

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-274
October 10, 1974

PROPOSED AMENDMENT TO REGULATION Y
(Requests for Hearing on the Sale of
"Convenience" Insurance by Bank Holding Companies)

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

Our Circular No. 74-224, dated August 16, 1974, included the text of a proposal by the Board of Governors of the Federal Reserve System to amend its Regulation Y, "Bank Holding Companies". The proposed amendment would clarify the definition of insurance sold as a matter of convenience to borrowers under Regulation Y.

In order to make it clear that interested persons may request an opportunity for a hearing on this proposal, the Board of Governors is revising the August 8, 1974 notice published in the Federal Register (39 F.R. 28536) to offer interested parties who so desire, an opportunity to submit requests for a hearing. Any such requests should be accompanied by a statement summarizing the evidence to be submitted at the hearing and also a statement of the reasons why this matter should not be resolved without a hearing. Such requests and statements should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than October 18, 1974.

For your convenience, the text of the proposed amendment to Regulation Y is attached.

Yours very truly,

P. E. Coldwell,

President

Attachment

FEDERAL RESERVE SYSTEM

[12 CFR Part 225]

[Reg. Y]

BANK HOLDING COMPANIES

Nonbanking activities

Pursuant to its authority under § 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)), the Board proposes to amend § 225.4(a) of its Regulation Y to clarify the boundaries for the conduct of insurance activities, with respect to "convenience" insurance, which the Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under the provisions of the present regulation (12 CFR 225.4(a)(9)) concerning permissible insurance activities, a bank holding company may act as insurance agent or broker in offices at which the holding company or its subsidiaries are otherwise engaged in business with respect to: any insurance for the holding company and its subsidiaries; any insurance that is directly related to an extension of credit or provision of other financial services by a bank or bank-related firm; any insurance sold in a community that has a population not exceeding 5,000; and any insurance that is otherwise sold as a matter of convenience to the purchaser so long as the premium income from such convenience insurance does not constitute a significant portion of the aggregate insurance premium income of the holding company from insurance sold pursuant to subdivision (ii) of § 225.4(a)(9). The Board has interpreted premium income attributable to "convenience" sales as not constituting a "significant portion" if such amount 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).

The proposed amendment would set forth a new standard on the amount of "convenience" insurance that could be sold by each insurance-selling subsidiary office of a bank holding company as well as retain the existing standard on the aggregate amount of such insurance that could be sold by the holding company system. Thus, in addition to limiting a bank holding company to deriving less than 5 per cent of its aggregate insurance premium income from convenience insurance pursuant to § 225.4(a)(9)(ii) of Regulation Y, the amendment would limit the amount of convenience insurance sold by each insurance-selling subsidiary office to less than 5 per cent of that office's total insurance premium income.

(over)

The proposed amended subdivision (ii)(c) of § 225.4(a)(9) of Regulation Y would read as follows:

§ 225.4--Nonbanking activities

(a) Activities closely related to banking or managing or controlling banks. * * *

(9) acting as insurance agent or broker . . . with respect to the following types of insurance:

(ii) Any insurance that . . .

(c) is otherwise sold as a matter of convenience to the purchaser, provided that the premium income derived by each insurance-selling office of a bank holding company from sales permitted by this subdivision (ii)(c) shall constitute less than 5 per cent of the insurance premium income of such an office sold pursuant to this subdivision (ii); . . .

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, comments, or argument. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551, to be received not later than September 6, 1974.

By order of the Board of Governors, July 29, 1974.

(Signed) Chester B. Feldberg

Chester B. Feldberg
Secretary of the Board

[SEAL]