Insurance Fee Income Performance Among Pennsylvania Banks

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Since Benjamin Franklin founded the first American insurance company, which celebrates its 250th anniversary this year, Pennsylvania has had a long heritage in insurance. That's a legacy Pennsylvania banks entering the insurance market want to live up to. So, how are they doing?

Now, for the first time, national standardized data on bank insurance fee income enable us to answer that question. The data come from regulatory filings of 8,593 commercial banks and federally insured savings banks. The totals, rankings and performance ratios for the industry, individual banks and their asset-classes come from *Michael White's Bank Insurance and Investment Fee Income Report*™ for 2001. Comparing national performance ratios to those of Pennsylvania banks reveals some interesting findings.

Pennsylvania Bank Insurance Compared Nationally

At the end of last year, 52.8%, or 122, of Pennsylvania's 231 banks participated in insurance activities. These banks earned $44.75 million in insurance commissions and fees, 1.5 percent of the national total of $2.98 billion. Last year, Pennsylvania placed 14th among states in bank insurance fee income, ranking behind, among others, Rhode Island, Alabama, Minnesota, Tennessee, New Jersey and Mississippi.

Average insurance fee income per Pennsylvania bank in 2001 was $366,803, while the national mean was $696,524. Median insurance fee income was $53,000 versus the national median of $21,000. These relative measures underscore the fact that the biggest Pennsylvania banks averaged far less than big banks across the country and that half Pennsylvania's small banks that sold insurance exceeded their national median by better than two times.

The top five leaders in insurance fee income in Pennsylvania in 2001 were Mellon Bank, N.A. with $9.08 million, PNC Bank, N.A. with $7.55 million, Leesport Bank with $3.91 million, First Commonwealth Bank with $3.10 million, and National City Bank of Pennsylvania with $2.98 million. Four of the five ranged in size from $3.5 to $62.6 billion in assets. With less than $500 million in assets, Leesport Bank was the leader among smaller banks.

Large and Small Pennsylvania Banks in Insurance

As a class, large banks over $1 billion in assets have a way to go before reaching their national peer group's average performance. Nineteen large Pennsylvania banks averaged $1.59 million in insurance fee income, compared to their national peer group's average of $8.52 million. Their median was $315,000 versus their national asset-class median of $574,000. Large Pennsylvania banks produced mean performance ratios of insurance fee income that were much lower than their peer group's national averages: one-third the ratio of insurance fee income to retail deposits, two-fifths of insurance fee income to assets, one-third the ratio of insurance fee income per bank employee, and one-fifth the national average per banking office.

In contrast, the group of 103 insurance-selling Pennsylvania banks with less than $1 billion in assets exceeded most mean and median measures of their nationwide peer group, including mean ratios of insurance fee income to retail deposits and assets and insurance fee income per bank, bank employee and banking office.

However, not all Pennsylvania banks with under $1 billion in assets experienced these higher levels of performance. For example, 14 Pennsylvania banks with assets between $500 million and $1 billion earned mean insurance fee income of $183,643, some 40 percent less than the average $305,600 of their nationwide peers.

Pennsylvania banks under $100 million in assets also came up short. Only twenty, or 33.9 percent, offered insurance, while 44.8% of their national peer group had insurance sales programs. Additionally, these Pennsylvania banks' mean insurance fee income of $11,550 was one-third the national average among banks their size, as was their average insurance fee income per employee and banking office. Median performance ratios were also below national standards.

As a group, 24 Pennsylvania banks between $300-$500 million in assets exceeded their national peer group's average performance. They generated $7.72 million or 17.2 percent of Pennsylvania's total bank insurance fee income in 2001. However, Leesport Bank significantly enhanced the performance of this asset-class, accounting for half its insurance fee income. Excluding Leesport Bank, the others fell just short of the national mean insurance fee income per bank for this asset-class.

Forty-five banks between $100-$300 million in assets generated $3.94 million of insurance fee income, producing 8.8 percent of the state's total. Pennview Savings Bank with $968,000 and The Kishacoquillas Valley National Bank of Belleville with $685,000 were the leaders. Their combined total of $1.65 million accounted for 42 percent of their group's insurance fee income. Insurance commissions and fees among the remaining 43 banks averaged $38,442, less than half the national average of $80,926.

Important Considerations for Pennsylvania Banks

Previously unknown and subject only to speculation, these newly unearthed facts lead to some important considerations for Pennsylvania banks.

First, only about half of Pennsylvania banks sold insurance products in 2001. More can, and should, earn insurance fee income.

Second, as a group, smaller banks with less than $1 billion in assets produced one-third (32.3 percent) of Pennsylvania's bank insurance fee income, three times the share of small banks nationally. This explains why their insurance penetration of retail deposits and assets and insurance revenue per bank employee were greater than their national peer group's averages. Thus, while bank-size is often a precondition for the volume of insurance fee income earned, it is not a necessary and sufficient cause of success. Smaller banks can succeed in insurance.

Third, smaller Pennsylvania banks did not share universally in these higher performance measures. Substantial portions of insurance fee income were attributable to a handful of banks. Still, this handful demonstrates that good community bank insurance operations can, and do, outperform those of big banks.

Fourth, banks producing only minimal insurance fee income should examine their under-performing insurance operations with an eye to making the most of an asset they already possess.

Fifth, those banks not yet in the insurance business should examine their potential for selling insurance and seriously consider the right ways for their banks to enter the insurance market.

At last, the facts are in, and there is no denying them. For those banks committed to it, insurance is a meaningful contributor to bank revenue. Is your bank getting its share?

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