

News Release 95-93  
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### OCC Strengthens Credit Life Insurance Rule

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) published in today's Federal Register a proposed rule on how national banks may distribute income from credit life insurance sales. The proposed rule on part 2 of the OCC regulations (12 CFR 2) would improve the format of the existing regulation, eliminate unnecessary provisions and refocus the regulation on the most important areas of safety and soundness. The rule is the result of the OCC's regulation review program to reduce unnecessary costs and burdens on national banks.

"I have said we are doing a top-to-bottom, A-to-Z review of our regulations," said Comptroller Eugene Ludwig. "Today's regulation marks the 21st out of 29 regulations that we have acted on so far. From A to Z, I would put us at S," Ludwig said.

The proposed rule would for the first time state that it is an unsafe and unsound banking practice for bank officials and insiders who sell credit life insurance to take advantage of that activity for personal profit. This change is meant to reinforce the core principle of the regulation that income derived from the sale of credit life insurance should be credited to the bank, not bank officials and insiders.

The proposed rule also makes clear for the first time that the safety and soundness standards apply to bank officers and employees, in addition to directors. The existing regulation mentions only directors as having a fiduciary responsibility in the sale of credit life insurance to promote and advance the interests of the bank over their personal interests.

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The proposed regulation would also add a new provision to protect bank customers who buy credit life insurance. The proposed regulation adds new language that a bank is not to structure incentive or bonus programs in a way that creates incentives for bank officials to make inappropriate recommendations or sales to bank customers.

As the OCC proposes to strengthen safety and soundness principles and customer protection in the sale of credit life insurance, it may not be necessary to retain the existing rigid limits on bonuses and incentive programs that apply to the sale of credit life insurance. The current regulation limits bonuses and incentives to 5 percent of the bank employee's annual salary or to 5 percent of the average salary of all bank officers who sell credit life insurance. Bonuses and incentives may not be paid more often than quarterly. The OCC requests comments on whether these limits should be changed and what other alternatives may be appropriate. It is possible that a higher cap on this compensation could lead banks to

develop more employees that specialize in credit life insurance who would have more expertise to serve bank customers.

The proposed rule continues the current prohibitions that prevent a bank shareholder with an ownership interest of 5 percent or more from receiving commissions, except when they are permissible under the limits that apply to bonuses and incentives. The OCC asks for comment on whether the 5 percent ownership level is appropriate or whether an alternative percentage level should apply. In particular, the OCC asks whether the percentage level should be the same as those used in other regulations. For example, the OCC points out that a 10 percent ownership level is applied in the regulation that governs limits on bank loans to insiders.

The OCC also asks for comment on whether the restrictions on retaining income from credit life insurance sales should apply to sales of credit life insurance to customers of an affiliate bank.

In addition, the OCC solicits comment on how dual employees who work for a bank and a non-bank company should be treated when they sell credit life insurance to bank customers. The OCC asks for comment on whether they should be treated like bank employees, subject to the same limitations on bonuses and incentive arrangements.

The public comment period on the proposed rule ends on November 13, 1995.

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