

RISK-RETURN ISSUES IN DEREGULATING THE BANKING FIRM

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ABSTRACT

The European market of banks and insurance companies has traditionally no exact boundaries between insurance and banking activities. Such business arena poses distinctive challenges to both banking and insurance industries. The paper statistically evaluates the feasibility of a hybrid portfolio integrating banking and insurance services. It examines the risk-return effects of European banks' diversification into life and non-life insurance underwriting, as well as into insurance broking businesses. More specifically, it focuses on financial data and analyzes changes in profitability, return volatility and creditworthiness of those financial institutions. The empirical results indicate that diversification by European banks into life and non-life insurance underwriting activities increases banks' risk. Unlike the non-life insurance sector, the return on life assurance underwriting increases significantly. On the other hand, insurance broking returns increase as well, while volatility and possible bankruptcy remain insignificant. This suggests that the interface of banks and insurance broking activities could be further explored.

Key Words: Bancassurance, Financial institutions, Bank diversification, Insurance activities, Risk-return analysis.

JEL classification: G21, G22, G28, G34

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