The Facts Are In ...

New data shows community banks lead the industry in retail insurance sales

By Michael D. White

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For the first time, national standardized data on bank insurance and investment fee income are available to measure the performance of these programs. No longer must the banking and insurance industries rely solely on surveys with differing response rates and statistical reliability to learn how much insurance and investment fee revenue banks are earning. And, the inevitable tendency to extrapolate survey findings and apply them to a larger universe can be avoided. This is important to financial institutions that want some reliable data and standardized industry measures by which to evaluate and compare their insurance and investment programs.

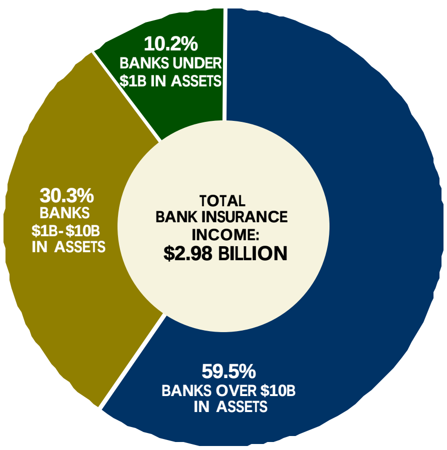
The data come from regulatory filings of commercial banks and federally insured savings banks that earned $1,000 or more of insurance or investment fee income. (Unfortunately, savings associations do not currently report insurance and investment fee income.) The totals, rankings and performance ratios for the industry, individual banks, their asset-classes and regions come from the 2001 year-end edition of Michael White's Bank Insurance and Investment Fee Income Report™. They reveal some interesting facts, too.

Bank Insurance Fee Income

Last year, half the banks (49.8 percent) in existence at Dec. 31, 2001, reported earning $2.98 billion in insurance fee income.

The largest banks, those with more than $10 billion in assets, had the highest participation (81.0 percent) in insurance and produced $1.8 billion or 59.5 percent of the banking industry's total. They had the highest mean and median insurance income. Banks between $300 million and $500 million in assets were, as a class, the smallest producers of insurance income, generating $54.3 million, only 1.8 percent of the industry's total in 2001. Banks with less than $300 million in assets generated $179.4 million in insurance income, producing 46 percent more insurance income than banks between $300 million and $1 billion in assets.

The smallest banks, those with less than $100 million in assets, achieved relative performances that surpassed most other bank classes. The smallest banks were first in mean and median insurance income to noninterest income and noninterest fee income. They also had the second-largest average insurance income to net operating revenue and the top-ranked median insurance income to net operating revenue.



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

Comparing top-quartile performances, insurance income for banks with less than $1 billion in assets constituted a larger percentage of noninterest income and fee income than for banks with more than $1 billion in assets. Indeed, the former's ratios were, respectively, 75 percent and 60 percent greater. Top-quartile ratios of insurance to noninterest income and fee income among community banks with less than $100 million in assets were 2.5 times greater than those of banks with more than $10 billion in assets.

Banks in the eastern regions of the country dominated insurance income in 2001. The Northeast, Midatlantic and Southeast regions accounted for nearly $2.06 billion of insurance income, over 69 percent of the industry's total. The Midwest region had the highest participation rate (55.7 percent) in insurance activities and largest amount of insurance income, $774.0 million, a 26.0 percent share.

The Southwest and West regions were weakest in generating insurance income. Despite a relatively high participation rate (49.7 percent), banks in the Southwest produced only $73.5 million or 2.5 percent of banking's insurance income. Western banks had the lowest insurance participation rate (28.2 percent) of any region and the smallest volume of insurance income, $71.5 million or 2.4 percent of the industry.

Bank Investment Fee Income

About one-fourth of banks (27.1 percent) reported $9.16 billion in investment fee income in 2001.

Banks with more than $10 billion in assets had the highest participation (83.3 percent) in investment fee activities and accounted for $8.1 billion or 88.5 percent of total banking industry investment fee income. They had the highest mean and median investment fee income and ranked first or second in virtually every mean and median measurement of investment fee income.

As a class, banks between $300 million and $500 million in assets ranked first in mean investment fee income to noninterest income and noninterest fee income. They produced $228.6 million in investment fee income, three times more than that of banks between $500 million and $1 billion in assets. Banks with less than $100 million in assets produced the least investment fee income, $21.0 million or 0.2 percent of the industry's total.

Banks in the eastern regions of the nation were preeminent in investment fee income in 2001. The Northeast, Midatlantic and Southeast regions accounted for $7.6 billion in investment fee income, 82.8 percent of the industry's total.

The Northeast region had the highest participation (34.6 percent) in investment fee activities and largest amount of investment fee income, $4.1 billion or a 44.6 percent share. Their mean investment fee income of $22.0 million and median of $140,000 ranked first, well ahead of all other regions.

The Southwest and West regions were last in investment fee income. The Southwest produced $114.5 million or 1.3 percent of the nation's total bank investment fee income, and it had the lowest mean and second lowest median by bank. Banks in the West ranked next-to-last in total investment fee income with $610.9 million.

Comparison of Insurance and Investment Fee Income

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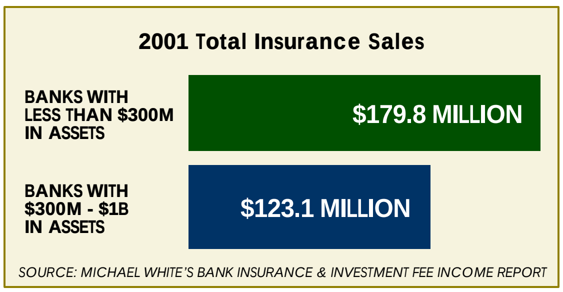
While the industry's investment fee income exceeded insurance fee income by three-to-one, banks with less than $10 billion in assets earned nearly $150 million or 14.2 percent more in insurance than investment fee income.

The biggest banks earned 4.6 times as much investment fee income ($8.1 billion) as insurance income ($1.8 billion). Those between $300 and $500 million in assets earned 4.2 times as much investment fee income ($228.6 million) as insurance income ($54.3 million), though it should also be noted that, when it comes to insurance, they produced the lowest amount and percent of the industry's insurance income of any asset-class.



Banks between $500 million and $1 billion in assets produced almost as much (90.5 percent) insurance income ($68.7 million) as investment fee income ($76.0 million). Three other bank asset-classes produced more insurance than investment fee income. Banks between $1 billion and $10 billion in assets generated 43.7 percent more insurance income ($903.2 million) than investment fee income ($628.4 million). Community banks between $100 and $300 million in assets had 5.9 percent more insurance income ($108.4 million) than investment fee income ($102.4 million). Banks with less than $100 million in assets earned $71.4 million in insurance income, 3.4 times more than their investment fee income of $21.0 million.

Mutual Funds and Annuities

Fewer than one-in-four banks (24.8 percent) reported mutual fund and annuity income totaling $5.51 billion in 2001.

Banks with more than $10 billion in assets had the highest rate of participation, 84.5 percent, in mutual fund and annuity activities. The $10 billion-plus-asset banks accounted for $5.0 billion or 89.8 percent of the banking industry's mutual fund and annuity income. They had the highest mean and median mutual fund and annuity income by bank. Banks with less than $100 million in assets produced the least mutual fund and annuity income, $16.9 million or 0.3 percent of the industry's total. Regionally, the Northeast and Southeast accounted for $2.9 billion in mutual fund and annuity income, a 52.6 percent share. The Northeast region had the highest participation rate, 32.7 percent, in mutual fund and annuity activities and second largest amount of mutual fund and annuity income with $1.3 billion, a 22.9 percent industry share. Their first-place mean mutual fund and annuity income of $6.6 million edged the Southeast region's mean of $6.5 million. Their median of $134,000 ranked first, well ahead of the other regions.

The Southeast region had the second lowest participation (20.4 percent), but the highest mutual fund and annuity income with $1.6 billion or 29.7 percent of the total market as measured by income. Southeast banks were a close second to the Northeast in mean mutual fund and annuity income.

Southwest banks placed last with $57.3 million or 1.0 percent of the nation's total mutual fund and annuity income and recorded the lowest mean and second lowest median mutual fund and annuity income. The West ranked next-to-last in total mutual fund and annuity income with $518.7 million, but their median of $87,500 ranked second regionally.

Inescapable Conclusions

These facts, previously unknown and only speculations, lead to some inescapable conclusions for community banks. First, far more banks produce insurance income than investment fee income. Still, only half the banks are selling insurance products such that they make at least $1,000 in insurance income. More banks can and should earn insurance income.

Last year, half of all banks reported earning $2.98 billion in insurance fee income.

Banks with less than $10 billion in assets produce more insurance income than investment fee income. The impact of insurance activities on noninterest income and net operating revenue is greatest for community banks and more important than investment sales activities. Smaller banks produce a greater share of insurance income than investment fee income, while the biggest banks dominate retail and institutional investment fee activities. Thus, while size is likely a precondition for the volume of insurance income earned, it is not a necessary and sufficient cause of a success.

Small banks can succeed in insurance.

Top-quartile performance in insurance income-generation among community banks is generally better than that of the biggest banks. Good community bank insurance operations can, and do, out-perform those of big banks. Those banks that are producing only a nominal amount of insurance income should examine their under-performing insurance operations with an eye to making the most of an asset they already possess. Those banks that are not yet in the insurance business should take a good look at their potential for selling insurance and give serious consideration to entering the insurance market.

Finally, the facts are in, and there is no denying them. For those banks committed to it, insurance is a meaningful contributor to bank revenue. Your bank should get its share.

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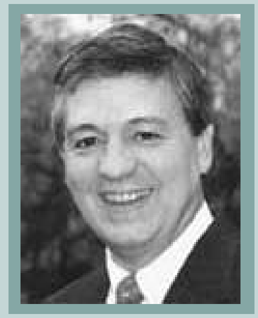

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