: \$20M | Average purchase: \$4.19M | Median purchase: \$2.95M

According to the FDIC Quarterly Banking Profile, the banking industry continues to be resilient. In the second quarter, key banking industry metrics were favorable. Net income remained high by historical measures, asset quality metrics were stable, and the industry remained well capitalized. But banks reported tightening net interest margins and funding pressures for a second consecutive quarter. For community banks, second quarter net income increased from the prior quarter as higher noninterest income and lower losses on the sale of securities more than offset lower net interest income and higher noninterest expense. Community bank net income also improved relative to a year ago. Given the continued downside risks of inflation, 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 second quarter with the 10-year Treasury reaching a high of 3.85% on 06/29/2023 and a low of 3.30% on 04/05/2023. More recently, the 10-year treasury has risen slightly into September and closed at 4.33% as of 09/15/2023. Looking forward, at their September meeting the Federal Reserve left its benchmark rate unchanged and showed some optimism for a potential “soft landing” that would avoid a deep recession.

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	4.77%	6.75%	4.32%	3.41%
5	4.74%	6.70%	4.32%	3.41%
10	4.74%	6.69%	4.32%	3.41%
15	4.72%	6.67%	4.32%	3.41%
20	4.68%	6.62%	4.32%	3.41%
25	4.64%	5.56%	4.32%	3.41%

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. Q2-2023 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 09/18/2023. After-tax Treasury yield assumes a 21% federal corporate tax rate.