Banks' 1Q Investment Earnings Fell As Insurance Fee Income Rose

By Michael D. White

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Bank insurance fee income rose slightly in the first quarter of 2003, while bank investment fee income fell, according to my company's analysis of data released in June by the Federal Deposit Insurance Corporation. Insurance fee income includes income reported from all insurance activities: insurance sales, underwriting or reinsurance.

In the first three months of this year, bank insurance fee income was up 1.4% to $876.6 million from $864.7 million earned in the corresponding months of 2002.

Of 8,356 commercial and federally insured savings banks operating at the end of March, 3,461, or 41.4%, were engaged in insurance activities in the first quarter.

Income by asset class. Participation in insurance was highest among the largest banks, those with assets topping $10 billion. Of these banks, 74% engaged in insurance activities that generated insurance commissions, fees and income of $623 million in the first quarter of 2003. That was up 10.9%, from $561.9 million recorded in the first three months of 2002. These largest banks accounted for 71.1% of banks' insurance income, a 600-basis-point increase over their first quarter 2002 bank-market share.

The five leaders in insurance fee income among the biggest banks were Citibank, N.A. (NY) with $155 million, up 36% from $114 million in first quarter 2002; BB&T (NC) with $84.2 million, up 31% from $64.2 million; MBNA American Bank, N.A. (DE) with $53.5 million, up 16.8% from $45.8 million; Chase Manhattan Bank USA, N.A. (DE) with $37.1 million, down 31.7% from $54.4 million; and Wachovia Bank, N.A. (NC) with $30 million, up 275% from $8 million.

Banks with assets between $1 billion and $10 billion experienced a large decline, 27.4%, in insurance fee income, from $221.3 million to $160.6 million through March 31.

Meanwhile, those banks with assets of less than $1 billion had $93 million of insurance income, up 14.2% from the year-earlier period's $81.5 million. Their mean insurance income per banking office was up 24.3%, and median insurance income by banking location was up 8%. Their mean ratio of insurance fee income to noninterest income was 5.5639%, more than twice that of the 2.2086% recorded by banks with more than $10 billion in assets.

> **Banks in the Northeast produced the most insurance income**

The five leaders in insurance fee income among banks with less than $1 billion in assets (excluding Popular's small Florida bank with $4.3 million) were BNC National Bank (AZ) with $4.1 million; Sunflower Bank, N.A. (KS) with $3.1 million, up 113.9% from $1.4 million; the Oneida Savings Bank (NY) with $1.6 million, up 17% from $1.4 million; Hoosac Bank (MA) with $1.6 million, up 38.7% from $1.1 million; and Soy Capital Bank and Trust Company (IL) with $1.5 million, 60 times greater than $24,000 in first quarter 2002.

Of the community banks, those with assets of $500 million to $1 billion had the largest increase in insurance fee income, 72.7%, from $17.8 million to $30.8 million.

At the smallest community banks, with assets of less than $100 million, income from insurance commissions, fees and income fell 14.1% (it was the second of the two asset classes that experienced a decline in insurance revenue).

Their leaders included Community Bank Winsted (MN.) with $317,000, up 46.1% from $217,000 in first quarter 2002; Benchmark Bank (TX) with $291,000, up 9.8% from $265,000; Audubon State Bank (IA) with $289,000, up 88.9% from $153,000; La Salle State Bank (IL) with $179,000, down 1.7% from $182,000; and Union State Bank (WI) with $179,000, up 2.3% from $175,000.

By Region. Banks in the eastern regions of the country dominated insurance income in the first three months of 2003. The Northeast, Midatlantic, and Southeast accounted for $678.1 million, or 77.4% of the industry total.

Banks in the Northeast produced the most insurance income, $267.3 million – up 34.3% from $199 million in first quarter 2002. The Northeast improved its share of the bank insurance market by 750 basis points to 30.5%.

Insurance Fee Income Leaders

Bank	1Q 2003 Insurance Fee Income	% change from 1Q 2002
Citibank, N.A. (NY)	$155 million	36%
BB&T (NC)	$84.2 million	31%
MBNA America Bank, N.A. (DE)	$53.5 million	16.8%
Chase Manhattan Bank USA, N.A. (DE)	$37.1 million	-31.7%
Wachovia Bank, N.A. (NC)	$30 million	275%

Participation in insurance was highest among the largest banks, those with assets topping $10 billion

The Midwest, two years ago the leading region in insurance fee income, fell to fourth place among six regions in the first quarter of 2003. The Southwest and West had the smallest amounts of insurance fee income, but both experienced strong growth: the Southwest, 41.1% and West, 24.1%.

Investment Fee Income. Through the first quarter of 2003, 24.7% of all banks generated investment fee income totaling $2.23 billion. That was down 3.9% from the $2.32 billion earned during the same period in 2002.

Banks with more than $10 billion of assets produced $1.99 billion in investment fee income, 4.2% less than the $2.08 billion generated in the first three months of 2002. These large banks accounted for 89.3% of all bank investment fee income.

All five asset classes below $10 billion had declines in their investment fee income. Some of these declines were as large as 29%, 46% and 111%.

Collectively, banks in the $300 millionto$1 billion asset range had $52.4 million in investment fee income – down 65.6% from $79.8 million in the first quarter of 2002.

As of March 31, banks' total insurance fee income – $876.6 million – was just 39.3% of the industry's investment fee income. Yet banks with assets below $10 billion had more income from insurance commissions and fees ($253.6 million) than investment fees $239.3 million). Three asset classes – more than $10 billion, $300 million to $500 million, and $100 million to $300 million – had more investment income than insurance fee income. The $300 million to $500 million group that had the lowest insurance income ($16.4 million).

Three asset classes produced more insurance fee income than investment fee income in first quarter 2003.

Banks with $1 billion to $10 billion of assets generated $160.6 million in insurance fee income, 20.5% more than investment fee income of $133.3 million.

Those with assets of $500 million to $1 billion had insurance income of $30.8 million, 19.5% more than their investment fee income of $26.6 million.

Finally, the smallest banks, those with assets below $100 million, had insurance income of $19.9 million, four times their $4.3 million in income from investment fees.

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