

INTERPRETIVE LETTER 89-6 (APRIL 4, 1989)

State bank may sell credit life, accident and health insurance, but may not receive commissions for this service.

Your letter to * has been referred to me for response. In it you inquired whether Illinois state law prohibited banks or bank holding companies from selling insurance.

Certain Illinois statutes address the authority of banks and their affiliates to engage in insurance activities. Section 48.2(b) of the Illinois Banking Act requires banks and their affiliates to comply with Section 499.1 of the Illinois Insurance Code. Section 499.1(e) of the Illinois Insurance Code prohibits national banks, in cities, villages or towns with populations exceeding 5,000, state banks and affiliates of national and state banks from being licensed as registered firms for the purpose of engaging in insurance activities in Illinois. Exceptions to the general prohibition of Section 499.1(e) exist in Section 510.2(c) of the Illinois Insurance Code as well as Section 4.2(d) and 4a(c) of the General Interest Act. Collectively, those exceptions permit banks to offer credit life insurance or credit accident and health insurance with respect to revolving credit arrangements and installment loans. Banks would be prohibited from receiving commissions on such credit insurance but could charge reasonable "administration fees."

Bank holding companies would be prohibited from obtaining an insurance license if the income generated from insurance activity contributed directly or indirectly to the income of a bank. From a practical standpoint, banks contribute to the income of their respective holding companies and not vice versa. Therefore, in most situations, bank holding companies would be allowed to become licensed to sell insurance in Illinois.