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American Business Media LLC
345 North Main St., Suite 313
West Hartford, CT 06117

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Underscoring The Importance Of BOLI Third-Party Administrators


Fabrizio D'Uva

The percentage of banks holding bank-owned life insurance (BOLI) assets in 2019 was approximately 64 percent with a total cash surrender value of approaching $173 billion.

One of Pentegra's goals is to help our bank clients understand the significant benefits of having a separate BOLI administrator and BOLI service provider – something that is a critical component when considering vendor risk management and regulatory oversight in this space.

The Office of the Comptroller of the Currency (OCC) -- an independent bureau within the U.S. Treasury Department that charters, regulates and supervises all national banks and thrift institutions – strongly recommends that when it comes to BOLI purchases, banks use a third party to supply the verification and prudence necessary to ensure compliance with regulatory guidelines.

As the bureau put it in its OCC 2004-56 bulletin:

"An institution should be aware that the vendor's financial benefit from the sale of insurance may provide the vendor with an incentive to emphasize the benefits of a BOLI purchase to the institution without a commensurate explanation of the associated risks. Therefore, reliance solely upon pre-packaged, vendor-supplied compliance information does not demonstrate prudence with respect to the purchase of insurance. An institution should not delegate its selection of product design features to its vendors. An institution that is unable to demonstrate a thorough understanding of BOLI products it has purchased and the associated risks may be subject to supervisory action."

So, what can a third-party administrator (TPA) actually do for a bank's BOLI purchase?

With its fee-for-service-only structure, a TPA does not participate directly or indirectly in the sale of life insurance products, annuities, mutual funds, or other financial products; therefore, it is not dependent on BOLI sales and/or commissions, thus maintaining a truly independent position with no conflicts of interest.

Pentegra, which acts as a BOLI service provider, uses The Pangburn Group (Pangburn) as its TPA for its BOLI and nonqualified executive benefit plan business. Independently owned and operated, Pangburn services more than 25 percent of the nation's banks with BOLI.

While other firms operating in the BOLI space perform both administrative and service functions in what they call a "turnkey" approach -- indicating that by doing both "in-house," they are saving a client time and money and reducing the number of vendors that the bank must engage – this can be a slippery slope, especially in our current era of mergers and acquisitions (M&A) in the banking sector.

Already on a strong pace over the past few years, banking M&A activity is only expected to increase in the face of the recently passed Economic Growth, Regulatory Relief and Consumer Protection Act, which rolls back many of the regulations imposed by the Dodd–Frank Wall Street Reform and Consumer Protection Act in the wake of the 2007-08 financial crisis. "By raising the threshold for stricter supervision under Dodd-Frank from $50 billion in assets to $250 billion, the new law effectively removes a disincentive for mergers and acquisitions," noted Barron's.

How can M&A deals affect the BOLI space? With fewer banks, a BOLI administrator/service provider that is solely reliant on the sale of new BOLI to generate commissions and ongoing trail revenue may have difficulty sustaining a model to support the infrastructure of its company and its administrative platform.

That in turn makes them more susceptible to acquisition. Whenever a company has gone through several rebranding or renaming iterations or has been acquired, concerns about how it can consistently perform its administrative duties (among other issues) tend to follow.

In addition, typically a TPA's proprietary software is 100 percent owned by the administrator and remains independent from other commercial providers, allowing for a higher level of security control.

TPAs also meet with federal regulators on a regular basis to stay abreast of regulatory developments and to provide input where applicable, thus ensuring that its bank clients are as up-to-date as they can be – something that may not necessarily occur if BOLI functions are being managed in-house.

The unbundled alternative offers expert and custom-tailored plan design and personalized, local service to support client relationships and help drive better results over time. Our unbundled approach includes offering clients diversified business risk versus single provider models; deeper technical expertise, which results in higher quality service; complete fee transparency; rapid response to the market and regulatory needs; flexibility to develop services tailored to a particular client; and combined resources that result in increased market knowledge and capability.

We continue to encourage banks that have not explored BOLI to do so. We also advocate that banks that have BOLI but use a "turnkey" service consider a different option.■

Fabrizio D'Uva is Pentegra's regional director, BOLI and non-qualified benefit plans.