
Banks Reap Record Annuity Income

By Editor Test *Wed, Aug 12, 2009*

The steep yield curve enabled fixed annuities to outperform CDs, and drove fixed annuity sales to a new record in the second quarter.

Bank holding companies (BHCs) earned a record \$734.5 million in commissions and fees from annuity sales in the first quarter of 2009, a 12.4% increase from \$653.3 million in first quarter 2008, according to the Michael White-ABIA Bank Annuity Fee Income Report released in late July. First-quarter annuity commissions were also 12.1% greater than the \$655.2 million earned in fourth quarter 2008.

Wells Fargo & Company (CA) (\$177 million), Bank of America Corporation (NC) (\$111 million), and JPMorgan Chase & Co. (NY) (\$90 million) led all bank holding companies in annuity commission income in first quarter 2009. Wells Fargo is the largest broker-dealer in the United States, with about 21,000 advisors. Bank of America has about 18,000 advisors.

All three firms completed major acquisitions before or during the first quarter. Wells Fargo bought Wachovia Bank-which in recent years was the breakaway leader in annuity sales in the bank channel-Bank of America bought Merrill Lynch, and JP Morgan Chase bought Bear Stearns.

These three mega-banks truly dominated bank annuity sales. Their \$378 million in annuity commissions was well over half of the \$697.1 million in earned in annuity commissions by BHCs with over \$10 billion in assets in the first quarter, and more than half the \$734.5 million in annuity commissions reported by all 381 (out of a total of 940) large BHCs that reported annuity sales.

Fixed annuity sales were behind the record earnings. Sales of fixed products shot up in the first quarter of 2009 because the steep yield curve allowed fixed annuity issuers to offer much more competitive rates than CD issuers, who conform to short-term rates. New York Life's Fixed Annuity, a book-value product, was the top-seller in the bank channel in the first quarter. Book value fixed annuities pay a declared rate of interest for a specific period.

Only a fraction of bank income from sales of investment and insurance products comes from annuity sales. The \$734.5 million in annuity commissions and fees constituted 15.7% of banks' total mutual fund and annuity income of \$4.67 billion and 19.5% of total BHC insurance sales volume (i.e., the sum of annuity and insurance brokerage income) of \$3.76 billion.

Annuity sales leaders among mid-sized BHCs (with assets between \$1 billion and \$10 billion) included Stifel Financial Corp. (MO), Hancock Holding Company (MS), and NewAlliance Bancshares, Inc. (CT). Among BHCs with assets between \$500 million and \$1 billion, leaders were Van Diest Investment

Company, Codorus Valley Bancorp, Inc. (PA), and First Citizens Bancshares, Inc. (TN).

Compiled by Michael White Associates (MWA) and sponsored by American Bankers Insurance Association (ABIA), the report measures and benchmarks the banking industry's performance in generating annuity fee income. It is based on data from all 7,447 commercial and FDIC-supervised banks and 940 large top-tier bank holding companies operating on March 31, 2009.

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