

BANK SALES

Banks Made Almost \$3 Billion On Insurance In 2001

By Michael D. White

Of 8,593 commercial and federally insured savings banks, 4,276 or 49.8% participated in insurance activities in 2001. These organizations earned \$2.98 billion in insurance commissions and fee income, according to a new study completed by my firm.

The data in this study come from the financial filings of all commercial banks and federally insured savings banks in existence on December 31, 2001. The study, *Michael White's Bank Insurance and Investment Fee Income Report*, shows that

insurance income.

Two-thirds of banks from \$1 billion to \$10 billion in assets generated insurance income of \$903.2 million, representing 30.3% of the industry's total.

Banks under \$1 billion in assets accounted for \$302.9 million in insurance income, or 10.2% of the industry's total in 2001. Of these, banks with less than \$300 million in assets generated \$179.8 million in insurance income, producing 46% more insurance income than banks with between \$300 million and \$1 billion in assets.

under \$1 billion in assets was 75% greater than that of banks over \$1 billion in assets.

The smallest banks, those with under \$100 million in assets, ranked first in mean and median ratios of insurance income to noninterest income. In other words, insurance contributed proportionally more to small banks' non-lending revenue than to that of any other size banks.

In fact, insurance contributed proportionally more to small banks' total revenue than to that of other sized banks. The smallest banks' average insurance income to net operating revenue was the second highest, and they had the top-ranked median ratio of insurance income to net operating revenue. (Net operating revenue, also called total revenue, is the sum of net interest and noninterest incomes.)

Bank Insurance by Region

Banks in the Midwestern and Eastern regions of the country dominated insurance income in 2001.

The Midwest region had the highest bank-participation rate (55.7%)

in insurance activities and the largest amount and share of bank insurance income — respectively, \$774 million and 26.0%.

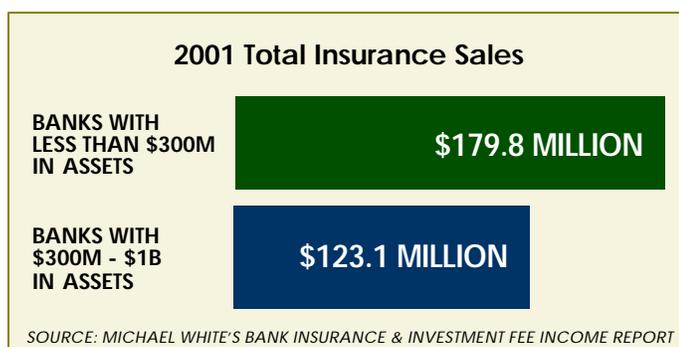
Collectively, the Northeast, Midatlantic and Southeast regions accounted for another \$2.06 billion of insurance income,

over 69% of the industry's total.

Banks in the Southwest and West had the least insurance income. Despite a relatively high bank-participation rate of 49.7%, banks in the Southwest produced only \$73.5 million or 2.5% of banking's insurance income.

Western banks had the lowest bank-participation rate of any region and the smallest amount of insurance income, \$71.5 million or 2.4% of the industry.

Insurance contributed proportionally more to small banks' non-lending revenue than to that of any other size banks.



the largest banks — those over \$10 billion in assets — had the highest rate of participation (81%) in insurance and produced \$1.77 billion or 59.5% of the banking industry's total.

Because of their size, this group of banks had the highest mean and median

Bank Insurance Contribution to Noninterest and Total Revenues

Insurance income for banks under \$1 billion in assets constituted a larger average percentage of non-interest income than for banks over \$1 billion. Indeed, this ratio for banks

Bank Insurance vs. Investment Fee Income

Nearly 2,000 more banks earned insurance fee income than investment fee income in 2001. While the investment fee income for the industry as a whole exceeded insurance fee income by three to one, banks under \$10 billion in assets earned \$150 million or 14.2% more insurance income than investment fee income.

Banks over \$10 billion in assets earned \$8.1 billion or 88.5% of all bank investment fee income. That was 4.6 times their \$1.8 billion in insurance income.

Banks \$300 million to \$500 million in assets earned \$228.6 million in investment fee income, or 4.2 times their insurance income. It should be noted, however, that these banks also produced the least insurance income, \$54.3 million, of any asset-class.

Banks between \$500 million and \$1 billion in assets produced almost as much (90.5%) insurance income (\$68.7 million) as investment fee income (\$76 million).

Three other bank asset-classes produced more insurance than investment fee income.

Banks between \$1-\$10 billion in assets generated \$903.2 million in insur-

INSURANCE FEE INCOME - 2001 Bank Participation by Asset-Size				
BANKS BY ASSET SIZE	REPORTING INSURANCE FEE INCOME		INSURANCE FEE INCOME	PERCENT OF TOTAL INS. FEE INCOME
	NUMBER	PERCENT		
OVER \$1B	314	70.1%	\$2.7 billion	89.8%
UNDER \$1B	3,962	48.6%	\$302.9 million	10.2%
OVER \$10B	68	81.0%	\$1.8 billion	59.5%
\$1B-\$10B	246	67.6%	\$903.2 million	30.3%
\$500M-\$1B	225	57.4%	\$68.8 million	2.3%
\$300M-\$500M	322	54.8%	\$54.3 million	1.8%
\$100M-\$300M	1,340	53.0%	\$108.4 million	3.6%
UNDER \$100M	2,073	44.8%	\$71.4 million	2.4%
ALL	4,276	49.8%	\$2.98 billion	100.0%

SOURCE: MICHAEL WHITE'S BANK INSURANCE & INVESTMENT FEE INCOME REPORT

ance income, 43.7% more than their \$628.4 million of investment fee income.

Community banks between \$100-\$300 million in assets had \$108.4 million in insurance income, 5.9% more than their investment fee income of \$102.4 million.

Banks under \$100 million in assets earned \$71.4 million in insurance income, 3.4 times more than their investment fee income of \$21.0 million.

New Insights and Lessons

The research unearthed much fresh and useful information about bank sales of insurance, these facts that offer new insights and lessons.

In 2001, more banks produced insurance than investment fee income. Still,

only about half sold insurance last year. The conclusion: More banks can earn insurance fee income.

As expected, the biggest banks dominated retail and institutional investment fee income activities. They also earned the most insurance income.

But the impact of insurance on noninterest income and net operating revenue in 2001 was greatest for the smallest banks and more important to them than investment sales. Thus, while a bank's size may be indicative of the amount of insurance income it can earn, bank size does not necessarily have any bearing on success. Smaller banks are succeeding in insurance.

Those banks that produce nominal amounts of

insurance fee income should examine their under-performing insurance programs to make the most of existing efforts. Those not yet selling insurance should assess realistically its potential and seriously consider effective ways to enter this market. Both are missing out on insurance fee income that can significantly augment their total revenues.

For banks committed to insurance, it has become a meaningful contributor to bank revenue, regardless of their size.

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A version of this article first
appeared in National Under-
writer Life & Health Services
Edition, October 14, 2002,
V.106, No.41, pp. 8, 11.
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