# An Outlook for the COLI-BOLI Market in 2018

When asked; "What are your 2018 expectations for Corporate-owned (COLI) and Bank-owned (BOLI) life insurance?" "Not significantly different than 2017," was my immediate reply. This is to say, there continues to be significant challenges facing the industry. In fact, the industry has seemed eerily similar in the past several years. Perhaps I needed to step back, reflect and reframe my response.

## A Decade of Doldrums

2018 will mark the tenth anniversary of the financial crisis precipitated by a meltdown in the subprime mortgage market, insolvency threats to investment banks and a loss in confidence in global credit markets. The decade-long, low-interest rate environment which followed has had a profound impact on the corporate-owned and bank-owned life insurance markets.

Since August 2011, the 10-year T-bill has only traded over 3 percent for **six days** (three at the end of December 2013 and three in the beginning of January 2014). Carriers have responded by lowering or eliminating product guarantees, changing cost-of-insurance rates, reducing capacity, or exiting the market altogether.


The nature of sales has also shifted from large transactions towards smaller deals. The pre-crisis COLI market was roughly $1.3 billion in annual sales with two-thirds of that volume from cases larger than $5 million (and about 25% in deals over $50 million). The last several years have seen the market operate at roughly 40% of pre-crisis levels, with half the transactions **<u>less</u>** than $5 million and fewer than 10 percent being large (over $50 million).

The BOLI market highlights the same trend in a smaller market with declining deal size. The BOLI market has held steady at $3B to $4B per year for the past five years. This is fraction of the pre-crisis market which witnessed growth from $5.5B to $13B from 2005 to 2007. Hampered by the absence of stable value wraps since the financial crisis onset, purchases by banks with assets over $100 billion (large-bank BOLI) have declined from two-thirds of the market to less than 15% of the totals.

So the market has found a “new normal.” It is much smaller and distribution is working much harder than just a decade ago.

## Headwinds

While I expect the 2018 market to continue the pattern we have seen in the 2013-2017 period, there are four factors which appear to be significant headwinds for those who navigate the COLI-BOLI world:

- **Continued low-interest rates:** While the Fed has begun to unwind its post-crisis balance sheet and has slowly increased interest rates, most analysts predict similar slow and steady change throughout 2018. Even then, 10-year Treasuries are predicted to remain below 3% throughout next year. This trend will continue to put pressure on banks’ financial performance (target market for BOLI) and crediting rates offered by life carriers.
- **Tax reform:** COLI and BOLI products are purchased with a long-term perspective. These tax-advantaged products are used to fund long-term benefits, matching the liability of those benefits with the assets necessary to pay the liability when due. The recently passed Tax Cuts and Jobs Act will not directly impact the taxation of COLI/BOLI or deferred compensation, but does include reduced personal and corporate tax rates in 2018 and beyond. Any change in tax law or uncertainty in regulatory policy increases pre-purchase analysis and elongates decision-making by a prospect.
- **Data security:** Cyber security threats continue to increase. Rarely a month goes by without a large data breach making headlines. 2017 witnessed its share of large announcements - Anthem, Equifax, Yahoo and Uber headlined to name a few. The pre-purchase and on-going scrutiny of service providers has increased and will continue to do so. Both the National Association of Insurance Commissioners (NAIC) and the New York State Department of Financial Services issued new standards and laws for data security. These standards added new layers of requirements on those involved in the sale and servicing of life products.
- **2017 CSO mortality:** The NAIC also adopted a new life insurance standard mortality table (2017 CSO) which is mandatory for insurance products sold after January 1, 2020. The new table improves mortality at most ages, which results in lower premiums for a given death benefit. The attractiveness of cash value accumulation products will be negatively affected by the tables. It is likely carriers will delay adoption of 2017 CSO as long as possible and most certainly beyond 2018. This may encourage prospects to accelerate purchases prior to the adoption of new rates – a possible short-term market boom but long-term challenge.

## Conclusion and recommendations

Our industry will continue to be negatively impacted by low interest rates combined with political, tax and regulatory environments that are in flux. So, what are carriers and producers expected to do to navigate the “New Norm”?

- **Accept the reality of the New Norm.**
  Cases will be smaller and require more education and effort.

- **Improve your position as a knowledge leader.**
  White papers, blogs, websites, educational videos, and market/industry presentations can be targeted to particular risks and industries. These types of communication mechanisms have quickly become expectations in the digital world.

- **Be proactive with your control environment and cyber security.**
  We have not seen the last of new standards and regulatory changes. We must anticipate security needs and more effectively manage communications around those needs.

- **Revisit the product strategy**
  Products such as indexed UL and VUL offer more favorable reserving requirements. Consider development and timely introduction of new products to the market which may overcome the shorter-term headwinds yet still provide secure, liquid and attractive long-term funding advantages.

- **Ensure technology maximizes both policy and plan performance**
  The COLI/BOLI sales cycle is extremely complex, and ongoing service requires timely access to accurate data. Opportunities to reduce redundant data entry, increase modelling capabilities or improve data availability are crucial to success. Carriers and producers should present prospects with a robust, attractive value proposition.

- **Invest in the next generation**
  The industry leaders are aging and, in many cases, are close to retirement. Those who built the industry in the 80's and 90's are exiting and many who recall the pre-crisis glory days are now 10 years older.

  This is a long-term imperative. With the continued expectation of smaller case sizes and additional sales effort, a reasonable strategy to provide continued market expertise and support is needed. Carrier and producer succession strategies may soon become an expectation of the prospect/client.

These new perspectives on the market can position the carrier/producer as a trusted advisor, assist the self-learner and encourage the purchaser to make an informed decision.

The low-interest rate environment demands strong enterprise risk management, a high-functioning compliant environment and enhanced asset-liability management. Process improvements (elimination of steps); focus on the overall reduction of per-unit policy costs, preservation strategies and diversification of relationships can all contribute to a stronger enterprise.

Your reactions, thoughts, outlook and recommendations welcome. Reach out via **LinkedIn**, **Twitter** or find Ron Scheese at ***andesaservices.com/about/management***