

# The Insurance Advantage

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*Banks with insurance brokerage operations turn higher profits*

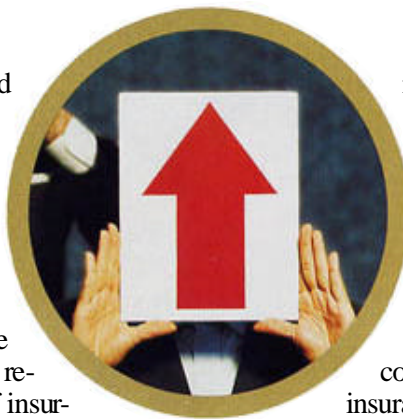
By Michael D. White

Industry data confirms that having insurance brokerage operations makes a big difference in the revenue and profitability of community banks. In nearly every significant profitability measure, regardless of asset size, community banks

with insurance brokerage income had higher levels of median profitability than banks with no insurance brokerage income. Last year, banks with insurance brokerage attained higher and superior levels of profitability than those banks with no insurance brokerage.

The *Michael White-Symetra Bank Fee Income Report* documents year-end bank insurance brokerage activities. The report revealed that in all but a few instances, the smallest class of community banks — those with \$100

The report examined 7,707 commercial banks and FDIC-supervised savings banks reporting financial information at the end of 2007. The report allowed a comparison of income from banks that reported any amount of insurance brokerage income with those that had no insurance brokerage income.



## Banks with insurance brokerage achieved superior levels of profitability than those with no insurance brokerage.

million in assets or less with insurance brokerage firms — showed bigger profit gains than larger banks without insurance brokerages.

The table below shows the percentage of median profitability achieved by both the biggest institutions and community banks with and without

insurance brokerage income. The data highlights findings in: **Net Income.** In all asset classes, banks that were active in insurance brokerage in 2007 had much higher median net incomes than banks with no insurance brokerage activities, the White-Symetra fee income report found. Those differences were generally in the double-digits (15 percent to 37 percent), and, in some cases, in the triple-digits (104 percent to 126 percent).

**Return on Assets (ROA).** The report revealed just one similarity in performance between banks with and without insurance brokerage. The category was median ROA among banks with assets over \$10 billion. In that case, banks with no insurance brokerage income had a slightly better

### Streaming Income

#### Insurance brokerage operations increase profitability

Bank Asset Classes	Number of Banks with Insurance Brokerage Income	Number of Banks with No Insurance Brokerage Income	Percentage Difference in Pre-Tax Net Operating Income	Percentage Difference in Net Operating Income	Percentage Difference in Net Income	Percentage Difference in Return on Assets	Percentage Difference in Return on Equity
All Banks Nationally	3,488	4,219	116.3%	116.1%	115.2%	32.5%	41.5%
Over \$1 Billion	348	211	6.8%	18.7%	23.7%	8.4%	11.9%
Under \$1 Billion	3,140	4,008	112.8%	67.9%	103.4%	33.8%	43.4%
Over \$10 Billion	62	27	48.5%	71.5%	104.4%	-1.5%	6.1%
\$1 Bil - \$10 Billion	286	184	11.6%	15.9%	19.0%	9.6%	13.8%
\$500 Mil - \$1 Billion	309	282	17.7%	27.2%	24.2%	17.4%	18.8%
\$300 Mil - \$500 Million	387	397	4.5%	12.1%	14.6%	10.3%	13.8%
\$100 Mil - \$300 Million	1,275	1,342	34.7%	38.2%	37.1%	35.8%	37.0%
Under \$100 Million	1,181	1,987	160.9%	124.3%	125.7%	63.8%	80.1%

Source: Michael White-Symetra Bank Fee Income Report

ROA performance in 2007, as they earned a median ROA of 1 percent compared with that of 0.99 percent for banks with both insurance brokerage income and more than \$10 billion in assets.

**Return on Equity (ROE).** Every asset class of community banks with insurance brokerage income experi-

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enced higher median ROE than community banks without insurance brokerage income. The smallest banks that engaged in insurance brokerage in 2007 had a median ROE that was 80 percent higher than banks that did not engage in insurance brokerage. For other asset classes, median ROEs were 14 percent to 37 percent higher among those banks with insurance brokerage income.

**Biggest Profit-Gap.** Community banks with assets less than \$100 million showed the biggest percentage profit-gap between institutions with insurance and those without. That

profit-gap ranged from the high double-digit percentages in ROA (64 percent) and ROE (80 percent) to triple digits as high as 161 percent for pre-tax net operating income, 124 percent in net operating income, and 126 percent in net income.

## In trying times, insurance sales help offset challenges to profitability.

As a group, insurance-broking community banks with assets less than \$1 billion demonstrated a much greater difference in profitability from those that did not sell insurance than did their counterparts among banks with assets over \$1 billion.

Bank insurance brokerages may not be the absolute source of profitability among banks. But, there is no denying that community banks with higher median levels of profitability engage in insurance brokerage activities.

It is not possible to say whether community banks that engage in insurance brokerage activities earn higher profits, or whether banks with higher profits are the ones that engage in insurance brokerage activities. However, the report reveals that in many cases, insurance revenues smooth out fluctuations in lending revenues and net interest margins.

In trying times, it appears that insurance sales help offset challenges to profitability. In good times, they augment profit-making. **ib**

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