

Insurance Brokerage Fee Income Among Pennsylvania's Bank Holding Companies

by Michael D. White, PhD., CLU, ChFC



Eight years ago nearly to the day, Pennsylvania-chartered financial institutions acquired the right to sell insurance. A unanimous U.S. Supreme Court decision in 1996, the celebrated Barnett Banks case, had established bank insurance as an activity that is here to stay. This court ruling sustained the historical legal au-

thorities of national banks to sell insurance. It also resulted in new legislative and regulatory initiatives at the state level that subsequently expanded bank insurance sales powers in dozens of states.

Pennsylvania was one of those states that granted its state-chartered banks authority to sell insurance in order to compete with national banks. On June 25, 1997, Governor Tom Ridge signed into law Act 40 of 1997, enabling Pennsylvania bankers to sell insurance. In the aftermath of these events, enactment of the Gramm-Leach-Bliley Act (GLBA) in the fall of 1999 seemed, for most banking organizations, rather anticlimactic. Nonetheless, bank insurance activity really began to take off after the GLBA consumer protection rules for the sale of insurance became effective less than four years ago in 2001.

So, after all these legendary bank insurance victories to secure insurance powers, how well is the Pennsylvania banking industry doing selling insurance? We can, in fact, answer that question empirically. My Bank and Bank Holding Company Insurance and Investment Fee Income Reports™ measure and compare bank and bank holding company (BHC) insurance, investment, and mutual fund and annuity fee income all around the country. The findings of these reports are derived directly from data filed since 2001 by top-tier bank holding companies with consolidated assets of more than \$150 million, commercial banks and FDIC-supervised savings banks. This article's findings are based upon Pennsylvania bank holding companies' financial information reported as of

December 31, 2004, to the Federal Reserve.

In 2004, Pennsylvania ranked 8th among the 50 states in total BHC insurance brokerage fee income. Top-tier bank holding companies with over \$150 million in assets headquartered in the state of Pennsylvania earned a record \$116.4 million in insurance brokerage fee income, up from \$78.4 million in 2001, the first year in which these data were reported. (The 2001 figure excludes the insurance brokerage earnings of Mellon Financial Corporation, which subsequently sold its insurance agency interests along with other banking assets to Citizens Financial Group, Inc., of Rhode Island, where that revenue is now recorded.)

That \$38 million increase over 3 years constituted a compound annual growth rate (CAGR) of 14.0%. And, the median insurance brokerage fee income for Pennsylvania BHCs experienced a CAGR of 16.9% as it rose from \$87,000 in 2001 to \$139,000 in 2004, more than double the national median of \$65,000 in 2004.

BHC Insurance Brokerage Fee Income and Participation

Of the 98 top-tier bank holding companies that reported on December 31, 2004, 63 BHCs or 64.3% participated in insurance selling activities during the year. The \$116.4 million in insurance brokerage fee income earned in 2004 was \$18.7 million or 19.2% more than the \$97.6 million earned in 2003.

Statewide, the mean insurance brokerage fee income for BHCs was \$1.85 million in 2004, also an increase of 19.2% from \$1.55 million in 2003. Median insurance brokerage fee income for 2004 was \$139,000, up 33.7% from \$104,000 achieved in 2003.

In 2004, the top five leaders in insurance brokerage fee income in Pennsylvania were The PNC Financial Services Group, Inc. with \$63.1 million, up 16.8% from \$54.0 million in 2003; Leesport Financial Corp. with \$10.8 million, up 17.2% from \$9.2 million in 2003; Susquehanna Bancshares, Inc. with \$9.3 million, down 7.0% from \$10.0 million; National Penn Bancshares, Inc. with

\$3.9 million, up 45.4% from \$2.7 million; and Sterling Financial Corporation with \$3.6 million, up 2,289.4% from \$151,000 in 2003.

BHCs Over \$1 Billion in Assets

Of 19 BHCs over \$1 billion in assets, 16 or 84.2% reported some insurance brokerage fee income in 2004. They produced \$96.0 million or 82.5% of the state's total BHC insurance brokerage fee income, increasing their total 17.5% in 2004 from \$81.7 million earned in 2003.

These BHCs achieved mean insurance brokerage fee income of \$6.0 million in 2004, up 24.9% from \$4.8 million in 2003. Their median insurance brokerage fee income was \$2.2 million, up 233.9% from \$651,000 in median insurance brokerage fee income in 2003.

Among BHCs over \$1 billion in assets, the top five leaders in insurance brokerage fee income in 2004 were: The PNC Financial Services Group, Inc. with \$63.1 million, up 16.8% from \$54.0 million in 2003; Susquehanna Bancshares, Inc. with \$9.3 million, down 7.0% from \$10.0 million in 2003; National Penn Bancshares, Inc. with \$3.9 million, up 45.4% from \$2.7 million; Sterling Financial Corporation with \$3.6 million, up 2,289.4% from \$151,000; and First Commonwealth Financial Corporation with \$3.4 million, up 2.5% from \$3.3 million in 2003.

BHCs Under \$1 Billion in Assets

Among 79 BHCs under \$1 billion in assets, 47 or 59.5% generated \$20.4 million in insurance brokerage fee income, or 17.5% of the total reported by Pennsylvania BHCs in 2004. That share of the Pennsylvania market was considerably more than the 3% share of the national market held by BHCs under \$1 billion in assets. The amount of \$20.4 million was an increase of 27.9% over the \$15.9 million earned in 2003.

In 2004, BHCs with less than \$1 billion of assets attained mean insurance brokerage fee income of \$433,298, 25.2% more than their mean \$346,196 in 2003 and 70% more than the national mean of \$255,448 in 2004. Their median insurance brokerage fee income of \$80,000 reflected an increase of 63.3% from the median of \$49,000 at December 31, 2003, and 76% more than the national median of \$45,500 for this asset class in 2004.

Among BHCs with less than \$1 billion in assets, the top five leaders in insurance brokerage fee income in 2004 were ; Leesport Financial Corp. with \$10.8 million, up 17.2% from \$9.2 million in 2003; Penns Woods Bancorp, Inc. with \$2.3 million, up 42.8% from \$1.6 million; Citizens Incorporated with \$1.1 million, up 129.0% from \$479,000; FSB Mutual Holdings, Inc. with \$1.1 million, up from nothing in 2003; and Kish Bancorp, Inc. with \$811,000, up 12.0% from \$724,000 in 2003. These two broad classifications of BHCs over and under \$1 billion in assets were broken into

a half-dozen, more discrete asset-classifications of BHCs. Among the six more finely segmented asset classes of Pennsylvania bank holding companies, each

experienced double-digit growth in insurance brokerage fee income in 2004 that exceeded that of its asset class nationally. BHCs over \$10 billion in assets experienced 16.9% growth; BHCs with assets between \$1 billion and \$10 billion grew their insurance brokerage fee income 18.8%; BHCs between \$500 million and \$1 billion in assets achieved growth of 31.5%; BHCs between \$300 million and \$500 million in assets grew their insurance business 12.7% and BHCs between \$100 million and \$300 million in assets earned 36.0% more insurance brokerage fee income in 2004 than 2003.

INSURANCE BROKERAGE FEE INCOME OF PENNSYLVANIA BANK HOLDING COMPANIES, 2001-2004

YEAR	REPORTING INSURANCE BROKERAGE FEE INCOME		INSURANCE BROKERAGE FEE INCOME	MEAN INSURANCE BROKERAGE FEE INCOME	MEDIAN INSURANCE BROKERAGE FEE INCOME
	NUMBER	PERCENT			
2004	63	64.3%	\$116.4 million	\$1,846,889	\$139,000
2003	63	64.3%	\$97.6 million	\$1,549,365	\$104,000
2002	61	64.9%	\$88.4 million	\$1,448,656	\$96,000
2001 *	57	63.3%	\$78.4 million	\$1,376,211	\$87,000

SOURCE: MICHAEL WHITE'S BANK HOLDING COMPANY INSURANCE & INVESTMENT FEE INCOME REPORT - 2004 YEAR-END

*THESE FIGURES EXCLUDE THE 2001 INSURANCE BROKERAGE FEE INCOME OF MELLON FINANCIAL CORPORATION, WHICH SUBSEQUENTLY SOLD ITS INSURANCE AGENCY INTERESTS ALONG WITH OTHER BANKING ASSETS TO CITIZENS FINANCIAL GROUP, INC. OF RHODE ISLAND, WHERE THAT REVENUE IS NOW RECORDED.



Can Pennsylvania bank holding companies do more in selling insurance? Can they be better at the insurance business? Of course, they can. More than one-third of the state's BHCs is still not yet in the business. Others in the business are not performing up to their capabilities or the standards of their colleagues in the state. Even so, late bloomer though it may be, Pennsylvania is proving to be fruitful soil for the planting of insurance sales initiatives among bank holding companies. By many measures, especially insurance revenue medians and growth rates, PA bankers are demonstrating that insurance sales are a worthy crop and insurance brokerage fee income is a worthy revenue to harvest.

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TOP 10 PENNSYLVANIA BANK HOLDING COMPANIES IN INSURANCE BROKERAGE FEE INCOME, 2004

TOP 10 PENNSYLVANIA BANK HOLDING COMPANIES IN INSURANCE BROKERAGE FEE INCOME, 2004						
RANK	INSURANCE BROKERAGE FEE INCOME		PERCENT CHANGE 2003 - 2004	BANK HOLDING COMPANY	ASSETS	% OF NONINTEREST INCOME
	JANUARY - 2004	DECEMBER 2003				
(ALL DOLLAR AMOUNTS IN THOUSANDS)						
1	\$63,086	\$53,999	16.83%	PNC FINANCIAL SERVICES GROUP, INC.	\$79,742,776	1.79%
2	\$10,781	\$9,200	17.18%	LEESPORT FINANCIAL CORP.	\$879,140	62.26%
3	\$9,287	\$9,982	-6.96%	SUSQUEHANNA BANCSHARES, INC.	\$7,475,073	8.29%
4	\$3,858	\$2,654	45.37%	NATIONAL PENN BANCSHARES, INC.	\$4,478,793	8.35%
5	\$3,608	\$151	2,289.40%	STERLING FINANCIAL CORPORATION	\$2,742,682	6.30%
6	\$3,387	\$3,305	2.48%	FIRST COMMONWEALTH FIN'L CORP.	\$6,198,354	8.05%
7	\$3,239	\$2,799	15.72%	S & T BANCORP, INC.	\$2,973,355	11.22%
8	\$3,209	\$3,159	1.58%	UNIVEST CORP. OF PENNSYLVANIA	\$1,666,957	14.90%
9	\$2,978	\$2,634	13.06%	COMMUNITY BANKS, INC.	\$1,954,799	14.20%
10	\$2,282	\$1,598	42.80%	PENNS WOODS BANCORP, INC.	\$546,703	39.60%

SOURCE: MICHAEL WHITE'S BANK HOLDING COMPANY INSURANCE & INVESTMENT FEE INCOME REPORT - 2004 YEAR-END

TOP 10 PENNSYLVANIA BANK HOLDING COMPANIES IN INSURANCE BROKERAGE FEE INCOME AS A PERCENTAGE OF NONINTEREST INCOME, 2004

TOP 10 PENNSYLVANIA BHCs IN INSURANCE BROKERAGE FEE INCOME AS % OF NONINTEREST INCOME, 2004						
RANK	INS. BROK. FEE INC. AS % OF NII 2004	% CHANGE FROM 2003	BANK HOLDING COMPANY	ASSETS	INSURANCE BROKERAGE FEE INCOME	NONINTEREST INCOME
(ALL DOLLAR AMOUNTS IN THOUSANDS)						
1	62.26%	25.99%	LEESPORT FINANCIAL CORP.	\$879,140	\$10,781	\$17,316
2	39.60%	23.03%	PENNS WOODS BANCORP, INC.	\$546,703	\$2,282	\$5,763
3	29.53%	N/A	FEB MUTUAL HOLDINGS, INC.	\$927,971	\$1,075	\$3,640
4	17.26%	15.56%	MNB CORPORATION	\$258,282	\$348	\$2,016
5	14.90%	0.96%	UNIVEST CORP. OF PENNSYLVANIA	\$1,666,957	\$3,209	\$21,537
6	14.20%	-0.16%	COMMUNITY BANKS, INC.	\$1,954,799	\$2,978	\$20,965
7	13.08%	63.93%	STANDARD MUTUAL HOLDING CO.	\$250,663	\$159	\$1,216
8	12.31%	9.69%	KISH BANCORP, INC.	\$396,456	\$811	\$6,586
9	12.20%	-28.37%	ORBISONIA COMMUNITY BANCORP, INC.	\$177,417	\$105	\$861
10	11.51%	-45.51%	COMMERCIAL NATIONAL FINANCIAL CORP.	\$320,372	\$391	\$3,396

SOURCE: MICHAEL WHITE'S BANK HOLDING COMPANY INSURANCE & INVESTMENT FEE INCOME REPORT - 2004 YEAR-END