New horizons in insurance and banking, according to Swiss Re sigma study

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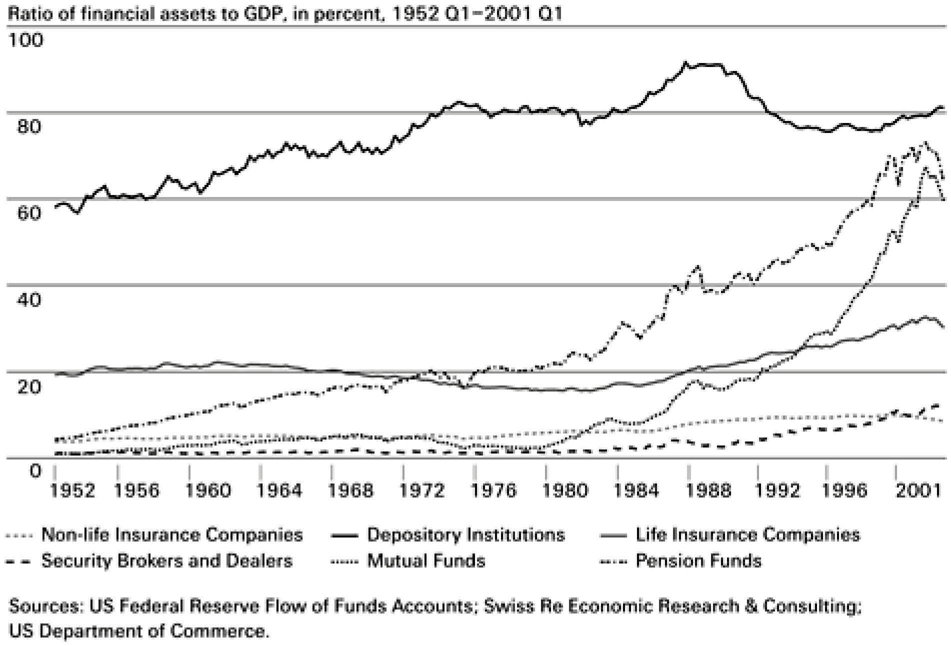
Insurers, banks and other financial intermediaries are changing in response to a variety of social and economic forces. Financial deregulation has made it easier for intermediaries to cross industry and national boundaries. Technological progress has reduced costs while stimulating innovation. Because of their many interrelations with other financial intermediaries, insurance industry participants stand to benefit from knowing more about financial intermediaries: how they operate and succeed, compete and collaborate, profit and grow.

Growing importance of financial intermediaries

Operating from major global centres such as London, New York, and Tokyo, financial intermediaries (FIs) help clients manage risk, channel funds from savers and investors to businesses seeking capital, and facilitate the clearing and settlement of payments. Examples of FIs include banks, insurers, securities firms, mutual funds, and pension funds. A newly released Swiss Re *sigma* study, "World financial centres: New horizons in insurance and banking", sheds light on the future of world financial markets by examining the performance of insurers and the financial intermediaries that interact with them. FIs are growing faster than the economies in which they operate. In the US for example, FIs' share of nominal GDP has grown since 1980, even as its share of the private workforce has declined. Since 1952, assets held by US FIs have grown at an average annual pace that is 2.4 percentage points faster than GDP growth.

Financial intermediaries have experienced rapid growth since the 1980s



Financial deregulation makes it easier for FIs to cross industry and national borders

Technological progress reduces costs, stimulates innovation, and allows FIs to reengineer their value chains. The advent of online trading, for example, has radically altered the competitive landscape for stockbrokers. A growing focus on shareholder value pressures the management of FIs to deploy capital more efficiently. In recent years, merger and acquisitions activity among FIs has surged.

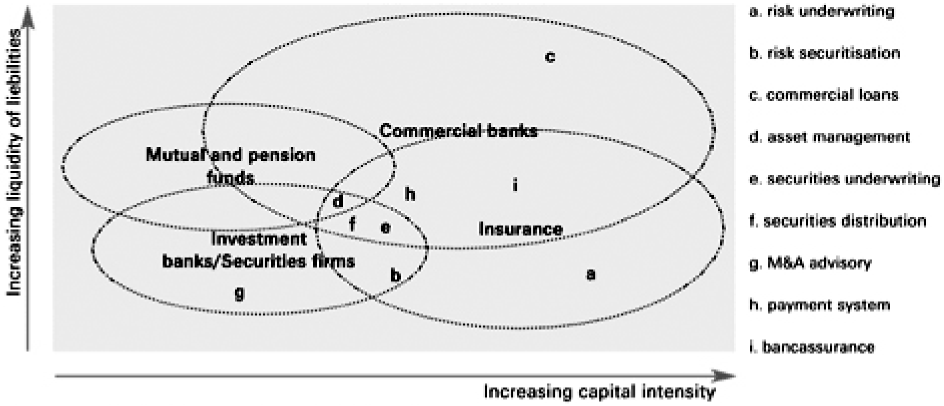
Strengths of financial intermediaries vary widely

Although many types of FI compete in the areas of asset and risk management, each has specific strengths. Banks focus on gathering assets, lending, and providing payment services. Insurers underwrite, manage, and finance risks. Securities firms underwrite debt and equity, advise on mergers and acquisitions, and provide securities brokerage services. Pension funds and mutual funds offer a means of saving for the future by investing in diversified portfolios of assets.

Future trends:

- Corporations will increasingly raise funds through securities issuance, prompting commercial banks to enter new fee-based businesses;
- Financial intermediaries will grow more circumspect about undertaking cross-border and cross-sector mergers and acquisitions to enter new markets;
- Convergence will occur in asset management and risk management, especially in the wholesale arena;
- As financial intermediaries pursue a growing range of strategies, the “manufacture” of financial products will become increasingly separate from their distribution;
- People saving for retirement will continue to fuel the rapid growth of private pension plans, mutual funds, and insurance products with an asset accumulation component.

Convergence of FIs will occur, but only in specific areas of overlap



Source: Swiss Re Economic Research & Consulting.

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