

BOLI carrier assessment through a credit-risk analysis.

What is risk premium?

Risk premium is defined as the additional return required to justify assuming additional risk.

The risk premium concept is used here to explain the importance of a life insurer's financial strength. The adjacent chart uses bonds to illustrate the concept. It shows that a prospective purchaser expects to earn a higher yield from a lower-rated investment, and a lower yield from a higher-rated investment.

Corporate bond ratings differ from financial strength ratings of insurers in two basic ways:

1. An insurer's financial strength rating assesses that insurer's overall capability to pay claims. In contrast, debt ratings not only imply judgments about the creditworthiness of the issuer, but they also evaluate specific issuances of debt.
2. Insurance contracts may benefit from state laws intended to protect policyholders, whereas bondholders do not generally enjoy the same protections. Additionally, life insurance policies are not traded in the same manner as corporate bonds, so their liquidity characteristics are different. However, just as a higher bond yield should call an investor's attention to the risk premium of the bond, a BOLI purchaser should weigh the implications of the issuer's financial strength ratings.

Rating rank	Rating	3-5-year U.S. corporate bond yield ¹ (as of December 31, 2018)	Yield difference vs. highest rated bond yield
1	AAA	2.91%	n/a
2	AA	3.26%	0.35%
3	A	3.61%	0.70%

In a prepurchase BOLI analysis, a bank should consider net yield along with a number of other criteria, including the financial strength of the insurance carrier. Given the long-term nature of BOLI, carrier selection is a critical purchase decision that can have enduring consequences.

Through carrier selection, banks assume credit risk, which is directly linked to the credit quality of the insurance carrier and its ability to meet its contractual obligations for the duration of the contract. Ultimately, credit risk has the potential to impact a bank's anticipated capital and earnings.

The financial strength ratings assigned by A.M. Best, Fitch, Moody's, and Standard & Poor's are some of the most widely used measures of quality when assessing life insurance companies. New York Life is one of only two BOLI carriers to have the highest financial ratings currently awarded to any life insurer by all four of the major credit rating agencies.²

¹ Source: The yields represent the Yield to Maturity of the BofA Merrill Lynch 3-5 Year AAA US Corporate Index for the AAA yield, the BofA Merrill Lynch 3-5 Year AA US Corporate Index for the AA yield, and the BofA Merrill Lynch 3-5 Year A US Corporate Index for the A yield.

² Source: Individual Third-Party Rating Reports as of 7/30/2018. Ratings do not pertain to the Investment Divisions of registered products, which are subject to market risk and will fluctuate in value, or the performance of the guaranteed separate accounts.

What is the Comdex?

The Comdex is an index showing the average percentile of a company's ratings. It is not a rating itself; it is instead a composite of all of the ratings that a company has received.

On a scale of 1 to 100, a company is given a standing in relation to other companies that have been rated by the services. A company needs to be rated by at least two rating services to receive a Comdex.

Rating services include: A.M. Best, Standard & Poor's, Moody's Investors Service, and Fitch.

BOLI Life Insurance Carrier	Comdex Score³
New York Life	100
Carrier A	96
Carrier B	75

Insurance industry experts have written that a company with a Comdex of 95 or higher is considered an "extremely safe" company, 90 represents a "safe" company, and a ranking of 85 indicates a "reasonably safe" company.⁴ Although the exhibited Comdex scores reflect actual scores assigned to different BOLI carriers, they do not represent all BOLI carriers. The Comdex scores shown are provided solely to demonstrate different degrees of insurance carrier financial strength.

Prepurchase BOLI analysis

In addition to examining the rating agency reports and Comdex scores, a bank should understand the risks associated with BOLI and perform its own due diligence, which should include a carrier credit-risk analysis prior to purchase. For further guidance on the purchase and risk management of BOLI, please refer to OCC Bulletin 2004-56: Interagency Statement on the Purchase and Risk Management of Life Insurance.

We encourage you to contact our Bank Client Group at (888) 695-4748 regarding your prepurchase carrier analysis. This experienced team of professionals is prepared to provide you with assistance.

New York Life and NYLIAC: integrity and financial strength

In its annual list of the 500 largest companies in the U.S., as measured by revenues in 2017, *Fortune* magazine ranked New York Life #69. New York Life continues to maintain its position as the nation's largest mutual life insurer.

Throughout its more than 170-year history, New York Life has built a reputation for integrity and financial strength. For over seven generations, New York Life has been there for our customers when they have needed us most. And we are committed to carrying on this proud tradition. New York Life Insurance Company and its subsidiary New York Life Insurance and Annuity Corporation (NYLIAC) have received the highest ratings currently awarded to any life insurer by all four rating agencies, on the basis of financial strength:

Rating agencies	Rating
Moody's	Aaa
Standard & Poor's	AA+
Fitch Ratings	AAA
A.M. Best	A++

Source: Individual Third-Party Rating Reports as of 7/30/2018.

³The COMDEX is not a rating, but a composite of all ratings. It ranks companies on a scale of 1 to 100, showing you, at-a-glance, where a company is ranked among all rated companies. The COMDEX Ranking is not equated to a grading system such as 90% equals an A or 80% equals a B. The COMDEX Ranking is a relative number based on the following factors:

- If a company's ratings from one of the ratings services AM Best, Standard and Poor's, Moody's, or Fitch changes
- If one or more companies are added or removed from the list of insurers rated by the above rating services
- If another company with similar ratings experiences a rating change, the percentiles or Comdex Ranking will adjust

For example, if 1,000 companies are rated, a company that is rated in the top 100 of these companies, and meet the criteria for COMDEX, will have a COMDEX Ranking of approximately 90 or above.

⁴ Source: Richard M. Weber, MBA, CLU, AEP®; and Christopher Hause, FSA, MAAA, "Life Insurance as an Asset Class: Managing a Valuable Asset."

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AR06692.082017 SMRU1611083 (Exp.12.31.2019)