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De Facto versus *De Jure* Bank–Insurance Ventures in the Greek Market*

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The present study delves into the bank–insurance phenomenon in Greece. The paper explores the market-based practices surfacing through the bank–insurance interface and delineates the possible theoretical corporate structures. A review of the various financial ventures in the domestic market is provided aiming to unveil corporate patterns both in a cross-venture and time series framework. As a result of this survey, the existence of *de jure* limits versus *de facto* boundaries, as expanded by loopholes and avoidance activities, is established. The "traditional" subsidiary model is complemented by a number of multi-ventures as banks make inroads into the insurance business. The latter is associated with the presence of multinational firms and foreign direct investment in the region. The analysis is further extended by examining the drivers, motives and operational issues pertinent to these financial conglomerates.
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Introduction

Since its inception, the bancassurance model has become the subject of deliberation and negotiation between the institutions that it has meant to bond. The implementation of such a hybrid financial structure has been widely witnessed in a number of European countries, while it has been a less popular choice in the U.K. and the U.S.

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The overlap in the two sectors is even more apparent in modern capital markets, where products extensively used by banks, such as credit-default swaps, closely resemble a casualty insurance policy, albeit without either an insurable-interest requirement or any role for an insurance adjuster. With the eruption of the multi-billion dollar bank mergers[1] rapidly changing the financial landscape, the acquisition of Dresdner Bank by Allianz in 2001 signalled the type of corporate colossus astride a diverse portfolio of financial services. Furthermore, fully integrated structures such as the ING and Fortis Group have combined the two businesses to reasonable success. Nonetheless, the cases of Citigroup and Credit Suisse with their subsequent divestments[2] readdress the contentious issue of the bank–insurance success.

Over last three decades, such hybrid corporate structures have engulfed fervent allies as well as rigid opponents. Arguments favouring the trend embrace market development, reduction in diseconomies of scale/scope, efficient restructuring, enhancement of managerial discipline and overall financial stability. Sceptics, on the other hand, argue that the feasibility of this structure is vulnerable due to non-real cost reductions, a range of conflicts of interest/culture and creation of superpowers. The debate still remains an open issue with clearly established arguments.[3] Van den Berghe[4] provides a thorough discussion into the challenges and threats to the insurance industry, while Saunders[5] argues that the phenomenon could improve the competence of financial institutions and encourages further research in this particular area. It is evident that evaluating and predicting the future of the insurance sector is one of the challenges posed over the next decades.

The overarching objective of the paper is to explore the bancassurance model in the Greek market and discuss various aspects associated with it. Based on the objective of this study, the first issue worth discussing is the choice of the particular market. Over the last five years, the Greek economy has experienced a pace of growth that no other country in the Eurozone or the U.S. has reached.[6] Despite the recent international downturn, the GDP growth rate well exceeded 4 per cent in comparison to gradually

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[1] For an excellent discussion and more information regarding mergers and acquisitions, see Sudarsanam (1995, 2003).

[2] Note that on 20 August 2002, Citigroup spins off the property and casualty division of Travelers, which is later merged with St. Paul Cos. On 31 January 2005, Citigroup sells its Travelers life insurance and annuity business to the U.S. insurer MetLife for $11.5 billion. The deal includes an agreement that allows MetLife to distribute its products through Citigroup businesses worldwide. The deal completes the jettisoning of the Travelers business, which Citigroup acquired almost seven years ago. On the other side of the Atlantic, Credit Suisse enters a strategic alliance with Winterthur Swiss Insurance Company in 1995. On 15 December 1997, Credit Suisse Group merges with Winterthur and gives Credit Suisse a leading position in bank-insurance business around the world. Operationally, Winterthur remains an autonomous company within the Group. In 1998, Credit Suisse sells its reinsurance operations, while on 30 June 2001, the market witnesses the divestment of Winterthur International, the corporate insurance business, to the Bermuda-based financial services group XL Capital Ltd.

[3] Saunders (1994).

[4] Van den Berghe (1998).

[5] Saunders (1994, 2004).

[6] 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.

falling EU rates reaching a modest growth of 0.3 per cent. The economic growth rates owe, to a large extent, their rapid increase to falling interest rates and to the significant increase in private sector financing. Greece enjoys a positive budget surplus along with lower taxes, structural reforms and liberalization of the telecommunications and energy sectors. The latter is actually paving the way for privately owned utilities and joint ventures involving foreign partners. This upward trend is boosted even more by the extensive investments made for the Olympic Games. Greece is the most developed market in the Balkans and one of the most promising countries in Southern Europe in terms of recent economic and social developments. Its strategic location combined with well-developed sectors, such as shipping and tourism, sets the ground for the country to become a leading regional player. Finally, the interest in this market is also triggered by the rapid expansion of the European Union (EU) and its impact on the economic development of Greece.

The second issue for consideration is the contribution of the paper to the current literature. Looking at the bank–insurance interface, existing research has concentrated on the U.S. market[7] with fewer papers examining the European experience,[8] where the phenomenon has met with considerable success. Moreover, the aforementioned studies focused on quantitative techniques, overlooking the equally important qualitative aspects of the phenomenon.[9] There is not, at least to our knowledge, any comprehensive study that puts together the activities in the Greek market. Thus, the paper aims to add a new shred of evidence by (a) gaining insight into the evolution of the phenomenon; (b) investigating its roots, as it is not as "new" as it is actually perceived – at least for the market under consideration; (c) mapping current practices with proposed theoretical structures; and (d) discussing various issues underpinning the phenomenon in the domestic market.

The rest of the paper is structured as follows. The following section overviews the history towards the *de jure* implementation of the bank–insurance model in Greece. The next section explores the theoretical modes of entry and classifies the market-based practices according to their corporate structure. The latter is further analysed in the following section, on a pooled cross-structure time series framework. The penultimate section discusses the drivers, motives and operational aspects pertinent to the domestic market. Finally, the last section concludes the paper and looks at possible extensions of the present study.

Realising a *de jure* status

Examining the Greek financial sector unavoidably requires a review of the market since its early years. It is actually the variety of phases that the economy went through,

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[7] Boyd *et al.* (1993); Saunders and Walters (1994); Gande *et al.* (1999); Saunders (1999); Lown *et al.* (2000); Carow (2001a, b); Fields *et al.* (2005).

[8] Brown *et al.* (1996); Cybo-Ottone and Murgia (2000); Vander Vennet (2002); Staikouras (2006c); Nurullah and Staikouras (2007).

[9] Herring and Santomero (1990); Dickinson (1993); Van den Berghe and Verweire (1998, 2001); Santomero and Eckles (2000).

Table 1 The progression phases of the Greek financial market

Phases	*Regulatory regimes/changes*	*Market realities*
Phase 1 1891–1980	Clear-cut boundaries among financial intermediaries and government intervention.	The State-owned banks possess insurance subsidiaries.
Phase 2 1981–1986	Greece joins the EU. Preparations for the implementation of the EU Directives.	Realisation of open economy practices.
Phase 3 1987–1991	Reduction of cross-industry boundaries. First effort for the liberalisation and deregulation of the financial industry.	Attempts to modernise insurance and banking industry.
Phase 4 1992–1996	Harmonisation with the Second Banking Directive and changes in various laws regarding financial institutions.	State reduces its stake in national banks and interface is now permitted.
Phase 5 1997 onwards	Alignments with EU Treaty and preparation for the espousal of the euro. Any remaining restrictive policies are abolished.	Financial conglomerates freely compete on product development.

until it reached its current form, which makes the chronicle interesting both from an academic and practical viewpoint.[10] Before 1981, the market was subject to considerable government intervention and external limitations. The latter were mainly in the form of administrative regulations, underdeveloped capital markets, an overfed public sector deficit and inefficient resource allocation. As a result of this structure, monetary policy and financial institutions were considerably restricted.

During the 1970s, the legal framework[11] clearly precluded the interface between banks and insurance firms. The legal structure was not comprehensive and/or flexible enough to allow banks/insurers to embrace new developments in their sectors such as bancassurance, e-business, etc. The modernisation of the Greek financial system began in the early 1980s. It is believed that, until then, the only competition field 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) were concerned. Table 1 provides a summary of the evolutionary process to complement the following discussion on the subsequent market changes.

The starting date is important, as in 1891 the National Bank of Greece established its insurance subsidiary. Throughout this long first phase, clear-cut boundaries (*de jure* limits) among financial intermediaries existed, while the bank obliquely promoted the

[10] Staikouras (2006d).
[11] Law 400/70/54, with the numbers indicating the law, the year and the pertinent article, respectively.

insurance products of its subsidiary (*de facto* mode). The early signs of restructuring were actually felt in 1982, which was just a year after Greece joined the EU. Through the second stage (1981–1986), the authorities formed a framework for establishing a monetary policy that would operate in part via market forces and partly through government agencies. The aim was to pave the way for the abolition of rigid monetary policy and limited credit allocation.

The third period (1987–1991) witnessed the curtailment of restrictive credit policies and the rationalisation of financial markets in general. The obstacles were clearly acknowledged in the February 1987 report submitted, by an expert committee,[12] to the Ministry of National Economy. It clearly stated that deregulation and liberalisation of the financial industry were directly linked to the formation of the single European market and certain reforms had to be made. It was in the mid-1980s that the first effort to modernise the insurance industry, law 1569/85 regarding insurance intermediaries, surfaced. At the same time, there was a continuous effort to align the insurance practices with those of their European counterparts.

During the fourth phase (1992–1996), the constantly changing economic map of Europe had made the Greek economy realise that radical changes were continuing. It was then that the market witnessed the internalisation of the Second Banking Directive and, during 1994, saw the full liberalisation of capital movements. Banks started providing a range of insurance products and, therefore, competing with insurance companies in their own field of activities.[13] The Bank of Greece, however, retained the power to require that credit institutions obtain prior authorisation, while anti-trust laws prohibited concerted practices or cartels that distorted competition and ruled out abusive conduct of enterprises with a dominant position in the market. The Greek state continued to reduce its stake in the banking sector, although the management of some banks is still today influenced by the state.

In the fifth and final stage (1997 onwards), any reforms could be described more as alignments with the EU Directives rather than fully blown regulatory changes. Moreover, various modifications were made to ensure that the financial services industry had the necessary technology and operational structure in preparation for the euro (2001–2002). After two decades of deregulation and modernisation of the industry, all direct controls were now abolished and deposit and lending rates fully liberalised. Credit institutions also now undertake their own marketing activity in order to distribute bancassurance products. The induction of the Greek market into the EU has been an incentive as well as a challenge to the banking and insurance sectors for further development and expansion. Kazantzis[14] provides an excellent 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.

[12] The report is known as the Karatzas report and the group who drafted it is known as the Karatzas committee. At that time, Mr. Theodoros Karatzas was the sub-secretary in the Ministry of National Economy.

[13] Hallmarks of this harmonisation process have been law 2076/92/16, law 2170/93/150, Presidential Decree 252/96/186 and law 2496/97/87.

[14] Kazantzis (2000).

Although many of the aforementioned developments were triggered by Greece entering the EU, the pattern is quite diverse for other economies that recently joined Europe.[15] For instance, Hungary has slowly made its entrance to the bancassurance market over the last five years. In general, the feeling is that there are more insurers in search of local banking partners. It is estimated that 25 per cent of the insurance business in Hungary is in the hands of bancassurers. Other countries experienced changes in the financial services sector much earlier than they joined the EU. Malta came into the bancassurance business in September 1994 through the involvement of multinational firms and the network of local players. In Malta, Munich Re is a shareholder in Middlesea Insurance, which along with Bank of Valletta successfully established a pioneering bancassurance operation through the bank's network. In Poland, the insurance market was completely controlled by the state until 1988, but during the 1990s the life market grew at over 20 per cent per annum. Poland remains the second-largest insurance market after Russia in the Eastern Europe. The bancassurance phenomenon, however, is not that developed mainly due to the clash of cultures between banks and insurers. Commercial Union Zycie sells some bancassurance products through collaboration with two banks (BZ WBK, BPH). One also needs to take into account that it takes time to move away from an authoritarian regime to a liberal democracy and absorb modern practices to enhance the local financial services. Finally, similar to the Greek model, is the referral system adopted by Eurolife in Cyprus. EuroLife was established in 1989 as a joint venture between the Bank of Cyprus and Manulife Financial of Canada. The Bank of Cyprus controls 40 per cent of banking operations in the island and is ranked first in its field. The facilitation of insurance needs for its clients is provided by its two wholly owned subsidiaries specialising in non-life (The General) and life arena (Eurolife). It is estimated that 20 per cent of the insurance firms are engaged in bancassurance ventures. All these cases unveil the transformation of the traditional bank business, from that of 15 years ago, into what we refer to today as the financial services provision.

Theoretical structures and market realities

Until the early 1990s, the domestic insurance business had been characterised by the extensive use of traditional distribution channels and especially that of agents, tied or independent, existing in parallel with bank branches, insurance employees and brokers. Since then, the domestic financial landscape has markedly changed as banks and insurers now form various alliances and/or joint ventures to take advantage of new clienteles and cross-selling opportunities. The most commonly known modes of entry are banks making inroads into insurance, banks having an insurance subsidiary or vice versa, and universal groups, with the latter incorporating non-financial entities as well. It is their complexity along with market realities[16] that provide intellectual

[15] For a brief overview of the European market, see Staikouras (2006a), while a detailed corporate analysis of the Greek experience can be found in Staikouras (2006b). It is worth noting that it is extremely difficult to obtain information for some countries.

[16] Staikouras (2006a).

challenge and excitement to the study of financial conglomerates. Thus, it would be informative to briefly refer to the theoretical models of the bancassurance phenomenon and at the same time map them to market-based practices.[17]

The first mode of entry – alliance – sees the insurer promoting its products through the bank branches (distribution outlets) and taking advantage of the bank's widespread network. The second bancassurance approach surfaces when the insurance is a subsidiary of a bank or vice versa. The third structure aims at a joint venture, which provides a range of banking and insurance services. The joint venture could be a bancassurance firm created by the bank and the insurer involved. Finally, the fourth mode engulfs a fully integrated unit, where the two entities become one business. The latter manufactures, underwrites and distributes all insurance and banking products. At this stage, it is worth mentioning that none of the above corporate structures stand out as being more successful than the others. The success certainly varies for every insurer and every bank, and depends on the demographic, cultural, economic and legislative aspects of the region under consideration. As in all business ventures, a carefully drafted plan should take into account the firm's internal and external corporate environment, as well as the strategic objectives of the organisation before any decision is taken.

The bancassurance experience in the Greek market started during the late 1980s and early 1990s, when there was a considerable move towards re-regulation. Thus, the formal bancassurance business is "relatively new", although a *de facto* structure existed for many years, as it was hinted in the previous section and is later discussed in the paper. Looking at Appendix A, the subsidiary model seems to be the most popular, while under domestic and foreign alliances, one observes six domestic banks having links with local insurers, with two banks forming extra partnerships with foreign insurers as well.[18] The joint ventures appear in Greece during 2001–2002 with the involvement of multinational firms, which enjoy the know-how along with the international experience. In 2001, such structure was put in place with the creation of Emporiki Life, a bancassurance firm, as a result of the capital contribution of Emporiki Bank and the French insurer Predica. Predica is a 100 per cent subsidiary of Crédit Agricole and is the second largest life insurance firm in France, with more than 70 billion assets under management. In 2002, a joint venture between ING and Piraeus Bank was established through the creation of ING-Piraeus Life. This created a bancassurance player with a 14 per cent share in the life insurance market and 10 per cent and 8 per cent shares in the banking and asset management arena, respectively. Last, but not least, in parallel with the above structures, bankers and insurers still rely on a third party, such as a broker, to integrate their divergent skills. This is not considered, however, as an extra or even innovative model, since it simply boils down to the agency approach already live in the insurance market. Despite its "irrelevance" with the bancassurance trend, the brokerage/agent model is still employed by domestic and foreign banks.

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[17] A detailed corporate review of the bancassurance in Greece is provided in Staikouras (2006b). The current modes of entry are an adaptation of the structures presented in Staikouras (2006a, b).

[18] Further examination of these corporate structures is presented in the next section.

One interesting aspect of these ventures is to explore their strengths and weaknesses when applied to the corporate arena. The appealing property of the distribution alliance(s) is that both the bank and the insurer remain self-governing entities. They are also flexible to choose both domestic and foreign firms that operate in the local market. Since there is no constraint on the alliances made, banks can obtain competitive products, achieve attractive deals, and insurers can diversify across distribution channels. The drawback with such deals is that customers may not be able to obtain tailor-made products, loyalty between the bank and insurer is not strong, less integration implies higher administration costs, while customers are not necessarily retained within the banking system.

The more integrated partnerships (subsidiary mode, joint venture) benefit from the combined customer base of the two institutions, the powerful network of exchanging information, as well as securing a dominant market share and capturing the economic value added. Customers can have bespoke services, while at a corporate level partnership loyalty is present and common objectives are set. On the other hand, these structures are capital-intensive businesses, training for bank staff can be expensive and time consuming for specialised bancassurance products, while regulators may prohibit direct access to multiple databases. Finally, the fully blown integrated structure is not currently present in global financial markets. This is mainly due to the absence of a regulatory framework that takes into account all the diverse activities of such financial mega-structures. Under this model, inter-sector antagonism and/or potential rivalry are nonexistent, while issues related to market dominance and monopoly may surface.

As a final thought, the question is whether one should expect the banking industry to manufacture and underwrite products, or would it be more sensible to recognise its limitations and become a powerful distributor? It is also interesting to acknowledge that it is not so much the ability of the bank to perform such operations, but rather its implications for the clientele, the industry and the economy as a whole. In that context, researchers have raised questions regarding the possible gains and threats of such financial conglomerates.[19] Various issues regarding convergence and financial conglomerates are also discussed in Van den Berghe and Verweire[20] who competently distinguish between the financial and institutional nature of such interface.

Cross-section versus time series patterns

Based on the discussion so far, it should be stressed that the bancassurance expansion should not be seen only as a way of selling more financial products, but as a vehicle for supporting, complementing and strengthening banking and insurance activities. With reference to the Greek market, there is no official data, at least to our knowledge, of the breadth of the bancassurance model. This is due to the fact that insurance firms, in Greece, are not obliged by the law to publish statistical information per distribution network. The data presented in the paper are therefore collected from press clippings, industry reports, company accounts and different directories. In addition, banks,

[19] Van den Berghe (1994, 1998); Van den Berghe and Verweire (1998, 2001).
[20] Van den Berghe and Verweire (2001).

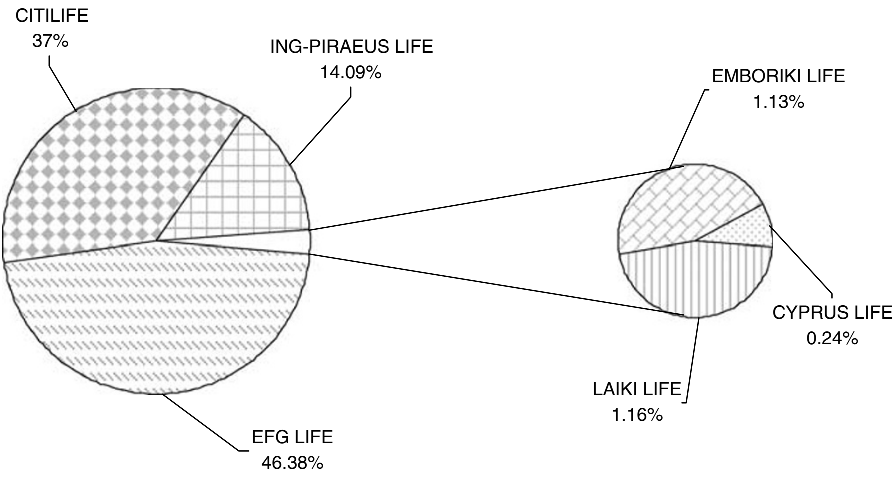

Figure 1. Bancassurance market share in 2003.

insurance companies and other institutions have also been contacted.[21] A summary of the recent bank–insurance market share is given in Figure 1.

A number of professionals would intuitively claim that the bank–insurance market share is approximately 6–8 per cent, but this is not officially confirmed. During 2002 and 2003, the total bank–insurance production was 28,697,710 and 46,485,511, respectively. While the reported 2003 figure represents 3.5 per cent of the total life market, the increase on an year-to-year basis amounts to 62 per cent, unveiling the growth prospects of the bancassurance activities.

Appendix A illustrates the various modes of entry, while Appendix B provides a breakdown of the number of institutions per structure, the type of firm they are associated with and the number of ventures they opt for. It is evident, from Appendix A and Appendix B – panel A, that a large number of multinational firms[22] compete in the bancassurance field. One notable feature of the structural changes within insurance markets, over the last decade, is the increasing penetration of national insurance markets by foreign firms.[23] These foreign institutions have subsidiaries operating in the domestic market while establishing new alliances with both domestic and other foreign banks/insurance firms operating in the region. In supplying insurance services, a local presence is crucial to provide pre-sales advice (risk assessment and product tailoring) and post-sales service (loss assessment and prompt settlement of claims). On the other hand, a large number of domestic banks establish networks with insurers/brokers within their corporate groups. Domestic and foreign alliances are also

[21] The authors are grateful to Michel Zanatta, Managing Director Emporiki Life, for providing his valuable comments and statistical figures. The authors are also indebted to Konstantinos Staikouras and Amalia Filou Staikouras, Retired Senior Partners SOL, for tirelessly responding to our requests.

[22] Based on 2002 data, there are 22 foreign insurance firms in the Greek market.

[23] Dickinson (1996).

common, while autonomous joint ventures with domestic banks are being explored by multinational giants, such as Predica and ING. The financial groups that usually promote this regional expansion have been the larger quoted companies with access to stock capital markets.

Based on Appendix B – panel B, mixed insurance firms (providing coverage across a wide insurance spectrum) seem to dominate the alliances that banking institutions are entering into. The second most popular sector is the life insurance, followed by a few partnerships with non-life insurers. Furthermore, self-governing joint ventures concentrate on the life sector. This is probably the result of public awareness regarding investment-insurance services, development of the real estate market and subsequent need for mortgages, well-packaged pension schemes, combination of insurance-savings products and insufficient national health provisions. Interestingly, the trend does not seem to adhere to a specific bank–insurance collaboration. Based on Appendix B – panel C, it is noticeable that 35.3 per cent (6 out of 17) of financial institutions, across domestic and foreign firms, have extended their collaboration by engaging in more than one form of partnership. This enables them to catch a bigger market share, diversify their risks and eliminate losses (in terms of market share, financial, reputation, efficiency, etc.) from barren ventures.

Apart from the aforementioned cross-structure analysis, the phenomenon is even more interesting when one explores it in a time series framework.[24] Looking at Appendix A, it is evident that one of the most popular structures is the subsidiary model. It is probably the most interesting structure in the Greek bank–insurance market, especially before Greece joined the EU. This "traditional" approach is as old as the history of the National Bank of Greece, when in 1891 the bank founded its insurance subsidiary, Ethniki Insurance. In the 20th century, other banks also established or bought their own insurance subsidiaries. Thus, indirectly, and most probably unintentionally, these banks started shaping the first element of a bancassurance structure. In the history of the state-owned banks, particularly before the 1980s, it is known that the banks were used as a major point for raising awareness of the various insurance products. It is then that the banks were actually asking their customers to buy insurance, from their subsidiaries, for the loans they provided to them.[25] Thus, one could clearly argue that an element of *de facto* bancassurance mode existed in Greece for many years, in contrast to the *de jure* interface among financial institutions postulated by the state. This is a vibrant example where, in regulatory dialectic, the political process of regulation and economic forces of avoidance adapt to each other in a series of lagged responses. The phenomenon was later described in the literature as "loophole mining" and scholars have studied such behaviour by financial intermediaries.[26]

When one looks at the global market, the involvement of state-owned institutions in the bancassurance business appears in various patterns depending on the

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[24] Staikouras and Dickinson (2005); Staikouras (2006d).

[25] This phenomenon is known as "conditional selling" where a product like fire insurance or credit life insurance is attached to a host product such as mortgage or other loan, and is a condition of the sale of the host product.

[26] Kane (1988, 1996); Carow and Heron (2002); Carow and Kane (2002).

organisations involved, political situation, the regulation in place and many other factors. The French state-owned insurance companies have significant investments in private banks, although none is sufficient to give a controlling interest. Banque Nationale de Paris (BNP) also has links with the other state insurance companies. In recent years, the German universal banking model has been strengthened through cross-shareholdings. Currently, the trend in Hong-Kong has been for banks to establish wholly owned subsidiaries or joint ventures with insurance firms. State-run Brazil banks are only allowed to own less then 50 per cent of a life insurance subsidiary, while other banks operate through fully owned life insurance subsidiaries. In Eastern Europe the bank–insurance interface is moving slowly. In Hungary, prior to the privatisation of state-run banks (1997), the 1991 Law on financial institutions prohibited banks from dealing in their own names in insurance and brokerage activities. Over the last few years, the top five insurers in the country controlled over 75 per cent of the sector, while seven banking groups have majority ownership of four life, two non-life and three composites insurers.

Drivers, motives and operational issues

This section extends the analysis by discussing the drivers of the phenomenon, the underlying motives and some operational aspects pertinent to the Greek market.[27] The driving factors encircle the economic environment, changes in legislation, the regulatory framework and any demographic characteristics. Thus, the changing economic conditions, both at micro and macro level underpin the current interface between the two sectors.

At a micro level, life has become increasingly expensive, people work longer hours and uncertainty exists about their future career. Vehicles of traditional investment, through savings accounts and Treasury securities, have been replaced by stock portfolios, mutual funds, derivative markets and other more sophisticated forms of financial management. More and more individuals pursue a better life quality, which fortunately or unfortunately is translated into an increased consumption of material goods. The latter requires the use of insurance services, and nowadays people are very demanding and, in many cases, well informed about the pros and cons of the various insurance products.

At a macro level, the formation of the EU and the subsequent espousal of the euro had an enormous impact on the Greek economy. As a result, a number of issues had to be reconsidered such as capital budgeting, legal aspects, corporate adjustment, uninformed clientele, costing procedures, etc. The insurance market faces a fiercer and broader competition, but this time outside the physical Greek borders. Banks have now to compete with their EU counterparts based on powerful infrastructures and advanced IT systems. One should emphasise, however, that the convergence is not a "privilege" of financial institutions alone, but it appears to be a much wider experience as retailers across Europe and the U.S. start offering a range of financial services and

[27] For a discussion on the risk-success dynamics of the bancassurance trend, see Staikouras (2006a), where a classification of endogenous and exogenous factors is provided.

products. The launch of insurance/financial services through the U.S. supermarkets and department stores has raised awareness and put extra pressure on the European competition.

The legislative framework is worth looking at, as Greek law does not distinctly specify the bancassurance concept *per se*. It is actually the role of the supervising authorities[28] to establish the legal framework of cooperation between the two industries. Although there are clear-cut guidelines for the insurance agents/brokers operations, there are no such procedures for banking corporations or for more complicated entities such as an assurfinance structure. The issue becomes even more complicated by adding the current shift from legal entities to organisational and strategic networks.

Related to the issue of organisational networks is the role of regulators/supervisors and how ready they are to accept these new practices. An issue worth noting is the databank confidentiality, when the banking and insurance corporations start exchanging information. The system is faced with dilemmas of changing the extant regulations and of how to adopt the new ones to reflect the changing market conditions. Thus, the pertinent authorities should start being proactive and concentrate on establishing either the compulsory and autonomous existence of bancassurance/assurfinance corporations, or elucidating the requirements and operational characteristics of the conception, design, promotion and sale of insurance/banking products through banking/insurance networks. Finally, another factor that pushes towards the bank–insurance arena is the alarmingly slow growth of the Greek population, with an increasing percentage moving towards retirement. Combining this with the change in the retirement age from 55 to 65 and with a poor social security system obviates the need for more security and, hence, the more investment-insurance oriented attitude.

Behind the aforementioned driving forces, the motive remains quite simple: the hunt for superior profits through structural innovations. This is simply translated into a desired corporate risk-return profile achieved through diversification.[29] The possibility of cross-selling turns into reality, while the Greek market share and client penetration of the insurer increases on an year-to-year basis. Effective use of the Greek banks' extensive network of branches should result in reducing operating costs, while increasing product supply. Banks can then enjoy the steady stream of cash inflows and secure the loyalty of their customers. The Greek institutions are tapping into this deregulated era, the presence of foreign know-how, the local expertise and the desire of local authorities to advance the financial services industry.

Looking at the literature, in a risk-return analysis it is found that insurance intermediation and life underwriting increases the return profile of the bank involved.[30] Others have found evidence indicating that the new financial freedom

[28] The Ministry of Development and the Bank of Greece are responsible for the operations of the insurance and the banking industry, respectively.

[29] One may wish to argue that the combination of the negative maturity gaps for banks and the positive for insurance firms can endow with the desired diversification results.

[30] Brewer (1989); Brown *et al.* (1996); Lown *et al.* (2000); Nurullah and Staikouras (2007).

may have redistributed rather than created value.[31] More recently, Fields *et al.*[32] suggest that bancassurance mergers are positive wealth creating events, while total or systematic risk is unaffected. Economies of scope and diversification are identified as the main sources of bank–insurance synergies. Finally, Van den Berghe and Verweire[33] report that the risk profile of financial conglomerates is better compared with vertically divided markets.

As far as the operational aspects are concerned, the range of products and services is crucial in welcoming the new hybrid financial provider, as opposed to the two institutions alone. Careful analysis of the needs of the Greek market and supervision during the development stage is crucial. If the bank does not have full control of the product's development and structure, then it is no longer competitive and loses market share. This in turn raises the question of how flexible the bank is when compared to the insurer. Should market conditions change, insurance firms are usually more responsive than banks. The insurer's distribution flexibility is due to its variable costs compared with the fixed expenses of bank branches.

The cash inflow for the banking sector, in terms of fees/commissions, is a truly enticing factor that should be cautiously examined. The Greek bancassurance providers aim to generate a high fee income and thus increase the return on invested capital. Although the former is an appealing source of revenue, it should not be carelessly welcomed, since it is not as cost-free and/or risk-free as some might be tempted to argue. For instance, issues surrounding reputation may possibly result in an expensive divorce. The bank involved would certainly need a minimum level of training for its bank–insurance staff, IT development, different marketing support and promotion campaign, which would noticeably increase the costs.

Another key operational factor is technology. Although all corporations make use of advanced IT services, the Greek market has not reached the level of sophistication with organised databases, marketing and promotion alternatives, enterprise risk management (ERM) systems, cross-selling information and follow-up services. Effective communication to investors, employees and regulators would help to gel the process together and facilitate the lead generation process. In the corporate world, and bank–insurance in particular, technological improvement will provide the smooth convergence and efficient operation of the two sectors. At the same time, technological improvement has resulted in overstaffed branches, where both space and human capital had to be exploited through the launch of new products and services.

Conclusion

One of the notable characteristics of modern financial markets is the convergence among financial institutions, which until recently performed separate tasks. To this end, this paper has reviewed and analysed the bancassurance experience in the Greek

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[31] Carow and Heron (2002); Carow and Kane (2002); Staikouras (2006c).
[32] Fields *et al.* (2005).
[33] Van den Berghe and Verweire (2001).

market. For a number of reasons discussed in the paper, the particular market provides an interesting landscape for academic and practical purposes.

The analysis reveals the presence of multinational firms exploiting the knowledge of domestic financial institutions and creating hybrid providers of financial services. It is evident that banks are making inroads into the insurance business with, in some cases, multi-structural deals being in place with various insurers. The majority of banks seem to adhere to the "classical" subsidiary model with attempts being made, after the mid-1990s, to establish alliances-collaborations with other domestic/foreign financial institutions. It is only recently that multinational insurers have set up autonomous joint ventures with major local banks, and thus possibly paving the way for an integrated provider of financial services. With regards to the type of insurance business involved, the findings show that the majority are mixed insurers followed by life and non-life providers. Finally, the drivers, motives and operational issues pertinent to the Greek market are explored. Careful consideration of these factors should provide positive externalities for the financial services sector, its clientele and the economy as a whole.

Despite the efforts of various studies to examine the bank–insurance interface from a quantitative angle, the qualitative elements remain equally crucial. A number of issues should be addressed and further research is deemed necessary. How easy would it be for banks to adopt an underwriting function? It may well be the case that the bank could remain a powerful distributor. The profit and cost efficiencies associated with these ventures may generate hard-to-verify benefits. From the whole economy's point of view, do such structures impose any financial and/or social costs on tax payers? Moreover, the importance of synergies is manifested in most annual reports. Thus, further investigation should be conducted on the kind of synergies financial institutions pursue and how they actually pursue them.[34] More specifically to the Greek market, apart from being proactive, one should also stress the importance of avoiding conventional thinking,[35] as it has been known to lead down a well-worn path to irrelevance and obsolescence. The benchmark set should be the global experience as well as operational transparency and professionalism.

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[34] The authors thank Professor Kurt Verweire, Vlerick Leuven Gent Management School, for raising this issue.

[35] This should not actually implicate only regulators, but bankers, insurers and any other participant in the financial services industry.

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Appendix A.

Market-based bancassurance models

Domestic banks[a]	*Bank–insurance* subsidiary*[b]	*Bank–insurance domestic alliance*[c]	*Bank–insurance foreign alliance*[d]	*Joint venture*[e]
Agricultural Bank of Greece	Agrotiki Insurance (M)	—	—	—
Alpha Bank	Alpha Insurance (G)/ Agency	—	—	—
Aspis Bank	—	Aspis Pronia (M)	—	—
Emporiki Bank	Phoenix-Metrolife Emporiki (M) Euler Hermes Emporiki (C)	—	—	Emporiki Life (Emporiki & Predica)
Cooperative Banks	—	Cooperative Insurance (M)	—	—
EFG Eurobank Ergasias	EFG Insurance (G)/Life	European Reliance (M)	Allianz (M)	—
Egnatia Bank	Egnatia Insurance Agency	Atlantic Union (M)	—	—
Geniki Bank	—	Interamerican (M)	Generali (M)	—
National Bank of Greece	Ethniki Insurance (M)	—	—	—
NovaBank	—	Interamerican Life	—	—
Piraeus Bank (PB)	Piraeus Insurance Agency	—	—	ING-Piraeus Life (PB & ING)
Foreign banks				
ABN AMRO	ABN AMRO Insur. Agency	—	ALICO/CU (G)	—
Bank of Cyprus	Cyprus Life	—	—	—
CitiBank	CitiLife/Citibank Insur. Agent	Nordstern Colonia (M)	ALICO-AIG Life	—
Laiki Bank	Laiki Life/Galaxy Insurance (G) Laiki Insurance Agency	—	—	—
Foreign insurance				
Generali	—	Geniki Bank	HSBC/Societe Generale	—

Appendix A ***(continued)***

Domestic banks[a]	*Bank–insurance* subsidiary*[b]	*Bank–insurance domestic alliance*[c]	*Bank–insurance foreign alliance*[d]	*Joint venture*[e]
ALICO-AIG	—	Canellopoulos-Adamantiades (M) Kotsovolos (commercial)	Citibank/ABN AMRO	—

[a]The first column is the bank/insurance firms that seek to enter to the bank–insurance arena. This is the reference column for the rest four columns.
[b]The second column is the bank/insurance firms that are part of a group or subsidiary of the firms in the first column.
[c]The third column is the domestic firms that have created an alliance with the firms in the first column.
[d]The fourth column is the foreign firms that have created an alliance with the firms in the first column.
[e]The fifth column presents separate financial entities that have been created as a result of a joint venture between banks and insurers. It does not mean, however, that the other collaborations are not in the context of the bank–insurance framework. They simply represent different structures.
* The letters in parentheses symbolise the nature of the insurance company. That is, M, G and C stand for mixed, non-life (general in the UK jargon) and credit, respectively. The rest are life insurance firms and insurance agencies.

Appendix B.

Analysis of bancassurance structures

Panel A	*Number of financial institutions per structure*			
	Group–subsidiary	*Domestic alliance*	*Foreign alliance*	*Joint venture*
Domestic institutions				
11 Banks	7	6	2	2
Foreign institutions				
4 Banks	4	1	2	—
2 Insurers	—	2	2	—

Panel B	*Number of financial institutions per structure based on firm type*[a]			
	Group–subsidiary	*Domestic alliance*	*Foreign alliance*	*Joint venture*
Domestic institutions				
11 Banks	3 Mixed/2 Non-Life 1 Life/1 Credit 3 Agencies	5 Mixed 1 Life	2 Mixed	2 Life
Foreign institutions				
4 Banks	1 Non-Life/3 Life 3 Agencies	1 Mixed	1 Non-Life 2 Life	—

Appendix B ***(continued)***

Panel B	*Number of financial institutions per structure based on firm type*[a]			
	Group–subsidiary	*Domestic alliance*	*Foreign alliance*	*Joint venture*
2 Insurers	—	1 Mixed/1 Bank 1 Non-Financial	4 Banks	—
Total per structure	3 Mixed/3 Non-Life 4 Life/1 Credit 6 Agencies	7 Mixed/1 Life 1 Bank 1 Non-Financial	2 Mixed/1 Non-Life 2 Life/4 Banks	2 Life

[a]Mixed is referred to the type of insurer who provided various kinds of insurance services, for example life and non-life.

Panel C	*Number of financial institutions using multi-structures*[a]			
	None	*2*	*3*	*4*
Domestic multi-structures	8 Banks – [7]	2 Banks – [4]	1 Bank – [1]	—
Foreign multi-structures				—
4 Banks	3 – [2]	0 – [1]	1 – [1]	—
2 Insurers	—	2	—	—

[a]Multi-structure is referred to the case where an institution has created more than one link-ups with other firms. For instance, a bank that has an insurance subsidiary and forms an alliance with a foreign insurer as well.
[·] The number in squared brackets is when agencies have been included as part of a bank–insurance structure.

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