

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 8317 ]  
April 7, 1978

PROPOSED AMENDMENT TO REGULATION Y

Proposal To Permit Bank Holding Companies  
To Act as an Insurance Agent or Broker for Certain Types of Insurance

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

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

The Board of Governors of the Federal Reserve System today [March 30, 1978] proposed a revision of the portion of its Regulation Y (Bank Holding Companies) concerned with sale of insurance, to conform to court decisions.

The Board requested comment by May 1, 1978.

The revised section of Regulation Y (§225.4(a)(9)) would permit bank holding companies to act as an insurance agent or broker for the following types of insurance in or adjacent to offices where the bank holding company transacts other business:

—Any insurance for the holding company's banking subsidiary.

—Any insurance that

- (a) is directly related to an extension of credit by a bank or by a bank-related firm that is permissible under the regulation, or
- (b) is directly related to the provision of other financial services by a bank or permissible bank-related firm.

This, in accordance with recent court decisions, would eliminate from the types of insurance bank holding companies can sell (1) insurance for themselves and for nonbank subsidiaries (limiting them to the sale of insurance for their subsidiary banks), and (2) "convenience" insurance (insurance of any type provided for the customer's convenience).

The court also directed the Board to reconsider the provision of Regulation Y authorizing bank holding companies or their subsidiaries to sell any insurance in a community with no more than 5,000 population.

The Board will reconsider this matter in the near future.

Printed below is the text of the Board's proposal. Comments should be submitted by May 1, 1978, and may be sent to our Domestic Banking Applications Department.

PAUL A. VOLCKER,  
President.

[Regulation Y; Docket No. R-0050]

BANK HOLDING COMPANIES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed Rule.

SUMMARY: As a result of a series of decisions by the U.S. Court of Appeals for the Fifth Circuit, *Alabama Association of Insurance Agents, Inc. v. Board of Governors of the Federal Reserve System*, 533 F.2d 224 (5th Cir. 1976); rehearing denied, 558 F.2d 729 (5th Cir. 1977); cert. denied 46 USLW 3539 (No. 77-668,

February 27, 1978) the Board's regulation relating to permissible insurance agency activities that bank holding companies may engage in (12 C.F.R. §225.4(a)(9)) adopted in 1971, pursuant to §4(c)(8) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. §1843(c)(8)) (the "Act"), has been upheld in part, invalidated in part, and remanded in part. To conform its outstanding regulation with the decision of the U.S. Court of Appeals for the Fifth Circuit, the Board proposes to delete from its regulation those portions that

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were invalidated by the Court. The Board will consider in the near future instituting separate rulemaking proceedings with respect to those portions of the regulation that were remanded to the Board for further consideration.

*DATE:* Comments must be received on or before May 1, 1978.

*ADDRESS:* Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. All material submitted should include the docket number R-0050.

*FOR FURTHER INFORMATION CONTACT:* Robert E. Mannion, Associate General Counsel, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 ((202) 452-3274), or Richard Whiting, Attorney, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 ((202) 452-3786).

*SUPPLEMENTARY INFORMATION:* The Fifth Circuit Court of Appeals declared invalid the portion of 12 C.F.R. §225.4(a)(9)(i) that authorized bank holding companies to act as agents for the sale of insurance for themselves and for their nonbank subsidiaries. Accordingly, the Board proposes to rephrase that portion of the regulation to permit bank holding companies to act as agents only for the sale of insurance for their subsidiary banks.

The Court also found that 12 C.F.R. §225.4(a)(9)(ii)(c) as drafted by the Board was too broad in its scope because it imposed no conditions upon bank holding companies or their affiliates that the insurance they sold relate in any way to banking. While recognizing that the sale of certain types of "convenience" insurance might be closely related to banking, the Court nevertheless found the Board's regulation invalid. Accordingly, the Board proposes to delete 12 C.F.R. §225.4(a)(9)(ii)(c) from its regulation.

The Court also remanded 12 C.F.R. §225.4(a)(9)(iii)(a) to the Board for further findings and reconsideration. The Board will consider whether to repropose this activity in a separate rulemaking proceeding in the future.

To accomplish the above changes, it is proposed that §225.4(a)(9)(i) and (ii) of the regulation be amended to read as follows:

(9) acting as insurance agent or broker in offices at which the holding company or its subsidiaries are otherwise engaged in business (or in an office adjacent thereto) with respect to the following types of insurance:

(i) Any insurance for the holding company's banking subsidiaries;

(ii) Any insurance that (a) is directly related to an extension of credit by a bank or bank-related firm of the kind described in this regulation, or (b) is directly related to the provision of other financial services by a bank or such a bank-related firm.

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To aid in the consideration of these matters by the Board, interested persons are invited to submit relevant data, comments, views, or arguments. Any requests for a hearing on this matter should be accompanied by a statement summarizing the evidence the person requesting the hearing proposes to submit or to elicit at the hearing and a statement of the reasons why this matter should not be resolved without a hearing.

Any views or requests for a hearing 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 May 1, 1978. All material submitted should include the docket number R-0050. All views expressed in written comments on the proposal and received by that date will be considered by the Board. Such material will be made available for inspection and copying upon request, except as provided in the Board's Rules Regarding Availability of Information (12 C.F.R. Part 261).

By order of the Board of Governors, March 30, 1978.