September 2009, Issue No. 60

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

INSURANCE BROKERAGE FEE INCOME AMONG BANK HOLDING COMPANIES IN 2008

by Michael D. White

According to the *Michael White-Prudential Bank Insurance Fee Income Report,* ™ bank holding companies (BHCs) earned $11.80 billion in insurance brokerage fee income in 2008.[1] That amount constituted a 3.6 percent decrease from a record $12.25 billion in insurance brokerage fee income in 2007. The year 2008 is the first year in which total BHC insurance brokerage income declined.

BHCs with assets greater than $10 billion, and, principally, a handful of them, were responsible for the overall decline for the industry in 2008. Despite them, 65 of the top 100 BHCs in insurance brokerage income registered increased insurance income in 2008.

Click here for illustration of 2008 BHC Insurance Brokerage Fee Income

Compiled by Michael White Associates (MWA) since 2001 and sponsored by Prudential's Individual Life Insurance business, the report measures and benchmarks the banking industry's performance in generating insurance brokerage and underwriting fee income. Year-end results are based on data from all 7,495 commercial and FDIC-supervised savings banks and 880 large top-tier bank holding companies operating on Dec. 31, 2008.[2]

Two in three (585 or 66.3 percent) large top-tier (or regulatory top-holder) BHCs with $500 million or more in consolidated assets in the United States reported participating in insurance activities.

Click here for illustration of Percent of All BHCs Participating

BHCs with assets greater than $10 billion experienced a 4.2 percent decrease in insurance brokerage fee income from $11.56 billion in 2007 to $11.07 billion in 2008, accounting for 93.7 percent of the industry's insurance brokerage income.

The largest BHCs had the highest rate (93.1 percent) of participation in insurance brokerage activities.

Insurance brokerage fee income produced by BHCs between $500 million and $1 billion in assets decreased 1.7 percent from $147.2 million in 2007 to $144.8 million in 2008.

Only BHCs with assets between $1 billion and $10 billion experienced growth in insurance brokerage fee income in 2008, and they experienced 8.4 percent growth from $540.4 million in 2007 to $586.1 million in 2008.

Annual BHC insurance brokerage fee income in 2008 was nearly two-and-a-half (2.45) times more than it was in 2001, when it was first measured. The total rose from $4.97 billion in 2001 to $11.80 billion in 2008.

Click here for illustration of BHC Insurance Brokerage Fee Income, 2001–2008 (In billions)

Reasons for Slowdown

There were several causes of the slowing in the second half of the year and the slight decline for all of 2008 in BHC insurance brokerage fee income, which had been growing at a compound annual rate of 19.5 percent from 2001 through 2006. First were the continuing, long-lasting soft market in commercial property-casualty insurance and sporadic, but seemingly more numerous, instances of decreases in contingent commissions.

Second, several banking companies that are strong producers of insurance brokerage income converted their charters to thrift holding companies (e.g., earlier conversion of People's Mutual Holdings in Connecticut, People's acquisition of Chittenden Corporation), thereby removing insurance brokerage revenues from the industry count. OTS-regulated thrifts and thrift holding companies do not report detailed, line-item noninterest fee income like insurance brokerage to their regulator. Thus, the insurance brokerage income that a BHC previously reported is no longer reported when that BHC converts to a thrift holding company.

A third factor entailed the sales of property-casualty and some life insurance agencies or business lines by certain large bank holding companies, like Bank of America Corporation (North Carolina), BNCCORP, Inc. (North Dakota), Capital One (Virginia), Citizens Financial Group, Inc. (Rhode Island), Commerce Bancorp (New Jersey), Fifth Third Bancorp (Ohio), JPMorgan Chase (New York), National City Corp. (Ohio), Wachovia Corp. (North Carolina), and Webster Financial Corp. (Connecticut).

These BHCs alone represented a loss to the banking industry of $300 million in insurance brokerage income. The sales of those agencies related quite specifically to each financial institution's particular circumstances, strategic aims, and commitment to insurance.

Despite this loss of fairly significant insurance brokerage income from the BHC total, the sales of bank insurance units to nonbanks are not a trend. In the last two years, numerous other bank and thrift companies acquired agencies, among them: Alliance Bankshares Corp. (Virginia), Arrow Financial Corp. (New York), BancFirst Group (Oklahoma), BancorpSouth, Inc. (Mississippi), Bank of the West (California), BB&T Corporation (North Carolina), Central Bancorp (Colorado), CoBiz (Colorado), Cullen/Frost Bankers (Texas), Doral Financial (Puerto Rico), Eastern Bancorp (Massachusetts), First Defiance Financial Corp. (Ohio), First Niagara Financial Group (New York), First United Corporation (Maryland), Harleysville National Corp. (Pennsylvania), Huntington Bancshares (Ohio), Northeast Bancorp (Maine), Shore Bancshares, Inc. (Maryland), Summit Financial Group (West Virginia), and Wells Fargo & Company (California).

Additionally, some thrifts, whose production we are unable to track systematically and include in our report, also acquired more insurance agencies; these thrifts include First Defiance Financial Corp. (Ohio), First Financial Holdings, Inc. (South Carolina), and First Niagara Financial Group (New York).

A fourth factor was the complete removal, starting in 2007, of annuity commissions not earned via securities units from the insurance brokerage income data field reported to the FDIC and Federal Reserve. This has impacted somewhat the insurance brokerage totals over the last two years. Combining BHC annuity commissions with insurance brokerage income, total BHC production of insurance-product, sales-related fee income was over $14.28 billion in 2007 and $14.41 billion in 2008. That latter figure of $14.41 billion constituted an amount equal to 80 percent of the $18.09 billion that BHCs earned from securities brokerage activity.

Click here for illustration of Total Earned by BHCs, 2008 - Nationally
[includes annuity commission income and securities brokerage income]

Leaders

Again excluding MetLife, which did not engage in significant banking activities, Wells Fargo & Company (California), Citigroup, Inc. (New York), BB&T Corporation (North Carolina), Bank of America Corporation (North Carolina), and HSBC North America Holdings, Inc. (Illinois) led all bank holding companies in insurance brokerage fee income in 2008.

Click here for illustration of Top BHCs in Insurance Brokerage Fee Income, 2008–Nationally

Among BHCs with between $1 billion and $10 billion in assets, leaders included

Eastern Bank Corporation (Massachusetts), Old National Bancorp (Indiana), Trustmark Corporation (Mississippi), Johnson Financial Group, Inc. (Wisconsin), and Central Community Corporation (Texas).

Among BHCs with assets between $500 million and $1 billion, leaders were 473 Broadway Holding Corporation (New York), Texas Independent Bancshares (Texas), First Manitowoc Bancorp, Inc. (Wisconsin), Northeast Bancorp (Maine), and MountainOne Financial Partners, MHC (Massachusetts).

The *Michael White-Prudential Report* uses the smallest community banks, those with assets less than $500 million, as a proxy for the smallest BHCs, whose reporting forms do not require them to report insurance brokerage fee income.[3] Leaders among bank proxies for small BHCs were Soy Capital Bank and Trust Company (Illinois), Hoosac Bank (Massachusetts), Stoneham Savings Bank (Massachusetts), SussexBank (New Jersey), and Alliance Bank (Texas).

Click here for illustration of Insurance Brokerage Fee Income–2008, Bank Holding Company Participation by Asset-Size

The Insurance Concentration Ratio measures the ratio of insurance brokerage income to noninterest income. This tells us the proportion of non-lending income attributable to insurance income. It is a measure of the significance of insurance sales to a banking organization. Among the top 50 BHCs in insurance brokerage income as a percent of noninterest income, the mean Concentration Ratio in 2008 was 45.1 percent. Among the top 50 banks in Insurance Brokerage Concentration, the mean was 72.0 percent of noninterest income.

Nationally, BHC insurance brokerage revenue grew at a compound annual rate of 13.1 percent from 2001 through 2008, slowing from the compound annual growth rate (CAGR) of 19.5 percent achieved from 2001 through 2007. The small growth of insurance brokerage income in 2007 and its slight decline in 2008 caused this lowering of CAGR. BHCs with assets between $500 million and $1 billion grew the most at 17.0 percent annually since 2001.

Click here for illustration of Compound Annual Growth Rate (CAGR) of BHC Insurance Brokerage Fee Income by Asset-Size, 2001-2008

Because there have been two definitions of small bank holding companies since 2001 that exempted them, I used banks in order to calculate an estimated CAGR in insurance revenues for all asset classes of institutions with less than $500 million. (BHCs with assets between $300 million and $500 million grew at a rate of 19.0 percent between 2001 and 2005.[4]) Despite the slowing of growth in insurance brokerage income in 2007-2008, BHCs have attained strong momentum in insurance brokerage revenue since 2001.

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Foot Notes

[1] These figures for insurance revenues do not include income earned from the sale or servicing of annuities. Adding the income from annuities would significantly increase the total insurance product revenue for banking organizations. Income from related non-insurance products like debt cancellation or debt suspension agreements is also excluded from the insurance revenue figures.

[2] The "large" BHCs were redefined in 2006 as being those top-tier BHCs with more than $500 million in consolidated assets. Consequently, with few exceptions that we do not report here, only those bank holding companies defined by the Federal Reserve as "large" BHCs reported detailed revenue line items like insurance brokerage and insurance underwriting income. Those thrifts and savings associations regulated by the Office of Thrift Supervision (OTS) do not report these revenue line items at all.

[3] Community bank totals are not included in BHC total figures and performance ratios.

[4] Beginning in 2006, with but a few exceptions, only large BHCs with consolidated assets greater than $500 million reported line item fee incomes. Those exceptions numbered 99, and with those 99 BHCs as our sole source of line item data, this asset class between $300-$500 million grew at a rate of 14.2% in 2007.