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# Integrated Distribution of Insurance and Financial Services and Value Creation: Challenges Ahead

by Isabella Falautano and Emanuele Marsiglia*

This contribution originates in the ideas and discussion held during the first meeting of the Montepaschi Vita Forum on "The Paradigms of Value: The Integrated Distribution of Insurance and Financial Services", held in Rome on 18 October 2002 and co-organized by The Geneva Association. The Forum was prompted by an awareness of the critical role and nature of the topic of the "paradigms of value" in the present competitive context of financial services. Value creation mechanisms are key elements of financial and insurance services, both in the interests of shareholders and, in broader terms, of all stakeholders. It is a fact that insurance and financial services are going through a phase of deep change. The integration between banking and insurance services and their integrated distribution, after the big push given by convergence, are facing a critical stage. The present article reconstructs the "stylized facts" of the present integration phase between banks and insurers, by outlining main trends and future scenarios with regard to: the integration models between banking and insurance services, ranging from co-operation and "alliance" agreements to integrated groups; the integrated distribution of banking and insurance services with the aim of offering a full range of products within various organizational models from bancassurance to assurbanking; and the "new distribution" type of bancassurance, comparing national models and distribution scenarios. In the last part, by assessing future trends in the competitive environment of the insurance industry it is explained why bancassurance, far from going into decline, will face up to tougher competition and a clear-cut divide between winners and losers. In this regard there is no doubt that "integrated distribution" is affecting, and will continue to affect, the various actors in traditionally separate businesses, by following many models and experiences, different trends and scenarios according to the dynamics of competitive structures and regulatory systems. Successful groups will be those able to base their own organization, apart from the chosen approach, on the only factor that can guarantee value creation: clients.

## 1. A highly complex context

In the last five years of the last decade (1995–2000), global annual premiums of the insurance market have risen considerably and much faster than the average growth of the world GDP (6 per cent versus 3 per cent on an annual average). Although 2001 was a positive year for many life insurance companies and especially for bancassurance, there are commentators who claimed that 2001 was the "break-off" year; some have even called it the "*annus horribilis*" of insurance and the financial services industry in general. The context was certainly not one of the simplest in 2002 either. While life insurance, and in particular bancassurance, in countries such as Italy experienced high growth rates (18 per cent to 20 per

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cent), in general casualty insurance continued to face the direct impact of the claims connected to the events of 11 September and the floods in Europe in summer 2002; together with life insurance it is still facing the erosion of value from over two years of falling equity markets and the repercussions of the stock-market collapse on share portfolios. The ratings of many listed groups are falling. Reinsurance companies are also involved in reassessing the risks they can assume. As highlighted during the Italian Insurance Association's (ANIA) latest General Assembly, the area of non-insurable events (the so-called "TSRCC" – Terrorism, Strikes, Riots, Civil Commotion) has grown and "dominates the unpredictable, the anxiety of daily life, the irrational, in other words the unknown" (Desiata, 2002).

At this time of great uncertainty and complexity, exacerbated by the crisis of the American corporate governance model, some aspects can be highlighted:

- *Areas and countries are experiencing extremely different trends*, with speed-ups and slowdowns that have affected the OECD area and developing/transitional countries. According to the latest CEA (Comité Européen des Assurances) data, in the European Union life insurance's average rate of growth after inflation has plunged from 17.5 per cent in 1999 and 18.8 per cent in 2000 to 1.7 per cent in 2001. If we consider the euro area alone, the rate even becomes negative (–1.5 per cent). In the European area, Italy represents one of the cases of virtuous development, with growth rates that have always remained in double figures, with an insurance penetration (life premiums account for 3.6 per cent of GDP) much below the European average (5.9 per cent for life business, CEA surveys for 2001).
- *The balance between the life and the non-life businesses is gradually changing in favour of the former*. Non-life insurance has fallen to a global level of 40 per cent of total premiums. This confirms a trend already underway in European countries (with excellent exceptions such as Germany), showing that the business is developing and progressively "maturing". There are numerous reasons for the positive evolution of life insurance, including social security reforms in many advanced countries, fiscal incentives and diffusion of products with a strong financial component.
- *The life insurance business is gaining weight among asset management activities*, albeit with special characteristics, as seen also in the Italian case. The competitive structure has several levels and is both internal (between insurers) and external (with other asset managers). In general, the trend to convert portfolios to low-risk products continued in 2002.
- *The concentration remains high*, both on a level of key markets (over 60 per cent of the global premium collection is covered by three countries) and on that of national systems where there is a growing tendency to consolidate (CEA, 2002).
- Alongside the consolidation within individual sectors, *the integration between sectors is also gradually increasing*. The traditional distinction between financial products has been eroded with the elimination of many regulatory and technological barriers and with the increasing sophistication of clients' needs.
- The current *rethinking of regulatory models* is rendering the scenario even more complex on a level of both national and multilateral systems. These are facing the need to reformulate, tighten up and create new regulations on the delicate topic of financial services' integration/separation in the current highly critical period.

Various models and paradigms of integration-competition between various types of services, products and financial channels are appearing which have been, are, and will be affected by regulatory systems. The competition between groups is getting fiercer and it is vital to find new business models to tackle these complex challenges.

Has then the boom for every kind of integrated distribution, and bancassurance in particular, come to an end? Which role is under definition for bancassurance poles within broader financial groups in the next decade and with a new economic cycle? We read in the financial columns that "bancassurance is coming under pressure". Certainly, a complex transformation is underway and the past expansionary phase, during which all actors grew in importance, is giving way to a more aggressive competition phase characterized by a clear-cut divide between winners and losers.

## 2. The integration between banks and insurance companies in the financial services industry competitive scenario

The different financial intermediaries, such as banks, insurers, asset managers, mutual funds and pension funds are in the middle of an extensive change process that has affected both product policies and service and distribution models. These changes are linked to evolutions in:

- regulations, with the liberalization and deregulation processes, the elimination of some "at the border" and "behind the border" market barriers and barriers aimed at preserving the diversification of financial sectors;
- technologies, with a strong impact on the distribution, passing from traditional, labour-intensive networks, to the specific or concomitant use of other channels (for example, the single bancassurance channel *versus* integrated multi-channels);
- consumption and needs to be satisfied, with substantial effects on product policies given the growing centrality of the client.

The change is reflected not only in accelerating concentration strategies (infra-sectorial and cross-sectorial mergers and acquisitions) but also in a focus on the core financial business to cope with the competitive pressure, targeting sectors in which good yields are expected. In the current market turmoil, the collapse of the stock-market bubble and the crisis in corporate governance, the second element has a vital importance and many firms are ceding their non-core businesses and getting out of unprofitable geo-economic areas.

Once strongly departmentalized markets are giving way to the concept of a financial services industry ("FSI") and world financial centres (PWC, 2002; Swiss Re, 2002), with all the related regulatory problems.

It is difficult to classify and compare the different types of FSI actors, as a recent report shows, since there are many ways of measuring performances. Earnings can be one measure, and on this basis 115 of the world's 500 leading companies in 2000 were classifiable as financial intermediaries. In this age of tertiarization, the FSI is becoming increasingly important and within it the insurance sector has a considerable weight (Swiss Re, 2001a).

The FSI actors have become bigger and stronger and are diversifying their activities and risk typologies (EIU, 17 May 2002). Morgan Stanley has compared the top financial firms after ten years of growth (1990–2001) with extremely significant results in terms of market capitalization; this growth has occurred both organically and through mergers and acquisitions (M&A). The competitive scenario of the last decade has been characterized by a wave of M&A inside the FSI. The Group of Ten Consolidation Report shows that over 7,300 M&A agreements were signed in the 13 most industrialized countries in the 1990s.

To confirm the difficult transition stage of the global economy there was a brusque general slowdown in M&A operations in 2001 as well in 2002. Total transactions in Europe dropped from € 469 to € 366 billion, whereas in the U.S. the fall was even greater from € 668 billion in 2001 to € 386 billion in 2002.

Many commentators highlight national/transnational and infra/cross-sectorial criteria when analysing merger and acquisition typologies. In the majority of cases these mergers have occurred on a national basis and were of the infrasectorial rather than cross-industry type (McKinsey, 2002a). Over 70 per cent of operations were national and within the same type of financial services. There is space for further consolidation, especially in France, Germany and Italy (McKinsey, 2002a). Fifteen per cent occurred between firms of the same country but operating in different financial services, whereas 10 per cent were between firms of different countries in the same sector. A very low percentage involved both cross-border and cross-sectorial operations.

The insurance sector is fully involved in the consolidation process. In Europe, insurance firms started falling in number in 1997 and in five years around 200 companies were absorbed by other groups (dropping from 4,882 firms in 1997 to 4,693 in 2001, according to CEA's latest surveys), against a more or less stable employment level (around 870,000 employed in the sector). The recent turmoil of insurance markets has prompted some leading insurers "to predict a new concentration of insurance companies in Europe" and to foresee "good possibilities for external growth" for American firms in the old continent (AGF and AIG Presidents' statements reported in *Les Echos*).

The consolidation still shows some significant aspects on a national level, both infra- and cross-sectorial. In the banking sector in Italy, the number of banks has dropped from 1,156 in 1990 to 830 in 2001. Bank consolidation has also led to a reorganization of local branches, which, unlike other European countries, have considerably expanded to more than 29,000. There have also been repercussions on other businesses, which have benefited from the improvement in relations between branches and inhabitants. There is now an average of 2,000 inhabitants per branch, in line with European values (similar values have been found in France).

The consolidation of the insurance sector in Italy has some particular features. Whereas the number of companies competing on the market has remained stable over the last three years at around 250 units (rising from the 253 in April 2001 to 256 in the same period in 2002, ANIA, 2002), CEA's latest survey shows that the weight of the leading companies in the total premium collection dropped in the 1990s, to rise again over the last two years (CEA, 2002). ANIA's figures show that life insurers have increased while non-life insurers have dropped in number. Only 11 companies were quoted on the stock exchange as of December 2001.

In Italy, as will be seen below, bancassurance in the life sector has gradually asserted itself as the dominant model, with almost all the banking groups involved in captive and non-captive bancassurance projects. The latest concentrations announced also confirm the integrated distribution (of products and channels) trend.

## 3. Models of integration between banking and insurance services

New actors and sales typologies, both intermediate and disintermediate, have entered the competitive scenario of insurance distribution. The easing of the barriers between the various intermediaries has enabled and forced financial firms to offer the consumer a package of services and one-stop-banking features (Mella and Paci, 1999). These multi-product services typical of the new competitive structure in the financial services industry create several business models ranging from bancassurance to the bancarization of insurance companies within an assurbanking/assurfinance framework.

In a dynamic reading of the insurance sector, "new distributors" have gradually been added to the traditional agency networks, flanked from time to time by the figure of a broker. These new distributors can be defined as "first or second generation".

Bank branches (including the post office channel) and financial service promoters are "first generation new distributors". The "second generation new distributors" include direct sales channels (call centres, internet) and absolute beginners such as supermarket chains (Tesco in the United Kingdom and Carrefour in France), automobile companies (Volvo has created its own insurance company offering integrated services to clients buying its cars) and the big credit-card groups (Amex) (Charter-Kastler, 2001). On the Italian market, the Pirelli Real Estate network has created quite a stir with its target to provide, within five years and through 2,000 agencies nationwide, integrated financial products when buying properties (mortgages, insurance, and real-estate investments).

The "second-generation new distributors" are mainly active in non-life insurance, whereas in the life insurance sector, the "new distributor" bancassurance model is predominant in many key European markets.

### *3.1 Bancassurance*

In the delicate equilibrium between competition and co-operation among insurance companies and other financial intermediaries, bancassurance is the most popular "cross-breeding process" for the integrated distribution of products (mixture of insurance and banking). As mentioned earlier, this new type of business is in a sector, financial intermediation, which is in profound transformation and in which the balance between the banking and insurance worlds is also being readjusted (Paci, 1999). Bancassurance is essentially a method for distributing insurance products through bank branches. But it is at the same time something more, a global movement that is gradually breaking down the traditional barriers between the various financial products and services (Benoist, 2002).

Bancassurance presents specific problems of corporate governance, since it entails co-operation between banks and insurance companies. It can be provided through product factories and distribution networks inside (previously defined as captive) or outside (non-captive) a group, in various banking and insurance mixtures. One of its strong points is the high degree of product standardization and simplicity, meaning that personnel without much insurance knowledge, such as bank clerks, can sell it.

From a strict insurance viewpoint, bancassurance represents one of the new insurance distribution channels/vehicles, alongside the traditional agency network, direct channels and financial service promoters. Bancassurance is a "first generation new distributor", firmly established in some national systems, as will be seen later on, whilst in other national systems it is still competing with similar "second generation new distributors".

A few years ago, some defined bancassurance as the first step towards a more radical evolution in the provision of insurance, financial and credit services and an authentic laboratory of organizational innovation for the entire financial intermediation sector (Solari, 1999). Others, albeit not questioning its importance, warned that bancassurance would be limited if there was no rethinking of cost policies (Desiata, 2000). As will be seen later, bancassurance has grown steadily in some but not all European countries, but in the present very complex scenario it is currently in a state of flux. Commitment to the bancassurance route entails strategic organizational and technological changes to contain costs and increase revenues; the challenge lies in managing to develop either a niche (for product offered or clientele segment) or cost-leadership strategy through a "single position" on the market (PWC, 2002).

On the threshold of 2003, integrated distribution is revealing new aspects and complexities; future scenarios are extremely varied and many questions remain about the laboratories of the future.

### *3.2 Assurbanking*

Within integrated distribution, the term bancassurance could, according to some, also be used to define the provision of banking products by insurance companies (PWC, 2002). Others consider that bancarization, assurbanking and assurfinance are the new integrated financial services and banking models offered by insurers (Benoist, 2002).

In response to the competition from the new distributors arriving in the insurance core business, many traditional insurers have established (real or virtual) banks to exploit their client database and to implement cross-selling strategies. In the Italian case the regulatory context has played an important role. The Bank of Italy issued a note (1999) allowing insurance agencies to sell a wide range of banking and financial products, hitherto withheld from them (Macros, 2002). Banca Generali, Banca Toro, Unipol Banca, Banca SAI and Rasbank are some insurers who have taken up the offer.

The new integrated distribution entails strengthening the traditional agents' channel so it can provide a complete range of insurance products and a selection of specialized and focused banking products. An extensive computerization of points of sale is also necessary to enable them to offer banking activities (ATM, financial points, call centre) and/or the establishment of virtual banks. The financial promoter networks will have to be extended, both in the agencies and in the *ad hoc* links. Some models have been defined. These include a network of promoters co-operating with the agency network; the creation of the agent-promoter and the presence of a promoter alongside the insurer in the agency.

At present, the assurbanking model is in its infancy and few companies have adopted it. While awaiting its supporters, the creation of a virtual bank, with financial promoters flanking the agency network, enables high-quality consulting with greater profitability as well as competitiveness in personal financial planning.

The introduction of this new element within the traditional agency network could stimulate new types of business and increase the complexity of the competitive structure.

### *3.3 Integration stages and models*

The integration between banking and insurance can require several stages, as the creation and consolidation of the FSI and its components have already demonstrated. From a corporate governance viewpoint, the core values of the insurance sector (focusing on risk management) differ from those of banking (with priorities such as liquidity, guaranteeing minimum profits on deposits, ability to monitor lending and provision of payment services). Some have attempted to study governance schemes and to reclassify these integration typologies according to whether they are characterized by bank, insurance or joint control (Solari, 1999).

The organizational integration models can be broken down into typologies and literature has proposed, *inter alia*, the following scale of "integration levels":

- commercial agreement between a bank and an insurer;
- strategic alliance, with an insurance product distribution agreement, between an insurer and a bank, strengthened by an exchange of minority shareholdings;
- joint venture between banks and insurance companies;
- captive structure, through the acquisition of a majority stake by a bank or insurance company;
- captive structure through the establishment of a company.

The models thus range from the loosest entry adopted during the initial stages of bancassurance to authentic synergies between bank and insurer, involving the acquisition of the entire insurance production and distribution cycle. International analysts are following with interest Allianz's acquisition of Dresdner Bank and the creation of an "insurance-led bancassurer" (PWC, 2002). In the classifications analysed, "financial conglomerates" are a "strong" integration model, albeit considered by some to be more an exception than a rule (Swiss Re, 2002). Many emphasize the overexposure of these humbled giants to different types of risk and outline a scenario in which only the truly competitive ones will manage to cope with "the toughest market environment in a generation" (FT, 23 September 2002).

## 4. Bancassurance in some European key markets

Insurance distribution trends differ greatly from country to country. In the European Union framework, albeit with regulations progressively converging towards a "single insurance market", there has been a long predominance of specific models concentrated on a dominant channel, such as brokers in the United Kingdom and agents in Germany and Italy. The type of bancassurance integration adopted has been influenced by different regulatory systems and various formulas for separating the risks implicit in banking and insurance. A progressive deregulation was launched in some European countries, starting with France and the U.K. during the 1980s, which then spread to all Community states by the beginning of the 1990s with the third-generation Directives.

In Europe, the sale of life insurance from bank branches has had positive results. This is mainly thanks to the reduction in distribution costs and the ease of access to, and contact with,

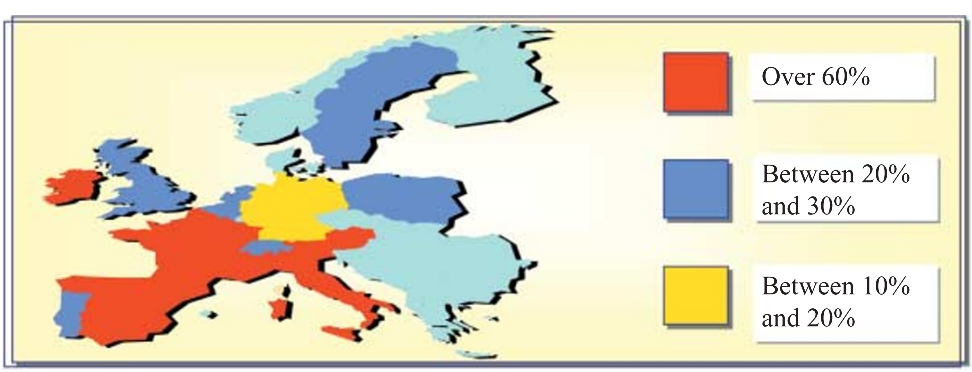


*Figure 1: Market share of bancassurance in Europe*
*Source:* IAMA Monitor.

the broad client base; the synergy between traditional savings formulas and individual social-security plans (often with tax incentives); and products with a high financial content in stock-market expansionary phases (index- and unit-linked) and guaranteed ones in falling stock market phases. This has enabled the bank to offer a diversification of products to consolidate brand loyalty, to cope with the disintermediation process and increase profitability.

There is no single reference model for bancassurance. Models and penetration continue to vary considerably from country to country, with Mediterranean countries such as Italy, France, Portugal and Spain holding the record. The diversification within the European macro-area depends on the particular mixture of history, complexity of products, role of the social-security system and consumers' attitudes in each country (PWC, 2002).

### *4.1 Bancassurance in France*

Bancassurance has existed in France for over 20 years, starting with the pioneer experience of the 1970s in the life sector of Crédit Mutuel (ACM was established in 1971) and Paribas (Cardif, 1976) and then launched in the 1980s by the experiences, among others, of BNP (Natio Vie), Banque Populaire (Fructivie), Crédit Agricole (Predica), Société Générale (Sogecap), Caisses d'Epargne (Ecureuil Vie) (Tassin, 2002). The mutual bank insurers used the captive insurance model from the start and the major banking groups gradually established subsidiaries (Charter-Kastler, 2002).

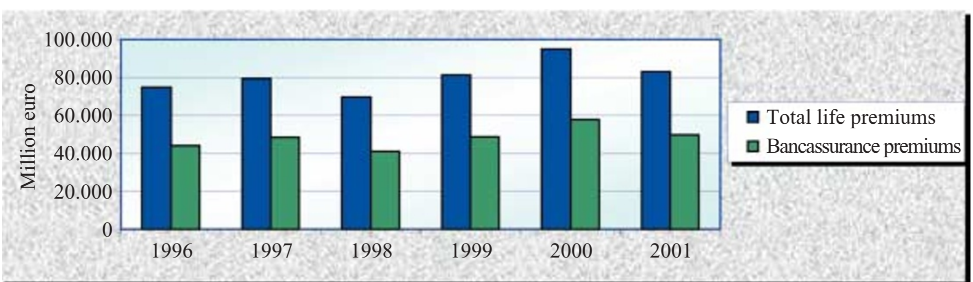


*Figure 2: Trends of life insurance and bancassurance in France*
*Source:* IAMA Monitor.

Bancassurance has accounted for a large share of life-insurance business since 1994 with a penetration of over 50 per cent (of premium collection), steadily growing to 66 per cent in 2001, after which it started to slow down. The slackening of France life market in 2001 (−8 per cent, for 2002 first estimates are around +2 per cent) was mirrored by an even more marked fall in collections through the banking and post-office channel (−10 per cent), where the bancassurance market share dropped from 68 per cent in 2000 to 66 per cent in 2001.

### *4.2 Bancassurance in the United Kingdom*

Although the British market is a leader in life insurance in Europe, the centre *par excellence* for large risks and reinsurance, and a pension fund pole, it did not experience a similar boom in bancassurance in the 1990s. However the market is undergoing an extensive restructuring and is showing signs of a gradual growth, even though bancassurance is still in its infancy (Benoist, 2002).

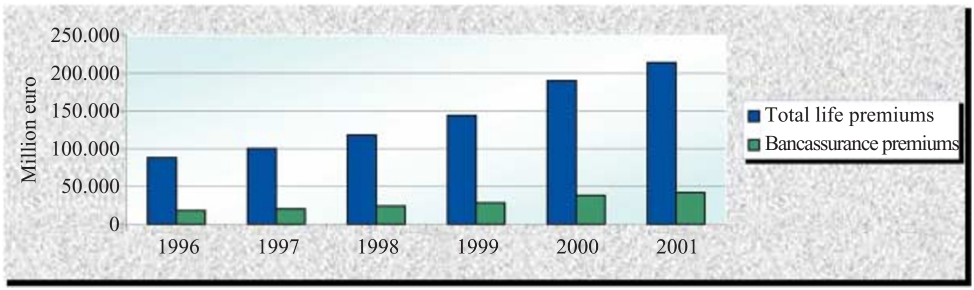


*Figure 3: Trends of life insurance and bancassurance in the U.K.*
*Source:* IAMA Monitor.

Four of the seven prime banks have created their own captive companies, others have acted through acquisitions (Lloyd's TSB of Upperlife Insurance and Scottish Widows) or joint ventures (Legal&General with Barclays Bank) (Swiss Re, 2002). Recent analyses have shown that insurance subsidiaries are the rising star in British bancassurance (Charter-Kastler, 2002). In 2001 the sales of policies through bank branches started to show positive growth performances alongside the good results of the independent financial advisors (IFA).

### *4.3 Bancassurance in Germany*

The German market represents a kind of laboratory for bancassurance. Unlike other European countries, non-life predominates over life insurance in Germany and even in this latter category the distribution is mainly through the agency channel. The recent agreements

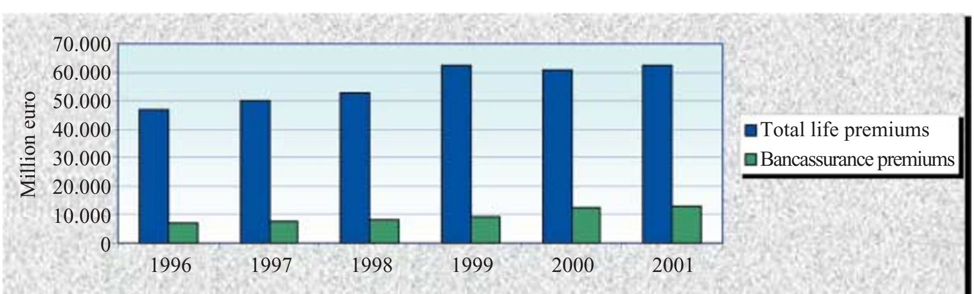


*Figure 4: Trends in life insurance and bancassurance in Germany*
*Source:* IAMA Monitor.

and alliances between insurance companies and banks show a positive trend for an evolution of bancassurance, even though it still only accounts for 20 per cent of collections.

Some German key players have inserted bancassurance in their international strategies (Allianz in Italy through Ras in a joint venture with Unicredito in Creditras Vita and in France through AGF, owning a shareholding in Crédit Lyonnais) and Allianz's acquisition of Dresdner Bank confirms the bancassurance trend, despite a difficult start in the integration between the two giants. Other key players are HDI (Post Bank; Citibank), Ergo (Hypovereinsbank) and AMB-Generali (Commerzbank). The integration models are thus extremely varied and range from integration (Allianz-Dresdner) to strategic partnership (Ergo-HVB). A recent survey reveals that, in December 2001, around half of all the German insurance companies had undertaken or were about to undertake bancassurance business. *The Financial Times* also predicted a bancassurance boom in the wake of pensions reform (FT, 24 May 2001).

### *4.4 Bancassurance in Italy*

Bancassurance has rapidly taken root in Italy, as it has in Portugal and Spain, and now represents two-thirds of the new products sold every year (including post office branches). As mentioned earlier, the life-insurance growth rates in Italy are those of an industry in its development stage and in 2001 were around 16 per cent in nominal terms and 13 per cent in real terms, and first estimates for 2002 show an even more consistent growth rate.

The evolution of the Italian insurance system is also to be seen in distribution trends. The agent-based system used until the 1990s has given way to competition between various mono-channels and to multi-channel competition. Many groups have maintained a "dominant channel" (ANIA, 2002).

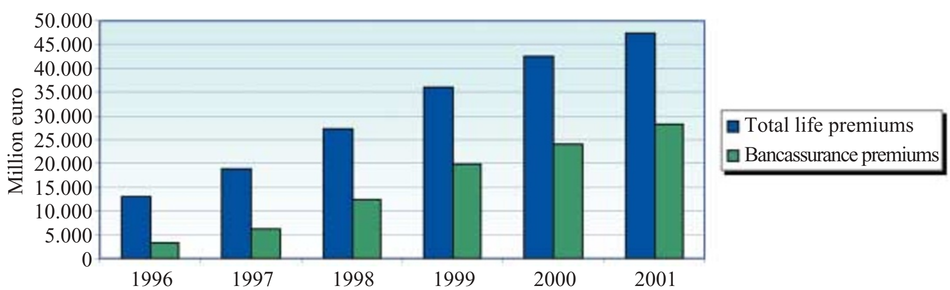


*Figure 5: Trends of life insurance and bancassurance in Italy*
*Source:* IAMA Monitor.

In Italy, bancassurance has different performances in the life and non-life businesses. Agents dominate non-life insurance (in 2001 over 86 per cent of total premiums), with a gradual growth in other channels (direct sales and brokers). Bank branches, together with financial promoters, continue to collect only 1 per cent of the market.

In the life insurance business in 2001, bancassurance (including post office branches) collected 61.2 per cent, rising to 72.4 per cent when sales through financial promoters are included, followed by the 17.9 per cent collected through the agents channel (ANIA, 2002). The performance of the various distribution channels can also be evaluated through the six classes of life products envisaged by Italian regulation. Here, bancassurance collects two-thirds of premiums linked to products with a high financial or savings profile (class III – linked (78.8 per cent) and class V – capitalization (74.9 per cent)) and almost half of the products of class I – traditional products. These three classes also cover most of the premiums collected in Italy. The traditional agents and networks play an important role in health insurance, pension funds and individual pension plans. In 2002 there was a boom in guaranteed and protected products.

The bancassurance boom occurred after banks were allowed to take up direct shareholdings in insurance companies after 1990 and the consequent evolution from a model based on commercial agreements and on weak, non-strategic forms of co-operation to stronger types of integration (Paci, 1999). In Italy there are various types of bancassurance hybrids:

- commercial agreements of a non-captive type between banks of medium-small size with international (Skandia, Scottish Equitable, Cardif, Axa, Clerical Medical) and national (Cattolica) product factories;
- minority shareholdings in one or more companies, linked to specific typologies of banks (Assimoco for co-operative credit institutes);
- qualified shareholdings (Cattolica Assicurazioni group has a shareholding in Banca Lombarda and Piemontese Group, with whom a joint venture, LombardaVita, has also been created);
- shared control (direct, indirect) of companies established through joint ventures with a strong insurance partner (originally implemented by Monte dei Paschi with Crédit Agricole at the start of Montepaschi Vita; Unicredito with Ras in CreditRas and Duerre Vita; Unicredito with Aviva/CGNU in Commercial Union Vita; BNL with Unipol in BNL Vita);
- exclusive control of an insurance subsidiary by a bank, with a strong group branding (e.g. Monte dei Paschi di Siena and Montepaschi Vita; San Paolo-IMI and S. Paolo Vita).

As already mentioned, the estimates for 2002 seem positive with a growth rate around or even over 20 per cent, as well as an increase in the concentration and development of integrated products with cross-selling by traditional distributors through assurbanking (Banca Generali, Ras Banca, Banca Sai, Unipol Banca).

Thus bancassurance, after having achieved a peak and a strong penetration in terms of overall life premiums, is now facing the challenge of stabilizing performances and has to assess expansion in the areas where it is weakest (individual pension plans) and in the non-life business.

## 5. Challenges for the future

The complex trends described above make it difficult to outline the future scenarios on integrated distribution and changing business management models. We already mentioned the critical statements about the future of the bancassurance model. Authoritative economic journals wrote that “bancassurance is coming under pressure” (*Wall Street Journal Europe*, 4 October 2002) and also wondered whether the mergers of banks and insurers still make sense or if the idea of bancassurance is still sound (*The Economist*, 14 December 2002). Others are even predicting the crash of insurers (*Time,* 21 October 2002). Certainly, a complex transformation is underway and the fast expansionary phase of the markets, where all actors were growing, is giving way to a more aggressive competition phase with winners as well as losers.

So we are facing a new phase, after the "golden age" of fast growth, which is made even more difficult by the transition stage of the financial market and the crisis of the dominant corporate governance model.

The first-generation integration models of bancassurance services have been tested in Europe to varying degrees from country to country. The challenge now is finding new organizational and distribution formulas for retaining clients and attracting new ones, by devising specific products and channel integration strategies, as well as a new "service mission". In terms of distribution, multi-channel strategies have ensued from agreements with banks (bancassurance) and with the promoters' network, from the evolution of the agency structure (assurbanking) and the development of direct channels (call centres or the internet). In terms of products, some groups are further diversifying, through cross-selling and full-fledged supply strategies; others are specializing in specific product species. Anyway all groups have to focus on customer needs with a new advisory and service-oriented approach. Almost all insurance companies are adopting these strategies in different ways, as outlined above. The arena has become even more competitive and business models need to be reformulated. Regulatory developments and variables will affect these reformulations and should be seriously taken into account in the present phase.

One may feel confident in predicting that bancassurance channels will hold their pre-eminence in the life insurance business of some European markets while traditional distribution networks (brokers or agents) will hold theirs in the non-life insurance ones, with models and stages varying from country to country. The most advanced agency networks (financial shops, assurbanking) and innovative channels (e.g. the internet) are expected to gradually expand further, without upsetting the consolidated situation in the short to medium term. The alternative channels are taking on a complementary role by strengthening the multi-channel strategies, as shown in the Italian case, while virtual distribution is going to become very successful in specific insurance businesses (i.e. motor insurance).

What is hard to believe is that the insurance sector has fully implemented its transition stage and that sound reference models are already available in terms of business and distributive approaches. Some firms adopted new innovative models and are testing them, whereas others are still coping with radical strategic choices. Almost all groups declare that they have launched a multi-channel strategy on paper, but the actual performance of the various channels are still not comparable and measurable. The mono-channel model remains dominant, in particular for many bancassurers, so far looking forward to the upcoming reorganization of the business model towards truly integrated distribution.

To sum up, one might point out that a complex transformation is underway, crowded with winners and losers within a more aggressive competitive financial services industry environment. In this scenario, the following six key macro-structural trends, interrelated but distinct, with regard to the integrated distribution of the insurance and financial services, may be outlined, as also emerged on a consensus basis during the first MPV Forum:

(1) The insurance business will take on a bigger role within asset management. The reforms of the social security and pension system, already introduced or being implemented in Europe, and especially in Italy, will have positive repercussions. Demographic trends offer new opportunities; they are enhancing the savings mission and relaunching personal asset protection insurance products. A major challenge, in fact, will be to reinforce

contemporaneously a truly "protection oriented" and risk management approach, along with the above-mentioned role of insurance companies within asset management.

(2) The client is at the centre of every business activity and consequently the focus of any strategy is more and more on the development of a range of products (mono-multi-specialization) to be delivered through selected or multiple channels (mono-multi-distribution). While bancassurance will enhance its position in some national life insurance markets, the "second-generation distribution channels" will continue their increasing trend in the non-life sector (i.e. motor insurance). Generally speaking, the main goal is to optimize the relationship with clients and better satisfy their needs. The changes in the "client-family" microcosm have already affected, and are going to affect, the management of savings. This factor should not be seen as a constraint, but rather as an opportunity for firms and families thanks to a new pact, a sort of "new deal", based on an enduring trust. The growing role of clientele segmentation is greatly emphasizing service and consultation. Segments and basic needs change and have to be monitored, supported and anticipated. So personal relationship is seen as central, and it has to be maintained over an increasingly long time-span.

(3) The centrality of the relationship with the client shifts the focus from value creation for *shareholders* alone to taking into consideration also the interests of *stakeholders*. The key to value creation is offering enduring sound stability and guaranteeing profits over a long-term "insurance" horizon. Insurance already has, and will increasingly have, a "social role" and significance in creating value for the community.

(4) The current reformulation of businesses and networks involves not only a differentiated client approach and a product global supply, but also cost reductions and process reorganizations. In particular, the new integrated risk management approach to better link the banking and insurance worlds should receive greater attention. Development and cost-reduction strategies are becoming more and more complementary.

(5) The human factor and the search for excellence for human resources within these value-creation processes are more important than ever: even more so since the transmission of knowledge, training and a common project are becoming key elements in the future competitive environment. Technology and cultural knowledge levels are closely connected from the client's point of view; it is not by chance that those using direct channels and the internet have high educational standards. The transmission of information knowledge and the development of a new culture of savings play a fundamental role in the so-called "new deal" between product suppliers and insurance services.

(6) The regulatory systems are facing new challenges. The current reforms after recent crises and failures are leading toward complex reformulation and creation of rules, and are greatly affecting the sectorial environments across countries and the different "paradigms" of integration-competition between various typologies of services, products and financial channels. It is not yet clear what the future outcome of the reform processes underway will be in terms of both the new balance between liberalization and re-regulation and the governance models referring to increasingly integrated sectors at national, community and multilateral levels. Anyway it is certain that regulatory variables will have a significant role in the choice of future distributive strategies.

The year 2003 will be a difficult, transition year, a sort of bridge towards a new post-crisis stage, with new group alliances and renovated competitive and regulatory scenarios. In order to succeed a group should be able to effectively relaunch its products and supply strategies and to figure out their service and advisory mission. Successful groups will be able to base their own organization, apart from their different approaches, upon the only factor that can guarantee value creation: clients. In this environment bancassurance has a role to play and could become one of the leading models.

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