



Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter
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BANK-OWNED LIFE INSURANCE

Interagency Statement on the Purchase and Risk Management of Life Insurance

Summary: The federal banking agencies are providing guidance on the safe and sound banking practices they expect institutions to employ for the purchase and ongoing risk management of bank-owned life insurance.

Distribution:

FDIC-Supervised Banks

Suggested Routing:

Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:

Section 24 of the Federal Deposit Insurance Act and Part 362 of the FDIC's Regulations

Attachments:

Interagency Statement on the Purchase and Risk Management of Life Insurance, including Executive Summary

Contact:

FDIC Regional Accountant or Christine M. Bouvier, Senior Policy Analyst, Division of Supervision and Consumer Protection (202-898-7289, cbouvier@fdic.gov)

Note:

For your reference, FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2004/index.html.

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Highlights:

- Institutions should have a comprehensive risk management process for purchasing and holding bank-owned life insurance (BOLI).
- The safe and sound use of BOLI depends on effective senior management and board oversight.
- Institutions should establish policies and procedures governing their BOLI holdings, including meaningful risk limits.
- A sound pre-purchase analysis helps ensure that institutions understand the risks, rewards and unique characteristics of BOLI.
- Institutions also should monitor BOLI risks on an ongoing basis subsequent to purchase.

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Interagency Statement on the Purchase and Risk Management of Life Insurance

The federal banking agencies are issuing the attached Interagency Statement on the Purchase and Risk Management of Life Insurance to institutions to help ensure that their risk management processes for bank-owned life insurance (BOLI) are consistent with safe and sound banking practices. The interagency statement also provides guidance for split-dollar arrangements and the use of life insurance as security for loans. Among the safe and sound banking practices discussed in this interagency statement is the need for senior management and board oversight of BOLI, including both a thorough pre-purchase analysis of risks and rewards and post-purchase risk assessment. The guidance discusses the permissibility of BOLI purchases and holdings, as well as their risks and associated safety and soundness considerations. An appendix to the interagency statement describes the types of life insurance and the purposes for which institutions commonly purchase life insurance and also contains a glossary of BOLI-related terms.

The guidance in the Interagency Statement for the pre-purchase analysis of life insurance applies to all BOLI contracts entered into after December 7, 2004. The guidance concerning the ongoing risk management of BOLI subsequent to its purchase applies to all holdings of life insurance regardless of when purchased.

To provide institutions with an overview of the Interagency Statement, an executive summary of the guidance is attached. For complete information on the FDIC's supervisory expectations for institutions that purchase and hold BOLI, please refer to the statement itself.

Questions about the Interagency Statement on the Purchase and Risk Management of Life Insurance may be addressed to your FDIC Regional Accountant or Senior Policy Analyst Christine M. Bouvier, Division of Supervision and Consumer Protection, at (202) 898-7289 or cbouvier@fdic.gov.

Michael J. Zamorski
Director
Division of Supervision and Consumer Protection