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Bidder returns in bancassurance mergers: Is there evidence of synergy? ☆

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Abstract

We provide evidence on the potential for bidder wealth gains in bancassurance mergers by examining a sample of such mergers in the United States and abroad. These combinations are expected to produce positive wealth gains if there are synergies between these two types of financial firms. We find positive bidder wealth effects that are significantly related to economies of scale (as measured by the size of the target relative to the bidder), potential economies of scope, and the locations of the bidders and targets. These results suggest that the bancassurance architectural structure for financial firms does offer some benefits and thus may become more prominent in future years.

JEL classification: G21; G22; G34

Keywords: Bancassurance; Mergers; Scope economies; Scale economies; Diversification

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1. Introduction

The bancassurance model for financial firms has become important in the evolution of the financial structure of Europe since the 1989 Second Banking Directive. Moreover, passage of the Financial Services Modernization Act (also known as the Gramm–Leach–Bliley Act) in 1999 eliminated legal restraints on the amalgamation of commercial banks and insurance companies in the United States. Given the potential synergies available from bancassurance combinations, such mergers could produce significant changes in the American financial system. Despite the importance of bancassurance mergers for the development of both the European and the American financial systems, there is very little evidence on the benefits and costs of this financial model. In particular, there is little information on two fundamental questions: Do announcements of bancassurance mergers produce positive bidder wealth gains? If so, are the wealth gains associated with potential synergies achievable by the combined entities and/or other factors? Evidence on these questions is crucial to our understanding of the future effects of bancassurance on the financial system.

We provide evidence on bidder wealth changes in bancassurance mergers by investigating mergers between commercial banks and insurance companies both in the United States and internationally (primarily Europe). There are a number of a priori reasons to expect that mergers between banks and insurance companies are wealth enhancing, not just for targets, but also for bidders. For example, some researchers (e.g., see Staikouras, 2006; Staikouras and Nurullah, forthcoming) have observed that banking and insurance as businesses have more similarities than differences, characteristics that may favor joint production and synergies. Both types of firms are financial intermediaries that pool savings of individuals and subsequently channel these funds to the capital market. The existence of economies of scope would not be surprising in these two information-intensive financial services. Laws of large numbers, liquidity creation, and financial risk management are also common to both institutions (Lewis, 1990; Levy-Lang, 1990; Voutilainen, 2004).

We find that bancassurance mergers produce positive abnormal returns for bidders. The abnormal returns that we find for bidders that acquire publicly traded targets are about +1% and are statistically significant. We find that the positive bidder returns are driven by economies of scale measured by the relative size of the bidder versus the target and by potential economies of scope between commercial banks and insurance companies. Thus, our evidence is consistent with the existence of synergies between commercial banks and insurance companies in the production of financial services. Positive abnormal returns are also associated with the location of the acquirer and the target, with market extension mergers more likely to create positive bidder abnormal returns. Overall, our results are generally consistent with previous banking literature that has found banking/insurance combinations tend to be mutually beneficial to both firms, but only for those that are perceived to produce tangible synergies and market expansion opportunities for their shareholders.

Section 2 provides a brief background discussion of bancassurance. Section 3 reviews relevant bancassurance literature, and Section 4 discusses the sample data and methodology. Section 5 presents the empirical results. Section 6 concludes and discusses the implications of our results both for the market for corporate control and for the organization of financial service firms.