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Regulation on Bank Sales of Credit Life Insurance Revised

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) will publish in tomorrow's Federal Register revisions to part 2 of its regulations governing national bank sales of credit life insurance.

"If national banks are going to sell insurance, we want them to do it right," said Comptroller of the Currency Eugene A. Ludwig. "That means credit life insurance sales should be based upon customer needs."

Revisions to the credit life insurance rule for the first time provide that recommendations to bank customers to buy credit life insurance should be based on the benefits to the customer, not on the revenue from commissions.

The rule ensures that the income from credit life insurance sales made through banks goes to the national bank and not to bank officials who sell credit life insurance. The revised regulation, like the previous rule, limits the amounts of commissions and bonuses that bank employees may receive from the sale of credit life insurance. The limit for one year is the greater of 5 percent of the employee's annual salary or 5 percent of the average salary of all loan officers who sell credit life insurance. The rest of the revenue from commissions is paid to the bank.

The final rule increases flexibility for national banks in how they pay bonuses and commissions to bank employees. Rather than be subject to the previous requirement that these payments be made quarterly, the final rule permits these payments to be made at any time. This change will eliminate the need for banks to have a separate payment system for these payments.

The final rule also clarifies the situations when dual employees -- persons employed both by the bank and by a third party -- will be subject to the rule. Generally, bank employees, officers, directors or principal shareholders who are also employees of a separate company are covered by the rule if they sell credit life insurance to bank customers, unless two conditions are met: (1) the separate company has an arm's-length arrangement with the bank to sell credit life insurance; and (2) the individuals are not involved in bank credit decisions. This latter condition will ensure that credit life insurance sales are made independent of loan decisions.

Under the final rule, bank shareholders with an ownership interest of 10 percent or more are subject to the restrictions of the rule. The previous threshold for coverage was an ownership interest of 5 percent. The change to 10 percent makes the standard for determining a principal shareholder consistent with the standard used in other regulations. For example, the regulation that governs limits and safeguards on bank loans to bank insiders applies to shareholders with an ownership interest of 10 percent or more.

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The OCC charters, regulates and examines approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.