

RETAIL INSURANCE AND SECURITIES SALES ACTIVITIES

Core Analysis Decision Factors

Examiners should evaluate the Core Analysis in this section to determine whether an Expanded Analysis is necessary. Click on the hyperlinks found within each of the Core Analysis Decision Factors to reference the applicable Core Analysis Procedures.

Do Core Analysis and Decision Factors indicate that risks are appropriately identified, measured, monitored, and controlled?

C.1. Are the bank's policies, procedures, and other risk limiting methods adequate? Refer to Core Analysis [Procedures #8-10](#) & [Procedure #27](#).

C.2. Are internal controls adequate? Refer to Core Analysis [Procedures #11-12](#), [Procedure #25](#), & [Procedures #28-29](#).

C.3. Are the audit or independent review functions adequate? Refer to Core Analysis [Procedures #13-14](#) & [Procedure #30](#).

C.4. Are information and communication systems adequate and accurate? Refer to Core Analysis [Procedures #15-16](#).

C.5. Are third party agreements and the bank's reviews of compliance with such agreements adequate? Refer to Core Analysis [Procedures #17-19](#) & [Procedure #31](#).

C.6. Do the bank's board and senior management effectively oversee and administer sales and incentive programs and activities involving insurance or securities products offered directly by the bank or by third party entities from or on behalf of the bank? Refer to Core Analysis [Procedures #20-24](#) & [Procedure #26](#).

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Core Analysis Procedures

Examiners are to consider the following procedures but are not expected to perform every procedure at every bank. Examiners should complete only the procedures relevant for the bank's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

Preliminary Review

- 1. Review information such as prior examination reports, prior examination work papers, pre-examination memoranda, other regulator reports, and file correspondence for an overview of the bank's retail insurance or security-sales activities.**
- 2. Review internal and external audit reports and independent reviews to determine their scope and to identify any concerns and conclusions relevant to insurance and security-sales programs.**
- 3. Review the balance sheet, income statement, and cash flows of any insurance agency or security-sales unit that is a department or subsidiary of the bank.**
- 4. Consider contacting the appropriate functional regulator(s) to obtain supervisory information regarding these activities.**
- 5. Review board or committee minutes and internal management reports for evidence of managerial oversight, responsibility delegations, or concerns with respect to these activities.**
- 6. Discuss insurance products, security-sales programs, and related controls with management.**
- 7. Review the budget pertaining to the bank's insurance and security-sales activities.**

Policies, Procedures, and Other Risk Limiting Methods
<p>8. Determine whether policies and procedures are adequate for the retail insurance or security-sales programs, and any networking arrangement the bank may have with a broker-dealer.</p>
<p>9. Determine whether the board approves policies at least annually, or more frequently if substantive changes occur.</p>
<p>10. Assess whether management conducts appropriate due diligence before entering into agreements with third parties to conduct insurance or security activities and before specific insurance or security products are offered to customers on bank premises or on behalf of the bank.</p>
Internal Controls
<p>11. Determine whether the bank's internal control program includes separation of duties between the sales, management, compliance, and accounting functions for retail insurance or security-sales activities.</p>
<p>12. Determine whether the bank has procedures to prevent, detect, and respond to written policy exceptions.</p>
Audit or Independent Review
<p>13. Determine whether the coverage and frequency of the audit or independent review are sufficient to identify deficiencies in policies and procedures, financial and operating risk management, internal controls, information and communication systems, and management relative to the bank's retail insurance agency or security-sales activities. The independent review process should:</p> <ul style="list-style-type: none"> • Determine compliance with policies, procedures, and regulatory requirements. • Assess the due diligence processes for purchased entities that conduct retail insurance or security-sales activities. • Verify compliance of third parties with contractual agreements. • Assess separation of duties, internal controls, and supervision of insurance agency or securities brokerage activities. • Test for the adequacy, accuracy, and timeliness of information produced by reporting systems. • Assess the adequacy, accuracy, and timeliness of reports to senior management and the board. • Review operations for potential conflicts of interest, self-serving practices, and insider abuses. • Recommend corrective action, where warranted.

<ul style="list-style-type: none"> • Verify that corrective action commitments have been implemented.
<p>14. Determine whether results of independent reviews are reported to the full board or a designated committee.</p>
<p>Information and Communication Systems</p>
<p>15. Determine whether management reports include the following types of information:</p> <ul style="list-style-type: none"> • Sales volume of each type of product offered. • Fees, product commission rates, expenses, and overall financial results of the retail insurance or security-sales programs. • Status of premium collection and remittance processing by insurance agents, if applicable. • Amount of compensation received by retail insurance and security salespeople.
<p>16. If the bank conducts insurance sales activities directly or owns an agency, determine whether management accurately reports these activities on its Consolidated Reports of Condition and Income. Verify that the reports are accurately consolidated using Generally Accepted Accounting Principles.</p>
<p>Third Party Agreements and Reviews</p>
<p>17. Determine whether management has entered into a formal written agreement with each third party involved in insurance or security-sales activities for the bank and if the agreement has been approved by the bank's board of directors.</p>
<p>18. Determine whether the bank's legal counsel reviews all contracts and agreements for content and enforceability of terms.</p>
<p>19. Determine how often management evaluates the operating soundness of third parties by reviewing compliance evaluations, independent audits, financial reports, examination reports and/or other information. <i>Note: Insurance companies provide the products (insurance and annuities) sold by the bank or agency. These third parties are subject to examination by state insurance regulators (functional regulators). Their report of examination is a public document in most states and can be obtained from the state insurance regulator of the state in which the insurance company is based.</i></p>

Board and Senior Management Oversight
20. Determine whether there have been any technology system installations or conversions for insurance agencies or securities brokerage firms acquired and if such changes were successfully completed.
21. Determine whether the officers designated to implement and manage the bank's retail insurance or security-sales activities possess appropriate knowledge and experience.
22. Assess whether management mandates professional qualification training and continuing education opportunities for all officers and employees involved with the insurance or security programs.
23. Determine whether any plans for expansion of insurance or security activities are consistent with overall strategic plans and board approved policies.
24. Determine whether management adequately responds to audit or independent-review concerns.
Compliance with Insurance and NDIP Consumer Protections (Non-FDIC Only)
<i>Note: FDIC: Defer to DCP for all compliance reviews. FRB examiners can review the Regulation R Training Modules on the Board's internal website for additional information.</i>
25. Determine whether the bank's compliance function has processes to ensure the maintenance of appropriate agent licensing for retail insurance and security-sales programs conducted on behalf of the bank.
26. Review any customer complaints in the bank's retail insurance or security-sales program files. Also, review FRB, state insurance department, and FINRA or SEC complaint records for potential concerns over the administration of the activities (e.g., misrepresentations, untimely claims distributions, suitability issues, etc.).
27. Determine whether adequate policies and procedures exist to address consumer protection aspects of retail insurance sales or non-deposit investment products at an office of the bank, or on behalf of the bank. Consider if such policies and procedures sufficiently cover:

- **Training programs for all personnel involved in insurance or security referrals, recommendations, and sales activities conducted on bank premises or on behalf of the bank, including activities conducted through telemarketing contacts;**
- **Product suitability guidelines for customer sales;**
- **Compliance with applicable laws, regulations, and consumer protection rules that address prohibitions on:**
 - **Tying of sales of insurance to credit products,**
 - **Coercive sales practices, and**
 - **Discrimination against victims of domestic violence in sales of insurance products;**
- **Prominent display of required written minimum disclosures;**
- **Compliance with incentive compensation restrictions on unregistered bank employees that refer customers to a broker-dealer (in connection with networking arrangements) pursuant to the FRB and SEC's joint Regulation R and the Gramm-Leach Bliley Act (GLBA) Title II broker-push-out rules that have been incorporated into the Securities Exchange Act of 1934, Section 3(a)(4)(B)(i); and**
- **Restrictions on the activities of bank employees (other than associated persons of a broker-dealer who are qualified under securities self-regulatory organization (SRO) rules) to the performance of only clerical or ministerial functions in connection with brokerage transactions.**

28. Determine whether management has established adequate procedures that address:

- **Timing of minimum required disclosures;**
- **Minimum disclosures for advertising and promotions;**
- **Documenting customers' receipt of all required disclosures:**
 - **Before an account is opened,**
 - **Before an the initial sale of an insurance product is completed,**
 - **During any sales presentation,**
 - **When investment advice is provided, and**
 - **When an account is opened for an NDIP;**
- **Alternative disclosures for telephone and electronic sales;**
- **Compensation for referrals by non-licensed personnel;**
- **Physical segregation of retail insurance and NDIP sale activities from deposit taking areas; and**
- **The conditions in the Securities Exchange Act (Section 3(a)(4)(B)(i)) detailing when a bank may allow a broker-dealer to offer bank customers brokerage services on or off bank premises and not be considered a broker that is required to register with the SEC. These conditions include:**
 - **The broker dealer is clearly identified;**
 - **Brokerage services are provided in a clearly marked, and preferably physically separate area;**
 - **Advertising and promotional materials make clear that brokerage services are provided by the broker dealer, and not the bank;**
 - **Advertising and promotional materials are in compliance with federal securities laws;**
 - **Bank employees (other than broker dealers, or SRO-qualified associated persons) perform only clerical or ministerial functions;**
 - **Bank employees do not receive incentive compensation for brokerage transactions unless they are associated persons of a broker dealer and SRO-qualified, except that bank employees may receive customer referral compensation in the form of a nominal, one-time cash fee of a fixed dollar amount, if payment of the fee is not contingent on whether the referral results in a**

transaction;

- **Customers receiving brokerage services are fully disclosed to the broker dealer;**
- **The bank does not carry customer security accounts except as permitted under other GLBA trust, custody, or safekeeping exceptions; and**
- **The bank or broker dealer informs each customer that brokerage services are provided by the broker dealer and not the bank, and that securities are not deposits or other obligations of the bank, are not guaranteed by the bank, and are not FDIC-insured.**

29. Evaluate controls concerning product suitability. Determine whether procedures:

- **Require security-sales representatives or insurance agents to evaluate sufficient customer information before offering investment recommendations regarding NDIPs, including variable insurance products.**
- **Require representatives to clearly explain all recommendations to customers.**

30. Ascertain whether policies and procedures for internal controls require thorough reviews of sales practices, advertising methods, and customer complaints.

31. Determine whether the compliance program includes oversight of the documentation required of third parties to demonstrate compliance with customer acknowledgement requirements.

End of Core Analysis. If needed, Continue to the Expanded and Impact Analyses.