As Seen In The AMERICAN BANKER

Bank Holding Company Insurance Brokerage Fee Income Grows at Record Pace

The ratio of fee income to noninterest income is an important performance measurement for a banking company. It indicates the contribution a particular fee is making to nonlending revenue.

Even with a robust and profitable insurance program, the percentage of noninterest income from insurance might be lower than the average, if the institution enjoys a high level of earnings from other noninterest or noncredit sources.

In the first quarter banking companies with over $10 billion of assets had the highest median ratio of insurance brokerage fee income to noninterest income (2.5%). BancorpSouth Inc. led this asset class, with a ratio of 33.6%, followed by R&G Financial Corp., with 31.5%.

Among banking companies with assets of between $1 billion and $10 billion, Greater Bay Bancorp was No. 1, with 74.6% of its noninterest income coming from insurance brokerage fee income. OceanPoint Financial Partners LLC was No. 2 in this asset class, with a ratio of 55.5%.

Among companies with assets of between $500 million and $1 billion, BNCCorp Inc. was No. 1, with 79.2% of its noninterest income coming from insurance brokerage fees. MountainOne Financial Partners Inc. was No. 2, with a ratio of 70%.

Banking companies with assets of between $300 million and $500 million had the highest mean ratio of insurance brokerage fee income to noninterest income (8.7%). Beach Community Bancshares Inc. ranked No. 1 in this group, generating 54.8% of its first-quarter noninterest income from insurance brokerage activities. Platte Valley Financial Service Cos. Inc. came in No. 2, with a ratio of 46.3%.

Top-tier bank holding companies, which earned a record $10.98 billion of insurance brokerage fees last year, appear to be well on their way to establishing another record this year.

In the first quarter 615 bank holding companies generated $3.04 billion of insurance brokerage fee income, an increase of 23.9%, or $586.7 million, over what they earned in the first quarter of last year. That growth rate exceeded by 2 full percentage points the compound annual growth rate for bank insurance brokerage fee income since 2001, according to benchmarking research of call reports conducted by my firm and cosponsored by the DFC Group Inc. and Symetra Financial Corp.

This growth was achieved even though 1,388 fewer bank holding companies itemized noninterest fee income in the first quarter, because the Federal Reserve Board changed its definition of large and small bank holding companies. The small companies are now defined as those having less than $500 million of consolidated assets, instead of those with less than $150 million. That change means that companies with less than $500 million now generally don't report noninterest fee income such as insurance brokerage fees.

Exceptions to this rule caused 140 bank holding companies with assets of between $300 million and $500 million to file specific fee income data. But the new definition eliminated the detailed reporting of 735 companies that generated nearly as much insurance brokerage fee income last year as those with assets between $500 million and $1 billion.

Because so many smaller banking companies no longer report insurance brokerage fee income, the national mean for insurance brokerage fee income rose 162%, to $4.95 million, and the national median climbed 247%, to $59,000.

Bank holding companies with assets of over $10 billion had the highest participation rate in insurance activities, with 91.9%. Of the 74 companies in this asset class, 68 collected $2.8 billion of insurance brokerage fees in the first quarter, accounting for 92.1% of the industry's measurable total. This group's insurance brokerage revenue grew 27.2% from the same period last year.

Citigroup Inc., Wells Fargo & Co., and BB&T Corp. led all bank holding companies in the absolute dollar amount of insurance brokerage fee income in the first quarter.

Insurance brokerage fee income at companies with assets of $1 billion to $10 billion grew 12.5% from the same period last year, to $190.5 million. In this asset class, the dollar-volume leaders were Greater Bay, Eastern Bank Corp., and Old

National Bancorp.

Meanwhile, those with assets of between $500 million and $1 billion collected $41.9 million of insurance brokerage fee income, or 6.5% more than they did in the first quarter last year. Among these bank holding companies, the dollar-volume leaders included BNCCorp, Leesport Financial Corp., and Shore Bancshares Inc.

Companies with assets of between $300 million and $500 million registered a smaller amount of insurance revenue, because of the Fed's change in the definition of small bank holding companies. In the first quarter only 72 of the companies in this asset class reported insurance brokerage revenue, versus 301 last year.

Nonetheless, the mean among this group rose 27.8% from a year earlier, to $97,778. The dollar-volume leaders were Platte Valley, Goodenow Bancorp., and Delmar Bancorp.

Because there are now 481 fewer small banking companies reporting their mutual fund and annuity fee income, the first-quarter national mean for this income rose 87%, to $8.48 million. The national median nearly doubled, to $82,000.

Bank holding companies with over $10 billion of assets had the highest rate of participation, with 66 of 74 (or 89.2%) engaging in mutual fund and annuity activities. These companies accounted for $4.17 billion, or 83%, of the industry's mutual fund and annuity fee income in the first three months of this year.

Companies with over $10 billion of assets experienced 5.5% growth in their first-quarter mutual fund and annuity revenue from the same period last year. Bank of America Corp., PNC Financial Services Group Inc., and Wachovia Corp. led all bank holding companies in the absolute dollar amount of mutual fund and annuity fee income.

Banking companies with assets of between $1 billion and $10 billion generated mutual fund and annuity income of $837.2 million, or 15.1% more than they did a year earlier. Among these, the dollar-volume leaders included SVB Financial Group, Boston Private Financial Holdings Inc., and Washington Trust Bancorp Inc.

First-quarter mutual fund and annuity fee income at banking companies with assets of between $500 million and $1 billion grew 5.9%, to $16.2 million. Among these companies, the dollar-volume leaders included First Citizens Bancshares Inc., CCB Financial Corp., and Northeast Bancorp.

Once again, banking companies with between $300 million and $500 million of assets registered a smaller amount of mutual fund and annuity revenue, because of the Fed's definition change. In the first quarter, only 71 companies in this asset class reported earning mutual fund and annuity revenue, compared with 248 a year earlier. The dollar- volume leaders here included Goodenow, Codorus Valley Bancorp Inc., and Eagle Financial Services Inc.

Michael D. White, Ph.D., CLU, ChFC, is President of Michael White Associates, LLC, (MWA) headquartered in Radnor, PA, and at www.BankInsurance.com.