Cash Value Life Insurance: A Cornerstone Asset of a Bank

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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.

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 taxdeferred 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 per FDIC figures June 30, 2008. Cash surrender value (CVS)-balance sheet equity of life insurance to the bank. Life insurance benefit to the banks is roughly five times the CVS.

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Bank Owned Life Insurance (BOLI) & Annuities Before & After Financial Crisis- A Ten Year Perspective

Institution & Headquarters	*March 31, 2006* BOLI $$/Billions	Tier One Capital $$/Billions	*June 30, 2016* BOLI $$/Billions	Tier One Capital* $$/Billions
JPMorgan Chase, NA Columbus, OH	$6.940	$62.00	$10.79	$174.0
Bank of America, NA Charlotte, NC	$13.48	$70.50	$21.27	$151.0
Wells Fargo, NA Sioux Falls, SD	$3.433	$25.76	$18.26	$130.7
Citibank, NA Sioux Falls, SD	$2.200	$46.40	$4.963	$128.8
PNC Bank, NA Wilmington, DE	$1.444	$5.820	$7.958	$29.5
Capital One, NA McLean, VA	$0.026	$1.985	$1.854	$21.43
TD Bank, NA Wilmington, DE	$0.767	$2.250	$1.628	$20.74
SunTrust Atlanta, GA	$0.543	$11.90	$1.01	$18.20
Bank of New York Mellon New York, NY**	na	na	$3.99	$18.0

*Tier One Capital is the most important asset of the bank. Life insurance and annuities are a major and cornerstone of these banks, though the national press has continually ignored this fact. Since the taxpayer and the Federal Reserve have flooded the economy with cheap money into the banks, banks have doubled and tripled their size since the financial crisis, primarily at taxpayer expense while simultaneously *creating another asset bubble.*

**In 2007, The Bank of New York and Mellon Bank agreed to a $16.5 billion merger which made it the world's largest custody bank and one of the largest wealth managers in the U.S. The synergies former Bank of New York CEO Robert Kelly promised in the bank merger never materialized. Bank of New York Mellon has 22.1% of its reserves invested in high-cash-value life insurance. Another giant asset manager, PNC has 26.97% of its reserves invested in high-cash-value life insurance.

Source: Federal Deposit Insurance Corp. (FDIC). Verified November 2016