

Because ongoing risk assessment/management is such an essential component of a successful BOLI program, OCC Bulletin 2004-56 provides specific guidance relating to the ongoing management of a BOLI portfolio. The guidance emphasizes the need for BOLI risk assessment and management both before and after the sale and sets forth the requirement of an Annual BOLI Review (although it acknowledges that more frequent reviews may be necessitated by changes in a bank's program).

Because acquisitions, employee turnover and economic conditions can all impact the effectiveness of a bank's BOLI program, this review process will help banks identify situations where it may be necessary to make adjustments to their portfolio.

Although Clark Consulting recommends that banks familiarize themselves with the full requirements laid out in OCC Bulletin 2004-56, here's a quick snapshot of the annual review process:

1. Review the risks that were evaluated as part of the pre-sale due-diligence process (liquidity, transaction/operational, tax and insurable interest, reputation, credit, compliance/legal, and price) and document and explain any changes in status.
2. Identify which employees are insured (e.g., senior officers), including any insureds the bank acquires as part of a merger or acquisition.
3. Assess death benefit amounts relative to employee salaries in order to assess reputation and insurable interest risks.
4. Calculate percentage of insured persons still employed by the institution to assess reputation risk.
5. Evaluate any material changes to BOLI risk management policies.
6. Assess the costs and benefits of any policy exchanges.
7. Analyze mortality performance and its impact on income to ensure material gains don't lead to reputation risk.
8. Evaluate material findings from internal and external audits as well as independent risk management reviews.
9. Identify the reason for any policy surrenders and assess costs and benefits.
10. Analyze BOLI holdings of peers relative to capital to assess potential for reputation risk if bank's holdings are well above the norm.

The process is thorough, but not complicated. A qualified BOLI consultant should be able to provide much of the information needed to execute this new requirement. The BOLI annual review process is a great tool for helping to maintain the long-term effectiveness of a BOLI program.

To schedule a review, contact your consultant or client service representative at Clark Consulting. If you are not currently a client, call us at 1.800.999.3125 or e-mail requests@clarkconsulting.com and we'll connect you with a consultant in your area.