

INTERPRETIVE LETTER 93-024 (NOVEMBER 29, 1993)

State banks may offer involuntary unemployment insurance coverage to their borrowers in the same manner that they may offer credit life insurance and credit accident/health insurance.

This is in response to your inquiry about the authority of Illinois state-chartered banks to offer involuntary unemployment insurance underwritten by *. Involuntary unemployment insurance would provide benefits to customers during periods of unemployment as specified in the policies. Generally, the insurance coverage would pay a certain number of installments that would become due under a loan obligation after the obligor loses his or her job.

State-chartered banks are prohibited from generally selling insurance or becoming registered insurance firms. See Section 499.1(e) of the Illinois Insurance Code, 215 ILCS 5/499.1(e) (1992). However, banks may make credit life insurance and credit accident/health insurance available to their borrowers by enrolling the borrowers under policies issued by a licensed agent or registered firm. If a borrower elects to purchase credit life insurance or credit accident/health insurance, the borrower may obtain coverage through the lending bank or, at his or her discretion, through another insurer. See Section 155.61 of the Illinois Insurance Code, 215 ILCS 5/155.61 (1992), and Section 4a(c) of the Interest Act, 815 ILCS 205/4a(c) (1992).

Involuntary unemployment insurance provides a benefit to the insured borrower and security to the lending bank that is similar to the benefit and security provided by credit life insurance and credit accident/health insurance. It is a form of credit insurance that relates directly to the borrower-lender relationship. It is the position of this Agency that there is no statutory, regulatory or practical reason to distinguish between the authority for state-chartered banks to make credit life and credit accident/health insurance available and the authority for those banks to make involuntary unemployment insurance available. Accordingly, we conclude that an Illinois state-chartered bank may make involuntary unemployment insurance available on the bank's premises, subject to the following conditions:

- (1) The bank is not authorized to underwrite the insurance policy;
- (2) The insurance policy must be issued through a licensed agent or broker, as required by Section 155.59 of the Illinois Insurance Code, 215 ILCS 5/155.59 (1992);
- (3) The lending bank shall not require that the borrower obtain the insurance coverage from the lending bank or from a licensed agent, broker or registered firm specified by the lending bank;

(4) The insurance policy shall be offered only in connection with a loan transaction between the lending bank and the borrower who purchases the coverage; and

(5) The lending bank and the licensed agent, broker or registered firm must comply in all other respects with the applicable provisions of the Illinois Insurance Code.

This Agency's determination that involuntary unemployment insurance can be offered by state-chartered banks is consistent with Regulation Y issued by the Board of Governors of the Federal Reserve System. Regulation Y includes the offering of involuntary unemployment insurance as a principal, agent or broker among the permissible activities for a subsidiary of a bank holding company since that activity is "so closely related to banking as to be a proper incident thereto." 12 C.F.R. 225.25(a) and 12 C.F.R. 225.25(b)(8)(B). Furthermore, the Office of the Comptroller of the Currency has advised this Agency that national banks are permitted to offer involuntary unemployment insurance as a form of credit insurance.