Nobody's Fool

More bankers are facing the facts and seriously weighing bank insurance sales

by Michael D. White

New Year's festivities, until the late sixteenth-century, began on March 25, shortly after the first day of spring, and typically culminated with celebrations on April 1. That changed when Pope Gregory introduced the Gregorian calendar in 1562, and France's King Charles IX, two years later, adopted the new calendar and decreed January 1 to be New Year's Day.

But word of the new calendar and decreee took time to spread. Many did not learn about the date changes for years. Others, more comfortable with their routines, refused to believe or accept the new calendar and continued celebrating the New Year on April first.

Folks who stuck with the old New Year dates - and believed that something true was false and did not get with the times - were often ridiculed. People sometimes played tricks on them, sent them foolish gifts and invitations to nonexistent parties, sent them on "fools' errands," and called them "April fools." Over time, this season and the derision and pranks that accompanied it came to be known as April Fool's Day.

Ignorance or Foolishness?

We all act a little foolish from time to time. As Mark Twain said, "The first of April is the day we remember what we are the other 364 days of the year." But, there is a difference between ignorance and foolishness. Ignorance is a want of knowledge or understanding. Foolishness is showing poor judgment, despite knowledge or access to information.

Simply put, fools do not face facts. Although we live in an information age where computers and the Internet produce plenty of data and information, everyone sometimes fails to recognize his or her next best move. In my view, this is true of some bankers who have yet to seriously consider entering the bank insurance market.

Of course, not every banker who doesn't offer insurance should be considered foolish. Many banks are currently exploring their insurance opportunities. Others have weighed their options and determined that bank insurance is not a good fit for them. Such decisions show wisdom.

Some bankers, however, seem stuck in a pre-Gregorian calendar time warp, unaware of the benefits the right bank insurance programs can offer their banks. That can be foolishness. Every bank should explore all of its potential insurance opportunities in the wide-open and competitive financial services market place.

Face the Facts: An April Fool's Resolution

The landmark Barnett case, new state insurance laws, and the Gramm-Leach-Bliley Act of 1999 have changed banking. Bankers need to look over the new competitive marketplace carefully, investigate its possibilities, adapt and compete. Bank insurance sales (which includes annuities) offer great opportunity for revenue, profits, service and increased customer loyalty. It's time to explore some industry-wide facts and not be April Fools.

FACT: Banks no longer hold a dominant position in loan origination, intermediation, servicing and distribution. The banking industry's share of total U.S. financial assets has decreased to barely one-quarter.

FACT: Community banks face tough competition from nonbank and large bank competitors that provide broader and more diversified product offerings. Community banks without diversified product offerings are susceptible to squeezed profit margins, lower returns on equity, and lower stock prices or valuations, when interest rates move higher, loans become shaky and net interest margins shrink. Noninterest fee income from insurance sales can add a steady source of revenue they can rely on.

While overall the banking industry has increased noninterest income as a proportion of its net operating revenue, big banks with more than $10 billion in assets have been most active in doing so. In 1999, 47.4 percent of big banks' net operating revenue derived from noninterest income.

As bank asset-size decreases, so does the percentage of income derived from noninterest sources. In 1999, noninterest income comprised 39.8 percent of net operating revenue at banks with assets between $1 and $10 billion. Banks between $300 million and $1 billion in assets lagged significantly at 33.2 percent. Unfortunately, banks under $300 million in assets had an even lower percent of noninterest income as a proportion of net operating revenue - 23.7 percent in 1999, half that of big banks. (When this article went to press, banking industry data for the year 1999 was the most currently available on this subject.)

Insurance Income Is Not A Fool's Errand

If community banks are to grow, strategic planning and strategic investment in new fee-income opportunities, like annuity and insurance sales, are more critical than ever. There is obviously room for more growth. Only 20 percent of banks are selling annuities - thus far, the insurance product with the most notable success for banks.

However, more and more banks continue to see the wisdom of joining in the insurance game. Consider these examples of community banks, both large and small, that are making their moves into insurance and beginning to reap results. These are but a few of the bank insurance stories that were all reported in the first month of this year.

- A 12 percent increase in insurance commissions helped boost $159.7 million-asset Great American Bancorp's 2000 earnings 52.6 percent.
- Pointing to "strong revenues from the bank's insurance agencies," which increased 16 percent over a year ago, F&M Bancorp reported a 48 percent increase in 2000 earnings.
- Community Banks, Inc., a PA-based bank holding company with $1.12 billion in assets, experienced a 70 percent increase in insurance earnings, leading a 35 percent surge in noninterest income.
- Marietta, OH-based, $1.1 billion-asset Peoples Bancorp posted record earnings in 2000. Insurance commissions at Peoples, up 259 percent for the year, accounted for 55.2 percent of the increase in noninterest income and 14.2 percent of total noninterest income.
- At $899 million-asset Progress Financial Corp. in Pennsylvania, commissions from sales of annuities, insurance and mutual funds rose 73 percent for the year, comprised 24 percent of noninterest income and constituted 9 percent of net operating revenue in 2000, up from 6 percent in 1999. These same commissions were equivalent to 63 percent of the bank's net income in 2000.
- BNCCORP, Inc., a $569 million-asset bank headquartered in North Dakota, reported that insurance revenues and brokerage fees accounted, respectively, for 25.8 and 18.9 percent of noninterest income.
- First Leesport Bancorp of Pennsylvania reported a 52 percent increase in net income for year 2000. Noninterest income provided almost 40 percent of total revenues in 2000, increasing 43 percent over the previous year. Income from insurance sales at $390 million-asset Leesport rose 17 percent to $3.85 million, constituting 58 percent of the year's total noninterest income, 23 percent of net operating revenue, and an amount equivalent to 181 percent of the bank's net income in 2000.
- Harleysville National Corporation, whose CEO recently served as ICBA's treasurer, attributed bottom-line increases to growth in loans and other income, including fees from its new and rapidly growing annuity and investment program.
- With fewer than $250 million in deposits, PeoplesBank of York, PA, launched its fixed-annuity platform-sales in 2000, successfully selling at a rate equivalent to that of a $1 billion-deposit bank.

And more banks are entering the insurance market by forming partnerships with agencies, using third-party marketers (TPM), buying agencies and forming de novo insurance operations.

- For example, IberiaBank, $1.4 billion in assets, formed a true joint venture, IberiaBank Insurance Services, jointly owned by the bank and an independent agency.
- Oneida, NY-based, Oneida Financial Corp., a $310 million-asset bank, completed the acquisition of an insurance agency.
- Also in New York, Tompkins Trustco, with $1.3 billion in assets, bought two agencies that bring combined revenues of $2.5 million to its insurance endeavors.
- North Carolina's $69 million-asset Surrey Bank & Trust purchased an agency specializing in commercial and personal substandard automobile and property-casualty insurance, merging it with the bank's agency to form SB&T Insurance, Inc.
- FNB Corporation, $3.9 billion in assets with operations in Pennsylvania and Florida, purchased five Florida agencies within months of each other, bringing its total agency purchases to seven.
- Indiana United Bancorp announced plans to purchase another insurance agency.
- OceanFirst of New Jersey announced plans to form a de novo life insurance agency and buy a property-casualty agency.

Alan Greenspan encouraged bankers attending ICBA's 2000 convention in San Antonio to "translate the traditional and new financial powers into longer-term economic value for your customers and shareholders."

Community banks that offer their customers insurance are learning how to become more sales-oriented. They are also learning to understand and meld two different cultures that, at times, speak different languages but have the same goal of customer financial satisfaction. The result for well-run programs is stronger revenue, increased earnings, market-share growth, and increased customer satisfaction and loyalty.

Insurance sales can add as much as 5 to 10 percent to community banks' bottom lines. Because most of the community bankers I know are nobody's fool, they are in general facing facts and taking action. No April Fooling.

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