

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS 75222

Circular No. 72-205  
September 15, 1972

INTERPRETATION OF REGULATION Y  
(Insurance Agency Activities that  
are Closely Related to Banking)

To All Banks, Bank Holding Companies and Others  
Concerned in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System issued on September 6, 1972 an interpretation concerning the nature of insurance agency activities that are closely related to banking and in which bank holding companies may engage under the provisions of Regulation Y.

The interpretation is printed on the following pages.

Yours very truly,

P. E. Coldwell,

President

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## BANK HOLDING COMPANIES

### INTERPRETATION OF REGULATION Y

#### Section 225.128 Insurance agency activities.

(a) Effective September 1, 1971, the Board of Governors amended § 225.4(a) of Regulation Y to add specified insurance agency activities to the list of activities the Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In the course of administering this regulation, a number of questions have arisen concerning the scope and terms of the Board's regulation. The Board's views on some of these questions are set forth below.

(d) **§225.4(a)(9)(i): Insurance "for the holding company and its subsidiaries."** The Board regards the sale of group insurance for the protection of employees of the holding company as insurance for the holding company and its subsidiaries.

(c) **§225.4(a)(9)(u)(a): Insurance "directly related to an extension of credit by a bank or a bank-related firm."** (1) This provision is designed to permit the sale, by a bank holding company system, of insurance that supports the lending transactions of a bank or bank-related firm in the holding company system. The Board regards the sale of insurance as directly related to an extension of credit by a bank or bank-related firm where (i) the insurance assures repayment of an extension of credit by the holding company system in the event of death or disability of the borrower (for example, credit life and credit accident and health insurance); or (ii) the insurance protects collateral in which the bank or bank-related firm has a security interest as a result of its extension of credit; or (iii) the insurance is other insurance which is sold to individual borrowers in conjunction with or as part of an insurance package (as a matter of general practice) with insurance protecting the collateral in which a bank or bank-related firm has a security interest as a result of its extension of credit. Examples that fall within (iii) above are: (a) liability insurance sold in conjunction with insurance relating to physical damage of an automobile when the purchase of such automobile is financed by a bank or bank-related firm; and (b) a homeowner's insurance policy with respect to a residence mortgaged to a bank or bank-related firm.

(2) Other types of insurance may be directly related to an extension of credit. A bank holding company applying to engage in the sale of such other types should furnish information showing that such insurance is so directly related.

(3) A renewal of insurance, after the credit extension has been repaid, is regarded as closely related to banking only to the extent that such renewal is permissible under § 225.4(a)(9)(ii)(c) of Regulation Y.

(4) The Board generally regards insurance protecting collateral where the security interest of a bank or bank-related firm was obtained by purchase rather than by a direct extension of credit by the holding company system as not being directly related to an extension of credit by a bank or bank-related firm. However, if such security interests are purchased on a continuing basis from a firm or an individual and the interval between the creation of the security interest and its subsequent purchase is minimal, the Board may regard such purchase as an extension of credit. Full details of the transactions should be provided to support a holding company's contention that such insurance sales are directly related to an extension of credit.

(d) **§ 225.4(a)(9)(ii)(b): Insurance "directly related to the provision of other financial services by a bank or . . . bank-related firm."** This provision is designed to permit the sale by a bank holding company system of insurance in connection with bank-related services (rendered by a member of the holding company system) other than an extension of credit. Among the types of insurance the Board regards as directly related to such services are: (i) insurance against loss of securities held for safekeeping; (ii) insurance for valuables in a safe deposit box; (iii) life insurance equal to the difference between the maturity value of a deposit plan for periodic deposits over a specified term and the balance in the account at the time of the depositor's death; (iv) in connection with mortgage loan servicing that is provided by a bank or bank-related firm, insurance on the mortgaged property and/or insurance on the mortgagor to the extent of the outstanding balance of the credit extension, provided that the mortgagee

is a beneficiary under such types of insurance policies; and (v) insurance directly related to the provision of trust services if the sale of such insurance is permitted by the trust instruments and under State law.

**(e) §225.4(a)(9)(ii)(c): Insurance that “is otherwise sold as a matter of convenience to the purchaser, so long as the premium income from sales within . . . subdivision (ii)(c) does not constitute a significant portion of the aggregate insurance premium income of the holding company from insurance sold pursuant to . . . subdivision (ii).”**

(1) This provision is designed to permit the sale of insurance as a matter of convenience to the purchaser. It is not designed to permit entry into the general insurance agency business.

(2) The term “premium income” means gross commission income.

(3) The Board generally will regard premium income attributable to “convenience” sales as not constituting a “significant portion” if the income attributable to “convenience” sales is less than 5 per cent of the aggregate insurance premium income of the holding company system from insurance sold pursuant to § 225.4(a)(9)(ii).

9/6/72

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