

June 9, 1998

Mr. Oscar Weidler
Weidler Associates Inc.
712 Midway Avenue
Saint Joseph, MI 49085

Re: Insurance Reimbursement, Your April 15 and May 7, 1998, Letters

to NCUA Board Member Wheat.

Dear Mr. Weidler:

NCUA Board Member Yolanda Townsend Wheat has referred your correspondence regarding permissible reimbursement to credit unions in connection with insurance sales to the Office of General Counsel for our review.

NCUA's regulations permit federal credit unions (FCUs) to make insurance involving outside vendors available to their members and to provide administrative services on behalf of the vendors. 12 C.F.R. Part 721. Since August 1985, FCUs have been permitted to be reimbursed or compensated without any limitation, except as restricted by state law, in connection with the sale of credit-related and share account-related insurance to members. 50 Fed. Reg. 16462 (April 26, 1985). Your correspondence notes examples of alleged "reverse competition," meaning situations where credit unions elect to use an insurance program that pays a higher commission or fee to the credit union without due regard to related costs being passed onto members.

The NCUA Board considered the issue of reverse competition when it adopted the rule change in 1985 and noted several factors that contribute to there being little incentive simply to select a program with the highest commissions. Two factors were the accountability of directors and management to the members inherent in a cooperatively owned institution and the regulatory prohibition against directors, officials and senior management receiving any compensation in connection with insurance sales. The Board also stated that it would reconsider the rule if there were evidence of dramatic increases of insurance premiums. In the thirteen years this rule has been in effect, we are unaware of evidence to support a finding of widespread abuse by insurance companies or credit unions. We suggest that you may want to consider reporting particular instances of abuse to the appropriate state insurance regulator.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/RSS:bhs
SSIC 3500/98-0529A
cc: Board Member Wheat