FDIC data shows 2002 bank insurance fee income up, investment fee income down

studyincontrasts

by Michael D. White

For banks playing in the insurance arena, 2002 was a stellar year. Banks earned a record $3.49 billion in insurance fee income, an increase of more than half a billion dollars or 17.3 percent from $2.98 billion in 2001. Last year was also the first time that more than half the banks (4,359 or 52 percent of them) engaged in insurance activities that produced insurance revenue, according to *The Bank Insurance & Investment Fee Income Report* published by Michael White Associates, ICBA's Preferred Service Provider for bank insurance consulting. The report provides an in-depth analysis of FDIC data.

What may community bankers learn from the industry's activities in bank insurance and investments? Here are five observations about both positive and negative trends.

1. Insurance activities represent a meaningful source of increasing income for a growing percentage of banks, particularly community banks. In 2002, banks achieved record insurance revenues that rose significantly, while bank investment fee income was stagnant. And, for the first time, a majority of banks earned fee income from insurance activities. Banks with assets over $10 billion clearly dominated the industry's investment fee income with a 90 percent share, but banks with less than $10 billion in assets held a large share of insurance fee income, that is, 26.7 percent. Indeed, these smaller banks produced more insurance fee income than investment fee income in 2002.

2. Growth in bank insurance activities has risen fast in the Eastern and Southeastern regions, which have now supplanted the Midwest as the leading producer of insurance revenues. For a long time, the Midwest benefited from more liberal bank insurance laws. Now, we are witnessing the liberating effects of the Gramm-Leach-Bliley Act in other parts of the country where banks that were long

prohibited from entering the insurance business are expanding into it. We may also be seeing the result of some complacency on the part of midwestern community banks that should be pursuing strategies of insurance growth rather than being satisfied with the status quo.

3. Banks strongly committed to insurance fare better at it. In fact, top-performing community banks, as measured by the top-quartile ratios of insurance to noninterest income, attain higher ratios than the largest banks. The top-quartile banks among those with less than $1 billion in assets start with a 6.75 percent ratio of insurance fee income to noninterest income. The top-quartile insurance performances among the smallest community banks with less than $100 million in assets begin with an 8.60 ratio of insurance fee income to noninterest income.

4. Most banks still do not take advantage of selling annuities, an activity that has been the largest source of insurance fee income for the last 15 years. The 25.8 percent of banks reporting mutual fund and/or annuity income may be the least-changed participation-rate in the last 10 years. Given that one-fourth of banks and thrifts have sold over $272 billion of annuity premiums since 1990 and grossed more than $16 billion in commissions, it remains a mystery that three-quarters of all banks do not earn insurance income by selling annuities.

5. Proprietary mutual funds and annuities probably don't make sense for most banks, particularly community banks. Indeed, in 2002, one in six banks got out of the business of managing proprietary assets for these products. Banks over $10 billion in assets had nearly 97 percent of all bank-proprietary assets in these products. Banks under $1 billion in assets that had proprietary mutual fund or annuity products accounted for less than 1 percent of all bank-proprietary assets and had a median under management of only $1.1 million. By and large, community banks interested in annuities or mutual funds would do better to sell them than manage the products' assets.

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