

# Texas Department of Banking

## Press Release

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### **Texas Banking Commissioner Announces Revision to Supervisory Memo Addressing Bank-Owned Life Insurance**

Date: February 24, 2004

Commissioner Randall S. James announces the revision of Supervisory Memorandum – 1010, which addresses bank-owned life insurance, or BOLI. This issuance revises Policy Memorandum 1010 issued on September 1, 1997.

This supervisory memorandum is designed to aid state-chartered banks in making informed decisions consistent with safe and sound banking practices. With prudent planning and analysis, along with adequate monitoring and controls, BOLI can afford certain protections and enhance an institution's overall value. However, BOLI transactions can be complicated and often represent activities substantially different than traditional bank products. A thorough understanding of the nature and characteristics of any BOLI product is needed before committing any bank resources, and bank management should ensure that transactions meet the guidelines set out in this memorandum.

This revised memorandum specifies the maximum investment limits, which are: 25% of capital and certified surplus to a single insurance issuer (already mandated by 7 TAC §12.3(a)(9)); and 25% of Tier 1 Capital to all insurance issuers. In addition, a grandfather provision allows banks until August 31, 2004, to either reduce investments to comply with the applicable limit, or seek approval from the Commissioner to exceed the limit(s).

Prior to this time, the OTS and OCC have issued extensive regulatory bulletins on this specific subject, and the material contained in this Supervisory Memorandum seeks to expand discussion of the various regulatory risk issues and the need for proper board and internal bank management supervision. For example, there are insurance, accounting, tax, and other regulatory risk areas (i.e., Regulation O, affiliate transactions, state insurance laws) for bank management to consider. There are also very practical considerations such as acceptable volumes, carrier credit risk, bank reputation, yield, and extended length of holding to be addressed. Brokers and consultants seek to respond to some of these areas, but bankers will need to carefully review these issues with their accountants, in-house compliance staff, and attorneys. This Supervisory Memorandum is intended to provide Best Practices at this time and give bankers advance notice as to what the Department's examiners will begin to inquire about.

Commissioner James said, "Bank-owned life insurance has become a common method of funding employee benefit programs for some banks. It is very important that a comprehensive analysis be conducted before making these purchases to insure the impact on all areas of the bank is considered and adequate monitoring after purchase is provided for. I believe this memorandum provides sound direction for bankers to follow."

You can view the entire memorandum on the [Department's website](#). Any questions or comments should be directed to Kurt Purdom, [Director of Strategic Support](#), or call (512) 475-1333.