BANCA D'ITALIA

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SCENES FROM A MARRIAGE: BANCASSURANCE AND LITIGATION WITH CLIENTS IN THE ITALIAN MARKET

by Marta Auricchio*, Alessandro Bracale*, Sara Imposimato* and Francesco Privitera*

Abstract

Bancassurance can be generally defined as the joint effort of banks and insurers to provide insurance products and services to the banks' customer base. Exploiting a brand new dataset, this paper aims at shedding light on whether a link exists between the level of *bancassurance* integration and the degree of litigation with clients on *bancassurance* products linked to loans. To address possible causality issues we exploit both the panel structure of the dataset and an instrumental variable approach. Results suggest that the intensity of *bancassurance* relationship does not affect the level of customer litigation and viceversa.

JEL Classification: G21, G22.
Keywords: *Bancassurance*, service quality, customer complaints, Italian market.
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1. Introduction[1]

From 1990s onwards the growing integration of banking and financial markets has deeply affected both banks and insurance companies, especially in Europe. The relationship between the two types of intermediaries has grown tighter as both have aimed at expanding and diversifying their revenues, also in light of the falling interest rate environment. The deregulation process, with the gradual fall of barriers between financial intermediaries, was also an important factor in the aforementioned integration (Porretta and Santoboni, 2020).

As a result, a hybrid type of intermediary known as *bancassurance* has risen in popularity. In particular, *bancassurance* can be generally defined as the joint effort of banks and insurers to provide insurance products and services (Swiss Re, 2007). Different models of *bancassurance* exist, in particular with regards to ownership models and their level of integration[2]. Banks' penetration into the insurance sector was driven by the opportunity to exploit their extended networks of branches as a channel for the distribution of insurance products. In the past decades, several different kinds of insurance products were sold through this network, mostly related to the life sector. There are two main alternative *bancassurance* models: in the first, the bank holds a significant share in the capital of an insurance company; in the second, the intermediaries are linked only by commercial agreements. In both cases, the insurance products are distributed primarily through the banking channel and such distribution represents a significant source of revenue for the bank.

In theory, *bancassurance* could offer advantages for all market players thanks to diversification, network, scale economies and efficiency gains. There could also be advantages for customers in having to deal with a single entity throughout the pre- and post-contractual relationship. However, things might be different in practice: financial intermediaries may exploit their relationship with their clients in order to offer several standardized yet complex products, not necessarily tailor made to their customers' needs. The strong ties between banks and insurers could also lead to obstacles to shopping around, or in cancelling the subscribed insurance policy or switching insurer. In the last few years, indeed, we have witnessed a consistent increase in litigation, expressed in terms of complaints[3], between banking intermediaries and their clients (mostly consumers) related to insurance products sold by banks – more specifically, on products linked to loans. In turn, this could possibly affect the

[1] The work benefited from the useful comments of M. Affinito, M. Bianco, M. Cosconati, L. D'Aurizio, A. De Pascalis, A. De Vincenzo, A. D'Ignazio, R. Gallo, G. Guazzarotti, and the participants at the Bank of Italy and IVASS Workshop (Rome, July 2021) and at the internal seminar of our Directorate (Rome, September 2021). The authors wish to thank Leandro D'Aurizio (IVASS) also for his support in data collection. All remaining errors are the authors' responsibility only. The views expressed are those of the authors and do not necessarily reflect those of the Bank of Italy.

[2] Apicella F., D'Aurizio L., Gallo R., Guazzarotti G. (2021).

[3] The average yearly growth rate between 2010 and 2020 was around 40 per cent.

strategic choices of intermediaries on *bancassurance* integration, due to both the monetary and the reputational costs involved.

This work aims to investigate how *bancassurance* can affect litigation and vice versa. To the best of our knowledge, there are no previous works investigating these relationships. In particular, we built a unique dataset covering litigation data on customers, shareholdings and supervisory reports over a ten-year timespan. To this end we exploited detailed micro-data on the whole population of customer complaints and banking participations in insurances at the individual intermediary level.

The primary goal is to verify empirically whether a link exists between the level of integration of specific banks and insurance companies and the degree of litigation with clients on *bancassurance* products linked to loans extended by the involved bank. To this end, we first test the hypothesis that an increase in equity participation of banks into insurance companies negatively affects the sales' practices of insurance contracts linked to loans, which in turn could have repercussions on the customers; we then extend the analysis to include commercial agreements. Secondly, we test if a change in the number of disputes related to *bancassurance* products affects the level of banks' equity participation.

The results show that there is neither an effect of greater *bancassurance* integration on litigation, nor an impact of litigation on the intensity of *bancassurance* relationships the intermediaries decide to put in place. Further tests also extend the analysis to the outcomes of litigation with similar results. We recognise that this is a first attempt to examine the impact of bancassurance on customer protection; the availability of more granular data on litigation and commercial agreements would allow us to search for further evidence.

The rest of the paper is structured as follows. Section 2 clarifies the main products and risks involved in bancassurance. Section 3 reviews the main literature on the topic. Section 4 describes the data. Section 5 discusses the empirical methodology. Section 6 reports both the main and additional results. Section 7 concludes.

2. Insurance products linked with loans

Our analysis concerns insurance products linked with loans and, in particular, the so-called PPI (Payment Protection Insurance) whose aim is to enable clients to ensure repayment of credit in any circumstances that may prevent them from servicing the debt. In particular, PPIs can be life and/or damage policies and are amongst the most popular policies, along with those that protect an asset given as a guarantee (e.g. burst and fire policies connected with real estate loans).

These products are generally sold collectively as multi-risk 'packages' that include both life and non-life insurances. The risks covered are death, monetary loss arising from either loss of employment, accident, illness, or the loss or reduction in the value of the asset (e.g. property) due to fire or other causes[4]. We focus on the PPI since they concern financing contracts that are limited in size and more widespread.

The financing products most frequently associated with PPI are the different kinds of consumer credit (revolving credit card, personal loans, loans secured by a pledge of salary or pension).

Insurance products linked with loans have specific characteristics that are potentially critical for consumer protection. The combination itself of the insurance and banking products leads to an increase in the complexity of the product sold. The additional amount of information and interactions can hinder the clients' understanding of different product characteristics and, above all, the connection between the insurance and banking components (Ratowska-Dziobiak, 2023).

Moreover, a correct understanding of the products' costs may be challenging for the customers. This concern can be related not only to a specific banking or insurance cost item (eg. cost of credit, commissions, premium) but also to the overall cost of the product. In addition, PPI products are standardized and may not fully match the needs of individual clients.

Cross selling practices may result in mis-selling (consumers purchasing products that are unsuitable for their needs or they do not really want or understand) or in the lack of clarity in the APRC (Annual Percentage Rate of Charge) in relation to additional costs for insurance.

Given the issues described above, banks, financial intermediaries and insurance companies have to adopt a series of precautions in the offering of insurance products linked with loans, in order to guarantee compliance with regulations and to preserve the integrity of client relationship that is based on trust.

If banks and insurance companies do not comply with regulation, in addition to entailing the application of the sanctions and remedial measures envisaged for the violation of conduct obligations, they may expose themselves to significant legal and reputational risks, with the possibility of an increase in capital requirements set by the competent supervisory authorities[5]. This risk may be higher in case of stricter integration, e.g. through collusion.

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[4] *Report Ivass 2016 – Indagine sui costi delle polizze abbinati a finanziamenti (PPI – Payment protection insurance: premi, caricamenti e provvigioni)*, (D'Aurizio), shows that life premiums almost entirely concern insurance on the duration of human life while non-life premium mainly relate to the pecuniary loss class.

[5] Banca d'Italia and Ivass supervise insurance products linked with loans for their respective competences in banking and insurance market. On this topic, they published, in 2014 and 2020, two statements to banks and insurance companies.

Banks, financial intermediaries and insurance companies are therefore obliged to adopt and apply organizational and internal control procedures that ensure continuous assessment of the risks (including legal and reputational risks) connected with the simultaneous or combined offer of contracts. In this framework, they have to pay a specific attention to PPI products for the peculiar features of customer protection previously described.

3. Literature review

As previously mentioned, *bancassurance* is a worldwide phenomenon that is gradually breaking down the traditional barriers between banks and insurance companies. Nowadays banking business models go beyond loans and savings, as other services and products such as those concerning insurance have become integral components, marking a significant shift in both the banking and insurance industry.

The importance of the *bancassurance* channel in distribution is growing in various countries. As a consequence, there is a vast literature focusing on the economic and financial consequences of *bancassurance*. In France, Italy, Spain and Portugal bank branches have become the main distribution channel for life policies (Latorre Guillem, 2020). Since products in the life insurance market are very similar to banking products because of their characteristics and clauses, they can be easily marketed through the banking channel; the sale of products of the non-life sector, instead, requires peculiar skills and knowledge that differ from those necessary for the sale of savings products (Chen, 2019). Moreover, according to Yildirim (2014), the significant growth of *bancassurance* in the Turkish insurance market also depends on the vast amount ofpersonal and financial information available by banks on their customers. Banks could contact customers at key events in their lives (eg. getting married or buying a home) and be able to provide insurance products tailored to the customers' needs. Furthermore, in the last decades, commissions paid by the insurer represented an important source of profits for banks (Benoist, 2002). Constantinescu (2012) also shows that the success of *bancassurance* relies on several factors, including the model of the partnership and the level of the financial market development.

The Italian case has been of particular interest given the early emergence of *bancassurance* and the popularity of life insurance products. Italy nowadays is a mature *bancassurance* market, where banks began selling insurance in the 1990s and have market shares of more than 50 per cent (Teunissen, 2008; Dreassi and Schneider, 2015). Fiordelisi and Ricci (2011) find that, in 2005-2006, bank groups

Recently also the Antitrust and Consumer Protection Italian Authority (AGCM) has applied fines to several banks for the improper selling of insurance products linked with loans.

operating in life insurance did not show superior performances with respect to other banks groups. Using a unique data set on all active Italian life insurers from 1998 to 2012, Dreassi and Schneider (2015) show that bancassurers do not overperform independent insurers in terms of scale economies. Spotorno et al (2016) analyze the period between 2003 and 2013 finding that bank affiliation drives the insurers' profitability, but only after the 2009 financial crisis. D'Aurizio (2019) focuses on the gross value added of insurance companies, finding that the type of ownership is not a significant factor. In spite of the interest on the causes, consequences and profitability of *bancassurance*, any link with negative compliance spillovers on the clients has so far remained unexplored.

This work is also linked to the literature on service quality. Barrese et al. (1995) find that customer satisfaction can be measured by customer complaints. If *bancassurance* reduces service quality, it is expected that more customer complaints will arise from this marketing channel. Teunissen (2008) finds that when *bancanssurance* is based only on commercial agreements (i.e. agency contract) and the bank acts as an intermediary by offering products from the insurance company, the service is valued positively by customers due to the higher independence of the bank. Korhonen and Voutilainen (2006) suggest that it is still unknown whether *bancassurance* service quality and customer satisfaction are better for a financial holding company (FHC) insurer rather than a non-FHC insurer. On the one hand, FHC insurers may have advantages in corporate reputation and customer trust due to their stronger financial strength. On the other, FHC may restrict its bank to selling insurance products of its own subsidiary insurer, which results in less variety of products for consumers. According to Latorre Guillem (2020), the contract should establish limits to the banks' fees that, if exceeded, would lead the client to be informed about the commissions perceived by the bank.

4. Data set

To perform the analysis we combine various sources of information in order to build a comprehensive and detailed dataset on *bancassurance* and customer complaints. Our empirical exercise leverages on a unique dataset that includes information on banking litigation, banks' equity investments in insurance companies, and supervisory reports. Two main sources are used for litigation data. In the first place we use complaints to the ABF (Arbitro Bancario Finanziario)[6], an out-of-court alternative dispute resolution (ADR) scheme for disputes between customers and banks and other financial intermediaries, concerning banking and financial transactions and services. We also use data on

[6] See the website *Arbitro Bancario Finanziario*.

complaints[7] directly submitted to the Bank of Italy; such complaints allow customers to report conducts on the part of banks and financial intermediaries that they deem to be irregular or wrong. Both of these types of complaints can be presented at either a very limited cost (20 euros for ABF) or free of charge, and with no need for legal assistance. These datasets on litigation cover the time span from 2010[8] to 2020. Using this exclusive dataset we were able to reconstruct the total number of complaints received per year by each intermediary. In particular, exploiting the classification details available for all complaints, we focused the analysis only on those related to insurance products linked to loans. Table 1 shows the main summary statistics for intermediaries with capital participations in insurance companies and for all intermediaries involved in *bancassurance*[9]. The table shows that, on average, there were over 2 complaints per year for the intermediaries with capital participations in insurances, while slightly less than 1 complaint per year for all intermediaries involved in *bancassurance*. These relatively low values are influenced by the lack of litigation for some intermediaries in several of the years considered.

For the equity investments in insurance companies, we use the new Bank of Italy - Ivass dataset that includes data on 352 credit institutions and 101 insurance companies, covering the period from 2005 to 2019. From this source we obtain the information on all capital participations by banks in insurances, and whether they are control participations or not. An intermediary can have participations in multiple insurance companies in any given year, and may also vary the participation level during the year: consistently with our panel structure we therefore consider only the highest participation by an intermediary in a given year. The average capital participation was just below 20 per cent, with quite a significant variation as shown by the standard deviation of 30 percentage points. In 17 per cent of observations there was a control participation by the intermediary on the insurance company[10].

The supervisory reports concern data provided by the intermediaries to the Bank of Italy on several aspects of interest to both prudential and compliance supervisory activity. For this study we consider the yearly ratio between commissions on insurance products earned by banks (*bancassurance* commissions) and their intermediation margin, which provides a measure of the overall relevance of activity in *bancassurance* for an intermediary. This ratio was slightly higher on average for banks with capital participations in insurances than for the other intermediaries.

[7] See the website on Bank of Italy *Online Services for the public.*
[8] The time frame is restricted by the fact that ABF was set up in 2009 and became fully operational in 2010.
[9] We identify the whole range of intermediaries involved in *bancassurance* thanks to the supervisory reports, by focusing on those with positive *bancassurance* commissions.
[10] We considered all banks with a capital participation in insurance company for at least one of the years of the sample.

To further extend our analysis, we also construct several categories to account for different levels of integration between intermediaries and insurance companies. In particular, we define intermediaries with commercial relationships as those with *bancassurance* commissions but no capital participations in insurance companies; we then also distinguish between such intermediaries with more significant commercial relationships, that is, intermediaries with a ratio between *bancassurance* commissions and the intermediation margin higher than the average, and those with lower penetration in that market. The other categories distinguish between intermediaries with financial participations (equity participations below 50 per cent of an insurance company's capital) and dominant participations (above 50 per cent).

5. Methodology

In this section we present separately the models employed to investigate the relationship between *bancassurance* and litigation.

First, we want to investigate the impact of *bancassurance* on the related litigation by focusing on intermediaries with capital participations in insurance companies. To this aim, our model is the following:

$$(1)\ Litigation_{i,t} = B_1 Bancassurance_{i,t-2} + B_2 X_{i,t-2} + d_t + a_i + u_{i,t}$$

Where $Litigation_{it}$ is the number of complaints received by ABF and Bank of Italy at time *t* and concerning intermediary *i*; $Bancassurance_{i,t-2}$ is the highest level of capital participation of intermediary *I* at time *t-2* in an insurance company. The choice of a double lagged term is determined by the delay with which any dispute between clients and intermediaries translates into complaints[11]. $X_{i,t}$ is the set of time-changing covariates; d_t are the time fixed effect while a_i are the intermediary fixed effect; $u_{i,t}$ is the error term.

We consider different specifications for this model: as a first step, we start with a standard pooled OLS approach, and then refine our analysis exploiting the panel structure of our dataset with a fixed effects specification. This last specification accounts for possible endogeneity issues, determined by intermediary characteristics fixed over time and correlated with the capital participations level, which may affect the causal interpretation of the results[12]. As a time-varying covariate we include a dummy variable on the nature of the participations, which equals one if the participation ensures control over an insurance intermediary.

[11] On the basis of several specification tests the results remained unchanged.
[12] Nonetheless, if there were time-variant omitted variables, reverse causality could still be at play.

As a second step, in order to better capture the key aspects of *bancassurance*, we widen our analysis to consider not only intermediaries with capital participations but also those with commercial relationships, aiming to investigate whether litigation on *bancassurance* is determined by the kind of relationship established between the intermediaries. To this end, we consider the following model:

$$(2)\ Litigation_{i,t} = B_0 Commercial\_Relationship\_Less_{i,t-2} + B_1 Commercial\_Relationship\_More_{i,t-2} + B_2 Financial\_Participation_{i,t-2} + B_3 Dominant\_Participation_{i,t-2} + B_4 X_{i,t-2} + d_t + a_i + u_{i,t}$$

Where we include four dummy variables to account for the different relationships in place, as described in the previous section, while the rest of the model recalls model (1).

As above, we first consider a pooled OLS specification, and then refine our analysis through a fixed effect regression, also including the log of *bancassurance* commissions as a covariate. The dummy variable relative to commercial relationships with less significant relationships is not included in the regression to avoid multicollinearity issues, and acts as our baseline.

Given the novelty of this specific field, in addition to considering the possible impact of *bancassurance* relationships on litigation, and also as a test on reverse causality concerns on the previous specification, we move towards a different perspective by analysing the effect of litigation on strategic choices on *bancassurance* integration. In particular, we consider the following model:

$$(3)\ Bancassurance_{i,t} = B_1 Litigation_{i,t-1} + d_t + a_i + u_{i,t}$$

Where $Litigation_{i,t-1}$ and $Bancassurance_{i,t}$ are defined as in model (1). Here we assume that litigation may affect the level of integration between intermediaries and insurances with a one-year lag[13]; this assumption derives from the fact that once the intermediary observes any received complaints it can modify its level of integration by the next period. As before, we consider both a pooled OLS specification and a fixed effects one. This model may suffer, as the previous ones, from endogeneity issues such as omitted variable bias (e.g., the number of contracts may affect litigation and could be correlated with the level of integration). Moreover, there might also be a reverse causality problem, if, as investigated in model (1), the level of integration were in turn to affect the litigation against the intermediaries. To tackle this issue, we use an instrumental variable approach, exploiting peculiar characteristics of the Banking and Financial Ombudsman.

The Banking and Financial Ombudsman is constituted by seven Technical Secretariats in different geographical locations across Italy, whose staff is made up by Bank of Italy employees fully dedicated

[13] However, on the basis of several specification tests, the results remained unchanged.

to the Ombdusman. Over time, there has been a growth in both the number of Technical Secretariats (from three to seven) and employees (from less than 40 to almost 150), as the number of complaints received grew substantially (reaching a peak of over 30,000). In particular, we consider the number of complaints received by the system to have been driven by the Ombudsman's growth, as it became larger and more efficient and well-known; therefore the increase in the offer of consumer protection has led to an "endogenous growth" in complaints (see Figure 1).

We exploit this mechanism to tackle the potential reverse causality (Leszczensky and Wolbring, 2019), by using the offer of consumer protection as our instrumental variable. In fact, such offer is not correlated with the level of integration in *bancassurance*, since the policy decisions on staff hiring were independent of the banks' strategies, lending credibility to the instrument's validity. Moreover, through the endogenous growth, the offer is not merely correlated to the size of litigation, but is rather one of its contributing factors, contributing to the instrument's relevance.

More in detail, the instrument is built by using the offer of consumer protection at the intermediary level, that is, by imputing the overall number of employees dedicated to the Banking and Financial Ombudsman to each intermediary by using a proxy for their size. In order to avoid the reintroduction of reverse causality concerns, we use a size variable based on the complaints received, and in particular on the maximum number of provinces from which each intermediary received complaints over the whole 2009-2020 period[14]. The instrument is therefore equal to:

$$z_{i,t} = Employees_t * Maximum\ Number\ of\ provinces\ with\ complaints_i$$

The first stage is as follows:

$$(4a) Litigation_{i,t-1} = \delta_0 + \delta_1 z_{i,t-2} + \delta_2 d_t + \varepsilon_{i,t}$$

Where $Litigation_{i,t-1}$ is as previously described, $\varepsilon_{i,t}$ is the error term, whereas $z_{i,t-2}$ is the instrument described in the paragraph above. Also in this case we assume that the impact of the changes in the offer of consumer protection affects litigation with a one-year lag.

The second stage is then:

$$(4b) Bancassurance_{i,t} = \gamma_0 + \gamma_1 \widehat{Litigation}_{i,t-1} + \gamma_2 d_t + \tau_{i,t}$$

[14] This proxy shows sufficient variation; the average across intermediaries with capital participations is 27 and the standard deviation is 35; across all intermediaries they are respectively 11 and 23.

Where $Bancassurance_{i,t}$ is as described earlier, $\widehat{Litigation}_{i,t-1}$ is the predicted value from the first stage, and $\tau_{i,t}$ is the error term; also in this specification we use a first difference specification to account for intermediary-specific time-invariant characteristics.

6. Results

6.1 Main results

In this section we present the main empirical findings based on the specifications previously described.

Regarding the impact of *bancassurance* on litigation, Table 2 reports the results of Equation 1. In all the specifications (1)-(3), the key regressor $Bancassurance_{i,t-2}$ is the highest level of capital participation of intermediary *I* at time *t-2* in an insurance company**.** Results from the pooled OLS regression show a barely significant and positive effect of higher capital participation on litigation; however, the more robust specification including both intermediary and year fixed effects[15] shows no such impact. This is further confirmed when introducing control participations as an additional explanatory variable. A positive coefficient in this specification would have implied a negative impact of further *bancassurance* integration on the relationship between banks and their customers, expressed in terms of litigation.

Table 3 reports the results of Equation 2, which includes also commercial relationships in order to disentangle any possible causal effect on litigation. The baseline is given by intermediaries with less relevant commercial relationships; the results for the other categories, characterized by stronger *bancassurance* integration, must thus be interpreted in terms of different impacts on litigation with respect to this group. In the first place, the pooled OLS specification appears to suggest a positive effect for all of the other three groups, and in particular those with dominant participations. Exploiting the panel structure of the available data, and thus introducing intermediary and year fixed effects, the positive effect disappears, since all coefficients are not significantly different from zero, therefore suggesting that different levels of integration don't cause differences in terms of *bancassurance* litigation. This holds true also when introducing the log value of *bancassurance* commissions as an additional control variable.

Finally, Table 4 shows the results of the regressions following Equation 3, thus concerning the possible impact of *bancassurance* litigation on the levels of capital participation in insurance companies. The pooled OLS results suggest a significantly positive effect on capital participation.

[15] This specification is suggested both by theoretical reasons and by the result of the Hausman test.

Both the magnitude and significance of the coefficient are sharply reduced in the fixed effects specification, even though it still remains significantly different from zero at the 10% level. However results from the IV specification show that while the coefficient in the first stage is, as expected, positive and strongly significant, the second stage coefficient is not significantly different from zero; different sources of bias may therefore play a role in the results from the two previous specifications of Table 4.

6.2 Additional evidence

Also the outcome of the complaints can provide useful information regarding the behavior of the intermediaries towards customers and its severity. In particular, if a complaint has an outcome in favor of the complainants then the evidence of an incorrect conduct by the intermediary can be assessed more strongly. To this end, we exploit the high level of detail available in our dataset, which includes information on the outcomes of the complaints[16]. More in detail, we use the share of outcomes substantially in favor of the complainant[17] $ShareOutcomes_{i,t}$ in the following specification:

$$(5)\ ShareOutcomes_{i,t} = B_1 Bancassurance_{i,t-2} + X_{i,t-2} + d_t + a_i + u_{i,t}$$

in order to further investigate the effect of capital participations in insurance companies on customer protection, where the other variables are as in equation (1). If greater capital participations were indeed to have a negative effect on the intermediaries' compliance then there would be a larger share of positive outcomes of complaints and B_1would thus be positive. Table 5 shows the results of both the pooled OLS and the fixed effects regressions; while the pooled OLS suggests a negative B_1 coefficient, the fixed effects regressions, in line with the main results, show a coefficient not significantly different from zero. The reduced number of observations with respect to the results in Table 2 is due to two main reasons: on one side observations with zero complaints are included in the first specification, since the lack of complaints received is a valid outcome in terms of compliance evaluation, whereas such observations are dropped here since a lack of outcomes is different from a zero share of outcomes in favor of the complainant; on the other side the lack of availability of outcomes mentioned in note 17. Overall, this evidence therefore confirms the main conclusions on the absence of a significant effect of greater capital participations in insurances on the intermediaries' level of compliance.

[16] The outcome is available for the majority but not entirety of the complaints.
[17] An outcome substantially in favour of the complainant is defined as either a complaint decided in favour or the complainant or for which there was a settlement with the intermediary.

7. Conclusion

Several models of *bancassurance* exist and the level of integration may determine the advantages and risks for customers. This paper enriches the literature on *bancassurance* by focusing on the relationships between banks and customers. Customer satisfaction should be one of the primary concerns of any bank, financial intermediary or insurance company, in addition to all of the institutions involved in customer protection. However, there has been little research in this field, leaving several research questions unanswered.

Examining a unique data set on all complaints received by the Bank of Italy and the ABF, banks' equity participation in insurance companies and a proxy for commercial agreements, we explored the possible interactions among these phenomena, focusing the analysis on the Italian market.

We tested for the existence of a causal effect of integration between bank and insurances on customer complaints and then distinguished between four groups of intermediaries based on the relevance of their integration with the insurance sector. The evidence is consistent in suggesting that the degree of *bancassurance* integration does not affect the level of customer litigation; the results hold also when accounting for the share of complaints decided in favor of the clients. When investigating further the relationship by focusing on the effect of customer complaints on *bancassurance* integration, we find again the absence of any significant effect. Our findings suggest that so far we have no first order concerns on *bancassurance* expansion. However, because of the nature of these products and possible concerns on conflict of interests due to strong integration between banks and insurers, this field should be monitored over time.

This work is a first step in shedding light over the link between *bancassurance* and customer protection; further studies could include data from complaints received by banks or IVASS to deepen our understanding of these phenomena. Highly detailed data on the commercial agreements would also be helpful for a more thorough assessment.

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Appendix

Table 1 - Summary statistics

Average *(standard deviations)* **[n°of observations]**	**Intermediaries with capital participations in insurance companies**	**All other intermediaries involved in commercial agreements with insurers**
Overall litigation on bancassurance	2.28 *(8.16)* [568]	0.96 *(7.82)* [4,482]
Maximum capital participation in insurance companies	19.07 *(30.37)* [568]	-
Control participations	0.17 *(0.38)* [568]	-
Bancassurance commissions / intermediation margin	5.02 *(6.67)* [470]	3.61 *(9.71)* [3,910]
Bancassurance commissions in logarithm	15.42 *(2.40)* [473]	11.63 *(2.70)* [3,916]
Overall number of banks	**57**	**409**

Table 2 - Results of Equation 1

VARIABLES	(1)	(2)	(3)
Bancassurance	0.085*	0.018	0.029
	(0.047)	(0.015)	(0.030)
Control participation			-1.013
			(2.718)
Observations	410	410	410
R-squared	0.119	0.078	0.078

The table reports pooled (1) and intermediary fixed effects (2-3) OLS regression coefficients and associated robust standard errors in parentheses. The dependent variable is the number of disputes. All independent variables are lagged by 2 years. All models control for year fixed effects. ***, **, and * indicate that the coefficient estimate is significantly different from zero at 1%, 5%, and 10%, respectively

Table 3 - Results of Equation 2

VARIABLES	(1)	(2)	(3)
Commercial agreements_more	2.347***	0.258	0.330
	(0.616)	(0.785)	(0.761)
Financial participations	0.705***	0.669	0.777
	(0.212)	(0.660)	(0.661)
Dominant participations	9.858***	-0.035	-0.042
	(2.064)	(1.576)	(1.645)
Log_bancassurance commissions			-0.158
			(0.142)
Observations	2.783	2.783	2.783
R-squared	0.071	0.018	0.018

The table reports pooled (1) and intermediary fixed effects (2-3) OLS regression coefficients and associated robust standard errors in parentheses. The dependent variable is the number of disputes. All independent variables are lagged by 2 years. All models control for year fixed effects. ***, **, and * indicate that the coefficient estimate is significantly different from zero at 1%, 5%, and 10%, respectively.

Table 4 - Results of Equation 3

VARIABLES	(1)	(2)	(3)
Litigation_t-1	1.222***	0.101*	0.559
	(0.439)	(0.051)	(0.350)
first stage			0.003***
			(0.001)
Observations	467	467	357
R-squared	0.094	0.055	0.086

The table reports pooled OLS (1), intermediary fixed effects (2) and instrumental variable (3) regression coefficients and associated robust standard errors in parentheses. The dependent variable is the level of capital participation in insurance companies. All models control for year fixed effects. ***, **, and * indicate that the coefficient estimate is significantly different from zero at 1%, 5%, and 10%, respectively.

Table 5 - Results of Equation 5

VARIABLES	(1)	(2)	(3)
Bancassurance	-0.239**	0.586	0.567
	(0.107)	(0.511)	(0.522)
Control participation			3.441
			(15.540)
Observations	91	91	91
R-squared	0.162	0.166	0.167

The table reports pooled (1) and intermediary fixed effects (2-3) OLS regression coefficients and associated robust standard errors in parentheses. The dependent variable is the share of disputes decided substantially in favour of the complainant. All independent variables are lagged by 2 years. All models control for year fixed effects. ***, **, and * indicate that the coefficient estimate is significantly different from zero at 1%, 5%, and 10%, respectively

Figure 1 – Employees and complaints increases