

# Banking on Insurance & Annuities

In the decade since the Supreme Court ruled in their favor, banks steadily have increased insurance sales.

by Michael D. White

**I**n its unanimous 1996 decision, *Barnett Bank v. Nelson*, the U.S. Supreme Court established bank-sold insurance as an activity that's here to stay. The high court ruling not only sustained the historical legal authority of national banks to sell insurance, but it also resulted in expanded bank insurance sales powers in dozens of states.

A decade after this major victory, the question can be asked: How well is the banking industry doing selling insurance products?

Bank holding companies earned \$7.2 billion from insurance and annuities sales in the first six months of 2007, according to the *Michael White-Symetra Bank Holding Company Fee Income Report* published by Michael White Associates of Radnor, Pa., and sponsored by Symetra Financial Corp. of Bellevue, Wash.

The report's findings are derived directly from data filed by nearly 900 large top-tier bank holding companies with consolidated assets of more than \$500 million, and nearly 100 smaller ones with assets between \$300 million and \$500 million.

Overall, the banking industry earned \$6.26 billion in insurance brokerage fees in the first half of 2007, up 2%

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**A BIG DEAL:** Barnett Bank, in Jacksonville, Fla., was the company involved in the U.S. Supreme Court ruling allowing banks to sell insurance.

► **The Issue:** Ten years after the historic *Barnett Bank v. Nelson* decision by the U.S. Supreme Court, bank sales of insurance products have expanded to all the states.

► **The Situation:** The banking sector's income from insurance brokerage fees continues to grow.

► **The Outlook:** Banks must improve their penetration rates with annuity programs to generate more robust income.

from \$6.13 billion a year earlier. During 2007's first half, 621 bank holding companies—65.3% of those reporting—sold insurance products that generated commissions and fees.

The current 2% rate of growth falls far short of the 19.5% compound annual growth rate of insurance brokerage fee income that bank holding companies earned from 2001 to 2006. Excluding financial holding company MetLife, which did not engage in significant banking activities, insurance brokerage fee income actually declined 2.8% to \$3.51 billion in the first half of 2007. That's somewhat less than the \$3.62 billion reported a year earlier.

Several factors account for this slowdown. First, key conversions in charters to thrift holding companies such as People's Mutual Holdings of Bridgeport, Conn., and Countrywide Financial of Calabasas, Calif., removed insurance brokerage revenues from the count. Insurance brokerage is no longer reported when a bank or bank holding company converts to a thrift or thrift holding company charter, because a thrift entity is not required to report detailed, line-item, noninterest fee income such as insurance brokerage.

Second, certain large organizations, including Citizens Financial Group Inc. of Providence, R.I., BNCCORP Inc. of Bismarck, N.D., and Capital One of McLean, Va., sold large property/casualty insurance agencies. All three sold their operations to Hub International Ltd. Bank of America sold its New Jersey-based agency with \$66 million in revenues in 2006 to Hilb Rogal & Hobbs Co. Those sales related specifically to each financial institution's particular circumstances, strategic aims

and commitment to insurance.

A softening commercial property/casualty market, sporadic decreases in contingent commissions and the complete removal of annuity commissions not earned via securities units from insurance brokerage fee income totals also slowed growth.

## Program Productivity

Despite the observed slowdown in total revenue, the momentum of growth in insurance brokerage activities since 2001 has been strong. The report reflects this trend in a metric called Insurance Program Productivity per Employee.

For all bank holding companies with assets greater than \$300 million, program productivity has grown steadily, from \$1,437 in mean insurance brokerage income per employee in 2001 to \$2,979 per employee by 2006. Annualized, first-half 2007 performance shows \$3,120 in program productivity per employee.

For institutions with assets between \$300 million and \$1 billion average, program productivity also has more

than doubled from \$1,199 in 2001 to \$2,438 in 2006. Annualized productivity for first half 2007 shows a slight increase, to \$2,464, in insurance brokerage income per employee.

## Income by Asset Class

Year-to-date national mean insurance brokerage fee income rose 2.5% from \$9.8 million to \$10.1 million. But national median insurance brokerage fee income fell 23% from \$106,500 in 2006 to \$82,000 in first half 2007.

Of bank holding companies with assets exceeding \$10 billion, 92% offer insurance products. Sixty-nine of the 75 companies in this asset class earned \$5.8 billion year-to-date in insurance brokerage income. That accounts for 92.8% of the industry's measurable total.

This group experienced 2.1% growth in insurance brokerage revenue in the first six months of 2007, compared to the \$5.68 billion earned a year earlier. New York-based CitiGroup, California-based Wells Fargo and BB&T Corp. of Winston-Salem, N.C., led in insurance brokerage fee income as of June 30, 2007.

## BHC Insurance Brokerage Fee Income Participation

YTD First Half 2007, by Asset Size

BHCS By Asset Size	Reporting Ins. Brokerage Fee Income		Insurance Brokerage Fee Income	% of Total Ins. Brokerage Fee Income	Mean Ins. Brokerage Fee Income	Median Ins. Brokerage Fee Income
	Number	Percent				
Over \$B	322	73.2	\$6.18 Billion	98.7	\$19,178,146	\$262,000
Under \$1B	299	58.5	\$80.0 Million	1.3	\$267,692	\$36,000
Over \$10B	69	92.0	\$5.80 Billion	92.7	\$84,087,638	\$6,704,000
\$1B-\$10B	253	69.3	\$373.3 Million	6.0	\$1,475,557	\$116,000
\$500M-\$1B	250	59.1	\$72.3 Million	1.2	\$289,168	\$35,000
\$300M-\$500M	49	55.7	\$7.7 Million	0.1	\$158,122	\$43,000
<b>Total</b>	<b>621</b>	<b>65.3</b>	<b>\$6.26 Billion</b>	<b>100.0</b>	<b>\$10,073,113</b>	<b>\$82,000</b>

Source: Michael White-Symetra Bank Holding Company Fee Income Report

## BHC Annuity Commissions & Fees Participation

YTD First Half 2007, by Asset Size

BHCS By Asset Size	Reporting Annuity Commissions and Fees		Commissions and Fees From Annuity Sales	% of Total Annuity Income	Mean Annuity Fee Income	Median Annuity Fee Income
	Number	Percent				
Over \$B	221	50.2	\$922.8 Million	98.6	\$4,175,471	\$284,000
Under \$1B	162	31.7	\$13.1 Million	1.4	\$80,722	\$53,500
Over \$10B	56	74.7	\$864.9 Million	92.4	\$15,444,018	\$4,361,000
\$1B-\$10B	165	45.2	\$57.9 Million	6.2	\$350,994	\$144,000
\$500M-\$1B	141	33.3	\$12.0 Million	1.3	\$85,404	\$54,000
\$300M-\$500M	21	23.9	\$1.0 Million	0.1	\$49,286	\$45,000
<b>Total</b>	<b>383</b>	<b>40.3</b>	<b>\$935.9 Million</b>	<b>100.0</b>	<b>\$2,443,488</b>	<b>\$111,000</b>

Source: Michael White-Symetra Bank Holding Company Fee Income Report

## Regulatory/Law

Bank holding companies with assets of \$1 billion to \$10 billion generated insurance brokerage fee income of \$373.3 million in the first half of 2007, up 4.7% from \$356.5 million in first half of 2006.

Leaders in this asset class were Great Bay Bancorp of California, which was acquired by Wells Fargo in October; Eastern Bank Corp., Boston; and Old National Bancorp, Evansville, Ind.

Bank holding companies with assets between \$500 million and \$1 billion earned \$72.3 million in insurance brokerage fee income in first half 2007, down 10.6% from \$80.9 million earned the year before. Leaders include Central Community Corp., Temple, Texas; Shore Bancshares Inc., Easton, Md., and MountainOne Financial Partners, North Adams, Mass.

### Bankers Buying Agencies

Many big banking companies announced plans to acquire or expand their insurance units in 2007.

Banking Company	Headquarters
Alliance Bankshares Corp.	Chantilly, Va.
BancFirst Corp.	Oklahoma City
BancorpSouth	Tupelo, Miss.
BancWest Corporation	Honolulu, Hawaii
BB&T Corporation	Winston-Salem, N.C.
First Defiance Financial Corp.	Defiance, Ohio
First Niagara Financial Group	Lockport, N.Y.
Harleysville National Corp.	Harleysville, Pa.
Huntington Bancshares Inc.	Columbus, Ohio
National City Corp.	Cleveland
Northeast Bancorp	Auburn, Maine
Oak Hill Financial	Jackson, Ohio
Shore Bancshares Inc.	Easton, Md.
Summit Financial Group	Moorefield, W.Va.
Wachovia Corporation	Charlotte, N.C.
Wells Fargo & Co.	San Francisco

Source: Michael White Associates

Another metric in the report, Insurance Program Concentration, is the ratio of insurance brokerage fee income to noninterest income. Program concentration measures the contribution a particular fee income is making to the revenue of the bank's non-lending activities.

Even with a robust and profitable insurance program, the percentage of noninterest income from insurance might be lower than the averages if the institution enjoys a high level of earnings from other noninterest or

non-credit sources.

At midyear:

- BancorpSouth Inc. of Tupelo, Miss., led all bank holding companies with more than \$10 billion in assets. BancorpSouth's insurance brokerage income comprised 31.8% of its noninterest income. Next was R&G Financial Corporation of San Juan, Puerto Rico, with 31.3%.

- Greater Bay Bancorp of East Palo Alto, Calif., was the leader in program concentration among those with assets between \$1 billion and \$10 billion, with 74.9% of its noninterest income in insurance brokerage income. Leesport Financial Corp. of Wyomissing, Pa., was second with insurance brokerage constituting 57.1% of its noninterest income.

- Alliance Bankshares Corp., of Chantilly, Va., ranked first among those with assets between \$500 million and \$1 billion; its program concentration was 78.2%. Central Community Corp., Temple, Texas, was second with 66.8%.

- Delmar Bancorp of Delmar, Md., ranked first among those with assets between \$300 million and \$500 million with insurance brokerage income constituting 36.6% of noninterest income in first-half 2007. Goodenow Bancorporation of Okoboji, Iowa, placed second with 32.9%.

### Annuity Commissions

The relative success of a bank annuity program may be measured by the amount of program revenue generated per \$1 million of core or retail deposits. These deposits substitute as a measure of retail customers and the breadth of the customer relationship; the higher the ratio, the broader and deeper the bank-customer relationship.

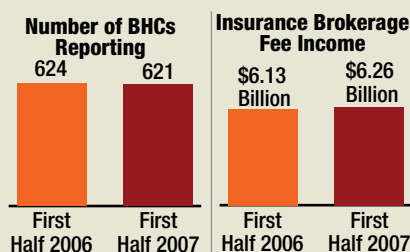
On that basis, annualized program penetration was \$572 per \$1 million of retail deposits. This is the first year Michael White Associates could isolate bank holding company annuity income, so annuity sales performance is compared between first and second quarters.

Of the 951 large bank holding companies reporting line-item fee income, 383 bank holding companies, or 40.3%, reported year-to-date fees and commissions on annuity sales of \$935.9 million. Second-quarter annuity income was

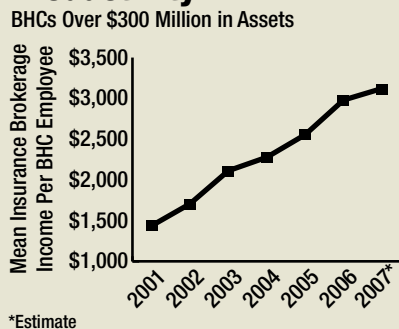
### Bank Holding Company Insurance Brokerage Fee Income 2001-2007



### Insurance Brokerage Income: Number of BHCs Reporting & Fee Income



### Insurance Program Productivity



Source: Michael White-Symetra Bank Holding Company Fee Income Report

\$539.4 million, up from \$396.5 million in the first quarter.

Average year-to-date commissions were \$2.4 million (\$4.9 million annualized). Median year-to-date commissions were \$111,000 in the first half of 2007, or \$222,000 annualized.

Of 588 banks reporting retail investment program income, 383 sold annuities. Forty-eight of them sold only annuities and did not engage in securities brokerage.

This may be indicative of banks that have only platform annuity or licensed bank employee programs and not full-product investment programs. **BR**