Research in International Business and Finance 25 (2011) 104–112

Contents lists available at ScienceDirect

Research in International Business and Finance

journal homepage: www.elsevier.com/locate/ribaf

Does bancassurance add value for banks? – Evidence from mergers and acquisitions between European banks and insurance companies

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ARTICLE INFO

Article history:
Received 11 August 2009
Received in revised form 10 August 2010
Accepted 17 August 2010
Available online 24 August 2010

JEL classification:
G14
G15

Keywords:
Mergers and acquisitions
Insurance
Risk change
Abnormal returns

ABSTRACT

This paper investigates the risk and wealth effects of 72 mergers and acquisitions between banks in Europe and insurance companies during the period 1989–2004. The empirical results indicate that acquirers' total risks remain constant relative to the world, home market indices and home banking indices. There are no changes for the systematic risks (beta) with respect to the world market index or the home banking index. After removing world and home market indices effect, systematic risk against home banking index reduce significantly for domestic deals. In addition, positive wealth effects are documented. Two factors have contributed to the bidders' cumulative abnormal returns (CARs): relative deal size and being a serial acquirer. Finally, change of beta shows negative relations with CARs.

1. Introduction

Both banking and insurance companies have developed and consolidated their operation over the past few decades. One of the consequences of these deregulations has been the emergence of bancassurance[1] services. As deregulation of the financial services industry has intensified, in a number of European countries a significant portion of life insurance business is handled by banks. The

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[1] Bancassurance is defined "as a strategy adopted by banks or insurance companies aiming to operate in the financial services market in a more or less integrated manner" and "is the distribution of insurance products by banks." (Swiss Re, 2002, p. 5).

0275-5319/$ – see front matter
doi:10.1016/j.ribaf.2010.08.002

emergence of bancassurance has contributed to overall efficiency, an increase in economies of scope and an increase in productivity of both banks and insurance companies in some European countries. In addition, as reported by Swiss Re (2002), bancassurance has led to lower or stable distribution cost.

There have been several studies related to bancassurance across the world. For example, Genetay and Molyneux (1998) have a comprehensive review of bancassurance in Europe, including its historical roots. Fields et al. (2004) analyse the wealth effects of 136 banks and insurance mergers among US and non-US companies over the period 1997 and 2002. However, the empirical results are not consistent with each other. For instance, Carow (2001a) found that the Citicorp-Travelers Group merger increased stock price in both life insurance companies and large banks in the US, while Carow (2001b) found that the consequences of insurance products sold by banks in the US led to a reduction in insurance company stock prices. Fields et al. (2004) found that bancassurance deals lead to a win–win situation for both bidder and target US firms.

This study attempts to shed additional light on this issue by empirically studying the effects of mergers and acquisitions between banks in Europe and insurance companies. The empirical results, based on 72 deals over the period 1989 and 2004, show that acquirers' total risks remain constant relative to the world and home market indices, and home banking indices. There are no changes for the systematic risks (beta) with respect to the world market index or the home banking index. The beta risk for the home banking index is reduced significantly for domestic deals. In addition, positive wealth effects are documented and the bidder's change of beta shows negative relations with the bidders' cumulative abnormal returns (CARs). The deal size relative to the bidder bank's market value and being a serial acquirer show positive relations with the bidders' CARs.

This paper flows as follows. Section 2 introduces the data. Section 3 presents the methodology and the empirical results. Section 4 concludes.

2. Data

Based on the Thomson Reuters SDC Database, there were 213 mergers during year 1989–2004, with the acquirer a European bank, and the target an insurance company. Out of the 213 deals, some of the acquirers are classified as real estate developing companies and support service companies. Because these companies' main business is not banking, these deals are excluded. Some deals are further excluded due to the acquirers' having no current active trading, or having less than two years' trading history after deal effective or without other relevant data. 72 mergers remain in our final sample. After the acquisition, all the acquirers own more than 20% of the targets.

Among the 72 deals in our final sample, 61 target insurance companies are located in Europe and 11 are located in Argentina, Chile, Columbia, Hong Kong, Mexico, Morocco, and the United States.[2] Banks in Spain, the UK and Italy are active in acquiring, and there is no bank acquirer in countries such as Bulgaria, Czech Republic and Greece. Larger or more financially established countries would have more acquirers. The largest number of acquirers is in Spain while Italy has larger number of targets. During the sample period, the bancassurance merger events are most active in the years 2000 and 2001 in Europe.[3]

The acquiring banks are listed in eighteen stock exchanges. Dividend-adjusted index values, which including world market index, home market index and home banking index of these exchanges are downloaded.[4] The exchange rates and one-month interbank interest rates of the acquirer's countries are collected. DataStream is the source for stock, exchange rate and interest rate data.

[2] Most of the targets were not listed on stock exchanges and we can only find share market information for three of them. Due to the lack of share data for targets, we focus our study on the bank acquirers only.

[3] Due to space limitations, the summary statistics of the deals among countries and over time are not presented in this paper, however, they can be provided upon request.

[4] There is no dividend-adjusted index in Iceland and the dividend unadjusted index is used as a proxy for that country.