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**PARTICULARITIES OF THE GREEK BANKING SYSTEM
(G.B.S.)**

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1. HISTORY OF THE G.B.S.

The history of the Greek banking system starts in 1828 when the first prime minister of the modern Greek state, established the National Financial Bank, in order to overcome the fiscal and credit problems arising out of the war of independence from the Turks.

Due to the people's unwillingness to trust a bank dealing with the financial problems of the new unstable state, the bank was led to closure. In 1831 the National Bank of Greece was established as the first private bank in Greece.

The number of Banks operating in Greece, increased gradually and stopped increasing only during the Balkan wars and the I World War. The right of issuing bank notes was exercised by the National Bank of Greece and the Ionian Bank, up to 1928, when the Bank of Greece was set up to operate as the Central Bank of the country.

The financial crisis of the 1929 led to a decrease in the number of Greek banks as a result of the bankruptcy of the smaller banks and some mergers. There were 31 banks operating by the end of 1938 and they were decreased to 15 in 1945 after the II World War.

The civil war which ended in 1949, led to an upsetting of the relations of Banks with the Bank of Greece. Due to the consequences of the war, banks were asked to contribute for the reconstruction of the Greek Economy. Since then the State has increasingly, intervened in banking, and the biggest banks were nationalised.

The presence of foreign banks has increased since the 1960 due to the internationalisation of banking, and the country's admission to the European Union.

2. BASIC CHARACTERISTICS

The contemporary Greek banking system has the following characteristics:

2.1. High degree of concentration

As the alternative forms of financial markets are still of minor importance, the credit management of national savings is carried out mainly by banks. The biggest part of banking transactions is carried out by two biggest commercial banks together with the banking institutions they control. This situation can be seen in the following table:

	1988	1988	1993	1993
	LOANS	DEPOSITS	LOANS	DEPOSITS
National Bank	43,6	53,4	30,5	45,7
Commercial Bank	15,2	13,4	14,1	14,3
Ionian Bank	7,8	7,3	6,1	6,3
Credit Bank	7,6	6,9	10,2	8,9
TOTAL	74,2	81,0	60,9	75,2
Rest Com. Banks	25,8	19,0	39,1	24,8
TOTAL	100,0	100,0	100,0	100,0

The trend of reduction in the degree of concentration continues in the more recent years but it still remains very high.

2.2. The dominant role of the State

The Greek state controls the biggest part of banking. We can understand this argument by considering the structure of the banking system. The G.B.S. of Commercial banks¹ and the Specialised Credit

¹ There were 43 commercial banks operating in Greece by the end of 1996. Twenty of them were Greek banks, fourteen were branches of commercial banks incorporated in other member states of E.U. and nine were branches of banks from third countries.

Institutions (Investment Banks, Agricultural Bank, Mortgage Bank, Postal Savings Bank, Deposits and Loans Fund).

Commercial banks control respectively 70% and 50% of the total deposits and loans.

Specialised Credit institutions control respectively 30% and 50% of the total deposits and loans.

We can realize the powerful presence of the State, if we bear in mind that the State-owned commercial banks control 70% of the deposits and 60% of the loans of all the commercial banks. In the specialised credit institutions the dominance of the State is absolute, with the exception of a small private mortgage bank.

2.3. Geographic concentration

All banks are based in Athens and Thessaloniki, and that has to do with the concentration of business in the urban centers. Only a few years ago some local cooperative banks started their activity, but their markets shares are negligible.

The degree of geographic concentration is even higher concerning the foreign banks. With exception of a few branches of CITIBANK, all the branches of foreign banks are located in Athens and some of them in Thessaloniki.

2.4. Lack of competitiveness

The lack of competitiveness of the G:B.is mainly due to the following factors:

- a) The reserve requirements ratio remains at a high level.
- b) Rates of interest are still very high, due to the high state budget deficit and therefore the higher rates of interest of state bonds and treasury bills.
- c) Lack of investments in new technology.

The number of commercial banks increased substantially in the last years in anticipation and as result of the deregulation of markets and the liberalisation of capital flows.

d) The ratio of staff expenditure to the owerage assets remains, for the Greek banks, the higher among the countries of E.U.. In the same time there is a shortage specialists in new banking services.

e) The Greek banks have started thinking mergers and acquisitions only a few months ago. Therefore many small banks have managed to be profitable, just because they take advantage of the lack of flexibility of the bigger state-owned banks.

f) Privatisations are carried out with great difficulties, even if they concern very limited part of the G.B.S. . This is due to the power of the trade unions, which are very strong in the state-owned banks.

We strongly believe that the lack of competitiveness of the G.B.S. is to a considerable extent due to the still undergraded position of marketing in the Greek banks. This undergrading has to do both with the position of the Marketing departments in the hierarchy of the banks and the inefficient use of the elements of the marketing mix.

In the following lines we will try to confirm what we have just mentioned.

3. IMPORTANCE OF THE MARKETING DEPARTMENTS IN THE GREEK BANKS.

The Greek banks seem to underestimate the importance of marketing departments

That was one of the conclusions drawn from a research carried out by our Institute. The research was concerning the relationship between commercial banks and small firms, and included 15 commercial banks having 90% of the total assets of all the commercial banks operating in Greece.

The first Marketing department was established in the biggest Greek bank in 1981.

Only 6 out of the 15 banks have a department with a tittle including the word marketing.

Five of the banks approached stated that although they care about the marketing matters, they don't have a department dealing exclusively with marketing affairs.

The role of the Marketing departments in the cases they exist, has to do with suggestions. In none of the banks the marketing people had any authority to decide on crucial matters.

The marketing functions are carried out by various people of various departments. The split of the marketing activities in many departments, results in the wrong function of marketing, namely in the wrong diagnosis of the customers' needs and consequently the lack of full satisfaction of their needs.

4. PROBLEMS FROM NOT TAKING ADVANTAGE OF MARKETING IN THE GREEK BANKS

The consequences of underestimating the importance of marketing in the Greek banks, can be seen in each element of the marketing mix. In the next lines we will refer to some cases which we think owe evidences that banks could be in a better position if they adopted the principles of marketing in a more efficient way.

4.1. Services

Some critics state that in Greece we have only 10% of the internationally known banking services ² Maybe this is an exaggeration, but still the reality is not very encouraging.

The lack of banking services tailored to the needs of the customers is in some cases very evident. For example: short-term bank loans in 1989 were counting as 38,2 % of the total short term sources of finance, compared with 37,5% short-term credits from suppliers of the firms. In 1995 short-term bank loans were gradually reduced to 32,5%, compared with 43,2% from the credits of suppliers.

This example shows that competition is not fierce only within the banking system, but it comes also from outside, and the banks do not seem ready to face it. The conclusion is even more discouraging if we bear in mind that deregulation of the banking market has started

² Ependitis – Economy, 14.06.98, p. 18.

since 1987. Namely, instead of having more flexible banks, we ended up with the reverse effects. In the same time the services of factoring which might constitute an alternative for short-term bank loans, cover less than 11% of the total needs, compared with an average of 11% in the E.U.

On the other hand the spectacular growth of mutual funds (based on market segmentation) compared with the stagnation in the traditional bank deposits, can show what marketing can do to give a boost to the banking turnover.

4.2. Pricing

The lack of transparency and consistency is the main reason that prevents pricing to become an effective tool towards achieving the bank's objectives. Let's refer to some examples:

a) Even in cases where pricing policy could be considered as given, it is not so.

For example, due to the lack of secondary market for state bonds and treasury bills, different banks may charge the customers with varying penalties in case they need the money before the expiry of the bonds. The difference is due to the varying methods of calculation used by different banks.

b) In many cases, an unsincere formulation of pricing policy is observed.

For example the bank announces for a current account of advances that the customer is charged with a 20% rate of interest plus 1% commission. The commission ends up to be 1,7% due to the particular way it is calculated (This is a common practice for many Greek banks).

c) Banks use political year in calculating interest for deposits, and mixed year in case of loans. In this way they pay less interest for the deposits and receive more interest for the loans.

d) Banks use "valeur" in order to increase their revenues in some cases even without the slightest rationale.

e) Banks' policy to receive commissions associated with collateral, ends up with a higher charge for the smaller firms.

Overcharging of small firms has led then either to be unable to pay out their loans or to look for other alternatives (i.e. suppliers' credit etc.).

4.3. Distribution

There are certain factors which prevent the banks to establish their branches, based on rational criteria.

Some of these factors are the following:

a) Very often the management is based on intuition rather than scientific marketing research in order to establish a new branch.

b) Some times social and economic reasons dictate the decision for a new branch. For exemple the State owned banks open branches in areas with low income or diminishing population.

c) Opening new branches with leading executives having knowledge which is not supplementary with each others'. Another factor creating problems in the new branch is when the leading executives come from a branch neighboring with the new one. If the Management cannot overcome these problems they had better postpone the opening of the new branch.

d) Sometimes new branches may come as a result of pressures exercised by the trade unions for the creation of managerial posts.

4.4. Promotion

The problems associated with the above mentioned elements of the marketing mix make the task of promotion more difficult.

News papers seems to be the most popular means of advertisement in the last ten years with 49,09 % of the total advertising expenditure, second is television with 36,22 %, third is magazines with 9,01 % and fourth is radio with 5,68 % .

The last few years Greek banks have realised that personal selling is the most appropriate means of approaching customers and they gradually attribute more and more importance to this element of promotion following the exemple of insurance companies.

In general promotion has been more important during the last ten years, because of the deregulation of the market and the overall

developments in the banking sector, which have resulted in more complicated banking services.

4.5. People

Greece is one of the very few countries of O.E.C.D. where the people employed in the banking sector are increasing. This development in combination with the fact that the ratio of staff expenditure to the average assets is very high, shows to a considerable extent the inability to take advantage of the new technological applications.

By the end of 1990 the Greek banks were employing about 40,000 employees. Among them 35 % were educated at university level, 53 % had finished secondary education and 12 % had finished primary education.

Since then many changes have taken place and continue even faster. Employees have to be more adjustable in the changing environment and more capable of assuming responsibilities and taking initiatives.

The increased use of computers and the customers' demand for a more qualitative approach has led to a substantial increase in the staff dealing with the personal selling and consultancy for the customers. This trend is expected to continue even faster in the near future.

5. EPILOGUE

In this article we referred to the history and the characteristics of the Greek banking system, and we also examined the underestimated role of marketing in the Greek banks by trying to show some of the consequences of this weakness. We believe that since 1987 the G.B.S. has been placed in a new course, with deregulation of the banking market having changed the rules of the game. Until 1987 all the banks were offering the same services in the same prices and therefore there was very little room for marketing to develop.

Nowadays the more successful banks will be those that have fully adopted the principles of marketing and have been adjusted to the new challenging environment.

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