

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7891]
June 4, 1976

INTERPRETATION OF REGULATION Y

Underwriting of Credit-Related Insurance by Bank Holding Companies

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

The Board of Governors of the Federal Reserve System has issued an interpretation of its Regulation Y, "Bank Holding Companies," regarding the underwriting of credit life and credit accident and health insurance by subsidiaries of bank holding companies. This interpretation has been issued to make it clear that the public benefits upon which approval of a credit-related insurance underwriting application is based (such as a projected reduction in premium rates) must be maintained on a continuing basis, even after the application has been approved by the Board.

Enclosed is a copy of the interpretation. Any inquiries thereon may be directed to our Domestic Banking Applications Department. Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System
BANK HOLDING COMPANIES
INTERPRETATION OF REGULATION Y

§225.135—Acting as underwriter (reinsurer) for credit life and credit accident and health (disability) insurance—assuring continuing public benefits.

(a) Under the provisions of section 4(c)(8) of the Bank Holding Company Act of 1956, as amended ["Act"] (12 U.S.C. §1843), a bank holding company may acquire shares of any company the activities of which the Board after due notice and opportunity for hearing has determined (by order or regulation) to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making its determination, the Board is required to consider whether the performance of a particular activity by an affiliate of a holding company can reasonably be expected to produce benefits to the public that outweigh possible adverse effects.

(b) On December 11, 1972, pursuant to this authority, the Board amended its Regulation Y, by adding section 225.4(a)(10), to authorize as a permissible activity for bank holding companies the underwriting of credit life insurance and credit accident and health insurance that is directly related to extensions of credit by the bank holding company system. In authorizing this activity, the Board, in a footnote to section 225.4(a)(10) of Regulation Y (footnote 7), stated:

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 to bank holding company performance of this service.

(c) In the course of considering a recent application, the Board became aware of pending legislation in the applicant's State that, if adopted, would provide new, lower premium rate standards applicable to the sale of such credit-related insurance. Because the applicant had already proposed, as one of the public benefits of its application, that it would offer premium rates below the then-existing State rates generally being charged by others, enactment of the legislation would have had the effect of nullifying the proposed public benefits unless

the applicant were to commit to lower its rates, concurrently, so as to assure the continuation of meaningful public benefits. Accordingly, the Board's Order granting the application made clear that the applicant's obligation to offer lower rates was a continuing one.

(d) While the Board does assure that such a public benefit exists at the time of approval of a credit insurance underwriting application, the Board is also concerned that this public benefit be maintained on a *continuing* basis, not only by new applicants, but by those applicants who have heretofore received approval of such applications. In the event that a State's insurance regulations were amended to provide for new premium rate standards that would establish new, and possibly lower, *prima facie* rates, it is possible that the public benefit involved in a previously approved application could be nullified unless the bank holding company, in light of such new premium rate standards, continued to offer this insurance to their customers at reduced rates. The Board believes that without such a continuing public benefit, a bank holding company's continuing to engage in the activity of underwriting credit insurance would be contrary to the requirements of the Act. In order to avoid such a situation, the Board has interpreted section 4(c)(8) of the Act and section 225.4(a)(10) of Regulation Y and its accompanying footnote as imposing a continuing obligation upon all bank holding companies authorized to underwrite such credit insurance pursuant to section 4(c)(8) of the Act and the Board's Regulation Y, to maintain a public benefit such as was anticipated and considered by the Board at the time of the original approval of each application, and was envisioned by the Board when this activity was adopted as a permissible nonbanking activity under section 4(c)(8) of the Act.¹

¹ It should be noted that every Board Order granting approval under section 4(c)(8) of the Act contains the following paragraph:

This determination is subject . . . to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

The Board believes that, even apart from this Interpretation, this language preserves the authority of the Board to require the revisions contemplated in this Interpretation.