BANCASSURANCE

Bancassurance

Nadege Genetay and Philip Molyneux

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To our families

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Preface

Universal banking has long been the norm in Germany and Switzerland, but it was not until the EU's 1992 banking legislation was fully incorporated into domestic banking law that universal banking practices were permitted across EU countries. The type of model that has evolved and which now dominates European banking has some similarities but also some differences from long-established German and Swiss models.

Traditionally, universal banking in Germany and Switzerland was characterised by bank domination of capital market firms, as well as widespread shareholdings in industrial and other non-financial firms. The latter is still much less common in other European banking systems.

In contrast, universal banking in other European banking systems refers to commercial banks being able to provide a wide range of financial services – banking, insurance and securities – under one roof. Barriers between different types of financial service firms become increasingly irrelevant, protected franchise values are eroded and competition intensifies across the whole spectrum of the financial services industry.

The largest European banks have fully embraced universal banking, buying securities firms and investment banks as well as acquiring or establishing substantial insurance activities. To date, the majority have predominantly focused on cross-selling savings-related insurance and pensions products to retail customers. Some of Europe's largest insurers have also sought to establish bank links by buying stakes and/or encouraging mergers (as with Storebrand and Christiana Bank in Norway).

The largest German and Swiss banks have also moved more in line with the EU-impelled definition of universal banking. Over the last two years, they have sought to reduce their equity holdings in industrial and other concerns, and they have also placed greater emphasis on forging stronger links with the insurance sector. This process has been accelerated by structural adjustments in the European banking market which have been impelled by preparations for European Monetary Union (EMU).

Many of the trends in Europe are apparent, to differing degrees, in other banking markets. The reorganisation of the Japanese market is expected to promote a rush of bancassurance deals and unleash various forces which attempt to inject credibility, soundness and competition into the domestic financial services industry. Similarly, the erosion of US Glass-Steagall regulations is also attempting to achieve the same ends in the United States – namely allowing commercial banks access to investment banking and insurance business.

The trend is towards the establishment of the universal banking model as the global norm. A critical element of which relates to banks undertaking insurance business. The main aim of this text is to provide some insight into the evolution of the bancassurance concept and the risks and returns associated with this type of activity.

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