

THE ROLE OF NON-BANKING FINANCIAL INSTITUTIONS (NBFIs)
IN VIEW OF 1992

An address by Theodore Petropoulos,
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at "The Hellenic Banking System in view of 1992" Conference
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Ladies and Gentlemen:

Firstly, may I give you my personal thoughts as to 1992. You have heard a great deal already about 1992 in this Conference, in the media and from your institutional and professional relationships.

To my mind, 1992 is a unique opportunity. It is an opportunity to become more efficient in a wider context than hereto considered appropriate.

With the reduction in the barriers to trade and through greater local representation or involvement, the build up of a European network will become easier for every firm - be it a commercial, manufacturing or a services one. The changes will be felt by all. However, it is those firms that anticipate and best prepare themselves for 1992 that will emerge as the winners of de-regulation. With de-regulation or in some instances more consistent regulation, it is expected that there shall be more competition. Such competition I believe will produce two major effects:

- 1) An increase in the size of the minimum efficient firm together with a reduction in the number of firms, and
- 2) An increase in the European networks of firms in order for them to attain economies of scale and the ability to penetrate more European markets since there would be less discrimination in favour of the local firms. There are implications as well for the size of capital/management resources that will be required to achieve the above and it is fair to expect that the management will face greater stresses, complex situations as well as opportunities.

It is the object of Non-Banking Financial Institutions (NBFIs) to assist their clients to plan for and be fully prepared to take advantage of the opportunities that 1992 will present as well as to be ready to tackle the difficulties and requirements of the new age.

Perhaps I should elaborate a little on the concept of NBFIs. To some of you this type of institution may be new. As such, a few words on this will assist your understanding.

NBFI's are a type of financial institution that is a characteristic of more advanced economies. As economies grow and the size of players becomes

larger and the complexity and co-ordination of the services increases, there is often a requirement for so called "niche" players that contribute towards the well running of the system and increase its overall efficiency.

In particular, NBFIs are characterised by their ability to bring together within their "co-ordination umbrella" a number of until now separate functions performed by other institutions under its supervision:

- Access to local knowledge
- Access to banks or other financial institutions
- Access to legal firms
- Ability to provide brokerage and assist in the acquisition/disposal process
- Access to equity
- Ability to advise
- Ability to assist in the management
- Ability to represent
- Experience in specific sectors and their idiosyncracies

Thus, although NBFIs do an element of brokerage work they are not brokers since their management, access to or own capital and long term corporate approach clearly differentiates them from simple brokers.

Similarly, although they advise and provide management consultancy services, they are not merely management consultants since they do have access to finance and equity, the ability to assist on a broader front, as well as provide a vital co-ordination function. What these institutions may lack in capital and overall organisation size they more than make up in responsiveness, specialist experience, market and trend awareness, adaptability and a clear incentive to succeed based on the success of their clients and their recommendations to others.

As such, they differ with banks in that they are not handicapped by policy doctrines, slow decision making processes or a combative approach to other banks and at times an esoteric approach.

This brings me to a very important subject, which characterises and differentiates NBFIs. NBFIs offer the full range of services expected of them. That is the "single stop" concept, i.e. having one body that will effectively take care of all the requirements of a client involved in mergers or acquisition or any expansion in line with 1992 whether using its own resources or obtaining them from the market. Every time the NBFIs seeks to obtain from the market a particular service or support from an independent firm, it will do so based on its knowledge of what is offered and by which institution, its contacts with such institutions and its ability to effectively obtain the most competitive and efficient services available at the time. The responsibility for identifying the particular firm in the market that would offer the required services will be the responsibility of the NBFIs. In addition, they will assist the client in ensuring that the envisaged service is actually delivered by the chosen Institution as agreed. Whether the client wishes to geographically expand, diversify, merge or acquire, dispose, obtain equity, representation or more comprehensive banking support and services, or where a number of these

factors are required at the same time as part of an overall plan, NBFIs can be of assistance.

Another point that should be made concerns the NBFIs' continuous role from the formulation of the plan right through to its successful implementation. As such, not only do they provide continuous and consistent assistance, acting in a sense as "partners", but at the same time release a great deal of time to the client's management, it not having to approach a number of parties, brief them and so on. In addition, an NBFI can work in an anonymous manner and assess a market or the attitude of another party in such a way as not to reveal the identity of its client.

At this stage, I would like to say a few words for the bankers who are here representing their banking institutions. To the extent that NBFIs meet a specific market requirement, possess specialist skills and can be seen as an extension of the client, their relationship with banks should be a very constructive one leading to a successful banking/client relationship. The bank/client relationship is made stronger by the presence of an NBFI which anticipates and assists in resolving areas of difficulty as well as defusing potential problems. In addition, a bank would often be brought in as a direct result of a NBFI recommendation.

It is my personal opinion, based on my experience as a banker, as well as advising clients as an NBFI, that banks that have a banking relationship with a client find it unusual to create and develop an essentially close commercial and intimate relationship with the company's management as is required in the case of NBFIs. I believe there is a natural division where banks feel most comfortable being bankers and providing banking services and where NBFIs provide their own specialist services for the benefit of both.

I would now like to turn to an analysis of the potential clients of NBFIs. These clients can be found either in commerce, manufacturing or the services industries which include banks. They may also include public sector as well as semi public firms to the extent that some semi public sector organisations may need to have links or joint ventures with other similar European bodies.

Specifically for Greece, we would separate clients into two types of potential clients, either:-

1. Greek clients wishing to expand within Europe (as well as within Greece to strengthen their position) in view of 1992.
2. Non Greek clients wishing to expand into Greece in view of 1992.

As we have touched upon earlier, this expansion may not necessarily be through the setting up a new branch or subsidiary in a foreign country. It may take the form of the appointment of representative agents or local associates, a joint venture, a partnership or of course as may be more likely the acquisition of a stake in or the whole of a local company.

In order to better explain the services provided by NBFIs I will provide some examples of 1992 client requirements and elaborate on each, e.g.

1. A Greek foodstuff manufacturing company wishing to expand into Europe.
2. A Greek hotel/holiday village firm wishing to expand into Europe.
3. A Greek bank wishing to expand into Europe.
4. A European textiles manufacturer wishing to expand into Greece.
5. A European bank wishing to expand into Greece.
6. A Greek public service company (OTE) wishing to enter into a joint venture with a foreign telecommunications firm

(There follows a specific presentation of the requirements of each company).

To summarise, the envisaged services of NBFIs are as follows:

- Identification/formulation of a corporate concept in view of 1992
- Preparation of an initial as well as detailed plan
- Feasibility study
- Market research
- Identification of suitable candidates or opportunities
- Selection of candidates
- Approach to candidates
- Negotiation with candidates
- Development of opportunities
- Obtaining other support, i.e. banks, equity, grants etc.
- Negotiating Heads of Agreement
- Obtaining legal, tax/accounting advice
- Reviewing pertinent regulations
- Negotiate detailed agreement
- Implementation of agreement
- Setting up detailed implementation plan
- Continued advice, assist further expansion of new unit
- Review human resources requirements
- Review promotional/public relations requirements including advertising.

The above services need not apply to all client assignments, but it is likely that the above, plus additional services, need to be discussed on a case by case basis.

Throughout the provision of services, confidentiality plays an important role. In addition, reporting to and obtaining regular feed back from the client is an important part of the process for the successful provision of services.

SUMMARY AND CONCLUSIONS

NBFI's aim to provide to their clients a professional well integrated range of services that match the clients specific requirements as well as market circumstances. They seek to act as a business partner but in a manner that is totally confidential and supportive to the client. Because they provide a quality service, NBFIs are selective as to their clientele and seek to develop long term relationships based on mutual trust and a series of

successful assignments. In addition NBFIs often come across situations which are of particular interest to their selected clients who are given them on a priority basis.

I envisage that the number of NBFIs operating in the Greek market will increase substantially through the next few years.

Petrofin is an NBFI that seeks to operate in a professional manner accompanied by a quality approach, as explained in this presentation. Petrofin is based in London but in view of 1992 is in the process of setting up an office in Greece to service its clients and further develop its range of services.

In further support of the aspects raised today and inherent in NBFIs, Petrofin itself has recently agreed to merge with a UK Bank/Financial Services Institution (Chancery?) although it will continue to provide its services in a fully independent manner in order to provide what is known as "best advice".

I have enjoyed being here and I thank you for listening to me and participating in this Conference.

TP/NBFI
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