



BOLI VENDOR ASSESSMENT AND QUALIFICATIONS

Bank-owned life insurance (BOLI) is an effective way to fund employee benefits, but its complexity and unique characteristics make it essential to conduct a thorough pre-purchase analysis.

HOW TO PURCHASE BOLI

For over 15 years, federal bank agencies have issued guidance* outlining supervisory expectations for the purchase and risk management of BOLI. Safe and sound business practices recommended for banks and savings associations emphasize the joint responsibility of senior management and the board of directors to:

- Conduct a thorough pre-purchase analysis of risk and rewards
- Perform very careful due diligence on the BOLI vendor
- Regularly schedule a post-purchase risk assessment

The complexity of BOLI, risks associated with its use, and legal and compliance requirements make it imperative for both senior management and the board to completely understand the product and to carefully select a seasoned and reliable vendor. The assessment that follows is a proactive way to review important considerations when assessing a vendor and to determine how M Benefit Solutions' services and expertise compare with other third parties.

*The Interagency Statement on the Purchase and Risk Management of Life Insurance (OCC 2004-56) dated December 7, 2004 and the Office of the Comptroller of the Currency (OCC) Bulletin 2013-29 dated October 30, 2013.

VENDOR DUE DILIGENCE AND BEST PRACTICES STANDARDS ASSESSMENT

CRITERIA	WHY? / BEST PRACTICES	M BENEFIT SOLUTIONS' STRENGTHS AND CAPABILITIES
ORGANIZATIONAL STRUCTURE AND EXPERTISE		
Business Experience and Reputation	In a complex technical industry with a steep learning curve, vendor reputation is important.	A stable, four-decade history and emphasis on customer service reflect a long-term commitment to clients.
Depth, Caliber, Continuity of Staff	A BOLI service provider's staff should possess both the depth and breadth of technical expertise required to perform all functions at the highest levels.	Specialists include experts in tax, accounting, law, insurance, actuarial science and finance, with an average tenure of over 13 years and an average of almost 20 years of related professional experience.
Trustworthiness of Employees	Vendor vetting of employees and contractors helps ensure the integrity of the third party's workforce.	Workers with access to critical systems or confidential information are thoroughly vetted including background checks and an acknowledgement that they will comply with ethical codes and standards.
Public vs. Private Ownership Structure and Duration of Consistent Ownership	Vendor characteristics that make a difference include private ownership by a consistent owner for over 10 years.	A privately held company with over two decades of consistent ownership. Not subject to the short-term financial expectations that a publicly-owned, or private equity-owned entity might face. Also removes uncertainty surrounding potential ownership changes and succession issues seen with private equity-owned and family-owned companies.
PRODUCTS AND SERVICES		
In-house Services Provided	Depth of services and capabilities create a premium vendor experience.	Five key service options stand out: benefit design, BOLI product expertise and carrier support, regulatory compliance, ongoing benefit and BOLI administration, and professional actuarial expertise.
Outsourced Services	Outsourced vendor services can affect the quality of a client's experience.	None.
RISK MANAGEMENT STRENGTHS		
Financial Stability	Substantial financial strength increases security and peace of mind.	The considerable financial strength of parent, M Financial Group, combined with significant life insurance assets under management and revenue and sales growth, instill confidence that there is a long-term commitment to clients and the marketplace.
Risk Management	Effective Risk Management Program, including policies, procedures, and internal controls.	Formal internal audit systems ensure accuracy, quality control, and enforcement of service agreements. Undergoes annual external SSAE 18 audits.
Management of Information Systems	Internally developed and managed information systems offer the highest security and privacy protections.	Proprietary administrative services software, internal information systems and an IT team that uses the latest technology and security programs ensure data integrity across data, systems and security.
Reliance on Subcontractors	It is important to know how extensively subcontractors are used.	Contractors are not used for key services and, in general, are used minimally. Clients benefit from the added security and the reduced regulatory risk assessment steps required when functions are not outsourced.

VENDOR DUE DILIGENCE AND BEST PRACTICES STANDARDS ASSESSMENT

CRITERIA	WHY? / BEST PRACTICES	M BENEFIT SOLUTIONS' STRENGTHS AND CAPABILITIES
PROCESS AND ADMINISTRATION		
Accounting/Reporting	Specific requirements and the possibility of penalties if they are not met make attention to details particularly important.	A client customized administrative website and actuarial certification of benefit accounting entries strengthen fulfillment of required procedures.
Administrative Systems	A quick recovery and return to normalcy are essential when disaster strikes.	Our systems and strategies include: business continuation and emergency action plans and other precautions such as hardware redundancy, remote data centers, data backups, on staff proprietary software engineers and ready client access to plan information.
Strategies and Goals	A connection between executive benefit plans and a bank's strategies and goals strengthen relationships with key stakeholders.	The aim is to design and administer successful executive and director benefit programs that align the strategic financial goals of the bank with the personal wealth goals of its executives.
Legal and Regulatory Compliance	A keen eye on laws and regulations is essential for organizations developing benefits and BOLI programs.	Considerable resources are devoted to following regulatory guidelines by establishing proper licensing and compliance processes and controls, the underpinnings of benefit programs that retain key talent.
Fee Structure and Incentives	Transparency is essential when organizations determine the right fee structure.	Fees are open, transparent and competitively priced, reflecting the complexity of plan design and the number of participants.
Independent Reporting and Management Programs	A nimble vendor with the right protocols can quickly address problems when they surface.	Proper procedures are in place to help identify, report, investigate and remedy incidents that surface so that senior management can find resolutions.

THE RIGHT PARTNER CREATES THE RIGHT EXPERIENCE

BOLI's importance as an offset for employee benefit programs has the ongoing attention of leading organizations, but its complexity has raised the concern of federal banking agencies, which have periodically issued risk management guidance to consider and implement when making BOLI purchases.

The spotlight on BOLI makes it important to choose the right vendor with products and services, expertise, industry experience and integrity. A third-party partner such as M Benefit Solutions puts these important attributes to work for clients, who need first-rate employee benefit programs to attract and retain the best talent in an extremely competitive market.



WHEN DOES A VENDOR STAND OUT?

Now that you understand the essential attributes a BOLI vendor should possess and M Benefit Solutions' approach, this vendor audit checklist will help you

select the best vendor to design, implement and administer your BOLI and executive benefit plans.

STRENGTHS AND CAPABILITIES	M BENEFIT SOLUTIONS	VENDOR 1	VENDOR 2
Expertise and Ethics			
Business Experience and Reputation	✓		
Depth, Caliber, Continuity of Staff	✓		
Trustworthiness of Employees	✓		
Human Resource Management	✓		
Ownership Structure and Stability	✓		
Products and Services			
In-house Services Provided	✓		
Outsourced Services			
Risk Management Strengths			
Financial Stability	✓		
Risk Management	✓		
Management of Information Systems	✓		
Reliance on Subcontractors			
Process and Administration			
Accounting/Reporting	✓		
Administrative Systems	✓		
Strategies and Goals	✓		
Legal and Regulatory Compliance	✓		
Fee Structure and Incentives	✓		
Independent Reporting and Management Programs	✓		
Physical Security	✓		
Conflicting Contractual Arrangements with Other Parties			

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