COMMISSION
OF THE EUROPEAN
COMMUNITIES

Directorate-General
for Economic and Financial Affairs

II/279/91-EN
June 1991

# EC INSURANCE

## THE COMMUNITY INSURANCE INDUSTRY ON THE EVE OF THE SINGLE INSURANCE MARKET

By Antonio de Lecea

Unit of Development of Financial Instruments

(II-E-1)

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**INTRODUCTION AND SUMMARY**

The actual structure of the Community insurance market after 1992 will be the result of a number of factors, namely, the regulatory environment and changes, both autonomous and Community-driven, the initial situation and characteristics of each Member State insurance market, and the actual strategies of individual players.

This paper attempts to focus on the two latter issues, and review the key features and underlying factors of the industry's recent and expected changes, and of the strategies of insurance companies to position themselves for the Single Market.

A widespread belief exists amongst practitioners(1) that completion of the Internal Market in insurance will offer them more opportunities than threats in the long run, although most changes will be gradual.

A genuine single market is already emerging for major corporate products, while for retail, practitioners and analysts judge that the European retail insurance markets will remain fragmented because of structural and cultural factors and that only a minority of insurance companies is expected to engage in cross-border activities, the rest remaining active exclusively in their own country (1).

One of these factors will be the pattern of insurance demand. While the largest corporate customers will tend to rely less on conventional insurance, medium-to-large firms will push insurers to develop international networks to accompany their expansion in the industrial Single Market, and domestically-oriented SMEs will become more sophisticated, but local customers. Regarding individuals, heterogeneous demand patterns, proximity preference, and consumer loyalty are all elements that will reduce the potential attractiveness of insurers' cross-border moves.

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(1) These are the conclusions of a survey of British financial services companies on the Single Financial Market, conducted by the Bank of England [1989], and a survey of European insurers conducted commissioned by the Geneva Association and the Univ. of Cologne Institute for Insurance Economics (hereafter referred to as the Geneva-Cologne survey).

If demand will not play a major role in integration and if there are not significant supply-side advantages for companies to develop large networks, the profit potential in certain markets may lead to selective cross-border investment. Therefore the expected geographical pattern of cross-border flows hints at geographical closeness, market size, and expected growth as major factors explaining cross-border moves.

Germany, the UK and France are the largest European markets. Competition is greatest in the British and the Dutch markets. German firms are the most profitable ones. Hence companies in these markets will expect most from cross-border from expansion. On the other side, the Mediterranean countries are those offering higher growth perspectives and therefore in principle the most attractive targets. The profitability of the German market and the level of development of the British industry make them appealing, too.

The chances of successfully entering one of these attractive markets will depend crucially on their penetrability, determined by its structure, the degree of regulation, and the distribution systems. Although seemingly not very concentrated, corporate law provisions, a distribution system based on tied agents, make the German market difficult to penetrate, while the British, French, and Spanish ones offer higher opportunities for successful entry.

As the Geneva-Cologne survey points out, increasing size is a motivation for firms to go abroad. It is also the force behind much of the consolidation process taking place in most European insurance markets. The analysis of the issue of economies of scale in the insurance industry concludes that although the issue is still controversial, there are grounds to believe that spreading fixed costs, better investment and reinsurance advantages, improved information and segmentation possibilities, and brand advantages may lead to significant cost savings for all but the largest European insurance companies.

The process of insurance integration is combined with that of the blurring of the frontiers between banking, insurance, and other financial services that responds to the economies of scope and opens up new possibilities for trans-national expansion. It also provides an alternative strategy for companies unwilling or unable to go European. The examination of these phenomena and the changing patterns of distribution, concludes that interpenetration is likely to continue and may be a source of product innovation. And that banks, commercial outlets and financial intermediaries will continue to gain market share, as distribution becomes more client-oriented and selective.

Finally, the analysis of the strategies observed and expected from European insurers leads to confirm the view of many of the surveyed companies that 1992 will not trigger major strategy adjustments, but will just accelerate the moves already under way. Nonetheless, the psychological impact of the 1992 process is giving integration a great impetus. It concludes as well that there is no single strategy for the Single Market, as the variety of actual choices by insurers confirm, and that whether a strategy is good or bad will depend on the characteristics of the company and the market.

## 1. THE COMMUNITY INSURANCE INDUSTRY

### 1.1) Demand patterns and product mix

The insurance business offers protection against some future, uncertain, event, in exchange for the payment of a sure premium. Ideally, the insurer can do so by having a perfect knowledge of the probability distribution of the event's occurrence, and by balancing risks over a large population, which allows him to apply the law of large numbers in setting premiums.

The areas of application are many and diverse, and are usually grouped into three main branches: life, non-life, and reinsurance. This distinction is also adopted by the Community Directives.

**Life** assurance has as objectives income protection and endowment. Therefore demand for life products is likely to be influenced by demographic factors (population size, and age distribution) as illustrated in **DIAGRAM 1**.

Other determinants are personal income and wealth, the extent and prospects of public pay-as-you-go social security systems, and the competitive edge of the insurance industry in attracting personal savings (partly influenced by tax systems)(2).

**DIAGRAMS** 2 and 3 show that these variables take on very different values in the various Member States' markets.

The demand for **non-life** insurance is likely to be affected by the car population and growth, the house stock, investment, output and foreign trade levels, as well as the legal, judicial, and regulatory systems (e.g. compulsory motor insurance, or judicial responsiveness to consumer accident claims) and, last but not least, by cultural attitudes towards risks.

The variety of these determinants across countries is reflected in the breakdown by broad insurance lines of the non-life insurance activity in the various Member States, presented in **DIAGRAM** 4.

1.2. <u>Relative development and market shares</u>
The **Community's market share** in the world direct insurance in terms of total premiums written in the domestic market was 23% in 1987. As reflected in **DIAGRAM** 5, it rose from 18.4 in 1960 to 27.3% in 1980 to decline in the early 1980s and has slightly oscillated since then.

As **DIAGRAM** 6 illustrates, within the Community, the major markets are Germany (30% of total premiums in 1988), the UK (25%) and France (20%). All three have relatively large populations and well developed insurance markets for both life and non-life. Italy, with also a large population, extensive social security, and a relatively underdeveloped insurance sector, accounted in 1988 for only 8% of all premiums. The Dutch market, with very high levels of per capita insurance business, but smaller population represented also 6% of premiums. The market share of the remaining countries ranged from 5% (Spain) to 0.1% (Luxembourg). Disaggregating by branch one notices the relative low development of life insurance in Italy and Portugal, and the high share of life insurance in the UK.

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(2)cf. for instance the econometric analysis of R. Teyssier [1989].

**DIAGRAM 7** shows the distribution of insurance densities. Japan is the country with the highest life insurance **expenditure per head of population**, more than twice that of the UK, which ranks top in the Community, closely followed by Germany. The latters' level is also similar to that in the US. Ireland, the Netherlands, and France come next. The gap with Italy, and even more so, Portugal and Greece is substantial. In non-life, the U.S. leads and Germany is the first Community country. Denmark, France, Luxembourg, the Netherlands, the UK, Belgium, and Japan have similar levels, with again Portugal and Greece showing the lowest levels.

Although conceptual problems underlie the measurement of the output of the insurance industry, the ratio of **gross premiums to GDP** is commonly used as an indicator of the relative development of the insurance business in any one country. As **DIAGRAM** 8 shows, Switzerland, and Ireland are at the top of the world league. The privately run social security system, and the large share of liability insurance provide some explanation. The US, UK and Japan follow suit. Greece is the Community country with the least developed insurance sector, accounting for only 1.24% of GDP in 1987.

The insurance industry is not very labour intensive so that, as displayed in **DIAGRAM** 9, its **share of total employment** is less than, or around 1% in most Community countries, with the exceptions of Belgium and Portugal.

Insurance companies are instead very important financial players both in their home markets and on the global market. **DIAGRAM** 10 displays the largest Community companies according to **assets** and a comparison with their home markets' stock exchange capitalisation. The relative weight of the top Dutch companies, as well as that of Allianz and UAP, are apparent.

## 1.3. Industrial organisation

As shown in **DIAGRAMS** 12 and 27, both Japanese and US top insurance companies are much larger than their largest Community rivals in terms of assets. Eight of the **world top 15** insurance groups in terms of premiums in 1988 were Japanese. The balance was composed of 6 US and only one European, Allianz, ranking seventh in the list. In Europe's top 20 ranking Allianz was first, and the only German representative, far ahead of UAP, the second Community company in the list. But as a group, the largest market share is held by UK companies (**DIAGRAM** 11).

If the market share of the top 5 companies is adopted as a measure of **concentration**, then non-life insurance is more fragmented than life assurance in all markets, with the exception of the UK, and there is considerable variation across Europe in the degree of industry concentration, as is also in the diversity in the **number of companies** operating in the market, displayed in **DIAGRAM** 13, which shows no direct relationship to the size of the market. This is most apparent when comparing the situations in the Community with those in Japan and the U.S.

**DIAGRAM** 14 shows that in the Community (excluding Greece and Luxembourg) Denmark has the highest degree of **concentration** in life (73%) and Portugal in non-life (60%), and Germany the lowest in both (34 and 25%, although in this country there is an accounting bias since members of financial groups are counted as independent). Outside the Community, the Scandinavian and Swiss markets are heavily concentrated while Japan shows an average rate (62 and 53%) and the US is a typically fragmented market (20 and 26%).

Market shares' volatility can be taken as a signal of a competitive environment. They may also be an indicator of the chances for a new entrant to acquire a part of the market. In an empirical analysis of three markets (France, Germany, and the UK) Finsinger(3) concludes that Germany, which has the most highly regulated insurance market has a low market share volatility. In contrast, the relatively unregulated markets of Great Britain and the increasingly deregulated French market exhibit a much higher volatility.

The penetrability of national insurance markets through takeover depends also on the **legal form and ownership structure** of firms in the market. Thus, the dominance of State- controlled, and mutual companies makes entry into the French market difficult. In Germany, in addition to a relatively small number of large and medium-sized private companies,small mutual companies also hold a significant market share.

The UK, Belgian, Spanish, and Dutch markets are dominated by domestic private sector companies (over 75%) with mutuals accounting for between 10 and 15% of the market. In Italy mutuals are less significant, while the State-owned INA, which acts as compulsory reinsurer of a set proportion of all life contracts written, commands the single largest share of the life market, and controls a large quoted non-life company.

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(3) cf. Finsinger [1990].

At present, there are wide differences in **distribution systems** across countries, as can be seen from **DIAGRAM** 15. Germany is the country where tied agents hold the largest market share. Some 80% of all personal insurance in that country is channelled through tied advice. Conversely, corporate business is originated mainly via independent brokers. On the other extreme, in the United Kingdom and in the Netherlands, distribution is mainly based on independent brokers.
These differences are also to a large extent a reflection of the different regulatory systems. In Luxembourg, for example, independent brokers have only recently been allowed to operate, and only in the corporate business. In the UK the structure of distribution for life products changed very quickly following the UK Financial Services Act provision that intermediaries choose to be "tied" agents, selling only the products of a single company, or to operate as independent brokers. Those who choose the latter are required to satisfy more demanding criteria with regard to disclosure and the quality and cost of their advice. As a consequence, the number of previously independent brokers halved, and the short-term business acquisition costs of the life companies substantially raised.

Measuring **productivity** in insurance, like in other services, is a difficult task not only because of the difficulties of measuring output but also because available measures, like premiums per employee or even costs ratios, are very much influenced by price levels and/or regulatory issues usually exogenous to firms. However, if we look as in **DIAGRAM** 16 at premiums per total employment in insurance (both production and distribution) then Denmark, Ireland, The Netherlands, and Spain, emerge as the most efficient insurance industries, well ahead of the US and Japan. Belgium, Italy, Portugal and Greece are those in need of greater productivity improvements.

Similar problems arise when trying to evaluate and compare **profitability** within and between countries because of differences in accounting, reporting and tax and prudential regimes.

In the non-life sector, as captured by **DIAGRAM** 17 the only country in Europe showing a modest but consistent profitable underwriting result over the period 1983-87 has been Germany. On the other extreme, in Scandinavian countries, Spain and Belgium, underwriting was extremely unprofitable, although offset by the very high levels of investment income.

Profitability comparisons of life insurance, although made even more difficult by the variety of accounting practices, yield fluctuations at least as important as for the non-life business. Member States' different statutory rules in relation to the allocation of profits between shareholders and policyholders account for part of the variation. Thus the returns to shareholders from life business in Germany are very low since around 97% of surplus goes to policyholders, whilst those in The Netherlands (where shareholders receive most of capital gains), are very much higher, as are those in the Italian and Spanish life assurance markets. (**DIAGRAM** 18)

Despite the enactment in all Member States of the First Insurance Directives and the recent wave of deals, cross-border activity of insurance companies remains relatively low, if we measure the degree of penetration through establishment by the **market share of foreign firms** (defined as firms majority-owned by foreigners) and branches of foreign companies. It is to be noted however that this measure underestimates the actual degree of penetration since it does not include foreign minority stakes in domestic firms.

Foreign penetration rates vary across countries, as can be seen from **DIAGRAM** 19. There has been little cross-penetration of the largest markets, whereas in the smaller ones penetration has been high. Thus, Portugal is the country with highest penetration (51% in life and 23% in non-life). Greece, Ireland and the Netherlands have rates exceeding 20% in life, and Ireland, Spain, and again the Netherlands, in non-life.

As could be expected, cross-border penetration originates in the countries with most developed insurance industries. In the Community, the originating countries of this foreign penetration are the UK (where business written abroad through branches and subsidiaries represents 22% of life and 31% of non-life domestic business), Italy (36% and 34%) and the Netherlands (33% and 41%), with some foreign activity by Belgian, Danish and Irish companies, and negligible foreign business by other countries, as depicted in **DIAGRAM** 20. Outside the Community Switzerland posts the highest ratios (53% and 145%). Note that these figures cover both cross-EEC, and non-EEC penetration.

Finally, concerning **cross-border provision of insurance services,** the proportion of business written in the country on risks situated abroad (both EEC and non-EEC) to total business is, according to OECD data, negligible except for the UK and Italy. Thus in 1988 UK insurers made 30% of their non-life business overseas and Italian insurers wrote 6% of their life and 4% of their non-life business abroad. Overall some 8% of premiums written in the Community corresponded to risks situated outside the country of establishment of the insurer.

## 2. MAIN TRENDS

### 2.1. Growth outlook

As **DIAGRAM** 21 illustrates, the life business has shown rates between ten times that of GDP in Spain (due primarily to tax-driven shifts of savings assets), five in Holland and below two in both the saturated markets (UK, Ireland), and the lower income countries (Portugal and Greece). The life sector has grown more rapidly than the non-life business in most countries (with Denmark, Ireland and the UK as exceptions). In the non-life business, the **growth rates** have more than doubled those of GDP in the more developed countries of the Community, and have lagged behind GDP growth rates in Portugal and Greece.

The ageing of population across Europe means that the **proportion of individuals in the age band** generating the maximum premium flows into the insurance industry will increase steadily over the next ten years, especially in Italy, Spain and Portugal, as shown in **DIAGRAM** 22.

Practitioners' views, as reflected by the Geneva-Cologne survey, broadly confirm the above forecast, and place Spain as the market with highest growth expectations, followed by the other Mediterranean countries, the UK, and Germany. Not surprisingly, the markets with lower expected growth are those with highest insurance per capita, i.e. the Benelux countries, Denmark, Switzerland and Ireland.

## 2.2. Market integration

a) Demand factors

The heterogeneity in demand and in the underlying factors put limits to the possibilities of standardisation of strategies and products, and hence to the integration of the insurance market. Moreover the average individual customer has shown little sophistication and a rather passive attitude in its insurance behaviour so that insurance sales have been originated by local, active, sales forces. The exception to this profile is the relatively small community of expatriate, high income individuals, showing also a higher affinity in their preferences, and more able to circumvent the constraints of their national markets and to shop around for the best package.

There is another, larger, sector of demand that shows homogeneity. The medium to large corporate customer, especially as it expands abroad or increases exports to reap the advantages from the more homogeneous internal market in industrial products, requires relatively standard cover instruments and has been pushing for an integrated insurance market.

On the other hand the internal market will bring about consolidation in the industrial and commercial sector. As corporate customers grow in size, their financial capacity will enable them to retain more risk and be less dependent on conventional insurance than they presently are. More large corporations and professional associations will also opt for setting up insurance captives.

Hence the characteristics of demand tend to shape an insurance single market that will consist of two differentiated markets. A truly integrated market for industrial risks, and a constellation of "regional markets" catering for different classes of consumers and domestic-oriented SMEs and responding to different national regulations.

This perspective may change however from the fact that life assurance products increasingly incorporate savings elements (see below) and compete with unit trust products, for which an international demand exists, and also as a consequence of the expansion of international insurance brokers that will offer SMEs access to an expanded range of insurance products and suppliers.

b) Supply-side considerations

Turning to the supply side, insurers' decisions to expand abroad may be determined by several objectives. First it may prove necessary to keep customers turned multinational. It may also respond to the relative high potential or profitability of the target market. Or else, it may be another expression of the search for size, discussed in the next section, and which was cited in the first place by the majority of senior executives of European insurance companies responding to the Cologne-Geneva survey.

Establishing a cross-border network may also bring advantages in itself. Networking may help insurers improve information and test new products and techniques. It may also help secure a better diversification of the risk portfolio. Against that are the facts that the diversity of national regulations and characteristics significantly raises the costs of networking and that loss and premium trends are perceived to be positively correlated in Community countries, thus diminishing the diversification motivation.

It is therefore not surprising then that the Bank of England survey showed that hardly any firms were looking to develop a single strategy across Europe; given the continuing regulatory, fiscal and cultural disparities, and differing levels of sophistication across markets. Although most British insurers were anxious to see the free provision of insurance across borders enacted, they thought that presence in the target markets was necessary to market their products.

Nor is it surprising that Spain, with low insurance saturation, high growth potential, high profitability, and relative openness, is, according to the Geneva-Cologne survey the most attractive Community market, followed by Italy, France, Germany and Great Britain. The survey also shows that foreign penetration is likely to be highest in centrally located, hitherto relatively protected, major markets, like France and Germany, in highly profitable, high growth, ones like Spain and Italy, and in the UK (**DIAGRAM** 23).

The cross-border activity is expected to originate in highly developed markets (Switzerland, Great Britain, Germany, France, Italy). Those less likely to originate cross-border moves are Belgium, and the outlying Portugal, Ireland and Greece (**DIAGRAM** 24).

Interestingly enough, Japan is not seen as a serious threat in this survey though the one reported by the Bank of England does show more concern from British insurers on the possibility of takeover bids coming from Japan and the US.

Available (even if partial) evidence of M&A activity (measured by the number of deals) in the Community, shown in **DIAGRAM** 25, largely confirms the above expectations. Insurance companies in the growing Southern markets (Italy, and Spain) have been the main targets. The large French market has also experienced substantial intra-Community activity, with the UK, Belgium, and the Netherlands following suit. The UK has remained the most attractive for non-Community investors, with Italy, and Spain following in importance.

The acquiring companies, tend to be from neighbouring countries, and primarily from centrally-located France, and to a lower extent from Italy and Germany, as **DIAGRAM** 26 illustrates. This tends to confirm the hypothesis that the first move will be the formation of "regional" cross-border markets with either historical, commercial, or linguistic links, and that few companies are aiming for a pan-European market. Again in terms of numbers British firms do not seem to have shared the frenzy for cross-border deals shown by their Continental competitors. As expected, Swiss firms have been the most interested non-Community acquirers (and Italy and Spain their preferred targets), with U.S. and Australia ranking next and aiming at UK firms.

<u>2.3. Concentration and rationalisation</u>

As represented in **DIAGRAM** 27, empirical evidence indicates that the larger the market the larger the **average size** of its top insurers, both in the life and the non-life areas.

This can lead one to infer that with the accomplishment of the Single Market in insurance the average company size will increase (although other factors, e.g. cultural and linguistic barriers may hold this process back). On the other hand, it is also argued that the bigger the absolute size of the market the more economically viable individual participants it can support so that a large, highly fragmented, market can persist without necessarily pointing to the probability of future rationalisation. Japan with only 100 companies and the US with over 6000 are examples of these polar situations.

A number of econometric studies have addressed the issue of the relationship between output and operating costs in various countries and for different branches(4). The results are not conclusive, but a majority of them seem to confirm the existence of weak economies of scale, with clearer evidence in the life- than in the non-life sector(5). Mutual companies also seem to enjoy clearer economies of scale than stock companies. The form of the company also seems to influence the result(6).

The case of Spain depicted in **DIAGRAM** 28 also seems to confirm the existence of **scale economies.** It shows how cost ratios are significantly higher for smaller companies than for medium-sized ones, and that the segment of relatively larger firms enjoy lower cost ratios. With increased competition and pressures on margins, few of the small companies are likely to remain independent.

Some analysts point out that scale economies can be traced to specific functions or cost centers, like computer, communications systems, regulation compliance, claims volatility management (especially for non-life), distribution networks, investment income, and brand image and reputation.

However, there seem to be upper thresholds to the size advantages. The bound is evaluated at about ecu 2 billion of premiums(7), beyond which economies would tend to disappear. Since only a few European insurance companies in Germany, the UK, France, and Switzerland exceed that threshold significant economies of may result from the ongoing **domestic consolidation** process reflected in **DIAGRAM** 29. The relative importance of M&A activity in the period 1987-90 (the most active period in this respect) seems to indicate that in the period 1987-90 the consolidation wave has been particularly important in Italy, and France. The more reliable evidence on the evolution of the number of insurance companies between 1983 and 1988 points to the importance of the consolidation process in Germany, Belgium, Spain, Denmark and, to a lesser extent, France and the Netherlands.

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(4) cf. Pestieau and Pirard [1989].
(5) except for a recent study by Lahaye, Perelman, and Pestieau [1989], that concludes that in France the opposite prevails.
(6) cf. Joskow; Halpern & Mathewson; Lahaye, Perelman and Pestieau [1989].
(7) cf. McKinsey [1989].

The consolidation process has run in parallel with an **efficiency improvement** in European insurance companies, as displayed in **DIAGRAM** 30, where the rapid progress made in Spain and Luxembourg (even after the accounting discrepancies are taken into account), France, Denmark, and the Netherlands, contrast with the slow increases in Greece and Ireland. **DIAGRAM** 31 shows that this progress has not been the consequence of declines in employment (except for slight reductions in French companies and in Dutch intermediaries, and taking into account the accounting changes in Spain and Luxembourg). Rather on the contrary, employment has considerably increased in Spain (and twice as much in Japan). In Greece, it is one factor explaining the poor record in productivity growth.

### 2.4. Despecialization, respecialization, and the economies of scope

Traditionally, the boundaries of the activities of the different financial sectors were relatively well defined and protected from competition through cartels (although overlapping existed in some areas, like the one covered by insurers' surety bonds and bankers'financial guarantees). Cross-subsidization of activities within an institution was the rule, and the marketing strategies of financial institutions did not differenciate much amongst consumer segments. Consumers, on their side were unsophisticated.

Deregulation has brought about the possibility for new entrants, and consumers have found it worthwile to shop around for the best product.

A major consequence has been the process of blurring of the traditional frontiers between insurance, banking, and other financial services, both in terms of products supplied and of legal organisation, so that now the choice of customer (personal vs corporate) and the range of products are important issues in an insurer's strategic choices.

a) Product convergence
All financial sectors have perceived the need to compete for profitable market segments by creating and clustering products to meet certain segments of customers, or needs at specific occasions (e.g. financing and protecting durable goods, real estate, physical protection (health, accident, life), income protection, and retirement plans, and high-service and assistance products suiting the needs of high income individuals).

This process has been clearer in the personal insurance/savings market. In the non-life insurance, banks have been more reluctant because the techniques are usually very different from banking ones, and are apprehensive that their image and customer fidelity may be hurt by customers unsatisfied with some claim settlement. Notwithstanding, some products combining non-life insurance and savings have been created and some banks have successfully distributed non-life insurance.

Two major factors have contributed to this process. Firstly, an increase in demand for endowment products mainly as a consequence of the crisis in pay-as-you-go social security systems, of increased personal wealth, and of the advantageous tax treatment granted to life assurance.

Secondly, the development of global securities markets and the improvements in information and computing capabilities which have made it possible to design flexible, high-yield, mixed insurance-savings products.

In most countries the first move into the other sector's territory has come from bankers trying to secure their customer base by increasing the product range with pure life and endowment insurance.

Insurers' reaction has been to upgrade and dissociate the savings component of their life policies, to introduce flexibility in premiums (variable premium profile, single premium), terms, and indemnities (variable indemnity, linked to a choice of portfolio strategies), and to add credit facilities, plastic cards to the policies.

b) Structural aspects
There have also been structural problems in each of the sectors pushing for convergence.

Firstly, changes in the customer base have led both sectors to aim at the same segments.

In the banking sector, sharp declines in their market share of household's savings, and higher cost thereof, as a consequence of lower savings rates, saturation of potential networks, and competition with money market instruments. This has been coupled with decreased activity with the corporate sector due to securitisation and with stricter capitalisation requirements which have also put limits to the volume and profitability of their lending activity, and led them to aim at fee-income activities, and in particular at the expanding, profitable, retail insurance business.

In the insurance sector, the incentive has been competition from the higher yield mutual funds, especially in times of inflation and booming securities markets. Insurers have also seen their corporate business suffer from disintermediation, insofar as larger firms tend to increase their risk retention and to create captives, thus also worsening the insurers' risk portfolio.

Moreover, both sectors have seen advantages in structural linkages. Capital adequacy rules have led banks to look to capital-rich insurance companies, while insurers, as they pay increasing attention to the asset side of the balance sheet, have pondered if it would not be appropriate to entrust their portfolio management activities to captive banks. Another source of attraction has been the banking sector's higher level of expertise on international markets. For insurance companies, linkages can provide them with the international expertise they may need.

Some analysts also point to the fact that insurers can gain from convergence insofar as banks enjoy a better brand image than themselves, while on the other hand, investors seem to value higher insurance companies than banks of similar capitalization.

Both parties can furthermore benefit from economies of scale in asset management, foreign exchange, information systems, customer account monitoring, and improved access to major deals. Cross-sector deals can thus be a substitute for within-sector expansion.

Moreover, convergence opens up possibilities for product innovation. Banks have traditionally avoided exposure to credit risks by restricting loans to solvable applicants or requiring collateral, while the insurance business is used to accept, assess, and price risks. By building on the risk management techniques of insurance companies banks may be able to offer their customers a complete range of financial products. Banks also have a great deal of customer information that may enable insurers to screen between high-risk and low-risk customers, and thus tailor new policies for specific groups and exploit profitable niches.

c) Distribution

Thirdly, and probably most important, as referred to above, distribution has pushed for convergence. In France, while distribution costs for firms using traditional distribution channels account for 21% of premiums, they are of only 7% for banks. Moreover, there has been convergence from both sectors in their change from product-based marketing to customer-based marketing, resulting in the search for the distribution channel (or combination of channels) most likely to improve the hit-rates for the target customer segment.

Consolidation is also leading towards a dissociation of the production and distribution functions. An insurer may exploit a comparative advantage in say underwriting and sell its branch network at a high price to a foreign company or to a bank eager to enter the market, or earn commission income by distributing banking or other insurers' products. And, conversely, banks may try to mop up the excess capacity in their branch network and increase revenue at little extra cost by selling insurance products produced by an insurer.

These advantages are offset, according to several analysts, by the fact that structural linkages are made difficult by the traditionally different company cultures of the two sectors, the costs of training banks' staff to sell insurance products, the complexity of these latter products, and, as far as non-life insurance is concerned, the danger of banks' good image been tarnished by controversial claim adjustments, and the problem of motivating staff selling insurance on a fixed salary basis, while agents earn commissions.

Increased competition both from conventional insurers and mutuals and shrinking margins leads companies to try and cut distribution expenses, which are the second largest cost component for insurance companies, behind claims. As **DIAGRAM** 32 shows alternative distribution channels may result in substantial savings.

Traditional insurance distribution channels (especially, exclusive agents) are therefore losing market share to direct marketing techniques in price-sensitive, simpler products (motor, household). Mutuals sell in France over one half of motor insurance. In Sweden one half of household insurance is sold over the telephone. Car-dealers, retail stores, real-estate agents, and banks, either in cooperation or in competition with insurers, are successfully moving into insurance distribution. Electronic vendors are also likely to gain ground for simple, standard products, as insurers heavy investment in automation is now turning from the back offices to distribution.

But, rather than relying on a single channel, more insurers are using a combination of them to target different segments of customers, or to benefit from the channels' complementarities. Nevertheless the distribution restructuring is not happening without tensions as agents in some countries actively oppose companies establishing distribution agreements with banks or other entities.

The choice of channel is also sometimes determined by the initial size or financial capacity. For firms not having a sufficiently dense network the alternatives are to acquire one from a company in distress, to enter a cross-sector distribution agreement or to base its distribution on direct marketing techniques.

2.5. Company strategies

As discussed earlier, insurance companies are faced with the choice of a strategy that includes at least three major issues: the main type of customer (personal vs corporate), the market (domestic vs international), and the range of products (specialized vs general). Then they will have to clarify the target geographical scope of their activity and, if applicable, the organizational vehicle.

The choice of type of customer will be determined by the size of the retail network and the financial capacity of the firm, and of course, of its expertise. As discussed earlier, the retail business is expected to remain local still for some time. The corporate business will increasingly require cross-border networks, although of a much lighter nature, and a certain size to cope with the increasingly volatile pattern of claims.

According to D. Farny(8) the expected pattern of strategies is the one depicted in DIAGRAM 33.

It shows three types of winning profiles. A few large composite insurance companies developing world-wide operations will acquire substantial market shares. In composite insurance, these global companies will coexist with a number of "regional" ones. The retail business will be the choice of the largest number of insurers, and there the national scope will be predominant, especially for specific market segments, although some companies will expand into neighbouring countries.

A second class consisting of specialists in general corporate insurance and operating cross-border will retain their market shares. Some corporate non-life specialists will also be able to position themselves in national segments. In the retail business some "regional" generalists will keep their share. The remaining types, according to Farny, are expected to lose ground.

Most sources agree that there is no single optimal strategy and that the suitability of one or the other depends primarily on the characteristics of the company and the specific market. This is why observed strategies follow very diverse patterns. However some stylized facts emerge from analysts'opinions and the market evidence.

In cross-border expansion few takeovers of large firms can be expected, given the financial requirements and the political implications of these deals. Mergers between large firms are also considered problematic due to company, and national culture differences. Financial and culture considerations will discourage most companies from embarking in cross-border greenfield retail activities, while analysts foresee more frequent acquisitions of small and medium-sized operators, by both large and also medium-sized banks and insurance companies, and joint ventures.

The variety of strategic options, although sometimes constrained by national legislations, is also apparent in the choice of cross-sector moves, where, as **DIAGRAM 34** shows, actual examples exist of Community firms having adopted all kinds of strategies.

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(8) Farny, D. [1990]:

## 3. CONCLUDING REMARKS

Although, as we have seen, the Single Market is perceived to open up the possibility of securing important efficiency gains, this optimism must not hide the existence of some areas where particular attention must be paid to ensure that its benefits are fully reaped.

Indeed, the ultimate objective of the single market is to ensure that it results in a more competitive situation so that the consumer shares in the benefits from it not only through wider choice but through lower prices. Both the Cecchini (9)report and the Cologne survey foresee that the single market in insurance will bring about price competition and reductions in premiums.

But several factors may hinder the increase in competition and preserve oligopolistic practices, thus preventing consumers from reaping the full benefit potential from the single market. If scale economies are relatively unimportant in financial services, and if, especially in the retail sector, markets will remain national, then special attention must be paid to the present process of concentration in the industry so as to prevent competition distortions.

The wave of mergers and acquisitions has also resulted in very high prices being paid for target institutions, which some analysts believe were exaggerated. Given that more often than not this kind of transaction fails to generate the expected profits, these costly acquisitions weaken the capital base and the profitability of the acquiring companies, and can be a factor of distress in the industry.

Another source of instability may be the significant underwriting losses of non-life insurers, only compensated by their substantial investment income. A deterioration of the overall economic situation may reduce financial yields and again cause concern to the supervisory authorities. Although to a lesser extent, some analysts point out to the fact that increased competition has led life insurers in some countries to put products on the market guaranteeing interest rates that may be difficult to sustain if the situation deteriorates.

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(9) CEC [1988]

The convergence between banking and insurance raises some issues. First, if both sectors target the same market with substitutable products, the problems of excess capacity, cut-throat competition, and fine margins may lead to increased risk of insolvencies in financial services. Regarding consumer protection, the creation of cross-sector conglomerates will increase the power of financial actors vis-à-vis customers. It may also lead to the creation of captive markets via compulsory packaging of products (e.g. mortgage with life assurance) that may also distort competition.

And in most countries the two sectors are presently supervised by different regulatory bodies, as a consequence of the different characteristics of the two sector's core businesses. However, the uncertainty as to the supervisory regime applicable to hybrid products, the contagion risk, the easier asset and liability transfer between members of a group, and the potential conflicts of interest point to the need for some form of consolidated supervision.

Finally, taxation is also to remain for some time an obstacle to the full realisation of a competitive Single insurance market. Besides the variety of tax rates applicable to insurance products, that will require a special effort by tax authorities to avoid tax evasion and distortion of trade in insurance, tax codes are also far from uniform concerning the income tax reliefs of payments to policyholders, and of life assurance premiums. And the taxation of insurance companies, as relates reserves and investment gains will also clearly affect the competitive edge of insurance companies in different Member States.

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## DIAGRAM 34

### SOME APPROACHES TO CROSS-BORDER EXPANSION BY COMMUNITY BANKS AND INSURANCE COMPANIES

Joint production:
CGER (B)

Merger:
Unibank Danmark-Nykredit-Trygg (DK)

Acquisition:
A&M: BfG (D)
Royale Belge: Ipsa (B)
Groupe AG: Metropolitan Bank, Banque Tirlemontoise (B)
BBV: Euroseguros (E)
UAP: Worms
AEGON: Friesch-Groningsche Hypothekenbank (NL)
Rabobank: Interpolis (NL)
Mapfre: Invherbank (E)

Majority stake:
BBV: Aurora Polar, Plus Ultra, DAPA (E).
Banco Central: B. Vitalicio, Nac.Hispánica, Vasco Navarra (E
Banesto: Unión y el Fénix (E)
B. Hispano Americano: La Estrella (E)
GAN: CIC, BIF (F)
AGF: Banque le Phénix (F)
MGF: SOFINNAM (F)

Captives:
Deutsche Bank: DB Leben
Baltica: Baltica Bank (DK)
Cajas de Ahorro: Caser (E)
Banco de Santander: Cénit (E)
Crédit agricole: Prédica, Pacifica (F)
AEGON: AEGON Hypothekenbank (NL)

Holding:
Baltica (DK)
Unibank Danmark-Nykredit-Trygg (DK)
Nationale Nederlanden-NMB-Postbank (NL)

Joint Venture:
Commerzbank-DBV: Commerzbank & Partner (D)
Générale de Banque - AG: Alpha Life (B)
Banesto - Unión y el Fénix: Banfénix (E)

Crédit agricole - Groupama (F)

GAN - CIC (F)

TSB - Scottish EquiCHART (UK)

Minority stake:

Den Danske Bank-Hafnia-Kredit foreningen Denmark (DK)

BNP - UAP (F)

Dresdner - Allianz (D)

GAN - Société Générale

Nationale Nederlanden: ABN, Amrobank (NL)

AEGON - Amrobank (NL)

Alliance without equity stake:

Nederl. Middenstandsbank (NL)-Erste Allgemeine (A)

Distribution agreements:

Abbey Life - Lloyds (UK)

Dresdner Bank - regional insurance companies (D)

Kredietbank - Fidelitas (B)

Banco Comercial Portugues - Occidental (P)

Caixa General de Depositos-Fidelidade-Banco Nacional Ultram.(P)

Independent brokerage:

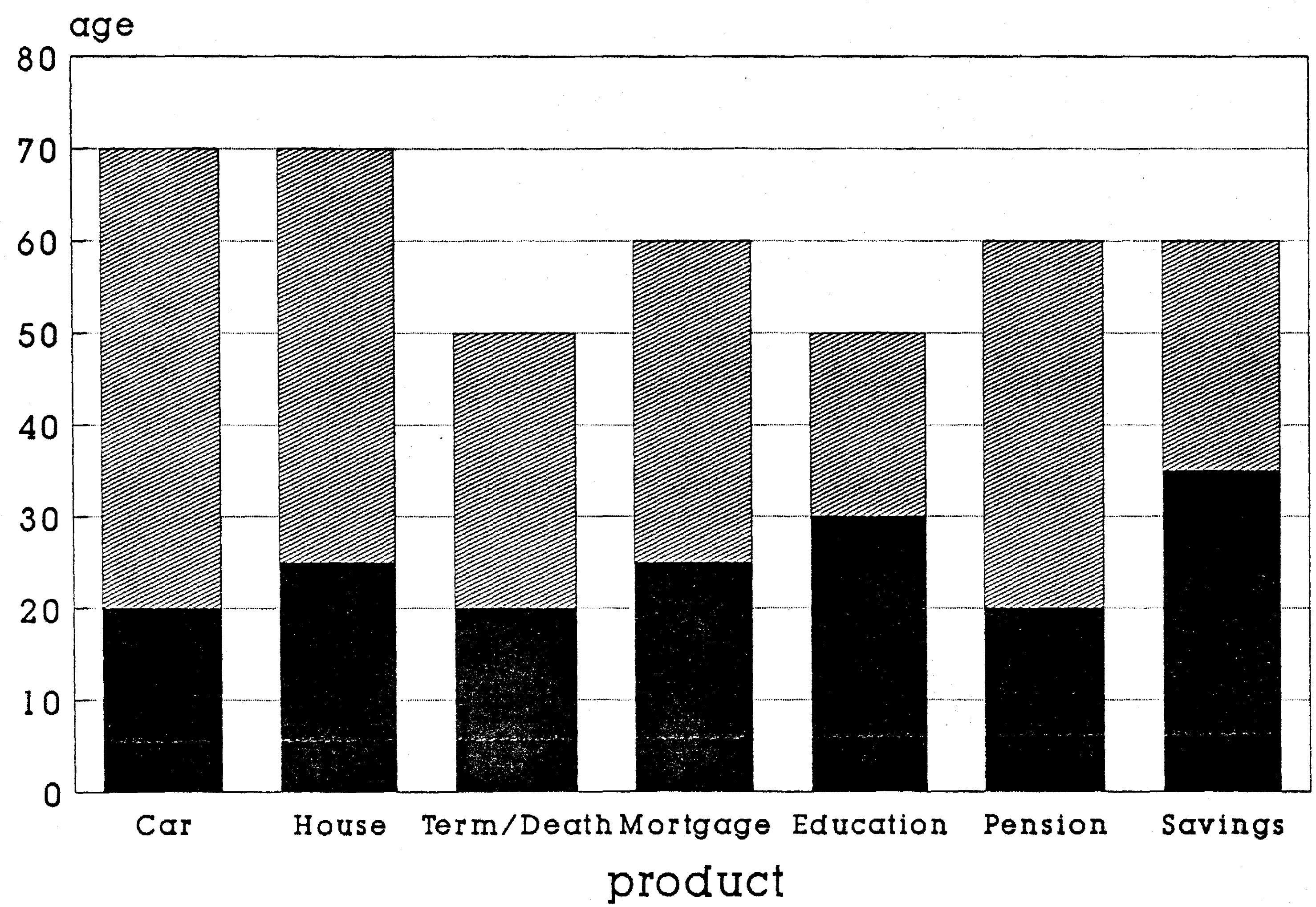
National Westminster (UK)

# LIST OF DIAGRAMS


| | |
|---|---|
| D1a | Key insurance age band |
| D1b | Population |
| D1c | Population in the key age band |
| D2 | Some factors of demand diversity |
| D3 | Taxation of insurance products |
| D4 | Non-life insurance breakdown 1988 |
| D5 | World market shares |
| D6 | Community market shares |
| D7 | Premiums per capita: Total |
| D8a | Premiums over GDP: Life, non-life |
| D8b | Premiums over GDP: Total |
| D9a | Employment in insurance: Community |
| D9b | Employment in insurance: Percentage over total employment |
| D9c | Employment in insurance: Trade blocks |
| D10 | Largest Community insurers (by assets) |
| D11 | Largest Community insurers (by premiums) |
| D12 | Largest world insurers (by assets) |
| D13a | Number of undertakings |
| D13b | Number of undertakings: trade blocks |
| D14 | Concentration |
| D15 | Distribution systems |
| D16 | Productivity |
| D17 | Non-life profitability |
| D18 | Life profitability |
| D19 | Foreign penetration via establishment (foreign mkt share) |
| D20 | " " (share of foreign activities/domestic activities) |
| D21a | Growth rates 1984-1988 |
| D21b | Growth rates over GDP rates 1984-1988 |
| D22 | Estimated growth potential after 1992 |
| D23 | Expected foreign penetration after 1992 (mkt shares) |
| D24 | Expected cross-border activity after 1992 (by country of origin) |
| D25 | Cross-border M & A activity (by country of destination) |
| D26 | " " (by country of origin) |
| D27a | Average top 10 size vs market size (life) |
| D27b | " " (non-life) |
| D27c | Top 10 average size |
| D28 | Economies of scale in the Spanish market |
| D29a | Consolidation in Community markets |
| D29b | Change in number of companies 1983-88 |
| D30 | Changes in productivity 1983-88 |
| D31 | Changes in employment 1984-1988 |
| D32 | Costs of various distribution channels |
| D33 | Forecast of the types of European insurers to emerge |
| D34 | Approaches to cross-border expansion |

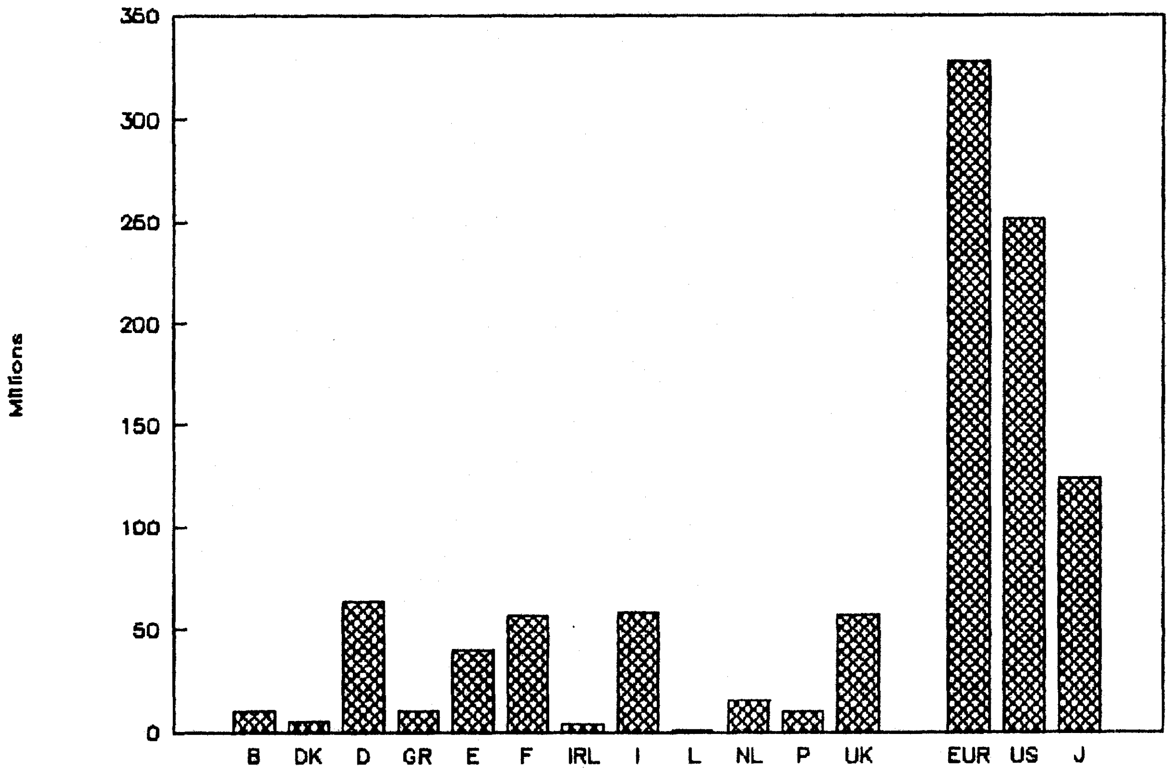
D I A G R A M S

# KEY INSURANCE AGE BAND




Source: Fox-Pitt, Kelton

# POPULATION

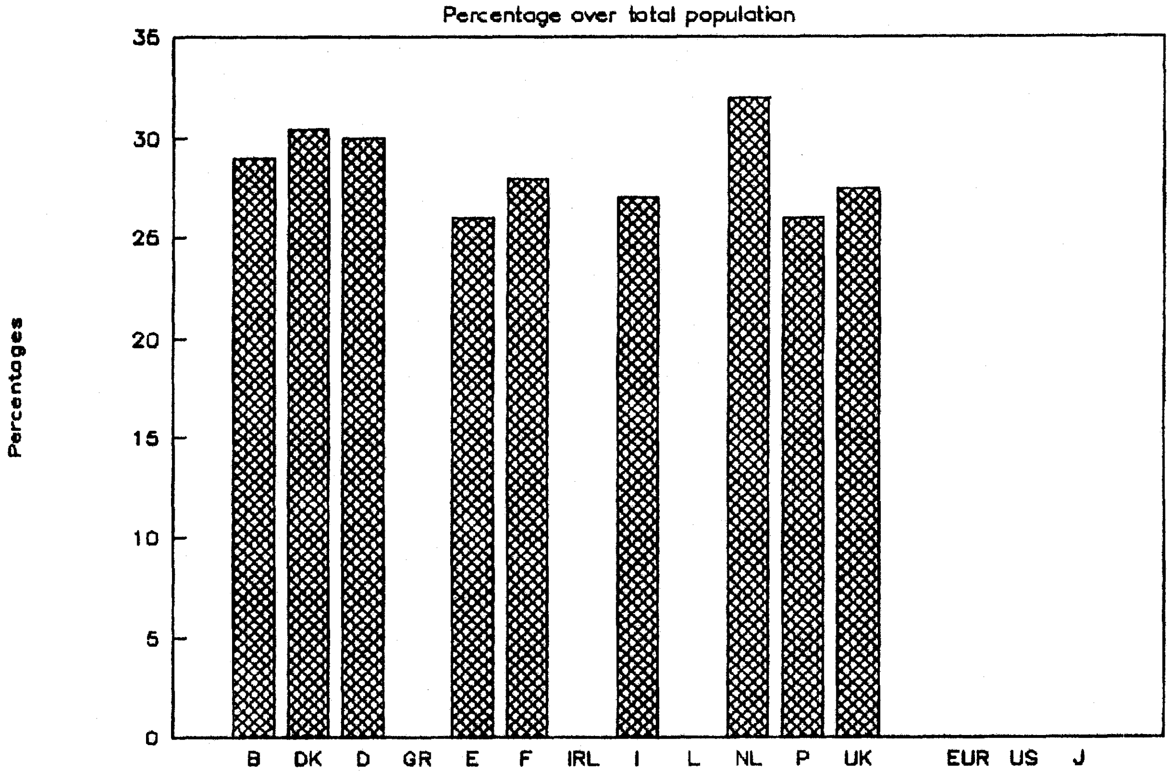



SOURCE : EC COMMISSION



# POPULATION IN THE KEY AGE BAND

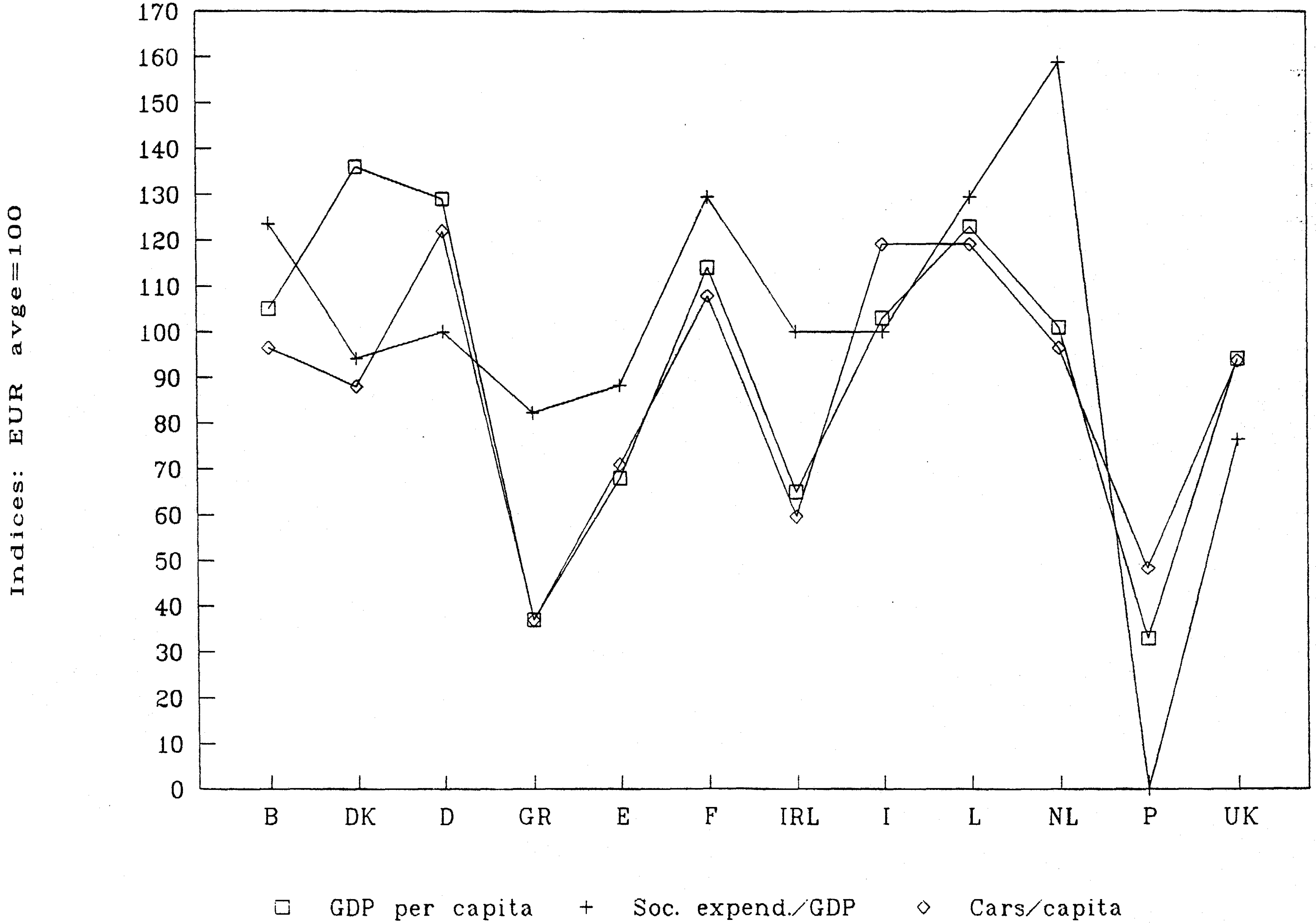
Percentage over total population




SOURCE : FOX-PITT, KELTON

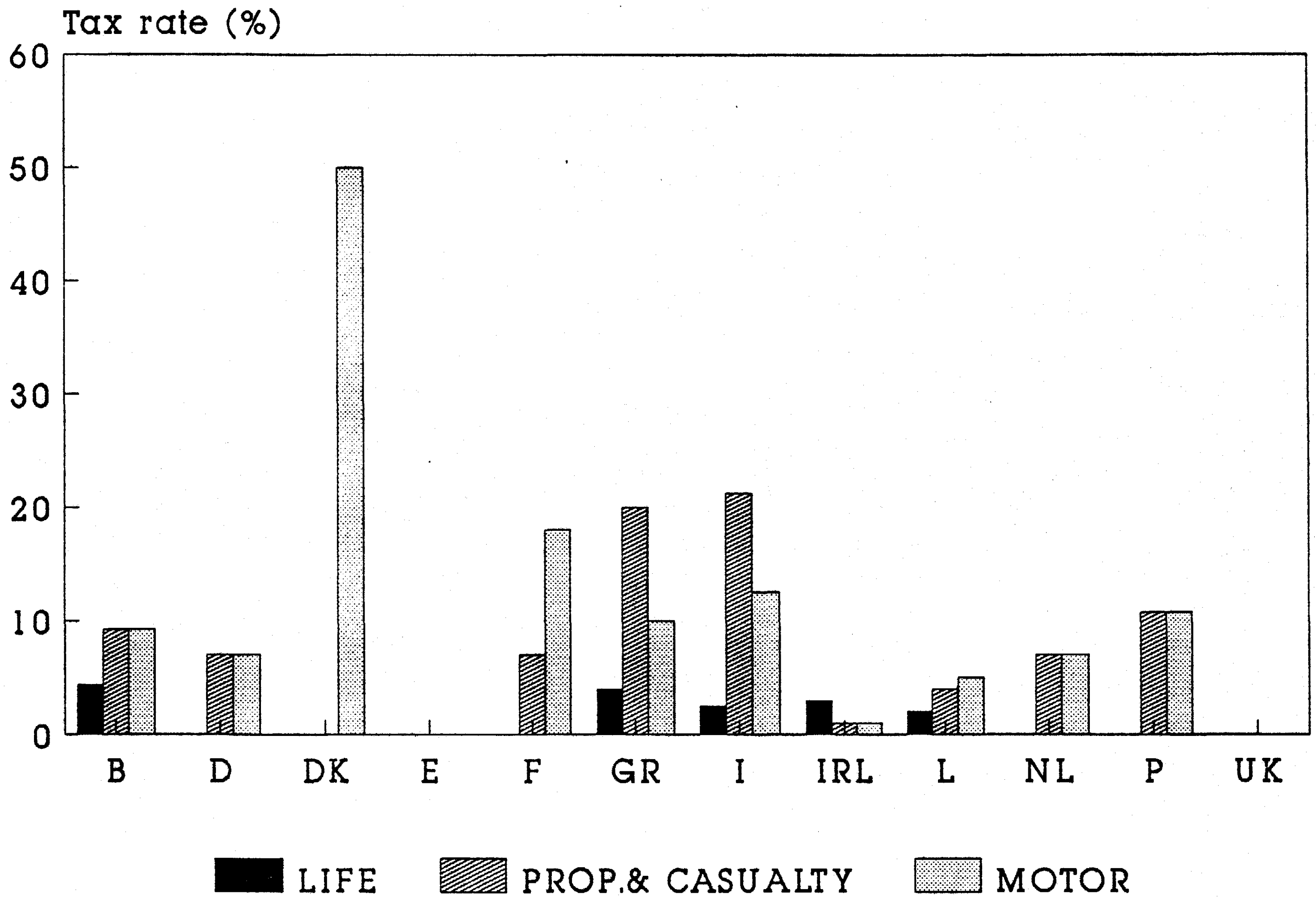
# SOME FACTORS OF DEMAND DIVERSITY

Percentage over total population




SOURCE : CEC

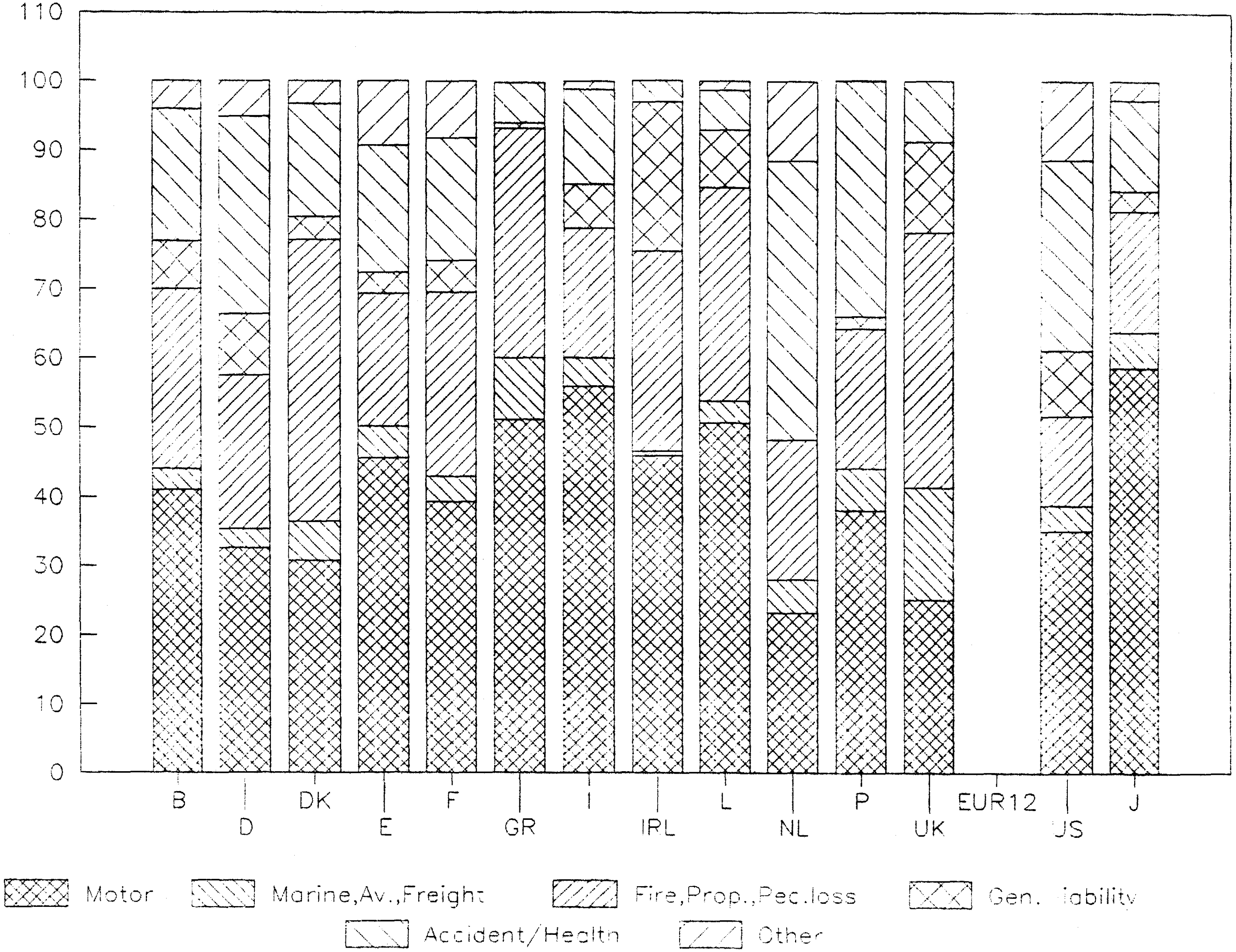
# TAXATION OF INSURANCE PRODUCTS




Source: FFSA

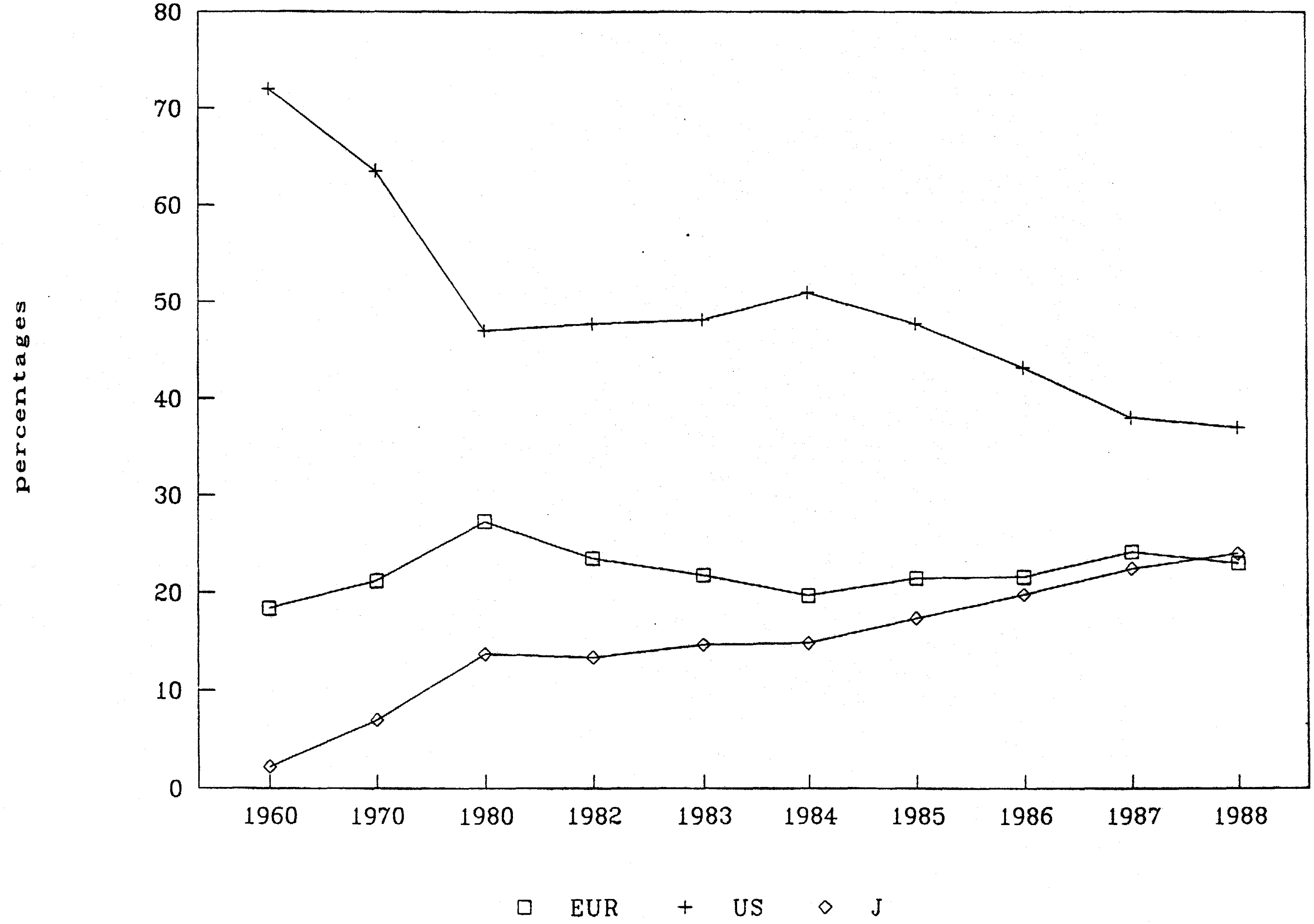
# NON-LIFE INSURANCE BREAKDOWN 1988

Percentages of total gross premiums




SOURCE : OECD

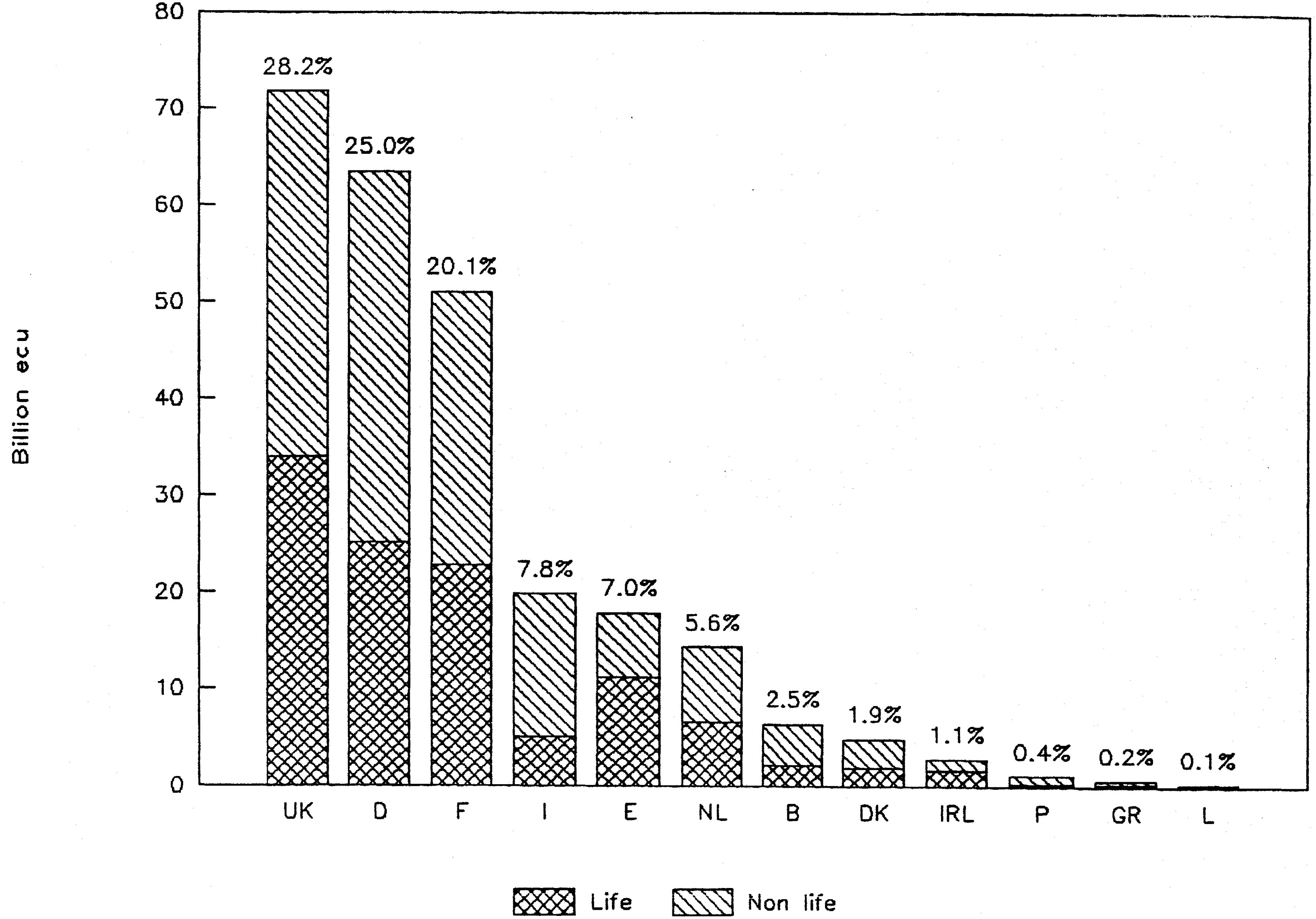
# WORLD MARKET SHARES




SOURCE : OECD

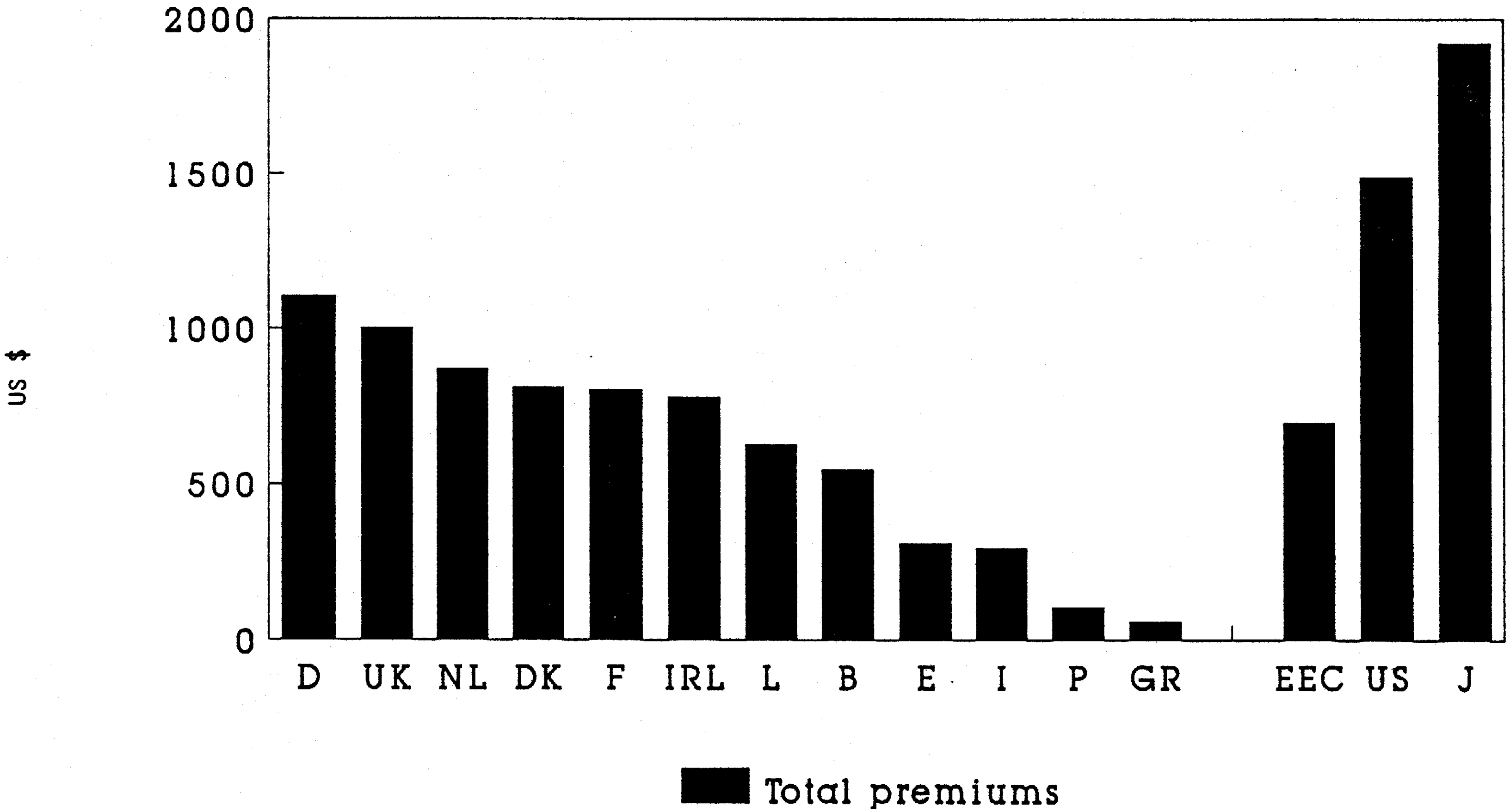
# COMMUNITY MARKET SHARES

## GROSS PREMIUMS 1988



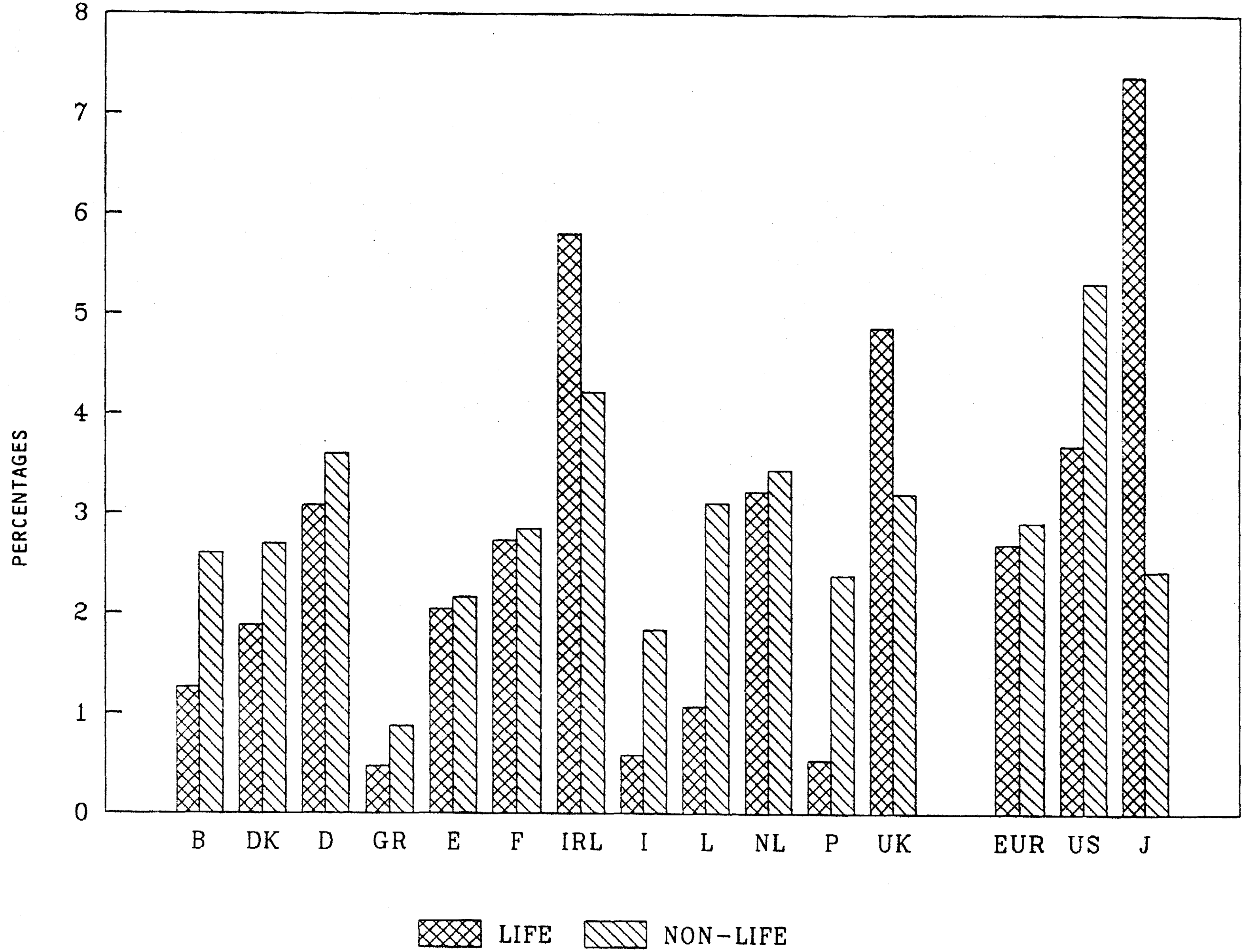

SOURCE: OECD

# PREMIUMS PER CAPITA



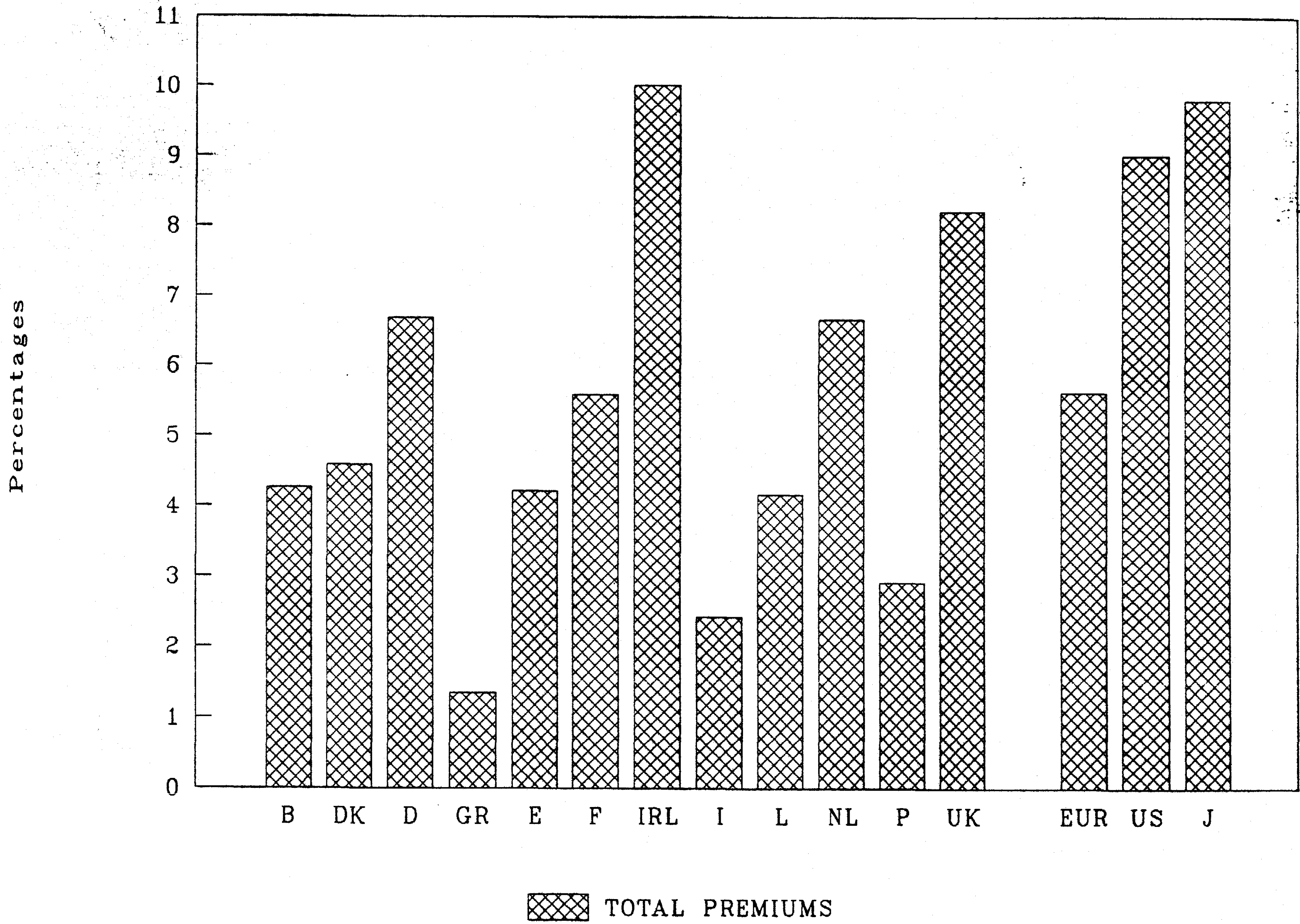

Source: SIGMA

# PREMIUMS OVER GDP



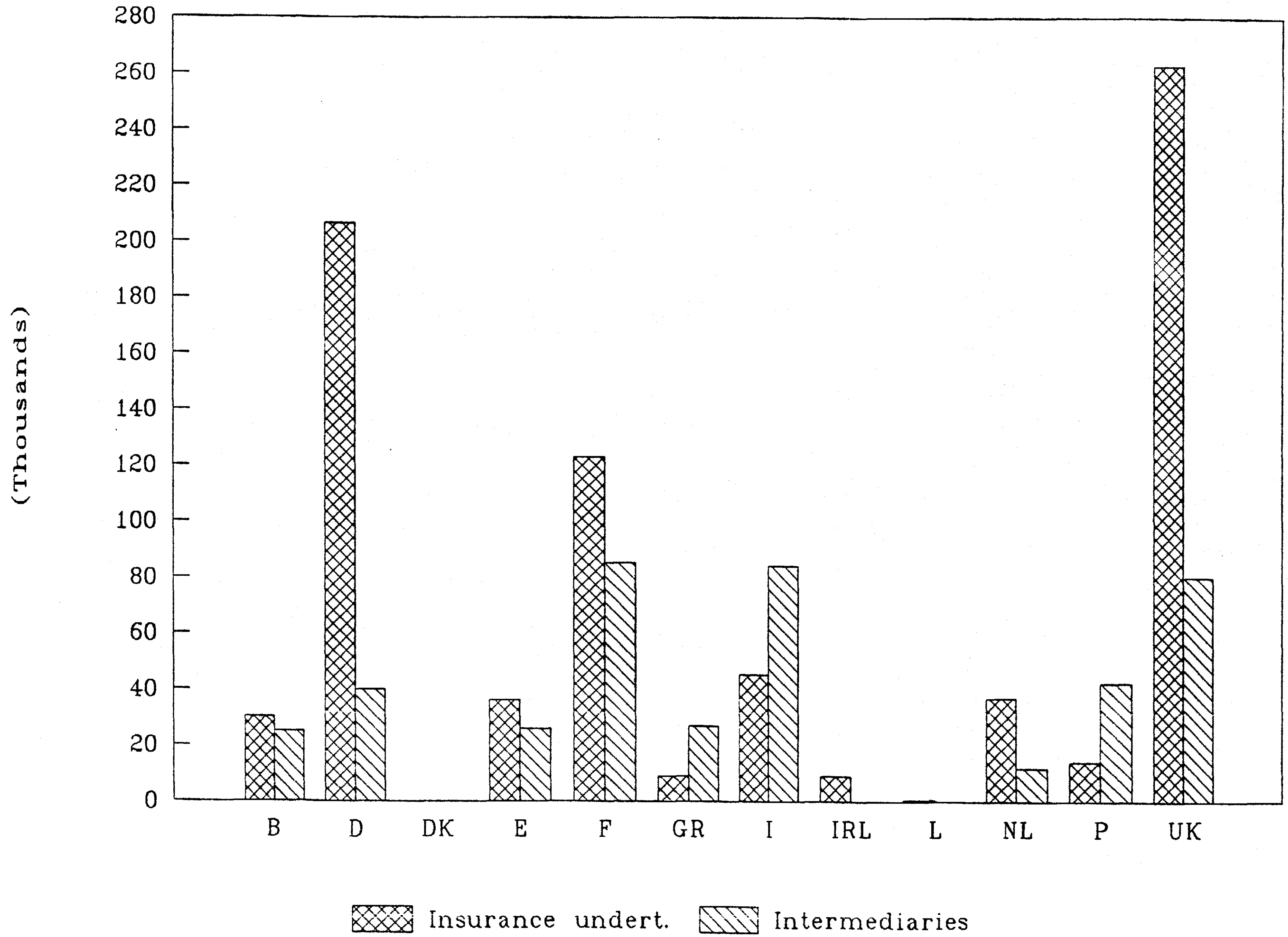

SOURCE: SIGMA, IMF

# PREMIUMS OVER GDP

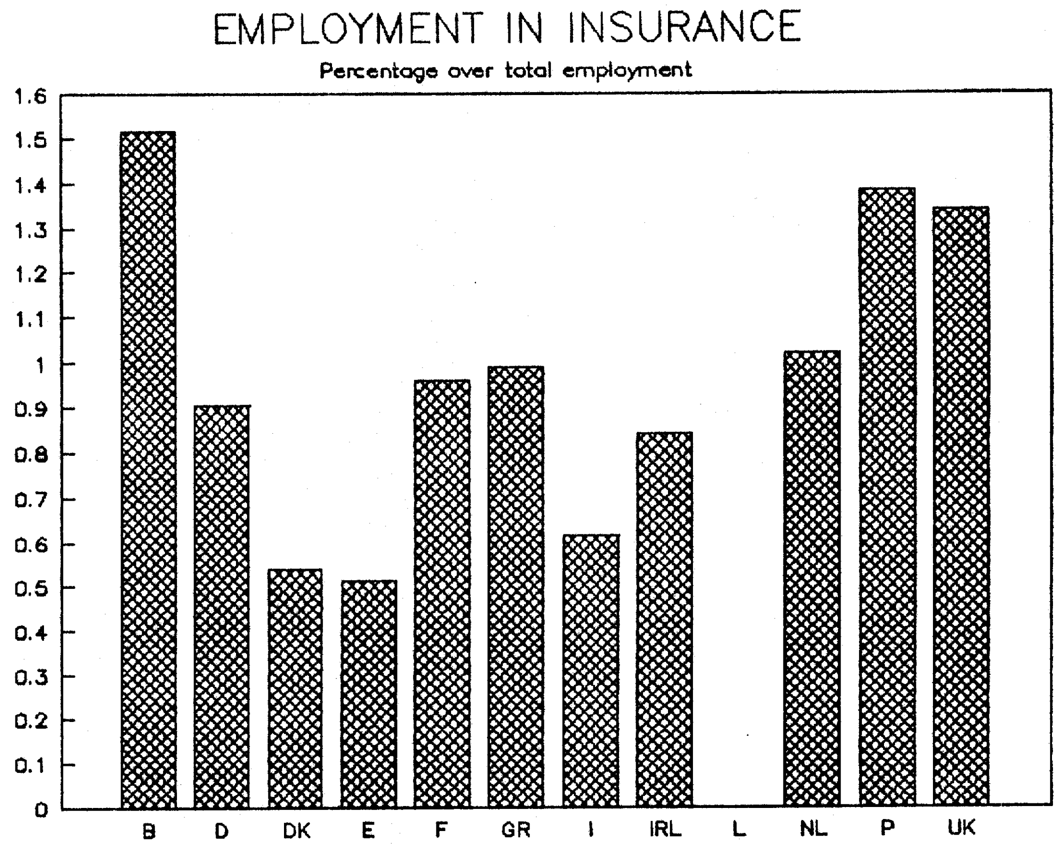



SOURCE: SIGMA, IMF

# EMPLOYMENT IN INSURANCE




SOURCE: OECD




SOURCE : OECD, EC COMMISSION




SOURCE : OECD

# DIAGRAM 10

## LARGEST COMMUNITY INSURANCE COMPANIES (BY ASSETS) AND HOME STOCK MARKET CAPITALISATION

| COMMUNITY RANKING | WORLD RANKING | COMPANY | NAT | ASSETS (bio ecu) | % OF HOME STOCK EXCH. CAPITALIS. |
|---|---|---|---|---|---|
| 1 | 9 | Prudential Corp. | UK | 47.2 | 8.0% |
| 2 | 15 | Nationale-Nederlanden | NL | 34.5 | 43.6% |
| 3 | 18 | Allianz Lebens | D | 30.0 | 14.6% |
| 4 | 19 | UAP | F | 29.9 | 15.7% |
| 5 | 23 | Norwich Union | UK | 25.1 | 4.3% |
| 6 | 27 | Standard Life | UK | 23.3 | 4.0% |
| 7 | 31 | Aegon | NL | 21.3 | 26.9% |
| 8 | 32 | Legal & General | UK | 21.1 | 3.6% |
| 9 | 34 | Royal Insurance | UK | 20.9 | 3.6% |
| 10 | 35 | Assicurazioni Generali | I | 20.8 | 18.0% |
| 11 | 38 | Commercial Union | UK | 19.0 | 3.2% |
| 12 | 42 | Sun Alliance | UK | 18.6 | 3.2% |
| 13 | 47 | AGF | F | 16.1 | 8.5% |
| 14 | 49 | Allianz Group | D | 15.8 | 7.7% |

# DIAGRAM 11
# EUROPE'S LARGEST GROUPS 1988 (PREMIUMS)

| | | | Billion ecu |
|---|---|---|---|
| 1 | Allianz | D | 14.1 |
| 2 | Zurich Group | CH | 8.0 |
| 3 | UAP | F | 7.9 |
| 4 | Prudential Corp | UK | 7.4 |
| 5 | Generali | I | 7.1 |
| 6 | Royal Insurance | UK | 6.7 |
| 7 | Nationale Nederlanden | NL | 6.0 |
| 8 | AXA | F | 5.9 |
| 9 | Winthertur | CH | 5.9 |
| 10 | Sun Alliance | UK | 4.8 |
| 11 | AGF | F | 4.6 |
| 12 | Commercial Union | UK | 4.6 |
| 13 | General Accident | UK | 4.4 |
| 14 | Colonia | D | 4.0 |
| 15 | Guardian Royal Exchange | UK | 3.5 |
| 16 | GAN | F | 3.3 |
| 17 | RAS | I | 2.9 |
| 18 | Skandia | S | 2.9 |
| 19 | Legal and General | UK | 2.8 |
| 20 | Aegon | NL | 2.5 |

Source: FFSA

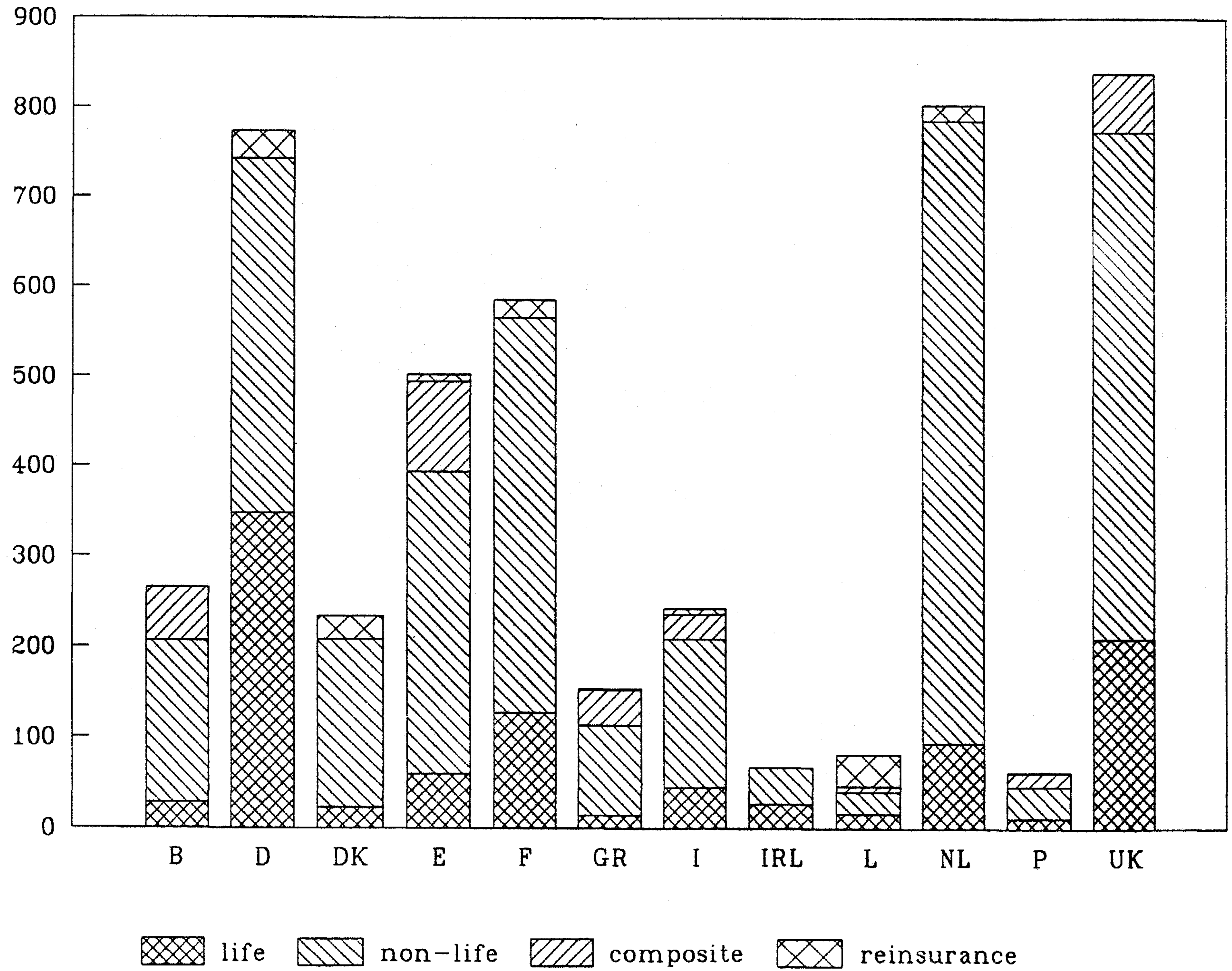
# DIAGRAM 12
## WORLD LARGEST INSURANCE GROUPS
(by assets, 1988)

| COMMUNIT RANKING | WORLD RANKING | COMPANY | NATIONALITY | ASSETS (mio ecu) |
|---|---|---|---|---|
| | 1 | Prudential | US | 129406 |
| | 2 | Nippon Life | J | 122732 |
| | 3 | Dai Ichi Mutual Life | J | 84282 |
| | 4 | Metropolitan Life | US | 79689 |
| | 5 | Sumitomo Life | J | 70741 |
| | 6 | Aetna | US | 68850 |
| | 7 | Equitable Life | US | 49072 |
| | 8 | Cigna | US | 47209 |
| 1 | 9 | Prudential Corp. | UK | 47163 |
| | 10 | Meiji Mutual Life | J | 45975 |
| | 11 | Travelers | US | 45101 |
| | 12 | Tokyo Marine&Fire | J | 42222 |
| | 13 | New York Life | US | 40945 |
| | 14 | Asahi Mutual Life | J | 35381 |
| 2 | 15 | Nationale-Nederlanden | NL | 34534 |
| | 16 | Teachers Insurance | US | 32711 |
| | 17 | American International | US | 31636 |
| 3 | 18 | Allianz Lebens | D | 30010 |
| 4 | 19 | Union des Assurances de Paris | F | 29926 |
| | 20 | Mitsui Mutual Life | J | 29597 |
| | 21 | StateFarm Mutual | US | 26150 |
| | 22 | American General | US | 31636 |
| 5 | 23 | Norwich Union | UK | 25123 |
| | 24 | All State | US | 25123 |
| | 25 | John Hancock | US | 24914 |
| | 26 | Yasuda Mutual Life | J | 24825 |
| 6 | 27 | Standard Life | UK | 23267 |
| | 28 | Transamerica | US | 22629 |
| | 29 | Loewa | US | 21844 |
| | 30 | Northwestern Mutual | US | 21448 |
| 7 | 31 | Aegon | NL | 21333 |
| 8 | 32 | Legal & General | UK | 21146 |
| | 33 | Australian Mutual | AUS | 20996 |
| 9 | 34 | Royal Insurance | UK | 20885 |
| 10 | 35 | Assicurazioni Generali | I | 20794 |
| | 36 | Taisho Marine & Fire | J | 19284 |
| | 37 | Massachusetts Mutual | US | 19187 |
| 11 | 38 | Commercial Union | UK | 19014 |
| | 39 | Principal Mutual LIfe | US | 18984 |
| | 40 | Nationwide Insurance | US | 18900 |
| | 41 | Winterthur Group | CH | 18862 |
| 12 | 42 | Sun Alliance | UK | 18647 |
| | 43 | Swiss Life | CH | 18623 |
| | 44 | Lincoln National | US | 17729 |
| | 45 | Manufacturers Life | CDN | 16937 |
| | 46 | Sun Life | CDN | 16437 |
| 13 | 47 | Assurances Générales de France | F | 16114 |
| | 48 | Swiss Reinsurance | CH | 16093 |
| 14 | 49 | Allianz Group | D | 15795 |
| | 50 | First Executive | US | 15412 |

(*): Allianz Life+Non Life

SOURCE: Wall Street Journal

# NUMBER OF UNDERTAKINGS

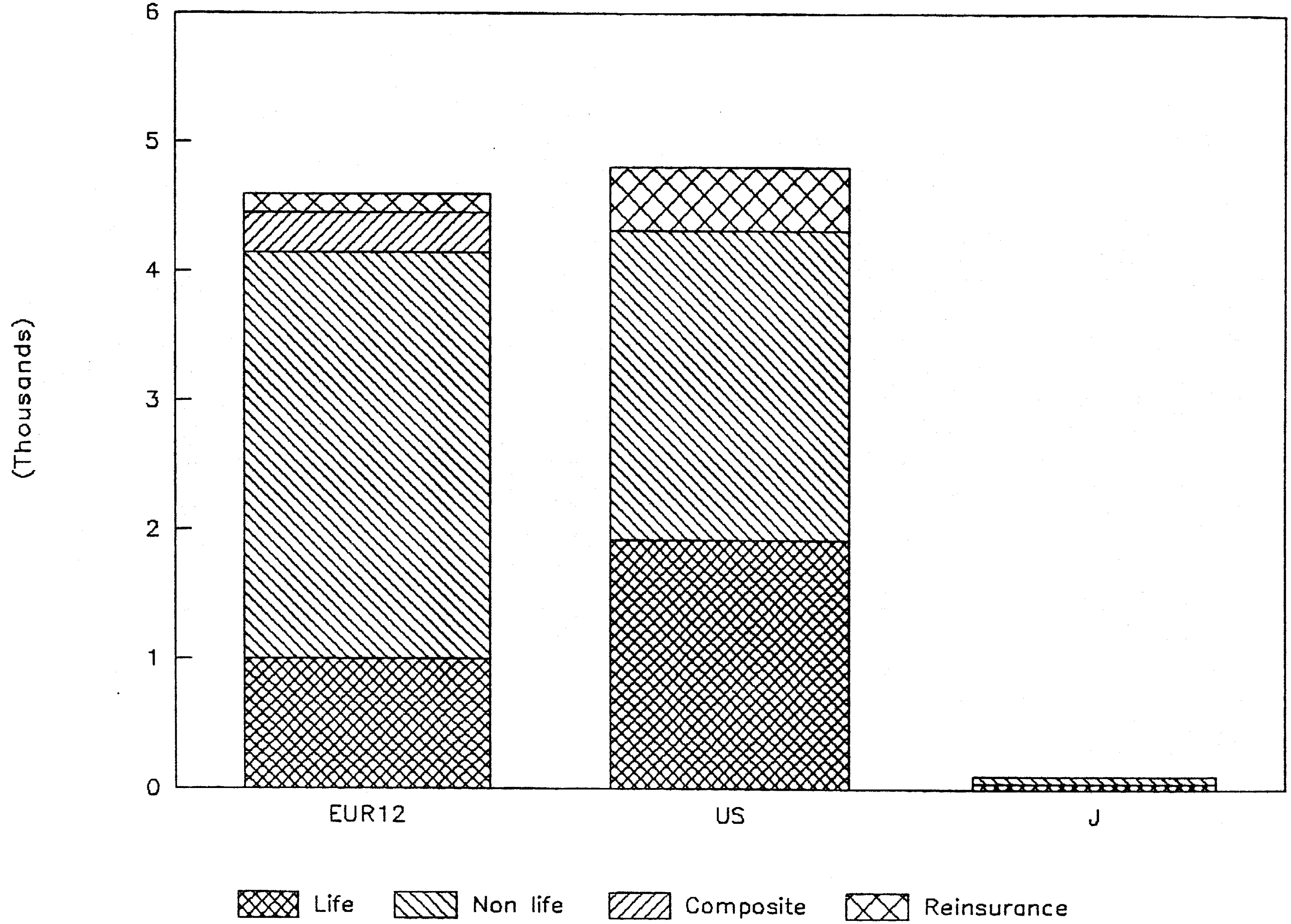



SOURCE: OECD

D13b

# NUMBER OF UNDERTAKINGS

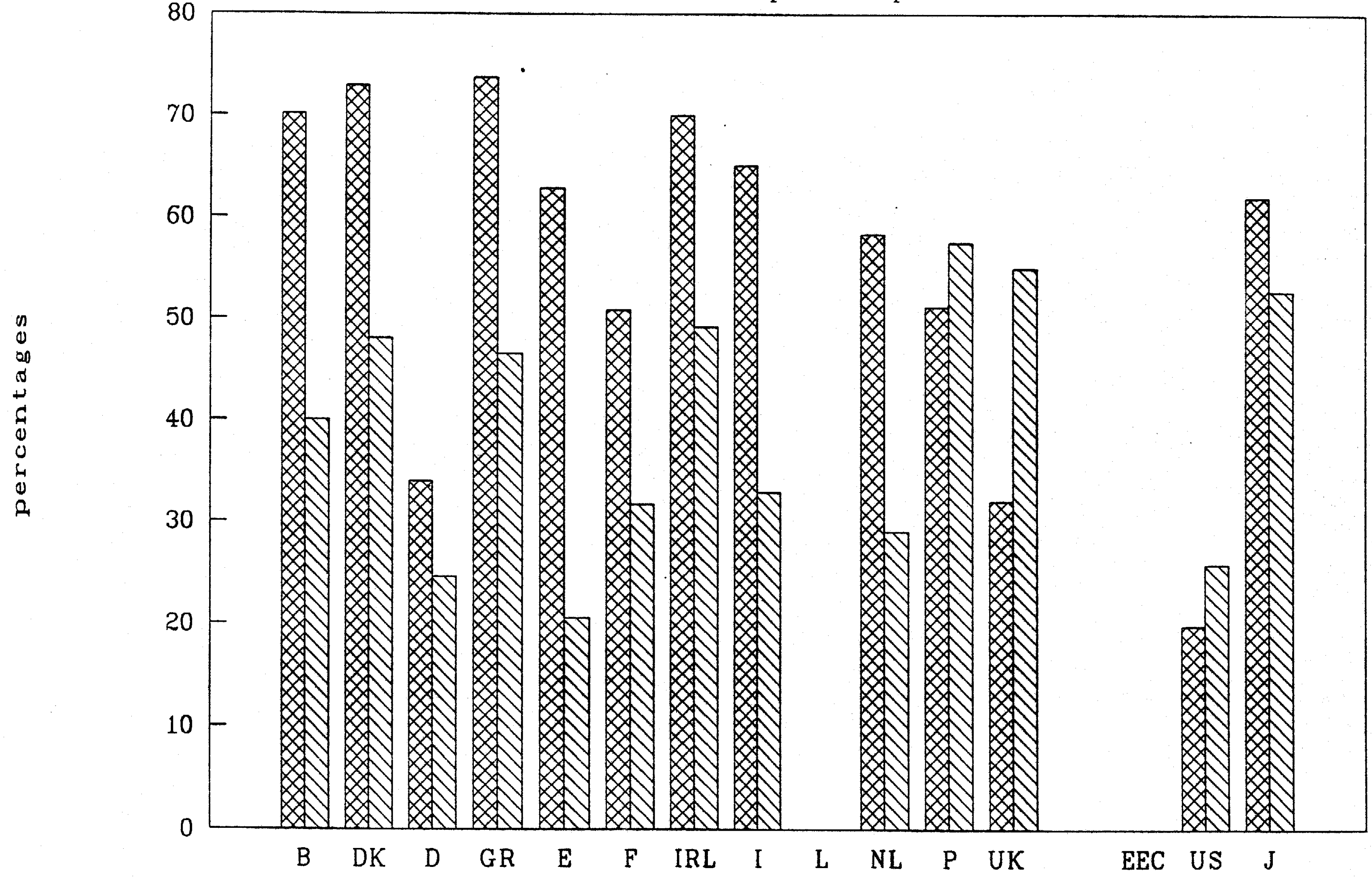
1988




SOURCE: OECD

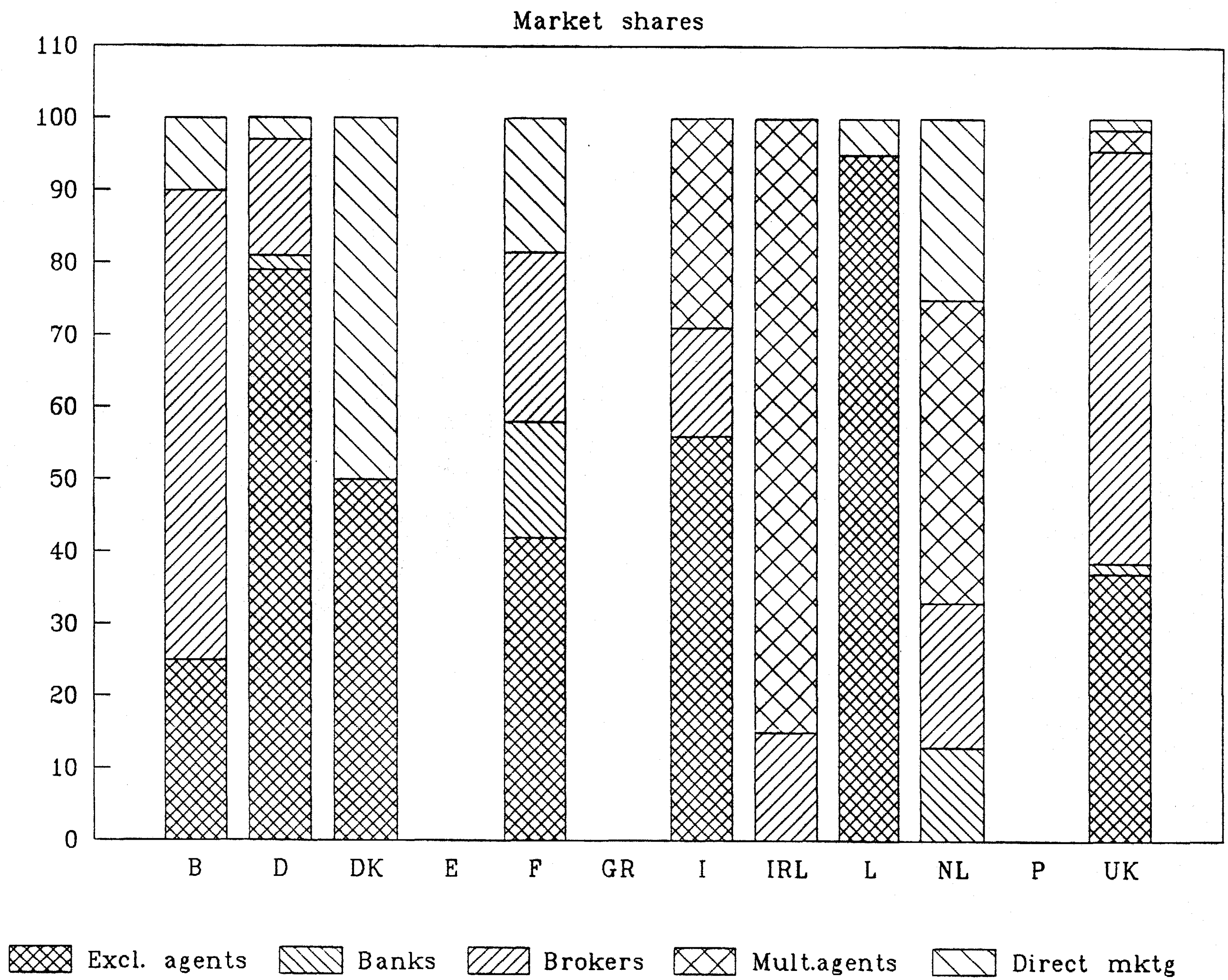
# CONCENTRATION

Market share of top 5 companies



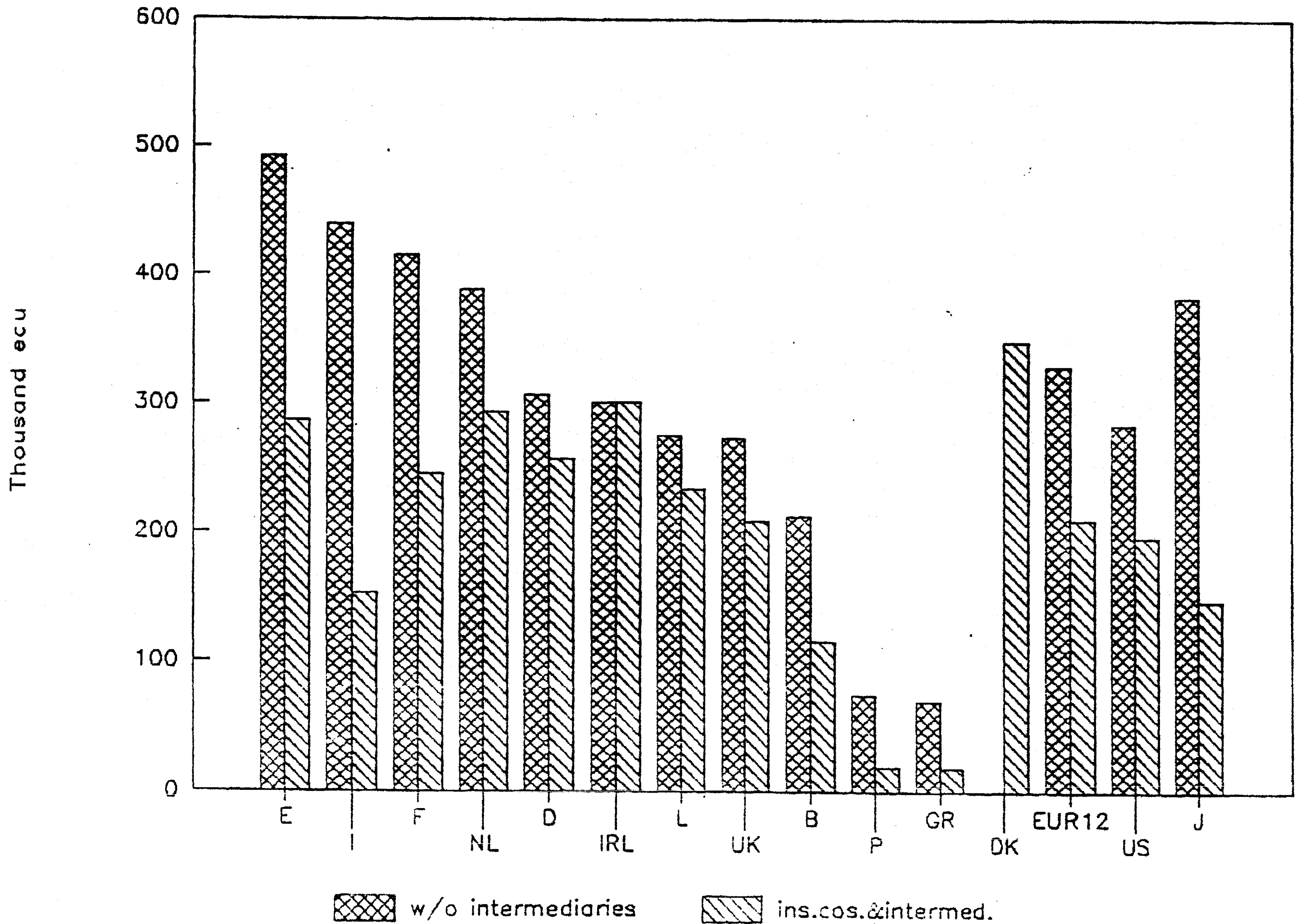

SOURCE : D, E, F, I, NL, UK, US, J : SIGMA (1987)
B : FOX-PITT, KELTON (1988)
DK, IRL : CHASE MANHATTAN (1988)
GR, P : D. GRANADO (1989)

# DISTRIBUTION SYSTEMS




SOURCE : FINSINGER

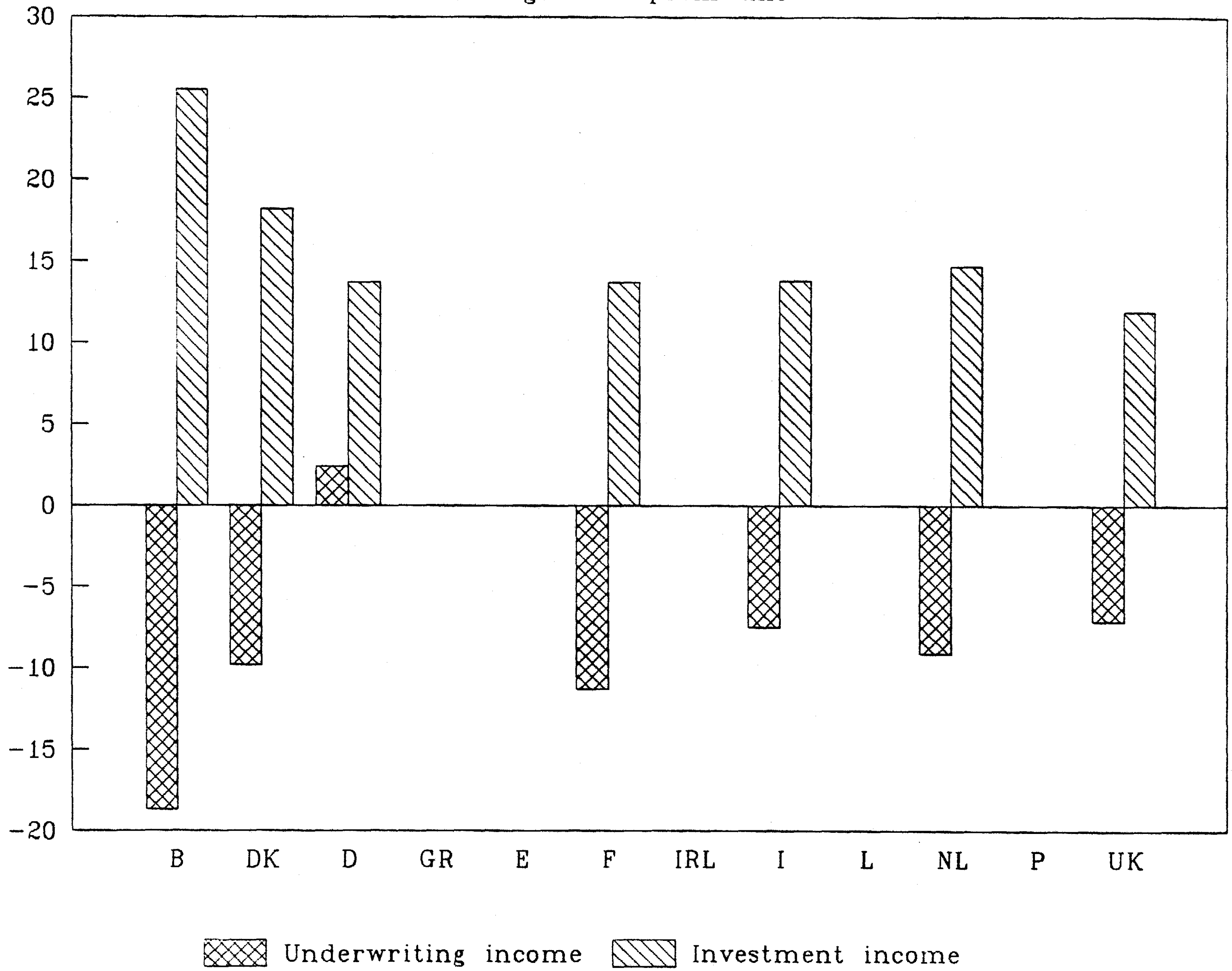
# GROSS PREMIUMS PER PERSON EMPLOYED 1988




SOURCE: OECD

# NON LIFE PROFITABILITY

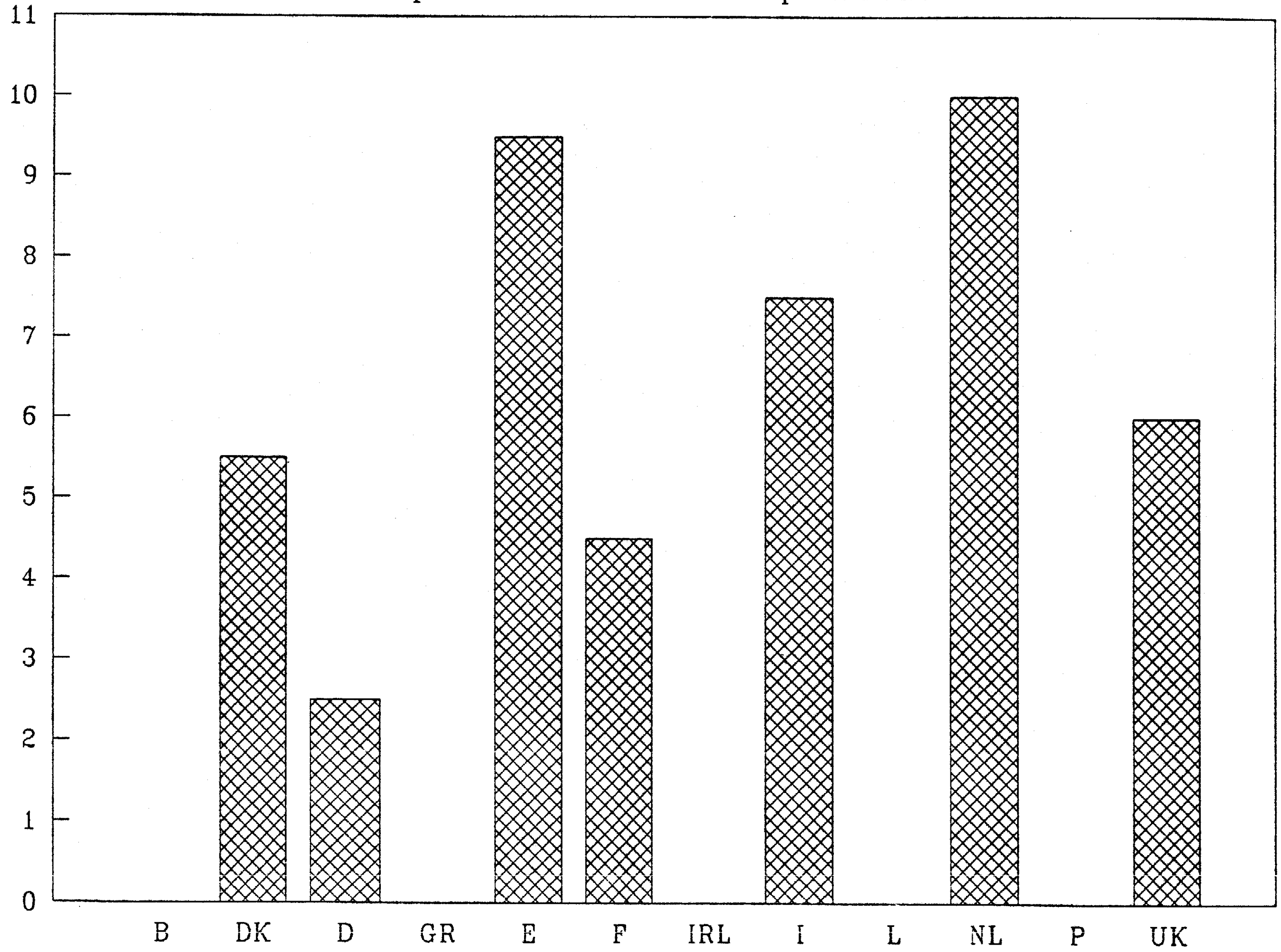
Percentage over premiums




SOURCE : FOX-PITT, KELTON

# LIFE INSURANCE PROFITABILITY

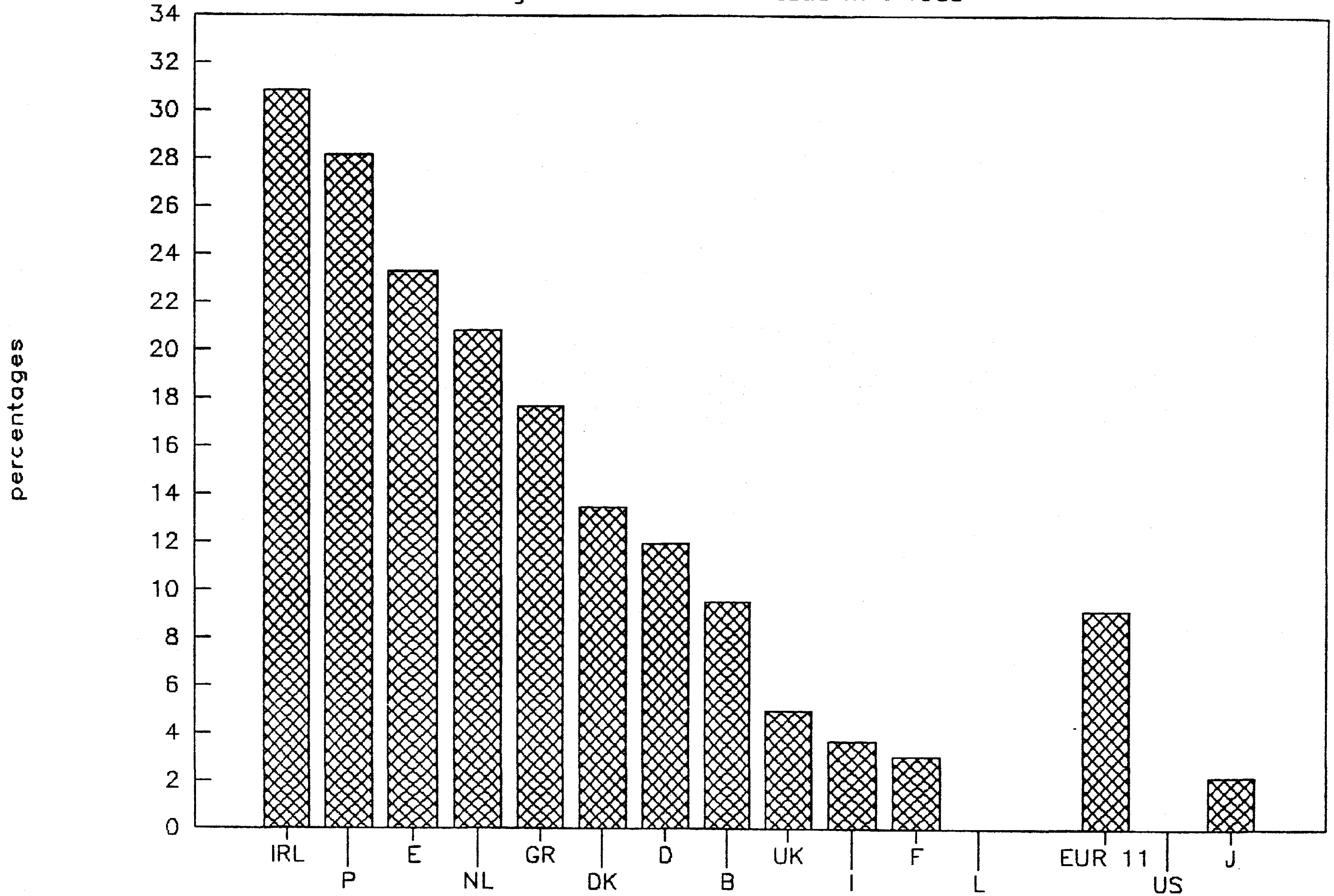
Shareh. profits as % of annual premiums




SOURCE : FOX-PITT, KELTON

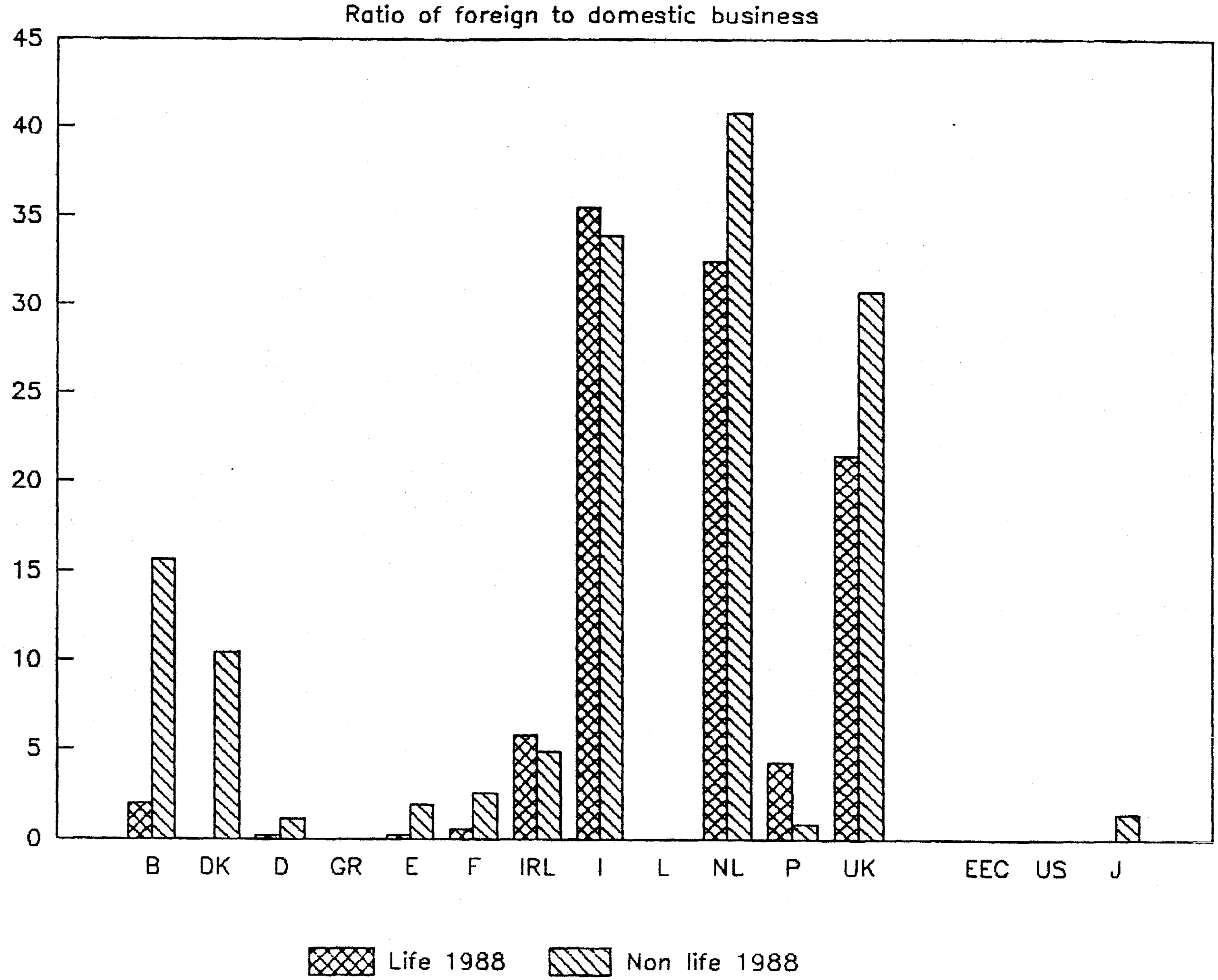
# FOREIGN PENETRATION VIA ESTABLISHMENT

Foreign mkt share in domestic mkt 1988



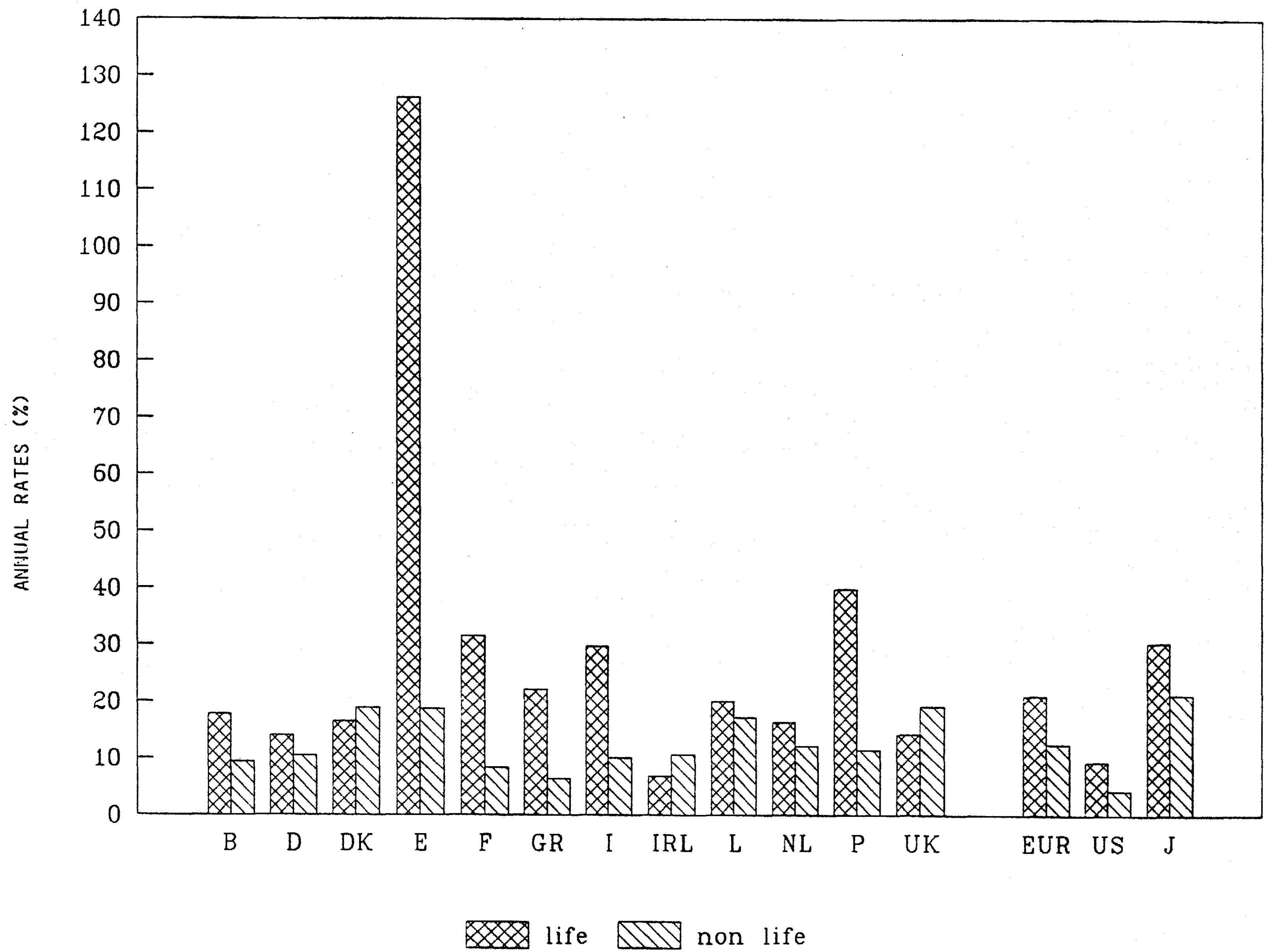

SOURCE: OECD

# CROSS-BORDER PROVISION OF INSURANCE



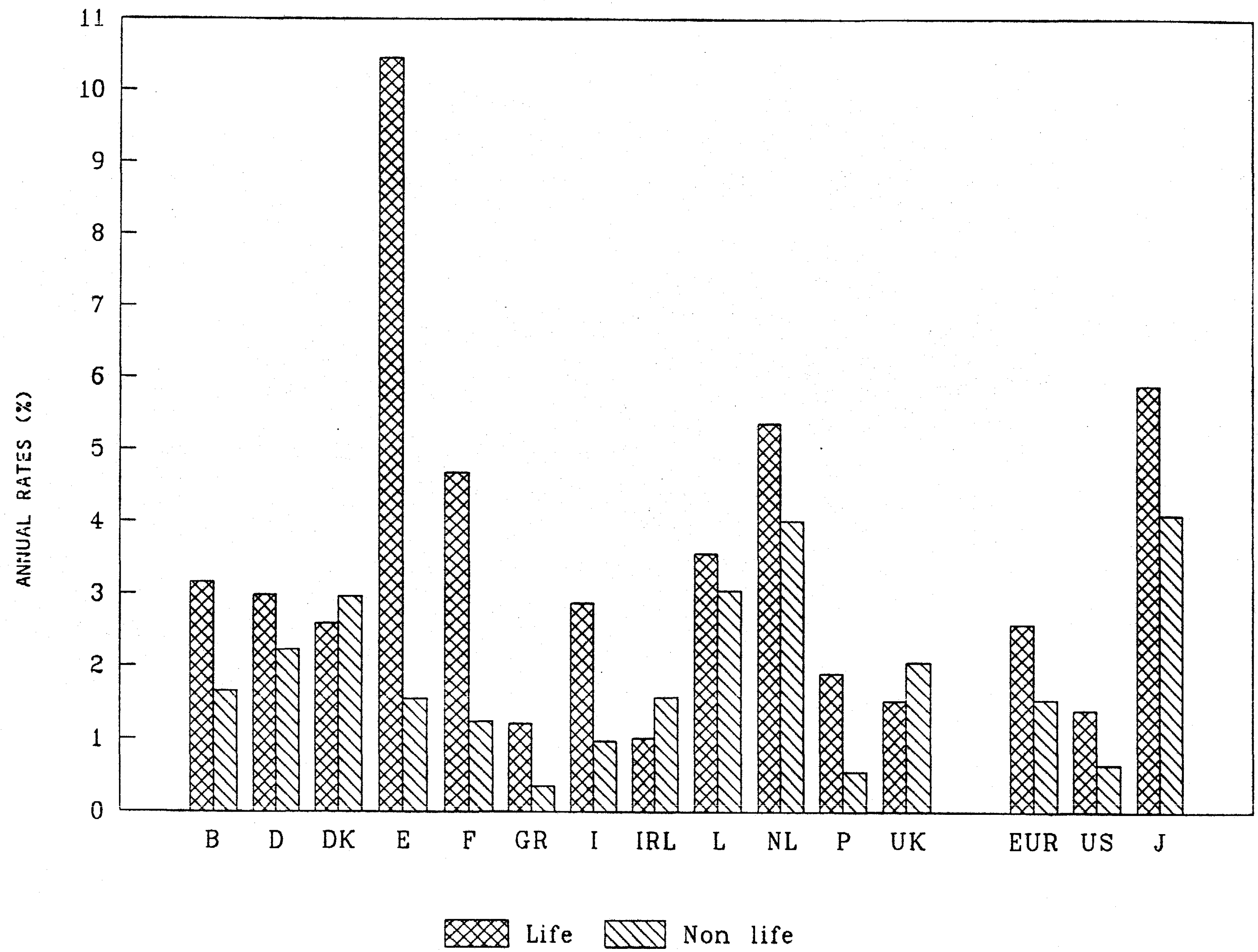

SOURCE: OECD

# GROWTH RATES 1984–88




SOURCE : OECD

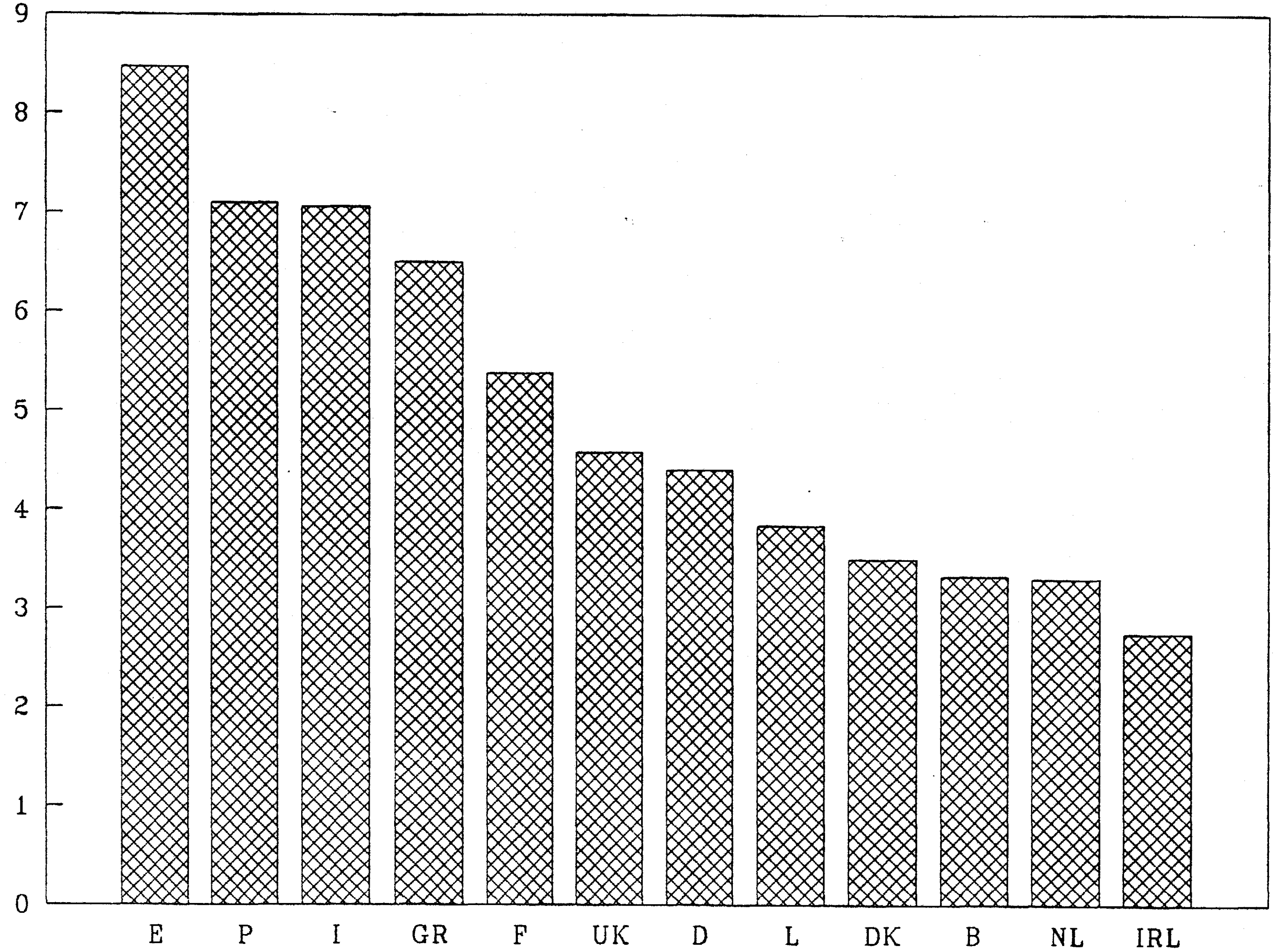
# GROWTH RATES OVER GDP GRTH RATES '84–88




SOURCE : OECD

# ESTIMATED GROWTH POTENTIAL AFTER 1992

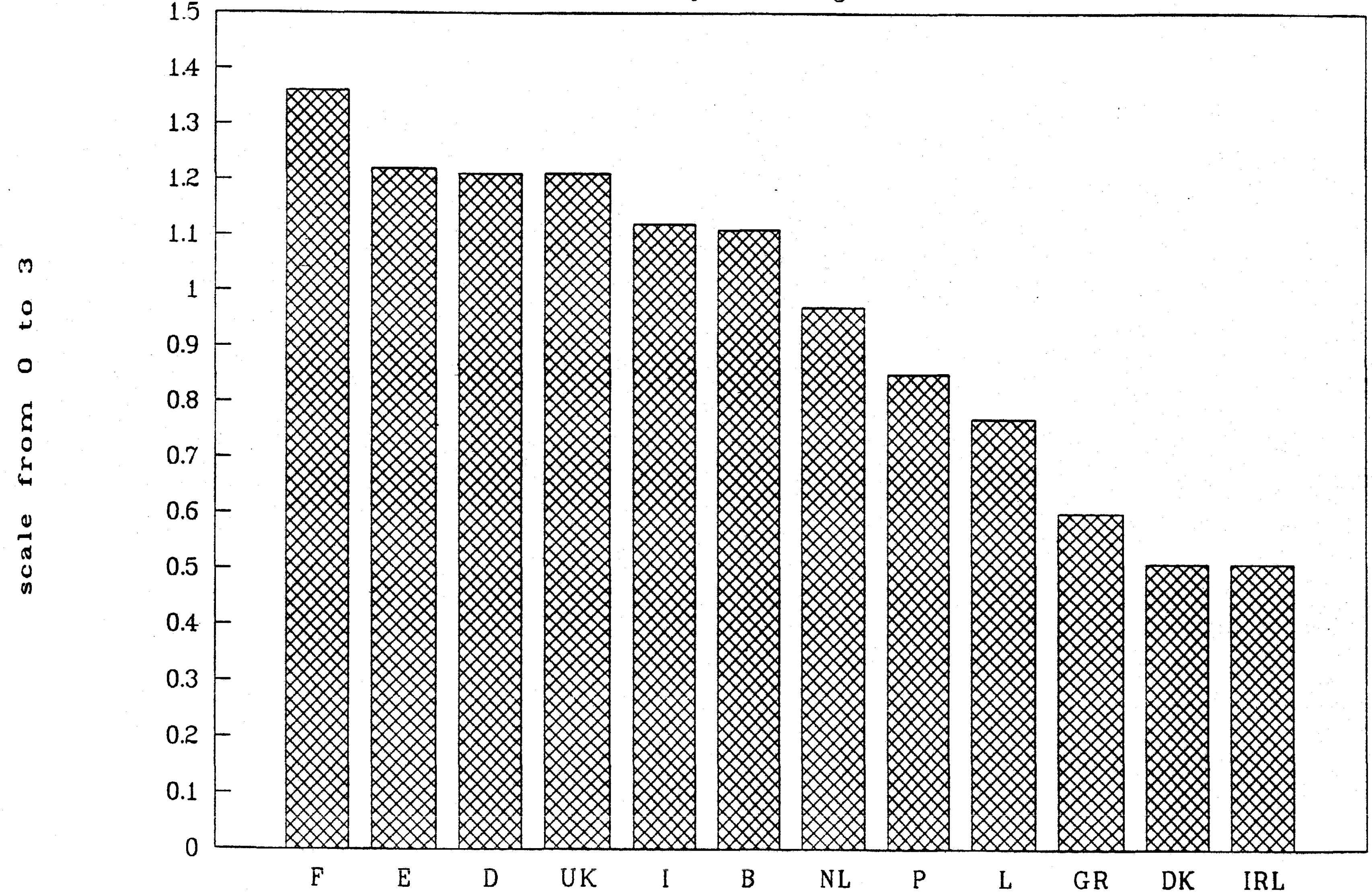
Annual rates




SOURCE : FARNY, SCHMIDT

# EXPECTED FOREIGN PENETRATION AFTER 1992

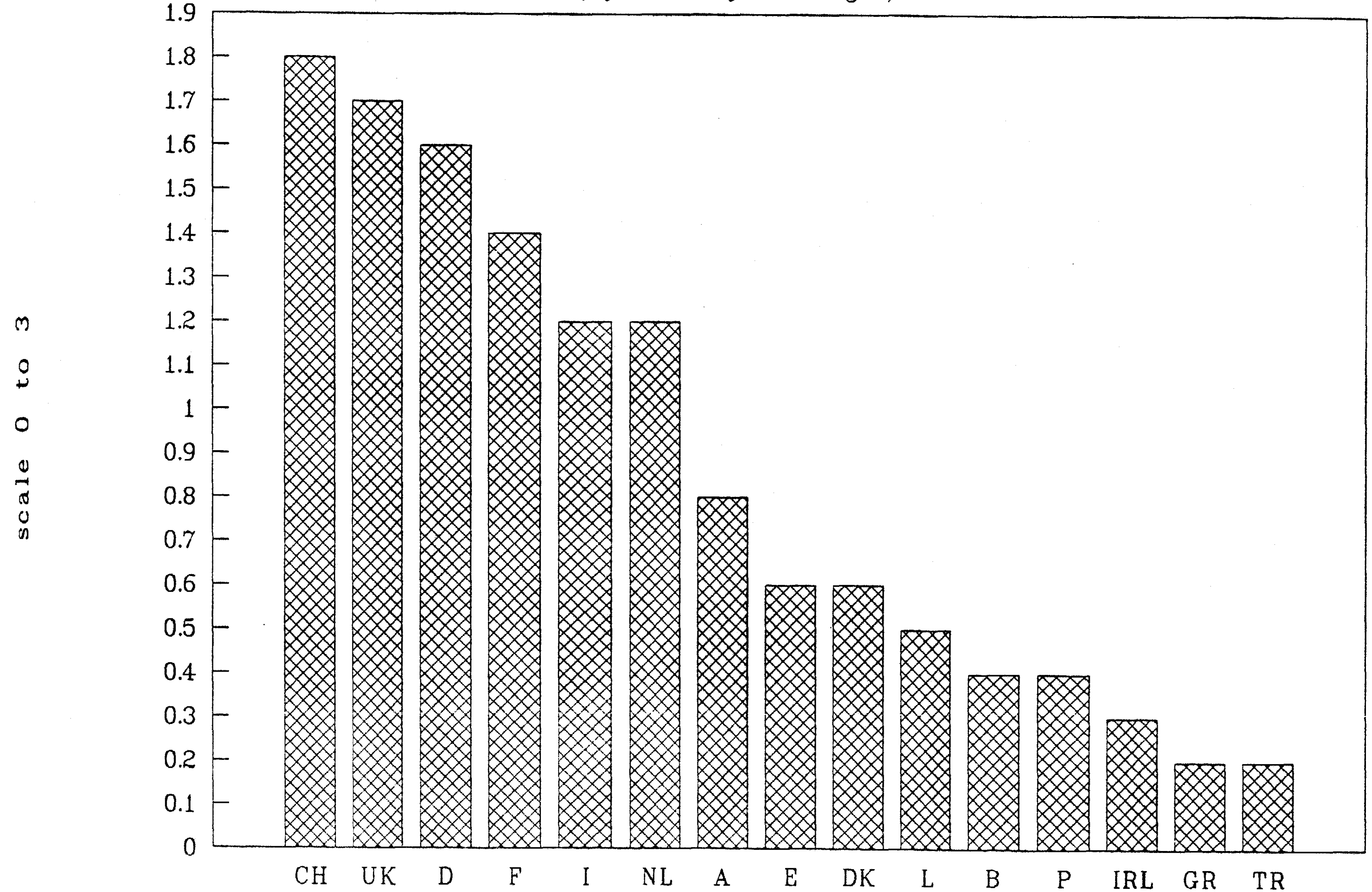
Index of activity of foreign insurers




SOURCE : FARNY - SCHMIDT

# EXPECTED CROSS-BORDER ACTIVITY AFTER 92

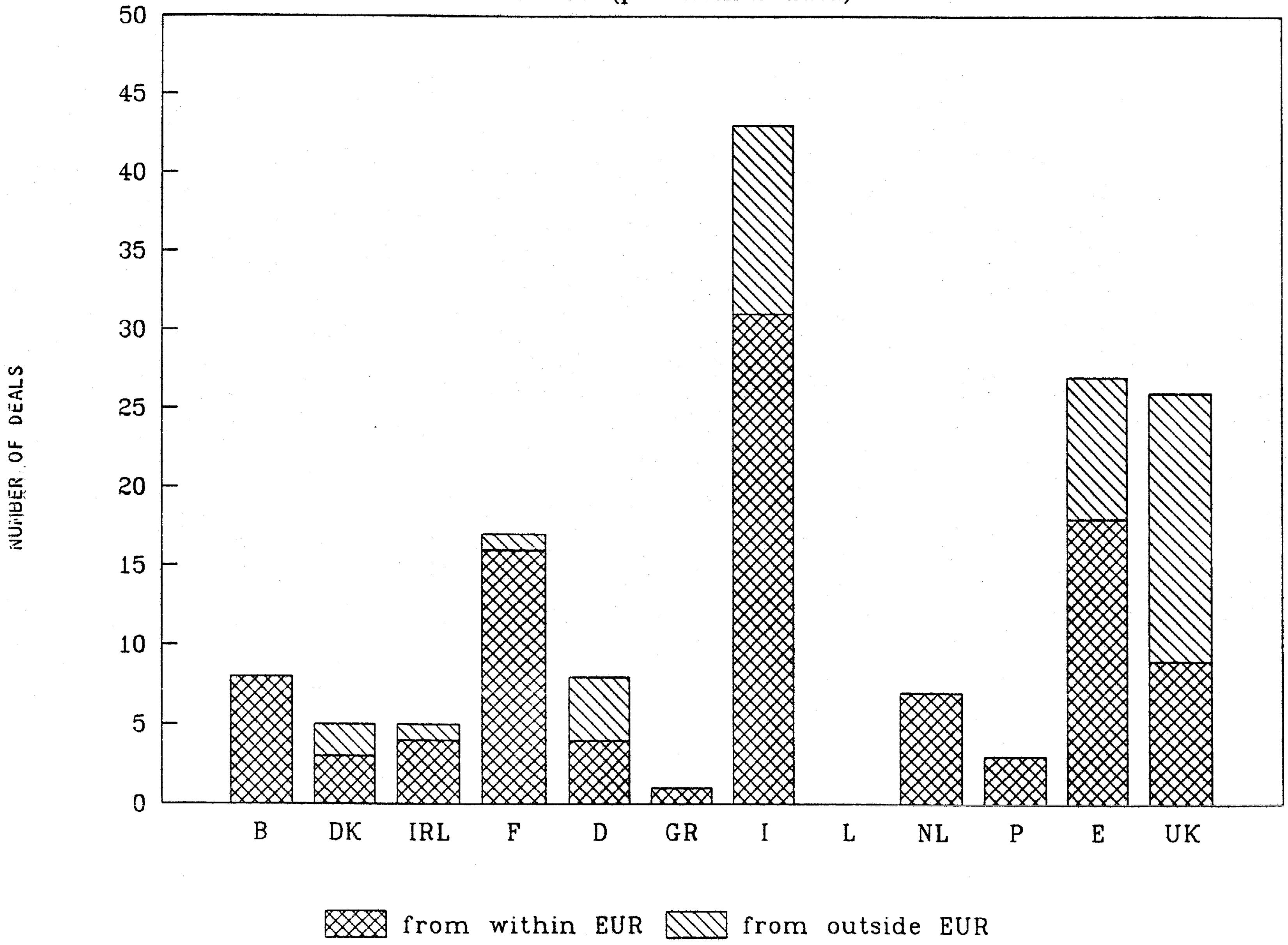
(by country of origin)




SOURCE : FARNY, SCHMIDT

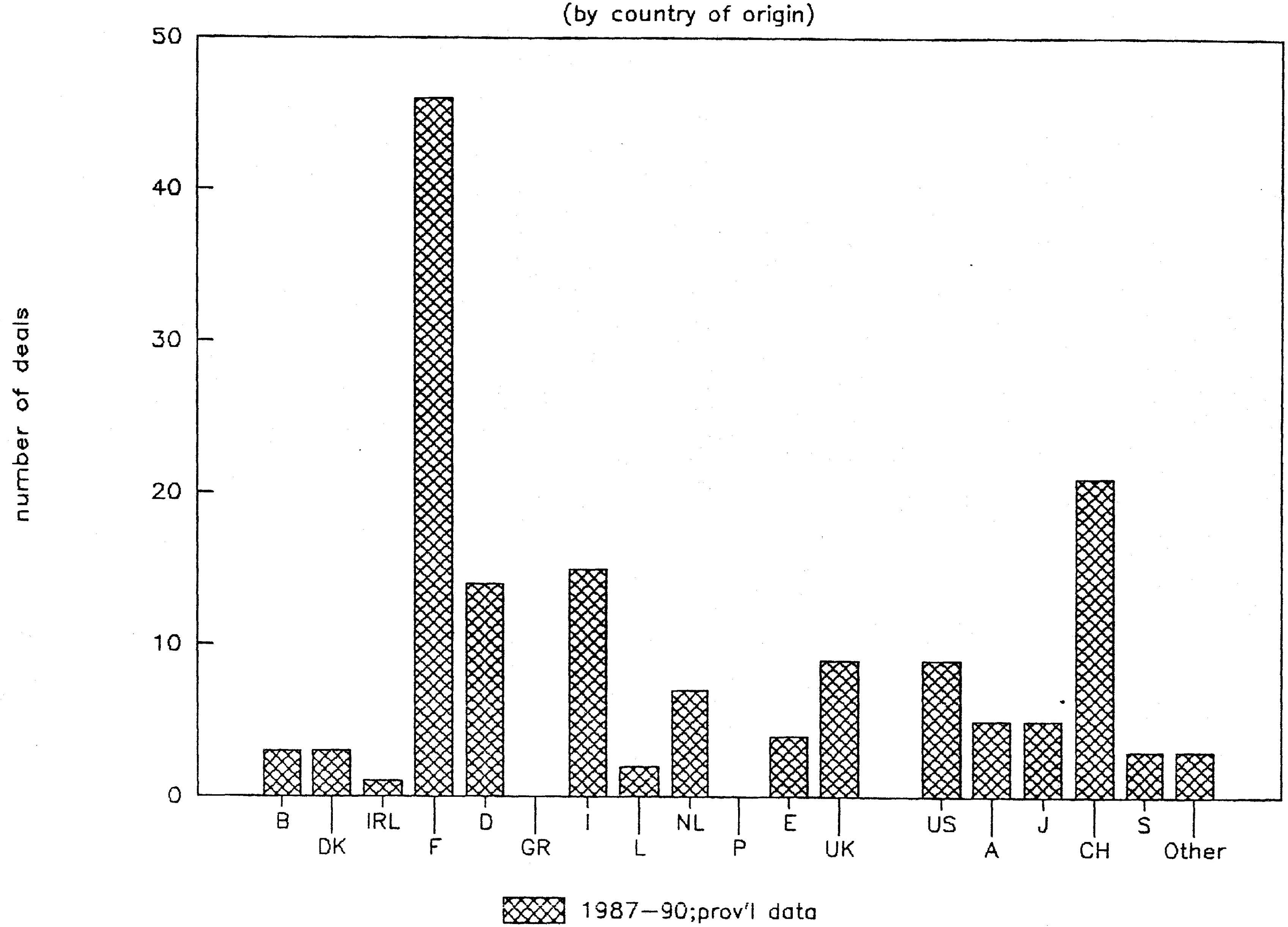
# CROSS-BORDER M&A ACTIVITY IN INSURANCE

1987-90 (provisional data)




SOURCE : EC COMMISSION

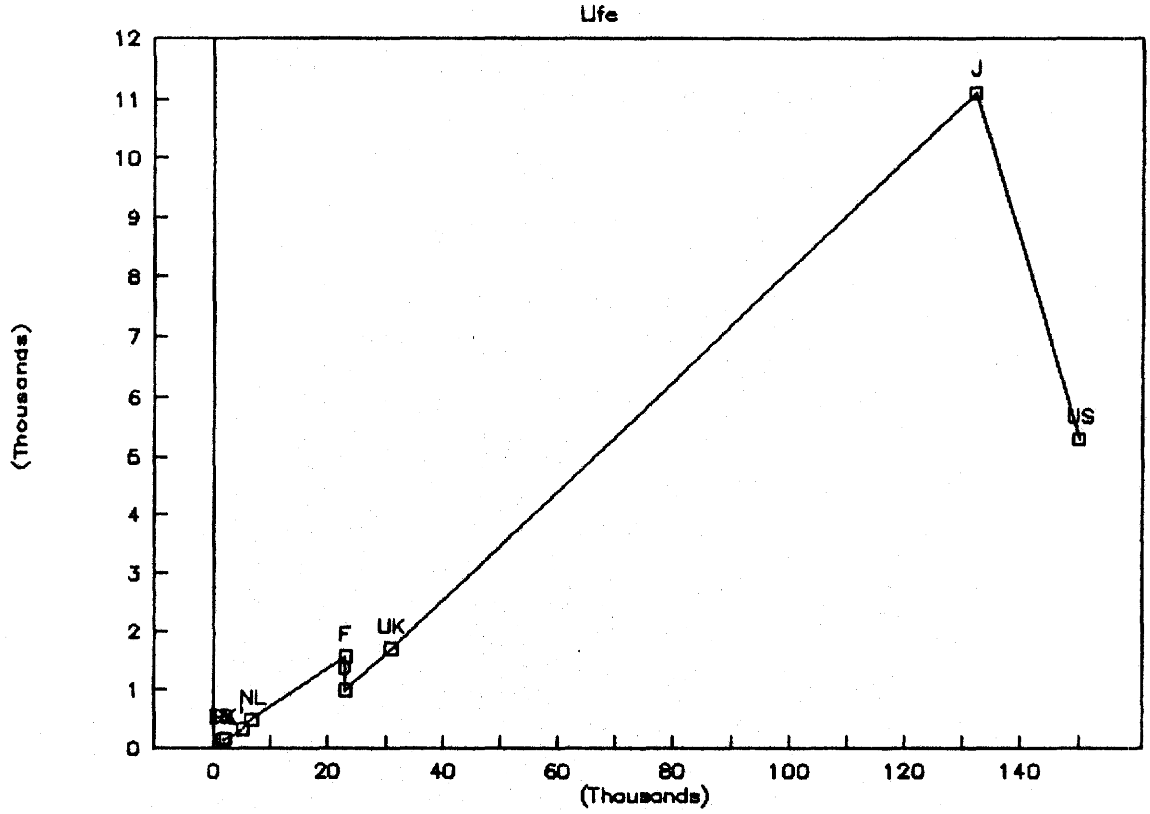
# CROSS–BORDER M&A ACTIVITY IN INSURANCE




SOURCE: CEC

D27a

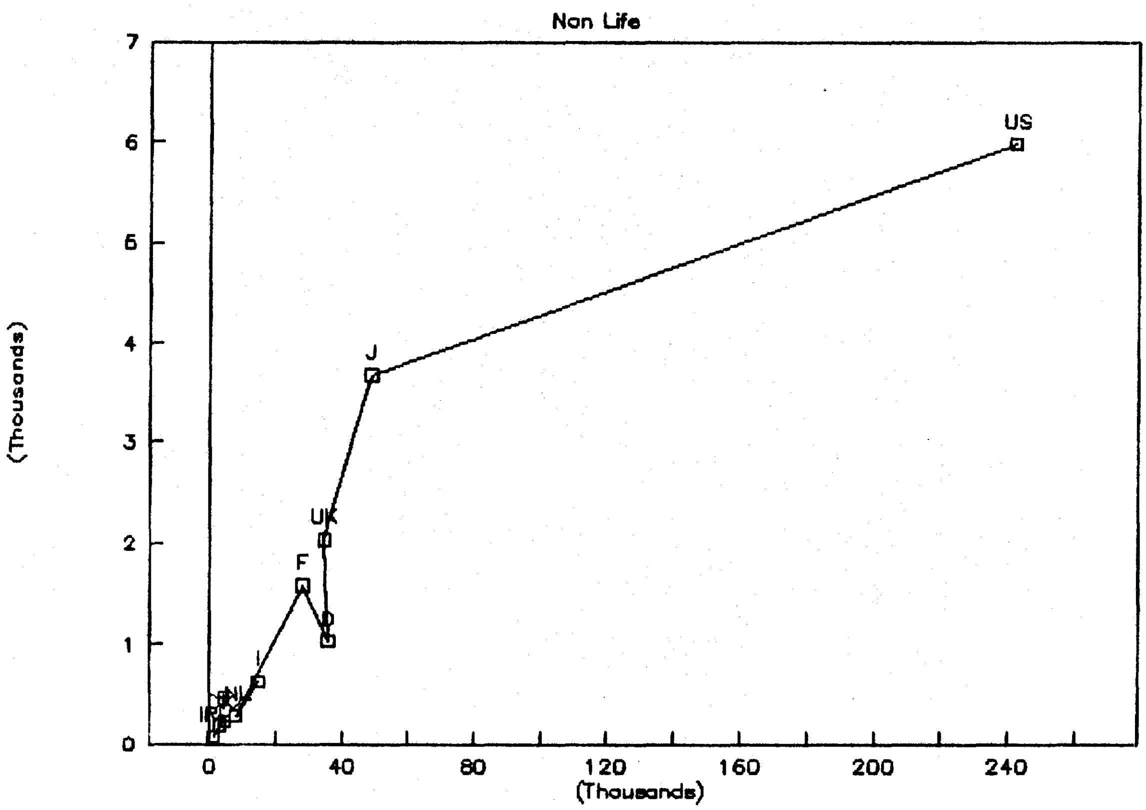
## AVERAGE TOP 10 SIZE vs MARKET SIZE *




SOURCE : OECD

D27b

## AVERAGE TOP 10 SIZE vs MARKET SIZE *

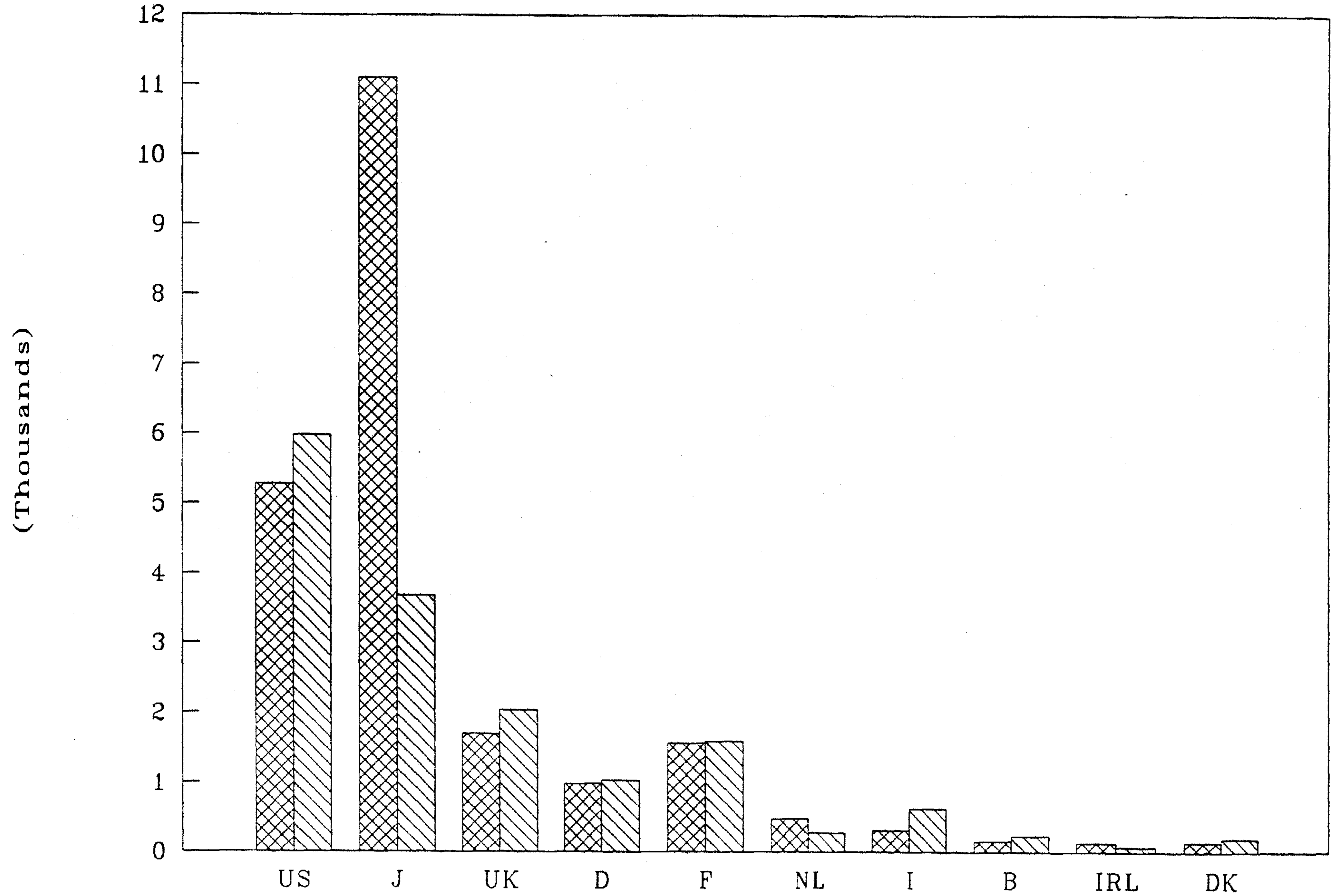



SOURCE : OECD

* GROSS PREMIUMS 1988 (MILLION ECU)

D276.

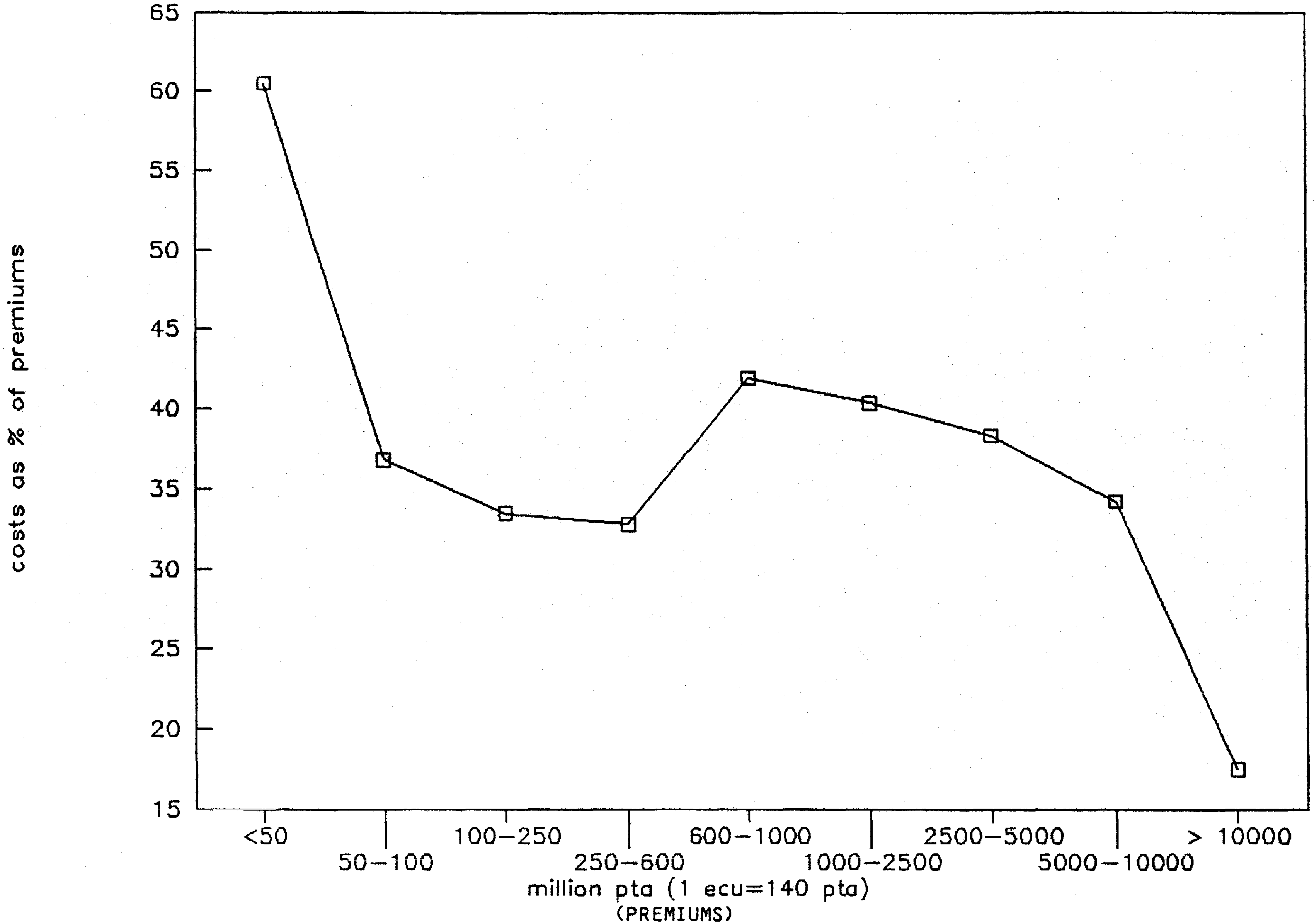
# TOP 10 AVERAGE SIZE




SOURCE : OECD

# ECONOMIES OF SCALE IN THE SPANISH MKT

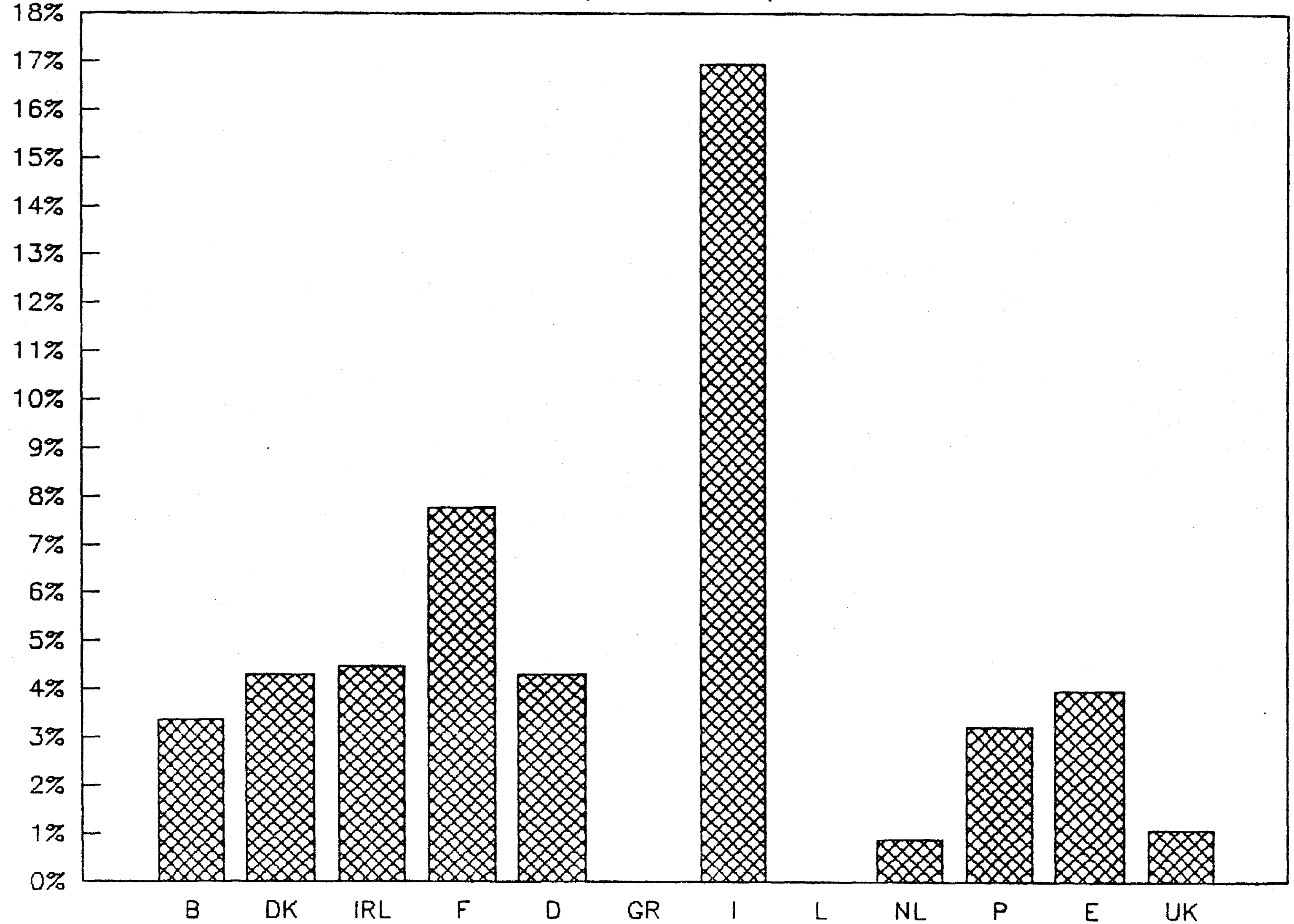
Cost ratios of domestic firms 1987




SOURCE: UNESPA

# CONSOLIDATION IN COMMUNITY MARKETS

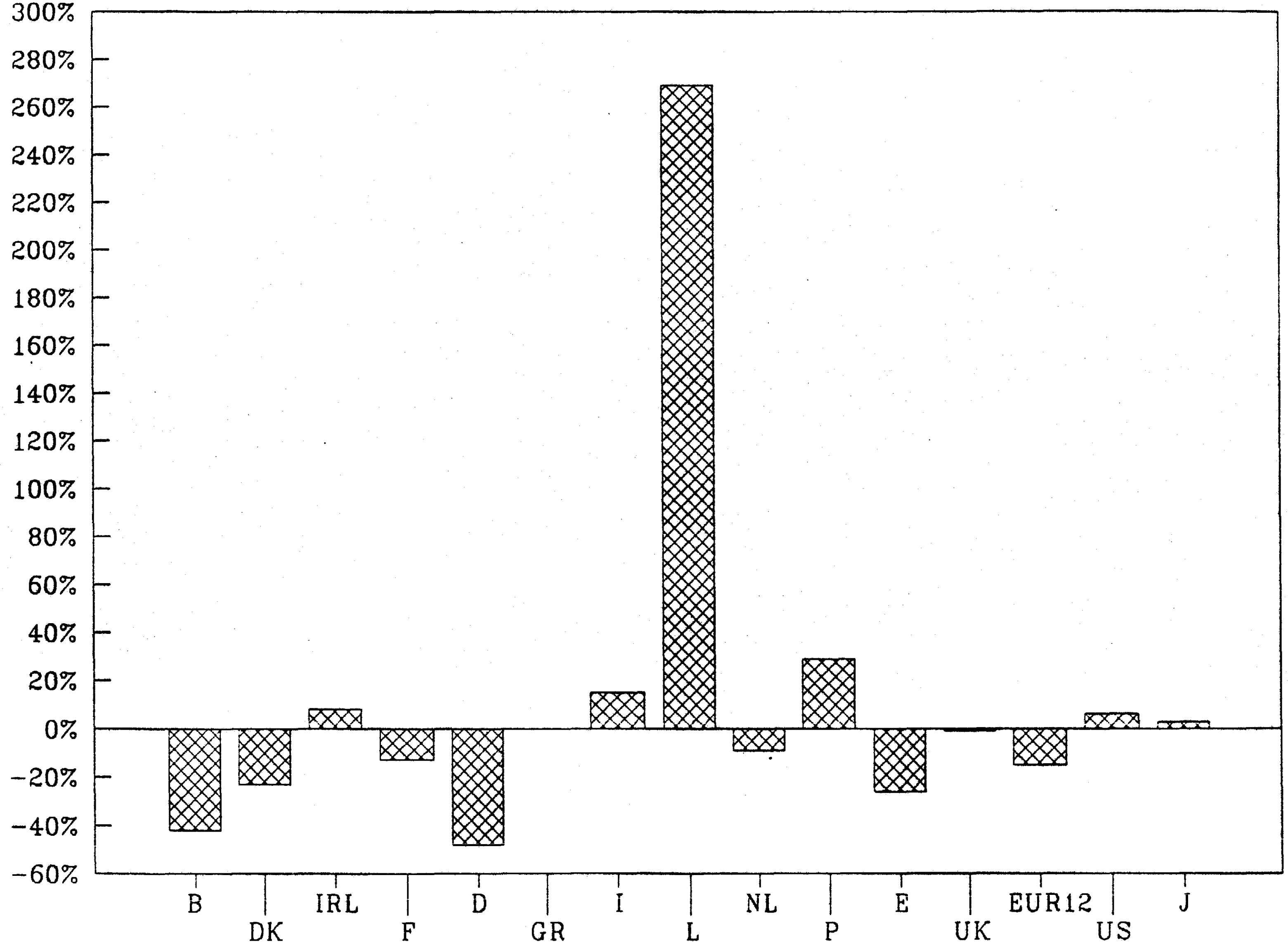
No. of deals / No. of companies




SOURCE: CEC, OECD

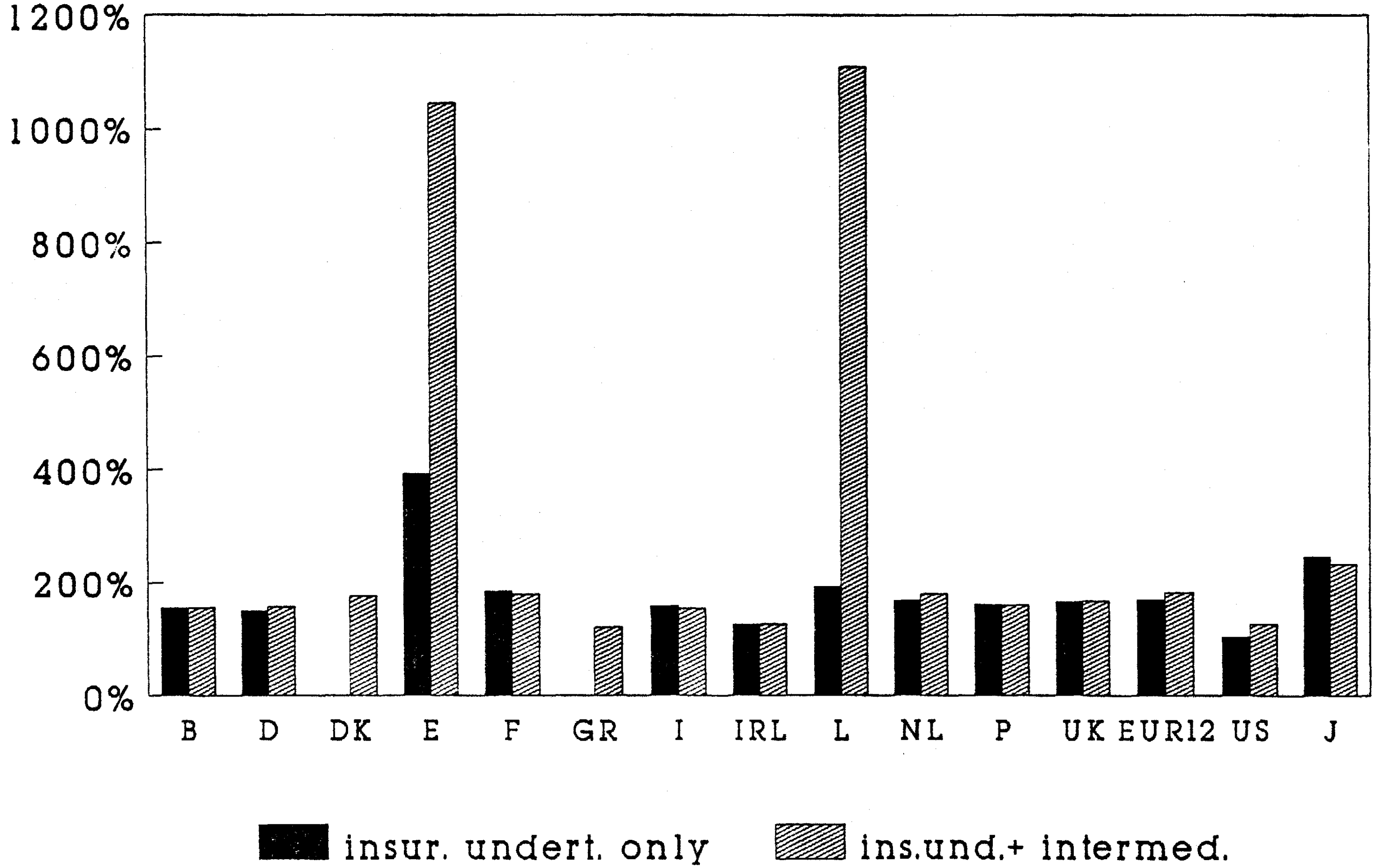
# CHANGE IN NUMBER OF COMPANIES

1983-88



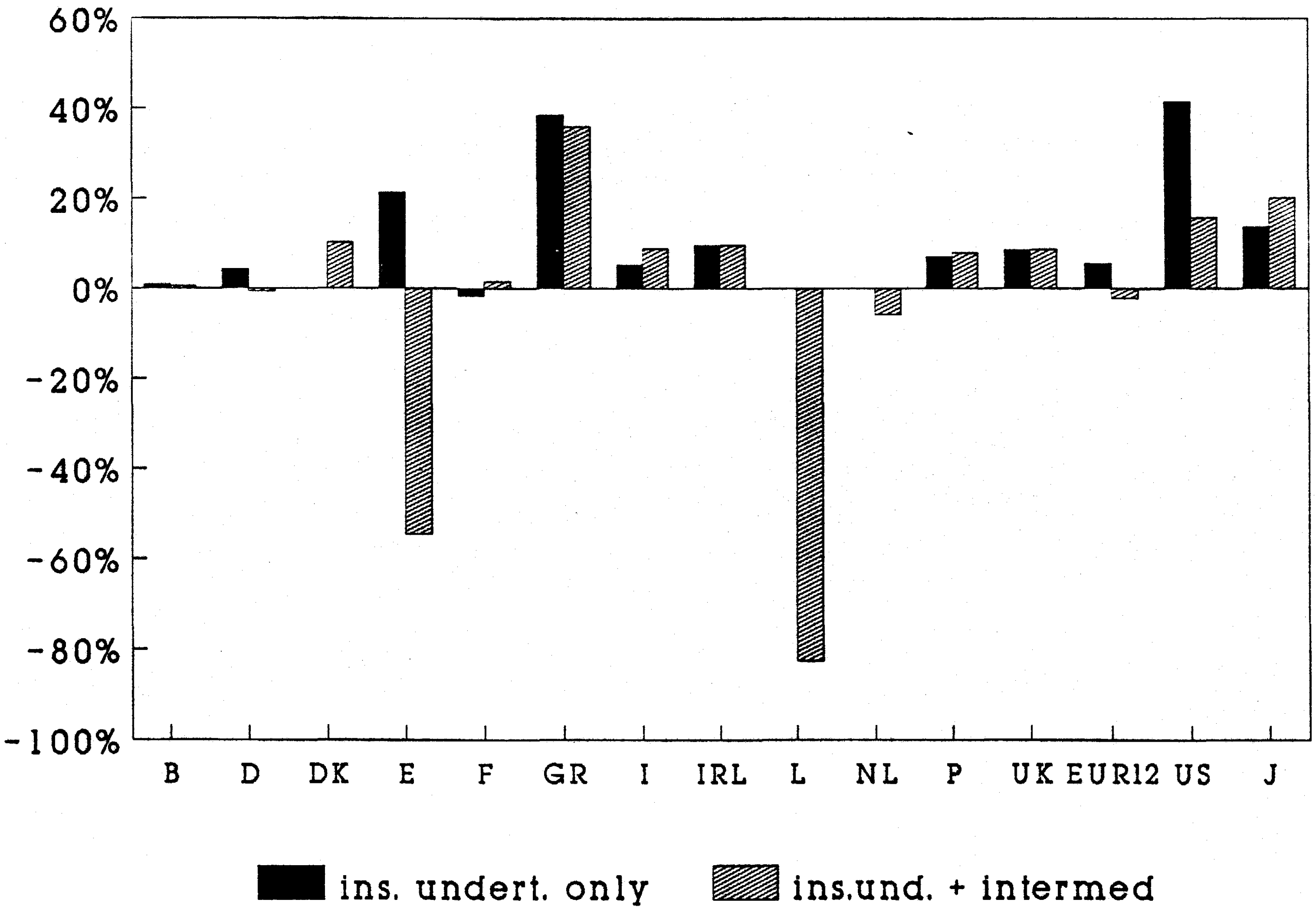

SOURCE : OECD

# CHANGES IN PRODUCTIVITY 1983-88
## Gross premiums per person employed



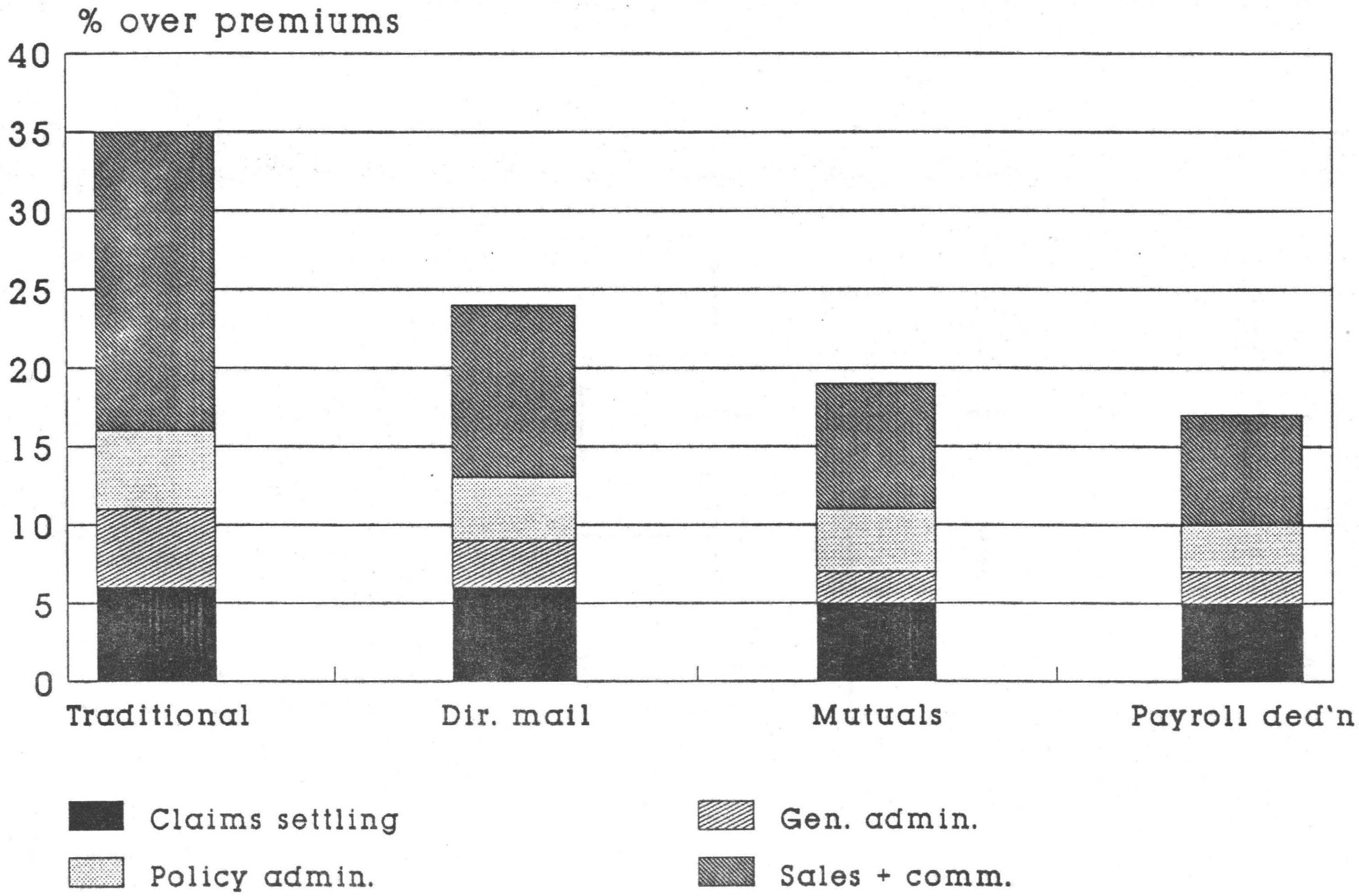

SOURCE : OECD

# CHANGES IN EMPLOYMENT 1984-88




SOURCE : OECD

# COSTS OF VARIOUS DISTRIBUTION CHANNELS




SOURCE : McKINSEY

## DIAGRAM 33
Forecast of the types of European insurers to emerge

| Degree of inter-nationalisation | Degree of specialisation / generalisation according to (type of) customer | | | | |
|---|---|---|---|---|---|
| | Generalist | Specialist | | | |
| | Industrial / commercial and private customers business | Industrial / commercial business | | Private customers business | |
| | | general b | segments c | general d | segments e |
| Worldwide 1 | 1a ↑ | 1b → | 1c ↓ | 1d ↓ | 1e ↓ |
| Europe-wide (EC) 2 | 2a → | 2b → | 2c ↓ | 2d ↓ | 2e ↓ |
| National and selected foreign markets 3 | 3a ↑ | 3b → | 3c ↓ | 3d → | 3e ↓ |
| national/local 4 | 4a ↓ | 4b ↓ | 4c → | 4d ↑ | 4e ↑ |

↑ Considerable and/or growing importance of the following types of insurers:

Type 1a: (very) large general insurers operating worldwide

Type 3a: general insurers operating nationally and in selected countries

Type 4d: insurers operating nationally in the private customer sector

Type 4e: insurers operating nationally in selected segments of the private customer sector

→ moderate and/or constant importance

↓ little and/or declining importance

SOURCE: FARNY

## DIAGRAM 34

### SOME APPROACHES TO CROSS-BORDER EXPANSION BY COMMUNITY BANKS AND INSURANCE COMPANIES

Joint production:
CGER (B)

Merger:
Unibank Danmark-Nykredit-Trygg (DK)

Acquisition:
A&M: BfG (D)
Royale Belge: Ipsa (B)
Groupe AG: Metropolitan Bank, Banque Tirlemontoise (B)
BBV: Euroseguros (E)
UAP: Worms
AEGON: Friesch-Groningsche Hypothekenbank (NL)
Rabobank: Interpolis (NL)
Mapfre: Invherbank (E)

Majority stake:
BBV: Aurora Polar, Plus Ultra, DAPA (E).
Banco Central: B. Vitalicio, Nac.Hispánica, Vasco Navarra (E
Banesto: Unión y el Fénix (E)
B. Hispano Americano: La Estrella (E)
GAN: CIC, BIF (F)
AGF: Banque le Phénix (F)
MGF: SOFINNAM (F)

Captives:
Deutsche Bank: DB Leben
Baltica: Baltica Bank (DK)
Cajas de Ahorro: Caser (E)
Banco de Santander: Cénit (E)
Crédit agricole: Prédica, Pacifica (F)
AEGON: AEGON Hypothekenbank (NL)

Holding:
Baltica (DK)
Unibank Danmark-Nykredit-Trygg (DK)
Nationale Nederlanden-NMB-Postbank (NL)

Joint Venture:
Commerzbank-DBV: Commerzbank & Partner (D)
Générale de Banque - AG: Alpha Life (B)
Banesto - Unión y el Fénix: Banfénix (E)

Crédit agricole - Groupama (F)
GAN - CIC (F)
TSB - Scottish EquiCHART (UK)

Minority stake:
Den Danske Bank-Hafnia-Kredit foreningen Denmark (DK)
BNP - UAP (F)
Dresdner - Allianz (D)
GAN - Société Générale
Nationale Nederlanden: ABN, Amrobank (NL)
AEGON - Amrobank (NL)

Alliance without equity stake:
Nederl. Middenstandsbank (NL)-Erste Allgemeine (A)

Distribution agreements:
Abbey Life - Lloyds (UK)
Dresdner Bank - regional insurance companies (D)
Kredietbank - Fidelitas (B)
Banco Comercial Portugues - Occidental (P)
Caixa General de Depositos-Fidelidade-Banco Nacional Ultram.(P)

Independent brokerage:
National Westminster (UK)

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