

CROSS-BORDER M&As IN THE FINANCIAL SECTOR: IS BANKING DIFFERENT FROM INSURANCE?

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Plan of Presentation

- Motivations and stylized facts
- Econometric setup
- Data description
- Results
- Conclusions



Motivations (1/4)

- Worldwide integration of financial markets is nowadays very strong, exceeding and favoring international trade
- Stronger competition in the internal and international markets forces companies to increase the scale of operations
- Deregulation facilitated M&As in the financial sector, favoring the integration of banking, asset management and insurance
- The paper investigates what determines the asymmetry in the degree of internationalization between banking and insurance



Motivations (2/4)

- The average number of M&As involving a financial company
 - increased from 954 per year, between 1990 and 1995
 - to 1,556 between 1996 and 2000
 - was 1,436 between 2001 and 2003, due to the decline in stock prices, that affected mostly M&As in G10 countries
- In non-G10 countries it increased
 - from 226 between 1990 and 1995
 - to 551 between 1996 and 2000
 - to 697 between 2000 and 2003



Motivations (3/4)

- A large and growing share of M&As in the financial sector is cross-border
- Cross-border M&As were:
 - 14 per cent of all M&As between 1990 and 1995
 - 20 per cent between 1996 and 2000
 - 22 per cent between 2001 and 2003
- In non-G10 countries, cross-border M&As have been on average:
 - 32 per cent of all M&As in terms of number
 - 42 per cent in terms of value



Motivations (4/4)

- Cross-border M&As are more frequent in insurance than in banking
- Between 1990 and 2003, cross-border transactions were:
 - 30 per cent of all deals in insurance and 14 per cent in banking for the whole aggregate
 - 24 per cent in insurance and 8 per cent in banking within G10 countries
 - 45 per cent in insurance and 31 per cent in banking within non-G10s



Econometric setup (1/1)

- The dependent variable, Y_{ij} , is the number of cross-border M&As between the country of the bidder company, i , and that of the target, j
- The explanatory variables are:
 - characteristics of the bilateral relationship between the countries of origin and those of potential destination
 - characteristics of countries of origin and destination
 - fixed effects for the countries of origin and of destination
- The model is estimated using the negative binomial regression model and the Poisson regression model (as a robustness check)



Data & Sample (1/1)

- Information on M&As are from the Security Data Corporation's (SDC) Platinum Worldwide Mergers and Acquisitions Database (1990-2003)
- We consider:
 - 47 origin-countries where at least one local firm (financial or non-financial) was a bidder in a cross-border
 - 37 potential host-countries countries where at least 2 M&As took place between 1990 and 2003
- Due to data availability, our final sample includes 1,520 of the 1,702 possible combinations



Results: Bilateral Variables(1/7)

- Economic integration has similar effects on cross-border M&As in banking and insurance

VARIABLES		Panel A: Banks		Panel B: Insurance companies		Panel C: Diff. Test
		Coeff. (Std. err.)	Marg. effect	Coeff. (Std. err.)	Marg. effect	χ^2
Trade (log)	B	0.99 *** (0.08)	0.99	0.83 *** (0.10)	0.83	1.34
Common colonization	B	1.54 *** (0.40)	0.01	1.93 *** (0.65)	0.01	0.27
Common language	B	0.85 *** (0.20)	0.07	0.76 *** (0.21)	0.07	0.10



Results: Home-Country Variables (2/7)

- Characteristics of the origin country have a rather different effects across the two sectors
- Insurance companies are less affected by:
 - taxation
 - saving ratio
 - old dependency ratio
- Insurance companies are more likely to expand abroad when their local markets are relatively small and the growth prospects are not strong, i.e. if they are based in a country with:
 - high per capita income
 - large banking system
 - small insurance sector



Results: Home-Country Variables (3/7)

VARIABLES		Panel A: Banks		Panel B: Insurance companies		Panel C: Diff. Test
		Coeff. (Std. err.)	Marg. effect	Coeff. (Std. err.)	Marg. effect	χ^2
GDP per capita (log)	O	-1.49 ** (0.58)	-1.49	0.45 (0.90)	0.45	3.29 *
Credit/GDP	O	-0.44 (0.46)	-0.16	1.95 *** (0.63)	0.69	9.46 ***
Stock market Capitalization	O	1.24 *** (0.31)	0.47	0.96 ** (0.38)	0.37	0.32
Insurance penetration	O	-4.33 (7.51)	-0.11	-15.17 ** (6.50)	-0.40	1.20
Saving ratio	O	0.05 * (0.03)	0.61	-0.06 (0.04)	-0.66	4.54 **
Corporate taxation	O	0.14 *** (0.03)	2.02	0.04 (0.04)	0.64	3.67 *
Population (log)	O	-0.11 (0.16)	-0.11	0.02 (0.22)	0.02	0.22
Old dependency ratio	O	0.19 *** (0.06)	0.95	-0.02 (0.11)	-0.12	2.93 *



Results: Host-Country Variables (4/7)

- Insurance companies are more likely than banks to enter countries:
 - with low stock market capitalization
 - with higher contestability, i.e., where a large number of M&As took place
 - members of G10
- These results provide some evidence supporting the hypothesis that insurance companies face lower implicit or explicit barriers to entry in foreign markets



Results: Host-Country Variables (5/7)

VARIABLES		Panel A: Banks		Panel B: Insurance companies		Panel C: Diff. Test
		Coeff. (Std. err.)	Marg. effect	Coeff. (Std. err.)	Marg. effect	χ^2
No. of M & As (log)	D	-0.01 (0.22)	-0.01	0.64 ** (0.25)	0.64	3.77 *
G10	D	-0.92 (0.70)	-0.15	0.77 (0.74)	0.12	2.71 *
GDP per capita (log)	D	-1.74 *** (0.55)	-1.74	-2.00 *** (0.72)	-2.00	0.08
Credit/GDP	D	-2.11 *** (0.56)	-0.74	-1.58 * (0.82)	-0.55	0.29
Stock market Capitalization	D	1.16 * (0.65)	0.44	-0.37 (0.53)	-0.14	3.32 *
Insurance penetration	D	-2.71 (6.42)	-0.07	8.71 * (4.97)	0.24	1.96
Saving ratio	D	0.00 (0.02)	-0.03	0.02 (0.03)	0.19	0.34
Corporate taxation	D	0.01 (0.03)	0.17	0.00 (0.04)	-0.05	0.11
Population (log)	D	-0.06 (0.30)	-0.06	-0.71 ** (0.28)	-0.71	2.60
Old dependency ratio	D	0.26 *** (0.09)	1.31	0.07 (0.08)	0.34	2.47



Results: Host-Country Variables (6/7)

- The effects of contestability is different between G10 and non-G10 countries
- A sample splits shows that within G10s:
 - for banks, the larger is the number of domestic M&As the lower the number of foreign banks' entry
 - for insurance companies, national and foreign investors have the same probability of being bidders in an M&A
- Within non-G10s national and foreign investors have the same probability of being bidders in an M&A for both banks and insurance companies



Results: Host-Country Variables (7/7)

G 10 destination countries						
VARIABLES		Panel A: Banks		Panel B: Insurance companies		Panel C: Diff. Test
		Coeff. (Std. err.)	Marg. effect	Coeff. (Std. err.)	Marg. effect	χ^2
No. of M & a (log)	D	-1.65 * (0.88)	-1.65	1.51 (1.11)	1.51	4.92 **

non-G 10 destination countries						
VARIABLES		Panel A: Banks		Panel B: Insurance companies		Panel C: Diff. Test
		Coeff. (Std. err.)	Marg. effect	Coeff. (Std. err.)	Marg. effect	χ^2
No. of M & a (log)	D	0.50 (0.38)	0.50	1.36 ** (0.65)	1.36	1.36



Conclusions

- Economic integration is equally important in explaining banks' and insurance companies' internationalization
- Characteristics of the origin country have rather different effects across the two sectors
- Insurance companies are more likely to expand abroad in search of risk diversification, when their local markets are relatively small and the growth prospects poor
- Consistent with the “national champions” hypothesis, G10 target countries have stronger implicit barriers to foreign entry in banking than in insurance

