BANK SALES

Banks Achieve a Record Amount of Insurance Fee Income In 2002

By Michael D. White

Of 8,380 commercial and federally insured savings banks, 4,359 or 52% earned insurance commissions and fee income. These organizations earned a record $3.49 billion in insurance income, up $500 million or 17.3% from $2.98 billion in 2001, according to bank data compiled and analyzed in *Michael White's Bank Insurance and Investment Fee Income Report* 2002 year-end edition.

The study shows that the largest banks - those over $10 billion in assets - had the highest rate of participation (78.2%) in insurance and produced $2.58 billion or 73.7% of the banking industry's total insurance income.

Collectively, in 2002, these largest banks increased their insurance fee income $803.4 million or 45.3% over their insurance fee income of $1.77 billion in 2001.

Because of their size, this group had the highest mean and median insurance income.

Nearly two-thirds (63.9%) of banks with between $1 billion and $10 billion in assets generated insurance income totaling $572.2 million, down 36.7% from $903.2 million in 2001. The amount represented a 16.4% share of total bank insurance fee income in 2002, down from 30.3% in 2001.

Banks under $1 billion in assets accounted for $346.8 million of insurance income, or 9.9% of the industry's total in 2002. This represented an increase of 14.5% over $302.9 million in insurance income in 2001. Of these, banks with less than $300 million in assets generated $193.7 million in insurance income, producing 27% more insurance income than banks between $300 million and $1 billion in assets.

For the first time a majority of the banks in the U.S. earned insurance commissions and fee income.

Insurance income for banks under $1 billion in assets constituted a larger average percentage of noninterest income than for banks over $1 billion. Indeed, this ratio (5.36%) for banks under $1 billion in assets was twice that of banks over $1 billion in assets (2.56%).

The smallest banks, those with under $100 million in assets, ranked first in mean (8.26%) and median (3.61%) ratios of insurance income to noninterest income. In other words, insurance contributed proportionally more to small banks' nonlending revenue than to banks of any other size. In fact, insurance contributed proportionally more to small banks' total revenue than to that of most other sized banks. The smallest banks' average and median ratios of insurance income to net operating revenue were, at 1.41% and 0.47% respectively, the second highest among all asset classes.

(Net operating revenue, also called total revenue, is the sum of net interest and noninterest incomes.)

Banks between $1 and $10 billion in assets had the highest mean insurance income to net operating revenue, at 1.47%. Banks over $10 billion in assets had the highest median insurance income to net operating revenue, with 0.63%.

In 2002, insurance income for banks under $1 billion constituted a mean 1.09% and median 0.39% of net operating revenue. For banks over $1 billion, the mean and median ratios of insurance income to net operating revenue were 1.07% and 0.36%.

Banks in the eastern regions of the country dominated insurance income in 2002. Despite having the highest bank-participation rate (58.2%) in insurance activities, the Midwest region was unable to hold onto its historical first place in insurance fee income.

The Northeast and Southeast passed the Midwest in 2002 by accounting for, respectively, $881 million and $864.5 million of insurance income, or collectively 49.9% of the industry's total.

Banks in the Southwest and West again had the least insurance income. Despite a relatively high bank participation rate in insurance of 53.6%, banks in the Southwest produced only $97.4 million or 2.8% of bank's insurance income. Western banks had the lowest bank-participation rate (28.1%)

of any region and the second-smallest amount of insurance income -- $97.8 million or 2.8% of the industry.

Far more banks are in insurance than in investments, our study found. About 2,300 banks earned investment fee income in 2002, while about 4,300 earned insurance fee income.

Yet investment fee income for the industry as a whole exceeded insurance fee income by about five to two (down from three-to-one in 2001). However, banks under $10 billion in assets earned more insurance income than investment fee income.

Banks over $10 billion in assets earned $8.2 billion or 90% of all bank investment fee income. That was 3.2 times their $2.6 billion in insurance income.

Banks with $300 million to $500 million in assets earned $223.2 million in investment fee income, or 3.7 times their insurance income. It should be noted that these banks also produced the least insurance income, $61.2 million, of any asset class.

Banks between $500 million and $1 billion in assets produced almost as much insurance income ($91.8 million) as investment fee income ($95.6 million) - a ratio of 96%.

Three other bank asset-classes produced more insurance than investment fee income.

Banks between $1 billion and $10 billion in assets generated $572.2 million in insurance income, 18.9% more than their $481.2 million of investment fee income.

Community banks between $100 million and $300 million had $121.5 million in insurance income, 28.5% more than their investment fee income of $94.6 million.

Banks under $100 million in assets earned $72.2 million from insurance, 3.9 times more than their investment fee income of $18.5 million.

There were several new developments in 2002 in bank proprietary mutual funds and annuities. Key among them were that both the number of banks and the amount of their proprietary assets under management (AUM) declined in 2002.

The 177 banks with proprietary products and assets under management represented a 16.1% decrease in 2002 from 211 banks in 2001. The $1.35 trillion of proprietary mutual fund or annuity AUM in 2002 were $80 billion or 5.6% less than the $1.43 trillion at the end of 2001.

The 177 banks offering proprietary annuities or mutual funds constituted only 2.1% of the total bank population and 8.2% of the 2,161 banks that earned income from the sale and servicing of mutual funds and annuities in 2002. Seventy banks with over $1 billion in assets controlled virtually all the proprietary AUM, $1.34 trillion or 99.1%. Their mean proprietary AUM were $19.2 million, and the median was $1.15 billion.

Banks' investment fee income exceeded insurance fee income by about 5 to 2.

In contrast, 107 banks with less than $1 billion in assets had only $12.7 billion, constituting 0.9% of all proprietary mutual fund and annuity AUM. They averaged slightly more than $118.3 million in proprietary AUM, and their median AUM were $1.1 million.

With the tough, stagnant securities market, banks saw their investment fee income drop slightly in 2002. The market caused a number of banks to rethink their involvement in proprietary mutual fund or annuity products. Few banks were involved in proprietary products in 2001, and one in six got out of them in 2002. Although proprietary products can make sense for larger institutions, there were six fewer banks with assets over $1 billion offering proprietary products in 2002.

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