

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7436]
August 7, 1974

PROPOSED AMENDMENT TO REGULATION Y

The Selling of "Convenience" Insurance by Bank Holding Companies

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

Following is the text of a statement issued August 1 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today invited public comment on a regulatory proposal to clarify the definition of insurance sold as a matter of convenience to borrowers under its bank holding company regulation (Regulation Y). Comment will be received by the Board through September 6, 1974.

Under the existing regulation, a bank holding company and its subsidiaries may sell "convenience" insurance only to the extent that the entire holding company system derives less than 5 per cent of its over-all insurance premium income from such sales. The proposed amendment would extend this general limitation on premium income to each individual insurance-selling office of the holding company system.

Printed below is the text of the proposed amendment to Regulation Y. Comments thereon should be submitted by September 6, and may be sent to our Bank Applications Department.

ALFRED HAYES,
President.

(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

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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.

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

* * *

(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.