

Insurance Authority and Activities

Many banks (and thrifts) already are in the insurance business. Before summarizing permissible insurance activities at the state level, let me just touch on the federal rules governing insurance activities. National banks are authorized by Federal law to engage in the business of insurance where it is incidental to the business of banking. They also may engage in insurance activities in towns of fewer than 5,000 people. Bank holding companies generally are prohibited by federal law from being in the insurance business. There are limited exceptions to this rule for such things as credit-related insurance and insurance activities in small towns. Federally chartered savings and loan associations and federally chartered savings banks, however, are empowered to sell insurance through entities known as service corporation subsidiaries.

The state laws that authorize insurance activities for state-chartered institutions vary. In five states, state-chartered commercial banks are specifically permitted to engage in general insurance underwriting. This underwriting authority extends well beyond merely the underwriting of credit-related insurance. In three of these states -- Massachusetts, New Jersey and North Carolina -- banks are allowed to underwrite insurance due to the general equity investment authority contained in state law. State-chartered banks in Florida may underwrite insurance as a result of an interpretation of the state's statute. Finally, South Dakota permits its state-chartered banks to "engage in all facets of the insurance business."

Insurance brokerage activities are permitted for commercial banks in 15 states. Nine other states permit commercial banks to sell insurance in communities of fewer than 5,000 people.

Moreover, several states located in the Northeast permit state-chartered savings banks to offer insurance products. Savings banks in Connecticut, Massachusetts and New York have been underwriting or selling life insurance for years. With respect to other types of insurance, savings banks in a number of states are permitted to engage in general insurance agency activities through state "leeway" laws, which permit savings banks to invest a percentage of assets (usually one to three percent) in any investment that is "prudent" and not otherwise prohibited.

What has been the track record of state-chartered institutions offering insurance products? By any objective standard, the track record has been good. Let me cite two examples, beginning with the insurance experience of savings banks.

By way of background, the first savings banks in the United States were established by states in the Northeast region early in the 19th century. The primary purpose behind the creation of savings banks was to encourage thrift on the part of the working class and to provide savings facilities where none had existed. Most of the approximately 485 FDIC-insured savings banks still are located in the Northeast, with about one-half of them in Massachusetts.

Savings banks in Connecticut and New York have been offering insurance products for many years, and those in Massachusetts have been in the insurance business since 1907. The insurance programs were established with the objective of

offering inexpensive life insurance protection to individuals. New insurance products were added in subsequent years which "complemented" other services offered by the savings banks. Preliminary data for 1987 indicate that savings banks in these three states provide about \$22 billion of insurance coverage to approximately 2 million policyholders.

A description of the operation of savings bank insurance programs in Massachusetts is enlightening. The Massachusetts enabling legislation permits operating savings banks to establish an "insurance department" within the bank to issue policies or to act as agent for other savings banks that assume such liabilities. The Savings Bank Life Insurance Council serves as a (nonmanagement) central body that sets rates, offers actuarial consultation and provides other support functions.

The life insurance department is maintained separate and distinct from the operating bank and, while there is commonality of name and quarters, there is no commingling of assets or funds. The savings bank is "reimbursed" from premium income for appropriate expenses such as rent, investment advice and employee salaries. The department maintains its own records and has its own accumulated "surplus" account plus reserves which are used to pay claims. All "profits," after reasonable expenses are met and there has been an addition to the department's surplus account for the period, are returned to policyholders in the form of dividends. The department is supervised and regulated by the Massachusetts Commissioner of Insurance and investment powers of the department are consistent with those available to other life insurance companies operating in Massachusetts.

No significant problems associated with savings bank life insurance (SBLI) have arisen in the states that authorize it. Equally important is the fact that consumers have benefited. An article in the June, 1987 issue of Consumer Reports stated that SBLI policies offered in New York, Massachusetts and Connecticut have consistently ranked high in life-insurance surveys conducted by Consumers Union. The article noted that such policies are low in cost since they are sold through banks, eliminating the expensive insurance-agency system that is used to sell other policies.

The insurance experience of commercial banks also is favorable. The track record of banks in Wisconsin provides a case in point. State-chartered commercial banks in Wisconsin have had insurance agency authority since the 1940s. Under Wisconsin law, state-chartered banks can sell any kind of insurance for which they are licensed. These insurance activities are licensed and regulated by the State Commissioner of Insurance. Approximately one-fourth of the 400 state-chartered banks in Wisconsin are involved in selling insurance.

The competitive environment in Wisconsin involving banks and insurance companies is particularly lively. Whereas a growing number of commercial banks offer insurance products, many insurance firms offer such commercial bank products as consumer loans, IRAs and home mortgages.

In summary, the two examples provided here -- life insurance offered by savings banks and the insurance activities of banks in Wisconsin -- illustrate the benefits that can accrue to institutions and consumers alike when banks are permitted to engage in the insurance business.