

Biggest annuity gains may already have come

Large BHC results up, midsize and small BHC results fall

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Driven by surging sales of fixed annuities in the first quarter—part of a broad “flight to safety” trend—banks and bank holding companies posted a 1.7% gain in income from the sales of annuities in the first half, compared with the first half of ’08. Annuity income actually declined 19.2% in the second quarter from the first, but the earlier big gains kept the first half positive, according to findings released by the American Bankers Insurance Association and Michael White Associates (MWA).

The big first quarter was the first time in more than ten years that fixed annuities outsold variable annuities in the bank channel, observed Michael White, president of MWA. In addition to the safety aspect, fixed annuities for a time had an advantageous yield over other savings instruments. Both conditions have since altered. With the strong showing of equities in recent months, funds may shift into mutual funds once again. Variable annuities could pick up some lost momentum if equity gains persist, but White notes that pricing issues relating to various guarantees added to variable annuities in recent years have caused some of them to become more expensive than comparable mutual funds.

But for the first half, at least, banks and bank holding companies posted annuity income gains overall. The findings are based on data from all 7,402 commercial and FDIC-supervised banks and 932 large, top-tier bank holding companies. Generally, the gains came more at the top of the size chain. BHCs with over \$10 billion in assets earned first-half annuity commissions of \$1.26 billion, an increase of 3.7% from first-half ’08. BHCs with assets between \$1 billion and \$10 billion, by contrast, recorded a decrease of 25.6% in annuity fee income, and BHCs with assets between \$500 million and \$1 billion were down 16.3%.

White attributes this skewing to the fact that in a period of economic troubles, carriers and wholesalers tend to gravitate toward the larger accounts to sustain production, because even a small movement of the sales needle at a big player translates into large volume. Also, smaller holding companies and banks tend to use licensed bank employees—not dedicated broker-dealer operations—to sell annuities. These employees had added pressures to deal with this year handling questions about deposit insurance coverage, safety and soundness, etc. In addition, some talent migration has occurred as registered reps—individually or in groups—moved to institutions where they are more likely to be able to achieve growth.

The accompanying tables show the top ten bank holding companies in terms of annuity fee income in categories. The national ranking (Table 1), is dominated by the biggest institutions since it is based on dollar volume. Wells comes out on top, White explains, by dint of its acquisition of Wachovia, a perennial annuity powerhouse. Bank of America, likewise, gained significant volume from buying Merrill Lynch, and PNC benefited similarly from its pickup of National City. Morgan Stanley, a newcomer to the BHC ranks courtesy of last fall’s financial crisis, shows up well thanks in part to the Smith Barney joint venture with Citicorp. In the \$1 to \$10 billion category, Hancock and NewAlliance have been annuity leaders for some time, White noted, while Stifel Financial moved up via several acquisitions.

Tables 2-4 show results for three size categories. For the smallest of these, banks under \$500 million, MWA had to use bank data as a proxy for BHC data because the Federal Reserve eliminated the requirement for BHCs under \$500 million to file detailed reports on insurance and securities income, among other data.

Annuity fee income represents a much higher percentage of noninterest income (annuity concentration ratio) among smaller institutions. For the top 50 BHCs, the median concentration ratio was 6.1% in the first quarter, whereas for the top 50 small banks, the median ratio was 13.2%. Table 5 shows this clearly with only two institutions over a billion in assets making the top ten.

White pointed out that smaller banks are much less likely to have diverse noninterest income streams from such businesses as wealth management or venture capital. Even their service charge income tends to be lower on a relative basis, so that if they get into annuity or insurance sales, or investment brokerage, any income generated tends to bring proportionately larger benefits than to the big banks. As Table 5 shows, exceptions include Wells Fargo, BB&T, and BancorpSouth, which have made serious commitments to the annuity and insurance businesses.

In terms of participation in annuity sales, the ABIA/MWA report found that 40.7% of the top-tier BHCs (932 institutions) participated in annuity sales activities in the first half. Of the 7,402 banks studied, the participation rate was 12.9%.

More information about the American Bankers Insurance Association, an affiliate of the American Bankers Association, can be found at www.theabia.com. Michael White Associates is headquartered in Radnor, Pa., and can be found on the web at www.BankInsurance.com. BJ

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