

## ***An Increasingly Important Financial Instrument for the Industry – Learn Why Banks Hold \$135 Billion of Life Insurance Cash Value on Their Balance Sheets***

Increased scrutiny by regulators, examiners and credit rating services, combined with historically low yields has created a challenging environment for the insurance industry. For some insurers, a season of catastrophic losses due primarily to weather events has added to profit woes by impacting Loss Ratios.

An ongoing objective of attracting and retaining top talent is also strained in this economic climate.

In this setting, insurance company owned life insurance (**iCOLI**), secured on the executive ranks of insurance companies can offer unique advantages:

- After-tax yield on **iCOLI** asset increases ROE
- Facilitate enhanced select executive benefit programs
- Generate highly tax efficient economic hedge for pre or post retirement employee and executive benefits

Institutionally priced life insurance asset holdings offer eight distinct advantages to insurance carrier owners:

1. **Diversification of portfolio holdings** - the overall portfolio risk/return profile can be improved
2. **Favorable risk-based capital treatment**-minimal NAIC RBC charge for alternative asset classes (0% for life carriers & 5% for P&C carriers) A.M. Best: COLI is “write-in” invested assets = SCAR of 0.8%
3. **Tax and accounting advantages:**
  - Tax deferred cash value accumulation and tax free insurance proceeds upon death of insured.
  - Not subject to mark-to-market accounting under FAS 115 if cash surrender value is invested in issuing carrier’s fixed general account.
  - Write in other asset SSAP #21
  - Reported as asset under FASS Technical Bulletin 85-4
  - **iCOLI** cash value is considered “write-in invested asset” for balance sheet purposes
4. **Accretion to earnings** - impact is immediate due to institutional pricing, no front-end loads & no cash value surrender charges.
5. **Assets to hedge benefit liabilities** - annual cash value growth & periodic death benefit payments serve as hedge to select and core employee benefit liabilities.
6. **Book value accounting** - a new generation of hybrid separate account protection products can replace or augment pure variable iCOLI.
7. **Positive factor for ERM** - risk management of premature death and succession planning
8. **Positive impact on Combined Ratio**