

FEDERAL RESERVE BANK
OF NEW YORK

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February 11, 1976

BANK HOLDING COMPANIES

Decision Not To Include the Operation of a Travel Agency
Among Activities Permissible for Bank Holding Companies

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

On January 26, 1976, the Board of Governors of the Federal Reserve System announced its decision not to add the operation of a travel agency to the list of permissible activities for bank holding companies. Printed below is the text of the Board of Governors' Order in this matter.

Additional copies of this circular will be furnished upon request.

PAUL A. VOLCKER,
President.

(Reg. Y)

BANK HOLDING COMPANIES

Nonbanking Activities of Bank Holding Companies

By notice of proposed rulemaking published in the Federal Register on September 19, 1974 (39 F.R. 33741), and revised with respect to the date and scope of the oral presentation on October 31, 1974 (39 F.R. 38423), the Board of Governors proposed, in connection with an application¹ filed pursuant to § 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)) and § 225.4(b)(2) of the Board's Regulation Y (12 C.F.R. 225.4(b)(2)), to add to the list of activities that it has determined to be closely related to banking or managing or controlling banks (§ 225.4(a) of Regulation Y), the operation of a travel agency. An oral presentation considering possible rulemaking with respect to the proposal was held on January 14, 1975.

The Board has considered all comments received prior to the oral presentation, the record of the oral presentation, and all comments submitted in connection with, and subsequent to, the oral presentation. After considering all relevant aspects of the proposal to add the operation of a travel agency to the list of closely related activities, the Board has determined not to adopt this activity as permissible for bank holding companies under § 225.4(a) of Regulation Y.

Operation of a travel agency requires the offering of a broad range of services, including but not limited to the sale of travelers checks,² procuring carrier passage and other travel accommodations by acting as agent for

¹ Application by First Bancorp, Inc., Corsicana, Texas, to reinstate First Travel Agency, Corsicana, Texas.

² The sale of travelers checks has been found by the Board to be a closely related activity (see Board Order of June 14, 1973, approving application of BankAmerica Corporation, San Francisco, California, to engage *de novo* in issuance and sale of travelers checks).

passengers and carriers, and acting as collection agent for airline, railroad, steamship or other companies. In addition, travel agents must have specialized knowledge concerning such diverse matters as passports, visas, inoculations and taxing regulations, as well as familiarity with local and regional social customs.³ In effect, a travel agency is "a personalized department store of travel."⁴

Before the Board may authorize a bank holding company to engage in a new activity pursuant to § 4(c)(8) of the Bank Holding Company Act, there are two major issues that must be resolved. These are whether the activity is closely related to banking or managing or controlling banks, and, if so, whether it is a proper incident thereto. It is in the second of these tests that the weighing of the public benefits is of significance.

In a recent decision by the United States Court of Appeals for the District of Columbia, *National Courier Association v. Board*,⁵ that Court commented on the kinds of connections that may qualify an activity as "closely related to banking." The Court stated there were at least three kinds of connections which could qualify an activity as closely related: first, that banks generally have in fact provided the proposed service; second, that banks generally provide services that are operationally or functionally so similar to the proposed

³ There are certain unique licensing requirements that a travel agency must meet in order to be eligible to sell transportation tickets for member carriers of airline associations. Principal among these associations are the Air Traffic Conference (ATC) (which appoints, or licenses, travel agents to sell domestic air travel) and the International Air Transport Association (IATA).

⁴ *Arnold Tours, Inc. v. Camp*, 338 F. Supp. 721, 723 (1972).

⁵ 516 F. 2d 1229, 1237 (1975).

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services as to equip them particularly well to provide the proposed services; and third, that banks generally provide services that are so integrally related to the proposed services as to require their provision in a specialized form.

On the basis of the record in this present proceeding before the Board, it appears that the only standard under the criteria previously applied by the Board, and as set forth by the Court of Appeals in the *Courier* decision, that might be regarded as being applicable is that relating to whether banks generally have provided the proposed service. However, the character of the services offered by travel agencies, as it has evolved to the present day, has departed from that offered over a century ago to accommodate people immigrating to the United States.⁶ At the present time, the number of banks currently providing travel agency services number only about 150 or less than one percent of all commercial banks in the United States, and they account for less than two percent of all travel agencies in the nation. Furthermore, nearly two-thirds of the travel agencies affiliated with banking organizations have been established within the past fifteen years.⁷

It is the Board's view, in light of the above and other

⁶ *Arnold Tours, Inc. v. Camp*, 472 F. 2d 427, 434 (1972).

⁷ Based on data submitted by the Association of Bank Travel Bureaus.

facts of record, that there exists an insufficient historical relationship between the proposed activity and the general nature of banking activities to meet the closely related test of §4(c)(8). Neither does the Board conclude that the proposed activity is functionally or integrally related to other banking activities which have been previously found to be permissible within the tests set forth in the *Courier* decision. Accordingly, the Board finds that the operation of a travel agency is not closely related to banking or managing or controlling banks. Since the Board has found that the operation of a travel agency is not closely related, the Board does not reach the further question of the potential public benefits resulting from performance of the proposed activity.⁸ Thus, the Board has determined not to add the operation of a travel agency to the list of permissible activities in Regulation Y.

By order of the Board of Governors,⁹ effective January 26, 1976.

⁸ Proponents of and opponents to adding this activity to the permissible list have presented arguments regarding the nature of the public benefits involved in approving this activity; however, as discussed above, the Board's finding that the proposed activity is not closely related to banking precludes any weighing of public benefits.

⁹ Voting for this action: Governors Holland, Wallich, Coldwell, Jackson and Partee. Voting against this action: Vice Chairman Mitchell. Absent and not voting: Chairman Burns.