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Charter Conversions and Sales of Some Insurance Ops Retard Growth in BHC Insurance Revenues in First Half of 2007

**By Michael D. White, President, Michael White Associates (MWA),
In conjunction with the American Bankers Insurance Association (ABIA)
October 10, 2007**

The nation's bank holding companies increased their total insurance revenue 1.0 percent to \$21.7 billion in the first half of 2007 from \$21.4 billion during the same period in 2006. During the first six months of 2007, 627 top-tier large bank holding companies¹ (or 66 percent of all top-level BHCs reporting) earned some type of insurance-related revenue, compared to 629 in the first half of 2006. Conversions of banking charters, the sale of some bank insurance operations to nonbanks, and a soft property-casualty market were among the chief contributors to a slowing in BHC insurance revenues in the first half of 2007.

Michael White Associates (MWA) performed the analysis in conjunction with the American Bankers Insurance Association (ABIA) to measure the growth of the insurance business in banking organizations and to provide some benchmarks that gauge bank insurance performance. The analysis is based on data reported to the Federal Reserve Board by 951 top-tier large bank holding companies.

Total insurance revenue can be broken down as insurance brokerage fee income and insurance underwriting fee income.

Insurance Brokerage Fee Income

Bank holding companies' insurance brokerage fee income climbed 2.0 percent from \$6.13 billion in the first half of 2006 to \$6.26 billion in the first half of 2007. During the first six months of 2007, 621 bank holding companies (or 65.3 percent of all BHCs reporting) engaged in sales activities that produced insurance commissions and fees.² Excluding financial holding company MetLife, which did not engage in significant banking activities, insurance brokerage fee income was \$3.51 billion in the first half of 2007, down 2.8 percent from \$3.62 billion in the same period in 2006.

This slowing in insurance brokerage income was due to several factors. The first factor was some key conversions in charters from bank holding companies to thrift holding companies (e.g., People's Mutual Holdings in CT), of which the latter is not required to report detailed, line-item noninterest fee income like insurance

¹ The Federal Reserve defines "large" BHCs as those top-tier BHCs with more than \$500 million in consolidated assets and "small" BHCs as those top-level BHCs with less than \$500 million in consolidated assets. Large BHCs are required to report detailed line-item noninterest income like insurance brokerage fee income. Small BHCs are exempt from filing such data.

² Prior to 2007, insurance revenues did not include income earned from annuities sold by a bank holding company's securities units. As of 2007, no other annuity income is included in insurance brokerage revenues. Adding the income from annuity sales to insurance brokerage fee income would significantly increase (by \$936 million) the total insurance product revenue for banking organizations in first half 2007. Income from related non-insurance products like debt cancellation or debt suspension agreements are also excluded from the insurance revenue figures.

brokerage. Thus, the insurance brokerage income that a BHC previously reported is no longer reported when that BHC converts to a thrift holding company.

A second factor was the sales of their property-casualty insurance agencies or business lines by certain large bank holding companies, like Citizens Financial Group, Inc. (RI), BNCCORP, Inc. (ND), and Capital One (VA) all of which sold insurance operations to Hub International, Ltd. this year. The sales of bank insurance units to nonbanks are not a trend; they related quite specifically to each financial institution's particular circumstances, strategic aims, and commitment to insurance. While in just the last few weeks, some other large BHCs announced plans to sell insurance operations (JPMorgan Chase is selling a P&C agency to Brown & Brown, and Commerce Bancorp intends to sell its large insurance operations to management before it is acquired by TD BankNorth, Inc.), at the same time, other BHCs like BB&T Corporation, Huntington Bancshares, and new ABIA member Shore Bancshares, Inc. announced plans to acquire agencies.

Three additional factors also slowed growth in insurance brokerage fee income in the first half of 2007: a soft market in commercial property-casualty insurance, sporadic decreases in contingent commissions, and the complete removal of any annuity commissions not earned via securities units from insurance brokerage fee income totals.

BHCs with assets greater than \$1 billion experienced a 2.2 percent increase in insurance brokerage fee income in the first six months of 2007, rising from \$6.04 billion in the first half of 2006 to \$6.18 billion in 2007. BHCs with less than \$1 billion in assets registered a decrease of 12.1 percent in their insurance brokerage fee income from \$91.1 million in the year-ago period to \$80.0 million in the first half of 2007. This decline was due almost entirely to BNCCORP's sale of its large Arizona agency to Hub International, Ltd. earlier in the year.

Again excluding MetLife, which did not engage in significant banking activities, CitiGroup (NY), Wells Fargo & Company (CA), and BB&T Corporation (NC) led all bank holding companies in insurance brokerage fee income in the first six months of 2007. Among BHCs with less than \$1 billion in assets, leaders in insurance brokerage income were Central Community Corporation (TX), Shore Bancshares, Inc. (MD), and MountainOne Financial Partners, MHC (MA).

Insurance Underwriting Income

Insurance underwriting and reinsurance income increased 0.6 percent from \$15.3 billion at June 30, 2006, to \$15.4 billion in the first half of 2007.³ Seventy-seven (77) BHCs (or 8.1 percent of all reporting top-level BHCs) earned some insurance underwriting income, compared to 81 a year earlier.

Excluding financial holding company MetLife, which did not engage in significant banking activities, BHC insurance underwriting income was down 29.0 percent from \$2.46 billion in the first half of 2006 to \$1.75 billion in the first half of 2007. This decline was largely due to the loss of underwriting income from the BHC population when Countrywide Financial converted its charter from a financial holding company to that of a thrift holding company, which does not report detailed, line-item noninterest fee income like insurance underwriting income. Additionally, continued decline in the number of holding companies engaged in insurance underwriting also removed insurance underwriting income from BHC income statements.

³ This form of fee income indicates that the holding company is engaged in insurance underwriting or reinsurance activities in which an insurance affiliate of the holding company carries some or all of the insurance risk, as opposed to simply acting as an agent for the sale of insurance underwritten by an unaffiliated insurance company.

Total Insurance Income

Total BHC insurance revenue increased 1.0 percent to \$21.7 billion in the first half of 2007 from \$21.4 billion during the same period in 2006. Excluding financial holding company MetLife, which did not engage in significant banking activities, total insurance income was \$5.26 billion in the first half of 2007, down 13.4 percent from \$6.08 billion in the same period in 2006.

Again, all the factors that retarded growth in insurance brokerage fee income and insurance underwriting income are carried forward in their effects to total insurance income: charter conversions, the sale of BHC insurance units, a soft commercial property-casualty market, sporadically reduced contingent commissions, and a decrease in the number of bank holding companies engaged in insurance underwriting and reinsurance activities. Charter conversions and sales of bank agencies to nonbanks represented close to \$700 million in unreported BHC insurance income in the first half of 2007.

This analysis by MWA/ABIA ranks the top 50 bank holding companies on the basis of the absolute dollar amount of total insurance income (the sum of insurance brokerage and insurance underwriting fee income) and on the basis of total insurance revenue as a percentage of the institution's total noninterest income.

Mean total insurance income as a percent of noninterest income was 6.8 percent for all bank holding companies engaged in insurance activities during the first six months in 2007, down from 7.0 percent a year ago. Excluding MetLife, which did not engage in significant banking activities, the top 50 bank holding companies in total insurance income in the first six months of 2007 earned \$4.97 billion, or 94.5 percent of the \$5.26 billion earned by all the reporting holding companies except MetLife. Insurance revenue among all the top 50 companies averaged 4.07 percent of the total noninterest income reported by the 50 institutions, down from 5.09 percent in the first half of 2006. The mean ratio of insurance revenue to noninterest income among the top 50 was 13.8 percent, a decrease from 14.6 percent for the first six months of 2006. The leaders in total insurance income appear in Table 1 on page 5.

Excluding MetLife, which did not engage in significant banking activities, CitiGroup (NY), Wells Fargo & Company (CA), and HSBC North America Holdings Inc. (IL) led all bank holding companies in total insurance income in the first six months of 2007. Among BHCs with less than \$1 billion in assets, leaders in total insurance income were Central Community Corporation (TX), Shore Bancshares, Inc. (MD), and MountainOne Financial Partners, MHC (MA).

Joining the top 50 in total insurance revenue during the first half of 2007 were Central Community Corporation (TX), Barclays Group US Inc. (DE), Stifel Financial Corp. (MO), Santander Bancorp (PR), The South Financial Group (SC), Bremer Financial Corporation (MN), and Valley National Bancorp (NJ).

Central Community Corporation (TX) increased its rank in total insurance income the most, having jumped from 155th place at mid-2006 to 35th at June 30, 2007. Santander Bancorp and Bancwest Corporation also jumped fairly dramatically, rising, respectively, from the 61st and 36th positions in 2006 to 45th and 25th places on June 30, 2007.

Insurance Income as a Percent of Noninterest Income

The top 50 bank holding companies (excluding MetLife) that reported the highest percentage of total insurance revenue to total noninterest income appear in Table 2 on page 6.

The leading 50 companies in the ratio of total insurance income to noninterest income averaged 34.5 percent in that benchmark at June 30, 2007, unchanged from the prior year. Among this same top 50, the mean ratio of

insurance revenue to noninterest income was 39.1 percent in the first six months of 2007, while the standard deviation was 12.5 percent. The mean ratio was up from 38.4 percent in the first half of 2006. The median was 35.5 percent in the first half of 2007, unchanged from 35.5 percent in the first half of 2006.

To recap for overall benchmarking purposes, the following figures may prove useful:

- For all bank holding companies reporting insurance income, mean total insurance income as a percent of noninterest income was 6.8 percent.
- The top 50 BHCs in insurance revenue attained a mean ratio of insurance to noninterest income of 13.8 percent.
- For the top 50 BHCs in insurance as a percent of noninterest income, the mean ratio of total insurance revenue to noninterest income was 39.1 percent.

The percentage of noninterest income from insurance might be lower than these averages, even with a robust and profitable insurance program, if the institution enjoys a high level of earnings from other noninterest or non-credit sources.

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Michael White Associates (MWA) is a bank insurance consulting firm headquartered in Radnor, PA, and at www.BankInsurance.com. The *Michael White-Symetra Bank Fee Income Report* and *Michael White-Symetra Bank Holding Company Fee Income Reports*[™] provide more comprehensive analyses of bank insurance, investment, and mutual fund and annuity fee income. Symetra Financial sponsors those reports. Additionally, the *MWA Fee Income Ratings Reports*[™] compare, rank and rate a particular financial institution's insurance or other noninterest fee income program nationally, regionally, statewide and in its asset-peer group. Copies of MWA's reports can be obtained from MWA by calling (610) 254-0440, or by visiting www.BankInsurance.com.

The American Bankers Insurance Association (ABIA) is the separately chartered insurance affiliate of the American Bankers Association (ABA) and is the only Washington, D.C.-based full service association for bank insurance interests. The ABIA's mission is to develop policy and provide advocacy for banks in insurance and to support bank insurance operations through research, education, compliance-assistance and peer group networking opportunities. ABIA Membership consists of banks, and their affiliated agencies, insurance companies, marketing, and administrative services suppliers, non-bank lending organizations and other firms involved in the bank affiliated insurance industry. Additional information on the ABIA can be found on the Internet at www.theabia.com.

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For additional information contact:

Valerie Barton
American Bankers Insurance Association
1120 Connecticut Avenue, NW
Washington, DC 20036

Phone: (202) 663-5072
Fax: (202) 828-4546
Email: vbarton@aba.com

Hilary Dash or Michael White
Michael White Associates, LLC
823 King of Prussia Road
Radnor, PA 19087

Phone: (610) 254-0440
Fax: (610) 254-5044
Email: MWA@BankInsurance.com

TABLE 1: TOP BANK HOLDING COMPANIES IN TOTAL INSURANCE INCOME YTD JUNE 30, 2007 NATIONALLY				
Rank 1ST HALF 2007	Rank 1ST HALF 2006	TOTAL INSURANCE INCOME (\$ 000s)	BANK HOLDING COMPANY	STATE
1	1	\$1,684,000	CITIGROUP INC.	NY
2	2	\$831,000	WELLS FARGO & COMPANY	CA
3	4	\$456,316	HSBC NORTH AMERICA HOLDINGS INC.	IL
4	6	\$425,922	BB&T CORPORATION	NC
5	8	\$289,186	BANK OF AMERICA CORPORATION	NC
6	5	\$212,000	JPMORGAN CHASE & CO.	NY
7	7	\$155,000	WACHOVIA CORPORATION	NC
8	9	\$87,517	GREATER BAY BANCORP	CA
9	10	\$68,812	NATIONAL CITY CORPORATION	OH
10	12	\$54,934	REGIONS FINANCIAL CORPORATION	AL
11	13	\$45,326	COMMERCE BANCORP, INC.	NJ
12	19	\$37,702	BANCORPSOUTH, INC.	MS
13	17	\$37,079	UNIONBANCAL CORPORATION	CA
14	16	\$33,000	U.S. BANCORP	MN
15	15	\$31,912	COMPASS BANCSHARES, INC.	AL
16	21	\$31,570	TD BANKNORTH INC.	ME
17	27	\$30,132	SUNTRUST BANKS, INC.	GA
18	20	\$28,912	SKY FINANCIAL GROUP, INC.	OH
19	25	\$28,000	POPULAR, INC.	PR
20	26	\$25,083	CAPITAL ONE FINANCIAL CORPORATION	VA
21	28	\$24,354	EASTERN BANK CORPORATION	MA
22	24	\$22,695	ASSOCIATED BANC-CORP	WI
23	23	\$21,303	FIRST HORIZON NATIONAL CORPORATION	TN
24	30	\$20,793	OLD NATIONAL BANCORP	IN
25	36	\$19,069	BANCWEST CORPORATION	HI
26	29	\$18,967	WEBSTER FINANCIAL CORPORATION	CT
27	32	\$18,676	TRUSTMARK CORPORATION	MS
28	31	\$18,344	LAURITZEN CORPORATION	NE
29	11	\$18,045	FIFTH THIRD BANCORP	OH
30	34	\$17,324	CULLEN/FROST BANKERS, INC.	TX
31	35	\$16,311	M&T BANK CORPORATION	NY
32	14	\$14,991	PNC FINANCIAL SERVICES GROUP, INC.,	PA
33	42	\$12,084	HANCOCK HOLDING COMPANY	MS
34	40	\$10,529	JOHNSON FINANCIAL GROUP, INC.	WI
35	155	\$10,268	CENTRAL COMMUNITY CORPORATION	TX
36	41	\$9,976	BANK OF HAWAII CORPORATION	HI
37	22	\$9,835	KEYCORP	OH
38	NR	\$9,084	BARCLAYS GROUP US INC.	DE
39	NR	\$8,782	STIFEL FINANCIAL CORP.	MO
40	46	\$8,075	R&G FINANCIAL CORPORATION	PR
41	50	\$7,830	FIRST NATIONAL OF NEBRASKA, INC.	NE
42	45	\$7,825	HUNTINGTON BANCSHARES	OH
43	47	\$7,649	F.N.B. CORPORATION	PA
44	49	\$7,125	SUSQUEHANNA BANCSHARES, INC.	PA
45	61	\$7,061	SANTANDER BANCORP	PR
46	48	\$7,056	FIRST CHARTER CORPORATION	NC
47	18	\$6,704	ABN AMRO NORTH AMERICA HOLDING	IL
48	54	\$6,285	SOUTH FINANCIAL GROUP, THE	SC
49	59	\$6,177	BREMER FINANCIAL CORPORATION	MN
50	60	\$5,764	VALLEY NATIONAL BANCORP	NJ

Ranking excludes MetLife
 NR = Not ranked due to charter change or lack of insurance brokerage fee income
 Source: Michael White Associates and American Bankers Insurance Association

TABLE 2: TOP BANK HOLDING COMPANIES IN TOTAL INSURANCE INCOME AS A PERCENT OF NONINTEREST INCOME YTD JUNE 30, 2007 NATIONALLY			
RANK	% OF NON- INTEREST INCOME	BANK HOLDING COMPANY	STATE
1	78.18%	ALLIANCE BANKSHARES CORPORATION	VA
2	74.90%	GREATER BAY BANCORP	CA
3	66.84%	CENTRAL COMMUNITY CORPORATION	TX
4	65.57%	MOUNTAINONE FINANCIAL PARTNERS, MHC	MA
5	57.06%	LEESPORT FINANCIAL CORP.	PA
6	53.78%	OCEANPOINT FINANCIAL PARTNERS, MHC	RI
7	53.12%	FIRST WESTERN BANCORP, INC.	SD
8	52.12%	SHORE BANCSHARES, INC.	MD
9	51.93%	INDUSTRY BANCSHARES, INC.	TX
10	48.40%	473 BROADWAY HOLDING CORPORATION	NY
11	44.39%	ACNB CORPORATION	PA
12	44.20%	LEGACYTEXAS GROUP, INC.	TX
13	41.78%	EASTERN BANK CORPORATION	MA
14	40.47%	VAN DIEST INVESTMENT COMPANY	IA
15	40.28%	SMITHTOWN BANCORP, INC.	NY
16	39.74%	GORHAM BANCORP, MHC	ME
17	39.70%	COBIZ FINANCIAL INC.	CO
18	39.14%	BEACH COMMUNITY BANCSHARES, INC.	FL
19	38.47%	PLATTE VALLEY FINANCIAL SERVICE COMPANIES, INC.	NE
20	37.64%	GERMAN AMERICAN BANCORP, INC.	IN
21	37.61%	AMERICAN BANCOR, LTD.	ND
22	37.34%	GATEWAY FINANCIAL HOLDINGS, INC.	VA
23	37.14%	COMMUNITY FIRST BANCSHARES, INC.	TN
24	36.59%	DELMAR BANCORP	MD
25	36.06%	FARMERS STATE CORPORATION	MN
26	36.03%	SUNFLOWER BANKS, INC.	KS
27	34.95%	ENTERPRISE FINANCIAL SERVICES CORP	MO
28	34.80%	FIRST BANK CORP	AR
29	34.03%	LAURITZEN CORPORATION	NE
30	33.36%	PEOPLES BANCORP INC.	OH
31	32.94%	GOODENOW BANCORPORATION	IA
32	32.75%	ONE AMERICAN CORP.	LA
33	32.52%	FIRST MANITOWOC BANCORP, INC.	WI
34	32.42%	NORTHEAST BANCORP	ME
35	32.18%	ANB CORPORATION, THE	TX
36	31.80%	BANCORPSOUTH, INC.	MS
37	31.33%	R&G FINANCIAL CORPORATION	PR
38	30.62%	BB&T CORPORATION	NC
39	30.32%	WASHINGTON FIRST FINANCIAL GROUP, INC.	WA
40	30.28%	HIGH POINT BANK CORPORATION	NC
41	29.05%	RAINIER PACIFIC FINANCIAL GROUP, INC.	WA
42	28.43%	NARRAGANSETT FINANCIAL CORP	MA
43	27.90%	PENNS WOODS BANCORP, INC.	PA
44	27.74%	OLD NATIONAL BANCORP	IN
45	26.44%	AMERICAN BANK HOLDING CORPORATION	TX
46	26.35%	KNBT BANCORP INC.	PA
47	26.33%	FIRST VOLUNTEER CORPORATION	TN
48	26.26%	LINCOLN BANCORP	IA
49	26.13%	NEW MEXICO BANQUEST CORPORATION	NM
50	26.04%	TOMPKINS FINANCIAL CORPORATION	NY

Ranking excludes MetLife
 Source: Michael White Associates and American Bankers Insurance Association