

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7054]
[December 14, 1972]

CREDIT INSURANCE UNDERWRITING BY BANK HOLDING COMPANIES

Amendments to Regulation Y

*To All Bank Holding Companies, and Others Concerned,
in the Second Federal Reserve District:*

The following statement was made public December 11 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System decided, effective today, that underwriting credit life insurance and credit accident and health insurance which is directly related to extensions of credit by a bank holding company system is a permissible activity for a bank holding company.

The Board's decision followed consideration of the record of a March 24, 1972 hearing on the subject of credit insurance underwriting and comments received with respect to the hearing, together with the Board's prior experience in the field of bank holding company insurance activities.

The new ruling amended the Board's Regulation Y to add this activity to the list of businesses closely related to banking or managing or controlling banks in which a bank holding company may engage, subject to approval of individual applications.

In announcing its decision, the Board set up the following tests it will apply in considering applications under its new ruling:

"To assure that engaging in the underwriting of credit life and credit accident and health insurance can reasonably be expected to be in the public interest, the Board will only approve applications in which an applicant demonstrates that approval will benefit the consumer or result in other public benefits. Normally such a showing would be made by a projected reduction in rates or increase in policy benefits due to bank holding company performance of this service."

The Board also said:

"The operation of such a program assures a bank or bank-related firm of repayment of a credit extension in the event of death or disability while at the same time providing the borrower with financial security in the event of a death or disability. Further, the legislative history of the Bank Holding Company Act indicates that Congress felt that the operation of a credit life and credit accident and health insurance program is closely related to banking."

Enclosed is a copy of the amendments, effective December 11, 1972, to the Board of Governors' Regulation Y, "Bank Holding Companies," referred to in the above statement. Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

AMENDMENTS TO REGULATION Y

Effective December 11, 1972:

1. Section 225.4(a) is amended by changing the period at the end thereof to a semicolon and by adding a new subparagraph (10) thereto, to read as follows:

SECTION 225.4—NONBANKING ACTIVITIES

(a) Activities closely related to banking or managing or controlling banks. * * * The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

* * *

(10) acting as underwriter for credit life insurance and credit accident and health insurance which is directly related to extensions of credit by the bank holding company system.³

³ To assure that engaging in the underwriting of credit life and credit accident and health insurance can reasonably be expected to be in the public interest, the Board will only approve applications in which an applicant demonstrates that approval will benefit the consumer or result in other public benefits. Normally such a showing would be made by a projected reduction in rates or increase in policy benefits due to bank holding company performance of this service.

2. Footnotes 3 and 4 to section 225.4 are redesignated footnotes 4 and 5, respectively.