

By Editorial Staff *Wed, Apr 5, 2017*

Income earned from the sale of annuities at bank holding companies (BHCs) was \$3.15 billion in 2016, up 2.3% for the year from \$3.22 billion in 2015, according to the Michael White Bank Annuity Fee Income Research, released this week.

It was a feast-or-famine kind of year. While bank annuity fee income reached a record level in third quarter 2016, the other three quarters of the year were among the six smallest quarters in the last five years.

At \$764.1 million, fourth quarter 2016 BHC annuity commissions were down 18.5% from the record \$937.0 million in third quarter 2016 and down 4.2% from \$797.3 million earned in fourth quarter 2015.

Findings of the study are based on data from all 5,913 commercial banks, savings banks and savings associations (thrifts), and 596 large top-tier bank and thrift holding companies (collectively, BHCs) with consolidated assets greater than \$1 billion operating on December 31, 2016.

Of 596 large BHCs, 292 or 49% sold annuities during the year. Their \$3.22 billion in annuity commissions and fees constituted 37.6% of total BHC annuity and insurance brokerage income sales revenue of \$8.57 billion. Of the 5,913 banks, 875 or 14.8% sold annuity sales, earning \$773.0 million in annuity commissions or 24.0% of total BHC annuity fee income.

TOP 10 BANK HOLDING COMPANIES IN ANNUITY FEE INCOME							
YEAR-END DECEMBER 31, 2016							
Nationally							
RANK	YTD ANNUITY INCOME		PERCENT CHANGE 2015 - 2016	BANK HOLDING COMPANY	ST	ASSETS	% OF NONINTEREST INCOME
	2016	2015					
(ALL DOLLAR AMOUNTS IN THOUSANDS)							
1	\$765,000	\$947,000	-19.22%	WELLS FARGO & COMPANY	CA	\$1,929,693,000	1.95%
2	\$604,000	\$666,000	-9.31%	MORGAN STANLEY	NY	\$813,076,000	2.06%
3	\$339,138	N/A*	N/A	UBS AMERICAS HOLDING LLC	NY	\$138,693,027	3.81%
4	\$233,000	\$147,000	12.02%	JPMORGAN CHASE & CO.	NY	\$2,481,464,000	0.47%
5	\$118,000	\$108,346	-19.73%	BANK OF AMERICA CORP.	NC	\$2,182,246,000	0.29%
6	\$88,000	\$68,754	33.33%	CITIGROUP INC.	NY	\$1,792,060,000	0.35%
7	\$85,341	\$66,000	-21.23%	SUNTRUST BANKS, INC.	GA	\$205,214,392	2.41%
8	\$73,794	\$65,000	7.33%	BB&T CORPORATION	NC	\$219,270,299	1.67%
9	\$68,521	\$56,166	677.23%	RBC USA HOLDCO CORP.	NY	\$141,916,551	1.92%
10	\$63,218	\$52,602	12.56%	PNC FINANCIAL SERVICES GRP.	PA	\$366,872,249	0.94%

* Previous high holder in 2015 did not meet FR Y-10 reportability criteria of the Federal Reserve.
Source: *Michael White Bank Annuity Fee Income Research™*

“There were signs of improvement in BHC annuity earnings momentum,” said Michael White, president of MWA and author of the study, in a release. “Of 292 large top-tier BHCs reporting annuity fee income in 2016, 185 or 63.4% earned a minimum of \$250,000 selling annuities, including seven new programs.

“Among those programs with at least \$250,000 in annuity income, 65 BHCs or 35% achieved double-digit growth, up 18% from 55 BHCs in 2015. Still, that represented was also a 39-point decline from 2013, when 107 or 59% of 181 BHCs with at least \$250,000 in annuity income achieved double-digit growth.

“We also examined 89 large top-tier BHCs with at least \$1 million in annuity revenue in 2016,” the release said, “and 45 or 51% of them attained increases in their revenue compared to 41% in 2015. Those BHCs whose annuity revenues were up 10% or more numbered 31 in 2016, an increase of nearly 48% from 21 BHCs with double-digit growth in 2015.

“The proportion of significant players exhibiting growing annuity programs did increase, the rates of growth among them rose, and the increase in the number of significant players that experienced double-digit growth are indicators of what could be the onset of an overall growth period in bank annuity sales production.

“And, yet, we would not be overly enthusiastic, particularly because the regulatory environment remains hazy due to uncertainty relating to the Department of Labor’s fiduciary rule.”

More than two-thirds (70.8%) of BHCs with over \$10 billion in assets earned annuity commissions of \$3.11 billion, constituting 96.6% of total annuity commissions reported. This was 4.1% higher than the \$2.99 billion in annuity fee income in 2015. Among the largest BHCs, annuity commissions made up 40.4% of their total insurance sales revenue of \$7.70 billion, the highest proportion of annuity income to insurance sales revenue of any asset class.

Wells Fargo & Company (CA), Morgan Stanley (NY), UBS Americas Holding LLC (NY), JPMorgan Chase & Co. (NY), and Bank of America Corporation (NC) led all bank holding companies in annuity commissions and fees in 2016.

At BHCs with assets of \$1 billion to \$10 billion, annuity fee income fell 31.7%, to \$107.6 million from \$157.5 million in 2015, to comprise 12.4% of their total insurance sales revenue of \$866.5 million.

Among BHCs with assets of \$1 billion to \$10 billion, annuity leaders included First Command Financial Services (TX), Wesbanco, Inc. (WV), First Commonwealth Financial Corp. (PA), United Financial Bancorp (CT), and Community Bank System (NY).

The smallest community banks, those with assets less than \$1 billion, were used as “proxies” for the smallest BHCs, which are not required to report annuity fee income. Among these small banks, annuity fee income fell 15.2% to \$55.8 million from \$65.8 million in 2015.

Leaders among bank proxies for small BHCs were Bank Midwest (IA), First Federal Bank of Louisiana (LA), FNB Bank, N.A. (PA), The Security National Bank of Sioux City, Iowa (IA), and Heritage Bank USA, Inc. (KY).

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 4.9% in 2016, down from 5.3% in 2015. Among the top 50 small banks in annuity concentration that are serving as proxies for small BHCs, the median Annuity Concentration Ratio was 12.4%, down from 15.0% in 2015.

Among the top 50 BHC leaders in annuity penetration (i.e., annuity fee income per one million dollars of core or retail deposits), the median Annuity Penetration Ratio was \$666 per million dollars of retail deposits, down 11.3% from \$751 in 2015.

Among the top 50 small banks in annuity penetration, the median Annuity Penetration Ratio was \$1,296 per million dollars of core deposits in 2016, down 13.1% from \$1,491 in 2015.

Among the top 50 BHC leaders in annuity productivity (i.e., annuity income per BHC employee), the median Annuity Productivity Ratio was \$2,606 per employee in 2016, down 5.2% from \$2,748 per employee in 2015. Among the top 50 small banks in annuity productivity, the median Annuity Productivity Ratio was \$3,986 per bank employee, down 16.5% from \$4,771 in 2015.

Note: Several BHCs that are historically insurance, securities or commercial companies have been excluded from the research in order to better understand the insurance performance of financial institutions that historically have engaged in significant banking activities.