Banking and insurance: diseconomies of scope?

During the 1990s and into the early 2000s, banks and insurers worldwide rushed to merge. In 1998, Citibank combined with the insurer, Travelers Group, in one of the world's largest mergers to form Citigroup. In 2001, the German insurer, Allianz, acquired Dresdner Bank.

The French *bancassurance* model promised higher profits through boosting demand and economies of scope in service provision. The underlying theory was that the same institution could provide clients with a wide range of services and products, including loans, deposits, investments, and insurance.

However, in reality, the economies of scope were difficult to realize. Consumers make deposits and use many other banking services on a routine basis. By contrast, investments and insurance are relatively big-ticket items which consumers buy infrequently. So marketing and supporting investments and insurance requires different skills than banking services.

In 2002, just four years after the merger, Citigroup spun off Travelers Property and Casualty insurance to its shareholders. In 2008, Allianz sold Dresdner to Commerzbank for €5.5 billion.