

## *Financial services*

---

EC markets present a variety of opportunities for Canadian financial institutions. There is a growing demand in Europe for more sophisticated financial products, and the offerings of Canadian firms are state-of-the-art.

Financial services in the EC have been growing steadily both in terms of the number of people the sector employs and in terms of value-added to the economy. However, this share varies enormously from country to country — from over 4% of France's value-added in the total GDP to almost 15% of Luxembourg's value-added. The particularly high share of the financial services in the economies of Luxembourg and the U.K. are due to the international character of their financial markets. London is still the financial centre of Europe.

Despite the rapid expansion of the sector in Europe, it is still not as developed as in other industrialized countries. For example, in 1987, the share of stock market capitalization in the EC was 21%, as opposed to 33% in the U.S. and 42% in Japan.

### **Structure**

The EC banking sector is dominated by the private sector. There is also a trend towards privatization in the EC. Public sector banks tend to specialize in areas such as supplying longer-term investment financing. At present, banking accounts for 65% of the employment in financial services, but increasing competition and concentration in banking will eventually lead to fewer jobs in this sub-sector.

The insurance industry is an important part of the financial services sector. In 1987, the value of gross premiums received by insurers totalled \$339.6 billion, or about 5.5% of European GDP. Employment in the industry is around 1.2 million people. The insurance industry experienced a high rate of growth between 1960 and 1980 but in the face of American and Japanese expansion in the 1980s, its market share fell from more than 27% of the world market to less than 23%. Still, annual rates of increase within the EC have remained high.

EC countries are developing a common market in the financial services sector in progressive stages. Capital flows, banking, and insurance services and the stocks and bonds market are being liberalized (see Chapter I). This process is leading to a diversification of activities both for banks and insurance companies. For example, banks are selling insurance policies of affiliated insurance companies and insurance companies are dealing in pension funds. As a result, the differences between various types of institutions are becoming blurred. It is thought that banks will try to use technology to create a barrier to competition from institutions that are not banks.

A pattern of loose confederations is emerging in the European financial services sector. In general, institutions have found that strategic alliances are more flexible tools than mergers. Alliances between banks and insurance companies are common, especially in Germany.

A classic example of a European banking and insurance partnership is the cooperation agreement which the Banque Indosuez signed with View Rotterdam in the Netherlands and with Baltica Holdings, a Danish insurance and finance company. The deal enabled Banque Indosuez to add Scandinavia to its EC-wide networks, while the smaller Baltica Holdings can now offer its Danish corporate clients access to a pan-European network. The deal will also provide Baltica Holdings with improved access to capital markets, allowing it to grow as a specialized Danish merchant bank. And it provides Baltica with new capital and protection against a hostile takeover.

There is significant investment in new technology as institutions try to increase productivity and reduce costs. The banking sector is dominating the development of Eftpos (Electronic funds transfer at the point of sale). Retailing organizations expect to hold a share of about 25% of Eftpos networks by 1995. Credit card companies and savings/mortgage institutions are expected to be involved. More than half of the customers are likely to use the network.

### **Markets**

Rather than providing global banking services, Canadian banks in the EC are focusing on niche products of a high calibre as well as providing their international corporate clients with key services. Service is provided by small teams of highly skilled and mobile specialists operating from a central base, usually London.

Canadian brokerage houses that establish in Europe will find a good market for Canadian equities and bonds. Properly promoted, the thorough research capabilities of the Canadian securities industry should find a receptive market in Europe.

Canadians can also offer sophisticated experience in the management of mutual funds. France, Luxembourg and the U.K. contain many funds, while Italy and Spain are becoming large markets for foreign mutuals since local funds cannot keep up with the demand.

There has been a large and growing demand for insurance and pension products. While most EC Member States have comprehensive social security systems, there is a concern that these systems may not provide an adequate level of protection. The markets with the most potential