



**A Pennsylvania
bank has a blue-
print drafted to
achieve
ambitious
revenue goals**

Plan of **A**CTION



by Michael D. White

Six years ago PeoplesBank in York, Pa., underwent a major makeover — adopting a new name, logo and motto, “People Committed to You.” The bank, then less than \$250 million in assets, now \$370 million, committed to a new two-year sales and product training program for its retail staff. Its management, hoping to boost revenue (noninterest income was 10.8 percent of net operating revenue in 1998), also sought to explore new profit-generating product lines.

To help assess opportunities in the insurance and annuity market, in 1998 PeoplesBank executives commissioned Michael White Associates (MWA), an ICBA Preferred Services Provider for insurance consulting, to map out a suitable strategy. The company produced a five-year economic assessment report. Its ver-

dict: The bank’s prospects were good for selling annuities and life insurance offerings through a dedicated, full-time life insurance specialist. The assessment viewed property-casualty insurance as offering the bank fewer opportunities. Personal lines auto and homeowners insurance were least attractive.

Michael White Associates also performed a strategic evaluation and financial valuation of a leading PeopleBank’s acquisition target — a property-casualty insurance agency. MWA recommended that the bank not purchase the agency. Unable to recruit suitable life insurance specialists, the bank and MWA agreed that the use of licensed bank employees would produce the forecasted annuity volume.

PeoplesBank moved ahead with a rec-

The bank eventually sold \$4.4 million in annuity premiums, exceeding its consulting report's forecast by 61 percent and its own plan by 156 percent.

ommended third-party marketer (TPM) and spent the remainder of 1999 getting bank employees licensed for insurance sales (all 26 passed their first exam). Then the bank formed an insurance subsidiary, SYC Insurance Services Inc., and prepared to launch its annuity program in January 2000.

PeoplesBank and its third-party marketer went about their business for the next 18 months. In July 2001, the bank's CEO Larry Miller and general counsel Ron Swift directed Michael White Associates to review and evaluate the bank's annuity program performance to date and explore additional sales possibilities within its marketplace.

MWA reported, among others, the following findings:

- In 2000, PeoplesBank sold \$4.4 million in fixed annuity premium on 167 sales at an average premium of \$26,366. Annuity gross commission revenue totaled \$153,944 (\$154,531 for the entire program, which included the introduction of mutual funds in 4Q2000), averaging \$922 per sale. Total program net revenue (i.e., gross commission less agents' commission and referral fees) totaled \$138,364, averaging \$829 per sale.

- Annuity and mutual fund gross commission revenue in 2000 represented 7.2 percent of the bank's total noninterest income of \$2.2 million. Net income from the annuity-mutual fund sales program was 76.5 percent of gross commission revenue, or \$118,216. This figure represented a fine 3.14 percent contribution to the bank's pre-tax net operating income of \$3.77 million in the program's first year of operation.

Michael White Associates' economic assessment originally projected \$2.74 million in annuity sales for PeoplesBank. Laying out a more conservative plan, the bank set an annuity sales goal of \$1.7 million for 2000. That year, however, the bank eventually sold \$4.4 million in annuity premiums, exceeding its consulting report's forecast by 61 percent and its own plan by 156 percent.

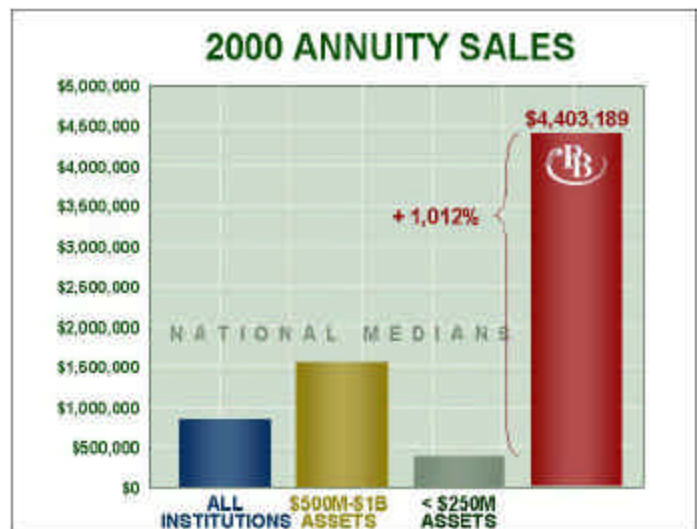
In its program's first year, PeoplesBank produced \$154,531 in total annuity gross commission revenue, within 1.9 percent of the \$157,550 projected in the MWA



economic assessment report, despite the different commission and expense structures of a platform versus a specialist program.

Fits You Better

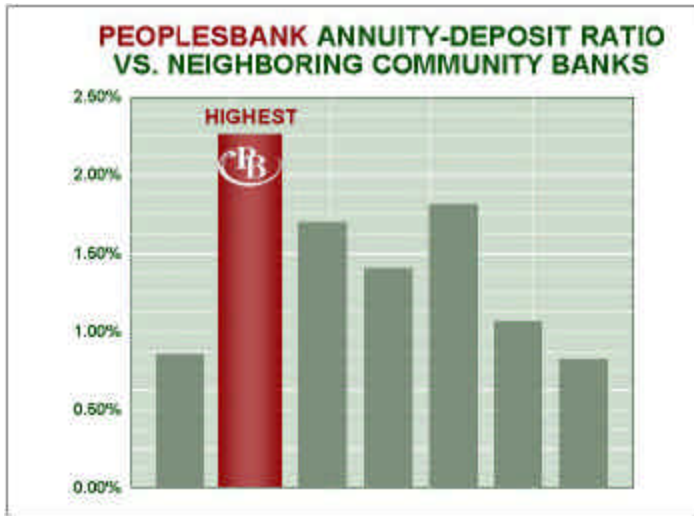
In 2000, PeoplesBank's annuity sales volume of \$4.4 million was 414 percent higher than the median for all institutions that sold annuities. Perhaps more relevant, its sales volume was 183 percent greater than the median sales volume for institutions between \$500 million and \$1 billion in assets, and it was 1,012 percent greater than the median sales volume for institutions with less than \$250 million in assets.



Nationally, annuity-to-deposit penetration rates averaged 0.46 percent for all institutions, 0.90 percent for institutions with deposits of \$10 billion or more, and 0.48 percent for institutions with less than \$250 million in deposits. PeoplesBank's annuity-deposit penetration rate was 2.25 percent, nearly 5 times that of all institutions, 2.5 times that of the mega-banks, and 4.7 times that of banks with less than \$250 million in deposits.

Michael White Associates also compared PeoplesBank's annuity sales to those of neighboring community banks. While the bank was the smallest among

ratio among the group, from 25 percent to 175 percent greater than each of the other banks.



By the end of 2001, revenue from the bank's nondeposit investment product sales had increased 36 percent over that of 2000 to \$210,000. It constituted 8.9 percent of its noninterest fee income, which had grown to 16.8 percent of net operating revenue.

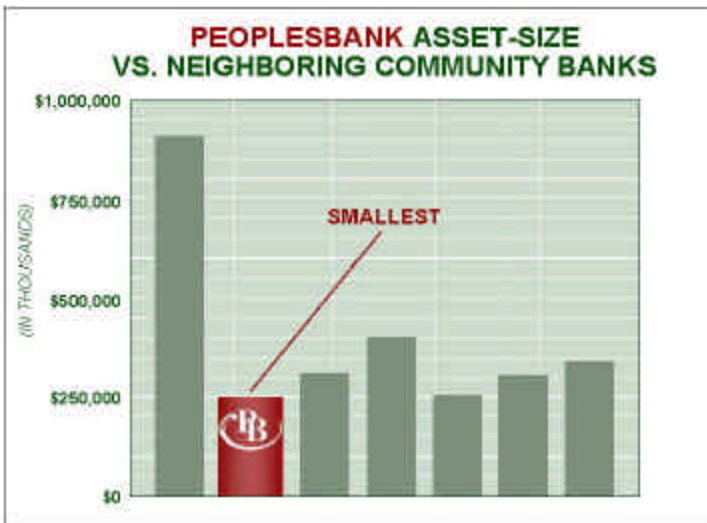
More Than Skin Deep

Soon after the bank's September 2001 board meeting, another opportunity arose for PeoplesBank to acquire a local agency engaged in insurance, investments, financial planning and retirement planning. By Thanksgiving, Michael White Associates had completed a favorable appraisal for the purchase. Several months of negotiations with the agency owners and the bank's third-party marketer followed. During that period, the TPM agreed to let the brokerage agreement with the bank expire, thereby releasing the agency to sell mutual funds and variable annuities.

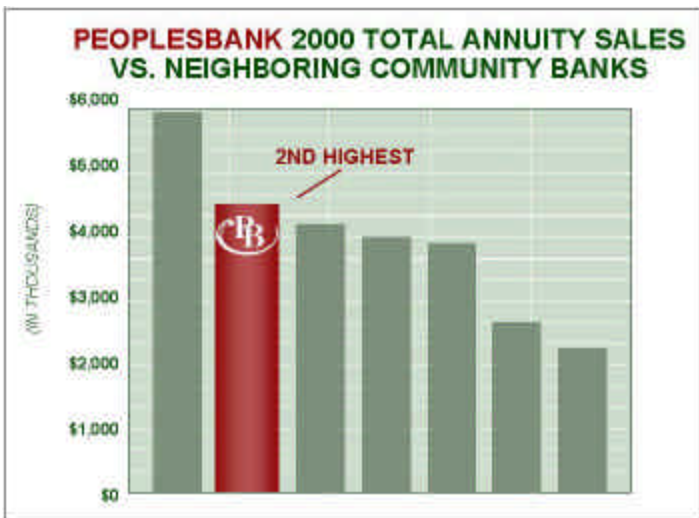
The marketer's agency agreement expired in 2003, so until then platform sales continued through the marketer, which agreed to raise commissions when the production budget was achieved.

Finally, in September 2002, PeoplesBank purchased the assets of Market Street Financial Services, Inc., allowing the bank to expand its expertise in investments and insurance, broaden its product menu, increase fee income and provide greater convenience to its clients. The bank's insurance fee income rose 29.5 percent in 2002, mainly due to the acquisition.

It took time to work out the kinks, overcome certain conflicts and properly integrate the new insurance agency



a group of seven, it sold the second-largest volume among them. Only one bank that was 3.7 times larger than PeoplesBank sold more—and that was not proportionally



more, but only 20.8 percent more. Additionally, PeoplesBank had the highest annuity-deposit penetration

with the bank's existing platform agency. But, in 2003, the bank's insurance fee income hit \$684,000, registering an increase of 151 percent over 2002. Insurance reached 16.1 percent of noninterest income and 20.0 percent of noninterest fee income.

In 2003, PeoplesBank ranked 5th in the nation in mutual fund and annuity income and 37th in insurance for banks with assets between \$300 million and \$500 million. In the Midatlantic Region, it ranked 29th in mutual fund and annuity income and 40th in insurance. To further underscore PeoplesBank's achievement, one of the 28 banks in its region with more mutual fund and annuity income had \$790 million in assets, and the other 27 had over \$1 billion.

While a fundamental makeover of PeoplesBank's product line has been accomplished, there is always room for touch-ups. Early in 2004, Michael White Associates appraised two more small agencies for the bank. Already, one has been purchased.

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Consulting Expertise

Michael White Associates is ICBA's Preferred Service Provider for bank insurance consulting services. MWA assists ICBA members in assessing the financial potential of selling insurance; identifying appropriate insurance lines to sell; determining market-entry methods; strategic planning; conducting third-party due diligence; appraising agencies for acquisition; and implementing or improving programs.

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