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## **An Annuity Fee Record with an Asterisk**

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By Editor Test     *Wed, Aug 8, 2012*

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*First-time annuity fee reporting from Raymond James Financial of \$61 million boosted the quarterly bank/thrift annuity fee income numbers to a record high, according to the latest Michael White-ABIA Bank Annuity Fee Income Report. Morgan Stanley annuity fee income was up 48%.*

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Fee income from annuity sales at banks rose 4.5% to a quarterly record high of \$781.7 million in the first quarter of 2012, compared with \$748.2 million in the first quarter of 2011, according to the Michael White-ABIA Bank Annuity Fee Income Report.

But all of the increase, and then some, came from the \$61.0 million and 15.6 million in fees reported for the first time by Raymond James Financial, Inc., and from thrift holding companies, respectively. Without their contributions, the fee total would have been almost 10% lower.

Wells Fargo & Company (CA), Morgan Stanley (NY), JPMorgan Chase & Co. (NY), Raymond James Financial, Inc. (FL), and Bank of America Corporation (NC) led all bank and thrift holding companies in annuity commission income in first quarter 2012. Institutions with \$10 billion or more in assets earned over 90% of annuity sales fees. Morgan Stanley experienced a 48% increase in annuity fee income in the quarter. The report did not explain the reason for that anomalous jump.

Compiled by Michael White Associates (MWA) and sponsored by American Bankers Insurance Association (ABIA), the report is based on data from all 7,307 commercial banks, FDIC-supervised banks and savings associations (thrifts), and 1,074 large top-tier BHCs and THC operating on March 31, 2012.

Thrifts and THC began reporting annuity fee income for the first time in first quarter 2012. Several THC and a BHC that are historically and traditionally insurance underwriting operations have been excluded from the report.

Far fewer top-tier bank and thrift holding companies achieved double-digit growth in annuity fee in 1Q 2012 and than in 1Q 2011. "Of 412 large top-tier BHCs and THC reporting annuity fee income in first quarter 2012, 178 (43.2%) were on track to earn at least \$250,000 this year," said Kevin McKechnie, executive director of the ABIA.

"Of those 178 BHCs, 71 (39.9%) achieved double-digit growth in annuity fee income for the quarter. That's nearly a 22-point decline from first quarter 2011, when 116 institutions or 63.4% of 183 of those on track to earn at least \$250,000 in annuity fee income achieved double-digit growth. Those findings are troublesome, particularly since they follow the significant slide in fourth quarter 2011 annuity income we previously reported."

Of 1,078 BHCs and THC, 412 (38.4%) participated in annuity sales activities during first quarter 2012. Their \$781.7 million in annuity commissions and fees constituted 14.0% of their total mutual fund and annuity income of \$5.6 billion and 30.1% of total BHC and THC insurance sales volume (i.e., the sum of

annuity and insurance brokerage income) of \$2.60 billion.

Of 7,307 banks and thrifts, 873 or 12.0% participated in first-quarter annuity sales activities. Those participating banks and thrifts earned \$180.5 million in annuity commissions or 23.1% of the banking industry's total annuity fee income. The annuity production of banks and thrifts was down 11.6% from \$204.2 million in first quarter 2011.

Sixty-seven percent (67.1%) of BHCs and THC's with over \$10 billion in assets earned first-quarter annuity commissions of \$736.9 million, constituting 94.3% of total annuity commissions reported by the banking industry. Aided by the contribution of new BHC Raymond James Financial, Inc. (FL), this total was an increase of 4.0% from \$708.3 million in annuity fee income in first quarter 2011. Among this asset class of largest BHCs, annuity commissions made up 14.9% of their total mutual fund and annuity income of \$4.96 billion and 31.8% of their total insurance sales revenue of \$2.32 billion in first quarter 2012.

BHCs with assets between \$1 billion and \$10 billion recorded an increase of 8.9% in annuity fee income, growing from \$33.8 million in first quarter 2011 to \$36.9 million in first quarter 2012 and accounting for 17.5% of their total insurance sales income of \$210.8 million. BHCs with \$500 million to \$1 billion in assets generated \$7.84 million in annuity commissions in first quarter 2012, up 28.1% from \$6.12 million in first quarter 2011. Only 27.8% of BHCs this size engaged in annuity sales activities, which was the lowest participation rate among all BHC asset classes. Among these BHCs, annuity commissions constituted the smallest proportion (11.4%) of total insurance sales volume of \$68.6 million.

Among BHCs and THC's with assets between \$1 billion and \$10 billion, leaders included Stifel Financial Corp. (MO), SWS Group, Inc. (TX), National Penn Bancshares (PA), Old National Bancorp (IN), and First Citizens Bancorporation, Inc. (SC). Among BHCs and THC's with assets between \$500 million and \$1 billion, leaders were First Command Financial Services, Inc. (TX), Liberty Shares, Inc. (GA), Nodaway Valley Bancshares, Inc. (MO), Nutmeg Financial MHC (CT), and Banctenn Corp. (TN).

The smallest banks and thrifts, those with assets less than \$500 million, were used as "proxies" for the smallest BHCs and THC's, which are not required to report annuity fee income. Leaders among bank proxies for small BHCs were Essex Savings Bank (CT), Seneca Federal Savings and Loan Association (NY), FNB Bank, N.A. (PA), The Hardin County Bank (TN), and The Bennington State Bank (KS).

Among the top 50 BHCs nationally in annuity concentration (i.e., annuity fee income as a percent of noninterest income), the median Annuity Concentration Ratio was 7.2% in first quarter 2012. Among the top 50 small banks and thrifts in annuity concentration that are serving as proxies for small BHCs and THC's, the median Annuity Concentration Ratio was 16.0% of noninterest income.