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The Greek Bank-Insurance Model: A Look At A Not-So-New Corporate Structure

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Abstract

One of the notable characteristics of modern financial markets is the convergence among financial institutions, which until recently preformed different tasks. To this end, the present study explores the bank-insurance phenomenon in the Greek market. It focuses on the development of financial conglomerates in the region, while arguing that the phenomenon is not as new as one would expect. A variant of the bank-insurance approach to financial services seems to have dominated the Greek market for over a century. An analysis of recent developments is also presented, with the evidence indicating a trend towards multi-venture partnerships as well as active involvement of multinational enterprises.

Keywords: Bank-insurance model; Greek economy; Financial conglomerates

JEL classification: G2; G21; G22

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I. Introduction

Over the last two decades one of the trends that changed the services banks and insurance companies traditionally offer, is the bank-insurance phenomenon[3]. The phenomenon could be placed under the wider umbrella of mergers, acquisitions and corporate restructuring (Sudarsanam, 1995). While the bank becomes the majority partner in a bancassurance venture, the roles are reversed in an assurbanking operation. The extent to which these corporate structures are and will be taking place is a function of three main forces: changing economic environment, customer preferences and deregulation. One of the cliché phrases, espoused by market professionals, for the development of those ventures is the reduction of the diseconomies of scope. Financial synergies[4] remain the background justification for every restructuring with the word being used to the point of exhaustion. Van den Berghe & Verweire (2001) explore various aspects of bank-insurance and discriminate between the financial and institutional aspects of convergence; while Merton (1994) discusses the problem in view of a functional approach to finance and insurance and provides clues to understanding the trend as natural.

The objective of the paper is to get some insight into the bank-insurance trend in Greece. The particular market is of distinct interest for three main reasons. Firstly, the Greek market is the most developed in Balkans, has shown considerable economic growth rate improvement and has been characterised by extensive fiscal and social reforms over the last two decades[5] (Staikouras & Dickinson, 2005). The interest in the region is also triggered by the rapid expansion of the European Union (EU) and the development of bank-insurance in the region, as opposed to its slow advent in the UK and the US. Secondly, the literature in the Greek bank-insurance market is nonexistent. There is not, at least to our knowledge, any comprehensive study that puts together the activities in this particular market. Academics and practitioners argue that the phenomenon could improve the competence of financial institutions, but reinforce the lack of research in this particular area; while the debate still remains an open issue with clearly established arguments (Saunders, 1994, 1999, 2004). Last but not least, the interface between banks and insurers, in Greece, is not as new as one might expect; but it seemed to have existed, in variants of its strict definition, even before its *de jure* implementation.

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[3] *The term first appeared in France as bancassurance, in the 1980s, while variants of it are also known as Assurbanking and Allfinanz. The latter mirrors the activities of financial conglomerates and universal banks. Financial conglomerates are financial institutions that provide a wide range of financial products and services, while universal banks are holding companies that have integrated non-financial firms in their corporate structure.*

[4] *For a thorough examination of the cost and profit efficiency in the European bank-insurance market, the interested reader is referred to Vander Vennet (2002). For a risk-return analysis, see Nurullah & Staikouras (2008).*

[5] *The interested reader is referred to the ESI (Economic Sentiment Indicator) of the European Commission and the LEI (Leading Economic Indicator) by the OECD. A more detailed analysis of economic indicators and the recent developments in the Greek economy is available from the author upon request.*

In what follows, Section II provides a brief discussion of the developments in the Greek market. Section III, examines the roots of the bank-insurance venture and its progression to the current form; while Section IV concludes the analysis and looks at the possible extensions of the present study.

II. The Transition Phase of the Greek Economy

Despite the fact that the Greek financial services industry has its roots at the beginning of the last century, it is only the last decades that the market has witnessed the birth of financial conglomerates. As a result, historical and regulatory differences among financial intermediaries have to be revisited to better reflect the needs and preferences of modern financial markets, while public policy issues need to be considered as well (Herring & Santomero, 1989, 1990). Thus, managers should be able to evaluate alternative organizational structures not only because of regulatory benefits, but also of financial performance and operational efficiency. Kazantzis (2000) provides a discussion and critically reviews the financial sector, discusses the possible interface among financial services and points out the need for product differentiation and target diversification.

Examining the structure of the Greek financial market inevitably entails a time series examination. There are two distinctive phases, in broad terms, which are important in understanding the economic and regulatory changes in the region. The cut-off year is 1981, when Greece joined the EU. Prior to 1981, the economic policy engulfed a plethora of administrative constraints covering, among others, the pricing, volume and allocation of financial resources of the economy. Government intervention, restrictive monetary policy and limited credit flexibility were the main characteristics of the domestic market. This had a direct impact on the structure of the economy, which was overregulated with an inflexible and complex institutional framework.

Upon joining the EU, one witnesses the beginning of the financial system’s gradual reform. The early 1980s is a transition period paving the way for an open market economy and institutional changes. Towards the end of the decade the harmonisation of financial institutions with the EU Directives, rationalisation of financial markets and relaxation of restrictions upon credit policy is evident. With the advent of 1990s, the market is restructured while full liberalisation of capital movements and internalisation of European laws are already in place. It is at this stage where the first domestic laws surface to allow cross-sector interface. Finally, efforts to join the single currency market, along with declining inflation and economic growth are fuelling an upsurge of foreign investment in the region.

III. The Greek Bank-Insurance Model

A number of financial and structural reforms have taken place and the efforts of the state to turn its economic situation around have paid off. Financial conglomerates, sectors' interface, asset-liability and risk management, as well as many other terms have become the norm. For decades, the prevailing legal framework (A.54 – L.400/70)[6] governing banks and insurance firms openly precluded any involvement of credit institutions in selling insurance products. It is believed that until the modernisation of the banking system, the only field in which credit institutions could compete was the number of branches that each bank had. The banks were essentially choosing their customers, since the latter had no real choice as far as prices (interest) are concerned. The modernisation of the insurance sector came in effect with the change in law (A.183 – L.1569/85), in the mid 1980s, which simplified the insurance intermediation process. Then, in the early 1990s (A.16 – L.2076/92) banks were allowed to actively participate in one or more insurance firms. The deregulation and harmonisation process continued until the late 1990s (A.10 – L.2170/93, L.2166/93, A.186 – PD252/96, A.87 – L.2496/97), where the interaction between banks and insurers as well as the presence of leading multinational firms became more evident.

Currently, the estimated market share of the bank-insurance model is approximately 6 percent. Unfortunately, Greek insurance firms are not legally obliged to disclose any statistical information per distribution network, hence the aforesaid estimated figure. It is also worth noting that any information for the present research is manually collected from press reports, industry newsletters, annual reports and company accounts. Furthermore, a number of individuals were contacted in order to provide us with further insight into the bank-insurance phenomenon in the region[7]. Examining the most active and prominent banks in the Greek market a number of hybrid corporate structures emerge. The sample consists of 11 banks actively involved in the domestic and foreign banking industry. The following illustration depicts the market-based bank-insurance ventures encountered in the Greek market. The smaller pie-chart shows the number of banks engaging in more than one link-up with other insurance firms. That is, despite the fact that a bank may have an insurance subsidiary or alliance with another firm, the bank forms an alliance with another insurer(s) as well. The alliances involve both domestic and foreign firms operating in the Greek market. Dickinson (1993, 1996) examines the evolution of the global insurance market, foresees the changing structure of the financial services industry and discusses the single European insurance market as well as the importance of cross-border take-overs and joint ventures.

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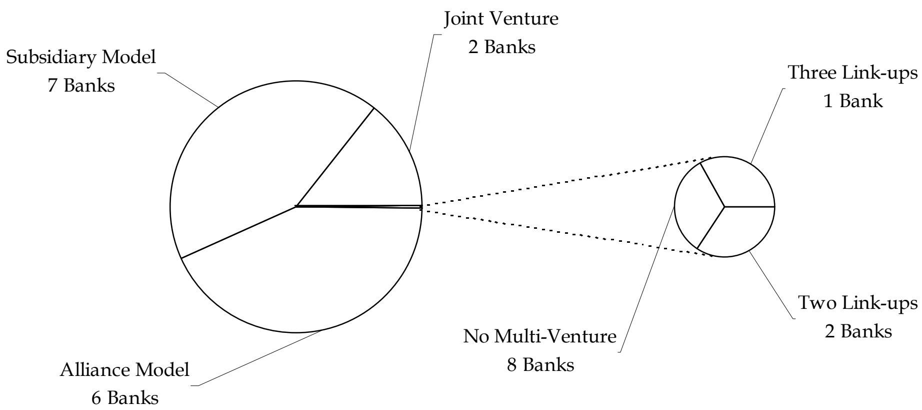
[6] *The abbreviations A and L stand for article and law respectively, while the number after the forward slash indicates the year the law was introduced. Where appropriate, L is replaced by PD indicating Presidential Decree.*

[7] *The author is indebted to Michel Zanatta - Managing Director Emboriki Life and Nikolaos Violakis - Manager Alpha Insurance for providing their valuable comments and statistical figures.*

Illustration 1: Bank-insurance structures and Multi-venture analysis.



The main partnership between the banking and insurance sectors is observed through the subsidiary mode. That is, the bank establishes an insurance subsidiary which in many cases works in parallel with an existing insurance agency attached to the bank. The bank branches operate as a source of insurance awareness and promotion of insurance-related products. The other interesting structure is the formation of alliance partners with domestic firms and/or foreign multinationals. Global strategic alliances are the possible viable alternatives to merging, acquiring and/or creating new business entities. Allianz, Generali and Alico-AIG Life are a few of those who actively operate in the Greek market. Strategic alliances are not capital intensive investments, but require careful planning and coordination. Such mode of cooperation is usually seen as a fertile territory for industry product expansion and for exploiting a market niche via superior competitiveness (Dyer & Singh, 1998). On the other hand, unless there is a truly committed partnership, these alliances usually suffer from instability, premature dissolution and underperformance (Parkhe, 1993). The third mode of interface involves the presence of multinational firms, with wide experience in the insurance arena, aiming to create joint ventures with local banks. The latter will provide their customer base, expertise in the domestic market and an established brand name. Such ventures emerged in the Greek market in 2002, when ING and Predica joined forces with Piraeus and Emporiki Bank respectively. This kind of cooperation is capital intensive and requires thorough financial analysis and strategic planning.

Nonetheless, the aforesaid cross-industry collaborations do not appear as single business deals. Increased global competition, the threat of takeovers and the shareholders' pressure for superior returns has forced enterprises to focus on maximizing their corporate value. Thus, in many cases, financial intermediaries experience various forms of corporate structure running in parallel with existing and/or potential business agreements of a different nature. The second and smaller pie-chart portrays such multi-venture analysis. It is clear that 27% of the bank-insurance network is targeting multi-venture agreements, possibly aiming at catching a bigger market share and/or increase their competitiveness in the domestic market. It is also worth mentioning, that multiple co-operations could easily aim at diversifying a number of risks, which are not purely financial[8]. These could be losses related to the effectiveness of collaboration, suitability of the products, market share, cultural and management integration, pre-sales service such as risk assessment and product tailoring, post-sales service related to loss assessment and prompt settlement of claims, and last but not least reputation costs. The majority of these collaborations take place in the mixed insurance arena followed by life and general (non-life) insurers. Nonetheless, there is no standard bank-insurance model, since the structure is, or should be, the result of a strategic decision making process.

The phenomenon becomes even more intriguing, however, when one looks at the history of the previously stated-owned banks. As it is mentioned earlier, in section II, prior to 1981 the Greek economy was characterised by heavy government intervention. The state banks possessed insurance subsidiaries, but without the banks being allowed to sell insurance services. The "traditional" subsidiary model goes back to 1891 when the National Bank of Greece established its subsidiary insurance firm – Ethniki Insurance. Obviously the banking and insurance sector went through various phases since then. During the last century, a number of banks established/bought their own insurance subsidiaries. This process continued and one could easily argue that these banks started shaping the first element of the current practice even before the *de jure* implementation of the bank-insurance interface. To make the analysis even more interesting, it is those banks that made their customers aware of the various insurance products available to accompany their investment decisions. It was actually, at the time, a *de facto* policy to ask the bank's customer to purchase any pertinent insurance from the bank's subsidiary. The sale of a banking host product, such as a mortgage or a loan, and its indirect link with a fire or credit life insurance being attached to it, is usually known as "conditional selling". It is, therefore, obvious that a different form of the current bank-insurance model used to exist in the Greek market for many years, raising awareness of the insurance industry through the banking sector[9]. A diagrammatic illustration of the historical bank-insurance expansion is provided in the appendix at the end of the paper.

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[8] For a non-quantitative analysis of the risks and benefits of the bank-insurance phenomenon, the interested reader is referred to Staikouras (2006).

[9] For a detailed analysis of the various forms of bank-insurance, and discussion of market-based ventures in Greece, the interested reader is referred to Artikis, Mutenga & Staikouras (2008b), Kalotychou & Staikouras (2007). A general discussion about the bank-insurance arena is provided in Artikis, Mutenga & Staikouras (2008a).

Illustration 2: Evolution of the Greek Bank-Insurance Phenomenon.

STAGE I *1881 – 1980*	*STAGE II* *1981 – 1991*	*STAGE III* *1992 – 1996*	*STAGE IV* *1997 – To date*
Interaction between sectors is not permitted. State banks, however, possess insurance subsidiaries.	Greece joins EU. Reduction of government intervention, deregulation and implementation of EU directives.	Harmonisation with EU, increased privatisation of banks and curtail of regulatory hedges.	Full modernisation of financial services and creation of bank-insurance structures.

Examining the US financial services industry, Kane (1996) notes that before an exclusionary statute comes to be formally rescinded, most of the effects targeted by the rescission will have already been tolerated by the enforcement system for years. That is, when structural changes in a regulated market trigger a reaction, the sequence becomes one of innovation, re-regulation and avoidance. The first stage mirrors the conflict between creativity and established regulatory boundaries, while the subsequent stages in the sequence could be easily interpreted as the first stage of a new sequence. Using US cases, academics have examined such behaviour [Kane (1988), Carow & Heron (2002), Carow & Kane (2002)] by financial intermediaries, where the phenomenon is labelled as "loophole mining". Taken all together, it is evident that the Greek bank-insurance phenomenon is not as new as one would expect, but existed for many years waiting to be incited by the forces of open market economy and financial engineering.

IV. Concluding Remarks

The current study delves into the bank-insurance trend in the Greek market. The research is mainly motivated by the notable economic reform of the Greek state, its strategic location and financially advanced position in Southern Europe; as well as the theoretical advantages of the bank-insurance in various aspects of the corporate spectrum, its upsurge in many EU/emerging markets and its implications for the financial system.

The findings suggest that insurers are using the banks' clientele to increase their market share though strategic alliances with both domestic and foreign firms. Recently, more committed forms of collaboration surface in the form of joint ventures with the involvement of multinational giants. The most popular approach to make inroads into the insurance sector is the traditional subsidiary model, which its operation can be traced in Greece for over a century. Apart from these individual strategies, financial institutions seem to pursue collaborations with more than one business partner by engaging in multi-venture activities. Furthermore, operational and distribution channels might not be clearly defined and market participants seem to experiment and learn both from their own as well as their competitors' process. The current regulatory framework helps that "loose" structure, which for the time being introduces an element of flexibility in the collaboration of bankers and insurers. The market should start, however, taking decision regarding boundaries of future partnerships and collaborations.

Such interface conduits have transformed the financial arena and the questions that emanate are certainly known. Where are they heading to? How are they going to achieve their goals? Although insurers may have started providing pure outsourcing services, the market picture is constantly changing in the new millennium. Both sectors move closer to each other and share their experiences and expertise. Banks and insurers will be sharing asset management and underwriting activities in the near future. Thus, a combination of distribution channels will be formed using both bank and insurance-based structures. The insurer will stop being purely the risk carrier and it may re-emerge as the risk engineer. The demand for more integrated services leads to bundling and unbundling financial products, which in turn could be provided more efficiently through the interface of the industries involved (Saunders, 1994).

One of the early studies on bank holding companies regulation (Black, Miller & Posner, 1978) raises the issue of risk proliferation, as well as the social cost of dealing with it. Do exclusionary regulations actually impose any financial and/or social costs on taxpayers? Do they generate ostensible social benefits such as financial stability and improved credit flow? Last but not least, it is obvious that the phenomenon is not as simple as empirical and quantitative research might possibly portrait. It would be valuable to pursue further research, beyond statistical analysis, covering a wide spectrum of activities ranging from risk related and financial to management to strategy and reputation areas.

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