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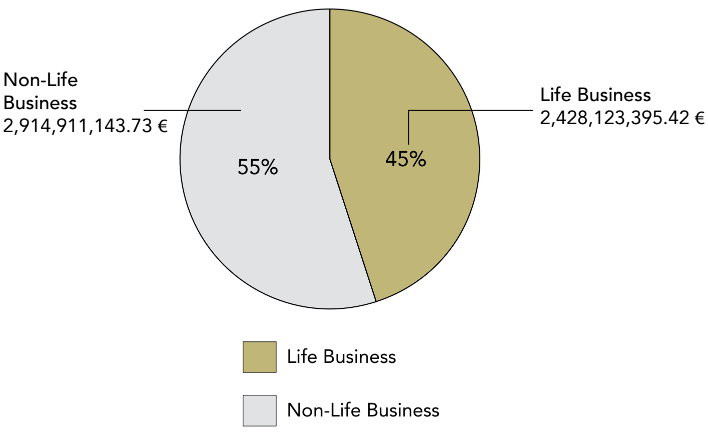
The Greek Insurance Market in Critical Periods

By Ioannis Chatzivasiloglou

When I was appointed as an SOA ambassador for Greece last year, I was asked to write an article for *International News* describing the insurance sector of my country. So, I opened my PC, made a cup of traditional Greek coffee with well-brewed coffee beans to accompany me with my expedition and I started to write …

The first insurance company that was established in Greece, in our modern era, was called "The Greek Insurance Shop" in 1829 in the island of Syros. Since then and until the end of the 19th century, more than 60 insurance companies were established in Greece, mostly in the marine business. These insurance companies also developed banking activities (it was not illegal at that time): they were providing marine loans and they were accepting interest-bearing deposits. Their main characteristic was that they were centered on the Greek shipping industry. As a consequence of the Greek shipping crisis after 1870 (following the introduction of steamboats), most of them were driven out of business gradually.

Graph 1: Greek Insurance Market 2009



As a response to the shipping crisis, the insurance industry started to expand their business, providing fire and earthquake coverage and soon insurers started to provide the full gamut of non-life products.

The first establishments worth mentioning in the life business were made at the beginning of the 20th century with two mutual insurers. The first was liquidated eight years after its authorization, and the second was demutualized to a public company two years after its authorization.

Currently, there are 52 insurance companies authorized and operating in Greece: 11 of them are in the life business; 30 are writing non-life business; and 11 are composite (they are allowed to write both life and non-life business). The total insurance premiums that were written in 2009 were about 5.3 billion euros, about 2.2 percent of Greek GDP. Non-life insurance premiums were about 2.9 billion euros and life insurance premiums were about 2.4 billion euros (see Graph 1).

According to data referring to the third quarter of 2010, there is a 3.9 percent decline in life premiums and a 3.9 percent increase in non-life premiums.

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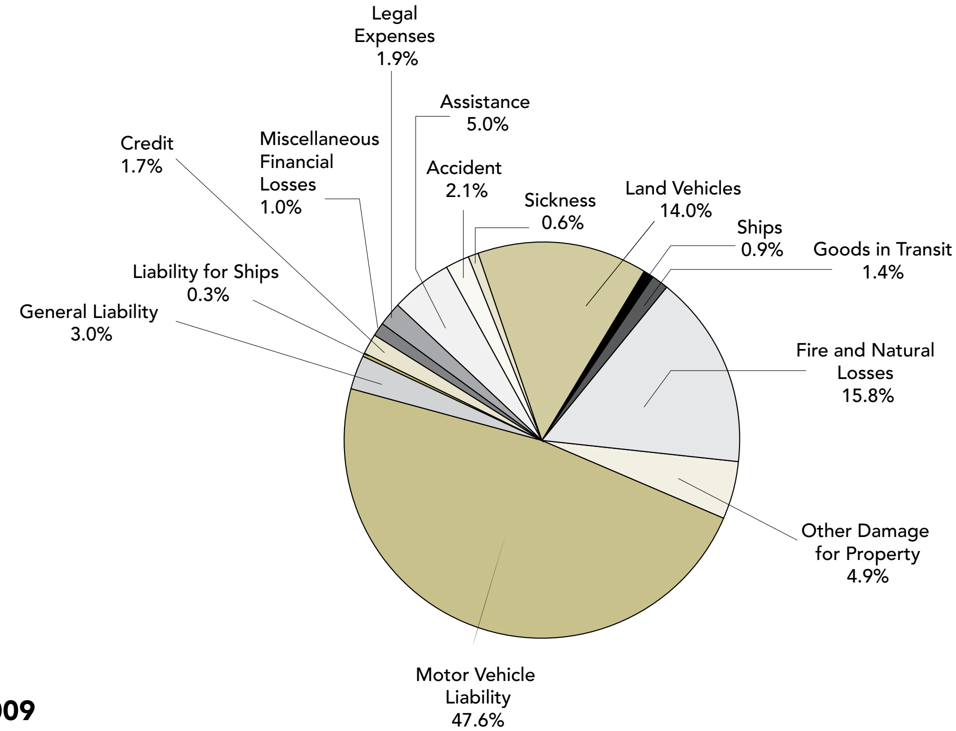
The Greek insurance market shows a dynamic growth as it grew, on average, at 6 percent annually over the last five years, but this dynamic is reducing, embodying the effect of the current financial crisis.

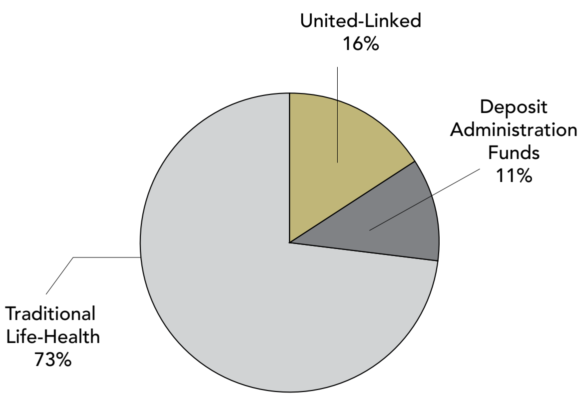
The greatest part of non-life premiums—about 62 percent—are in respect of motor vehicle coverage (either in the form of collision damage or third-party liability). The allocation of non-life premiums to classes of business is depicted in Graph 2.

With regards to life business, the Greek market focuses on traditional life products as well as health coverage. Unit-linked business, with or without guarantees, represents only a small fraction of life business, about 16 percent in terms of premiums. The allocation of life premiums to classes of business is depicted in Graph 3.

Graph 2: Allocation of Non-Life Business per Class 2009



Graph3:
Allocation of Life Business per Class 2009



The Greek insurance market was traditionally considered as concentrated. In the non-life business, the trend is to spread the business to more insurers. In 2009, the top five non-life insurance companies had 48 percent of market share, whereas, in 2010, their market share was reduced to 44.4 percent. The next five companies, although they had 23 percent of market share in 2009, had their market share was reduced to 20.8 percent in 2010. Analysis is provided in Table 1.

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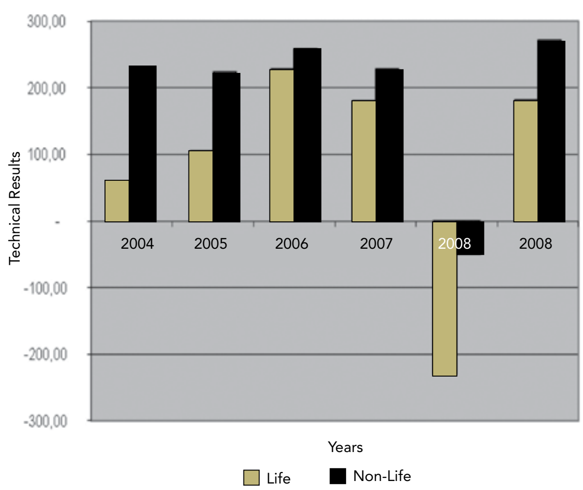
Table 1
Spread of Non-Life Business (in terms of written 2009 premiums)

	Market share in 2009	Market share in 2010
Top 5 companies	48%	44%
Top 10 companies	71%	65%

Table 2
Spread of Life Business (in terms of written 2009 premiums)

	Market share in 2009	Market share in 2010
Top 5 companies	68%	74%
Top 10 companies	88%	94%

Graph 4:
Technical Results (in million euros)



In life business, things are totally different and concentration is more prevalent. The top five insurance companies have 74.1 percent of market share in 2010 (from 68 percent in 2009). The next five companies have 20 percent of market share (both in 2009 and 2010). Analysis is provided in the Table 2.

Non-life rates have been soft for several years, but there are signs that they are hardening. Year 2008 was the first bad year in terms of technical results for both life and non-life companies, as they were negative for the first time in a lot of years and the return on capital was negative after a period of high returns. (See Graphs 4 and 5.)

The capital position and the amount of technical reserves constantly increased over the last years, with a small decrease in year 2008.

The last 12 months have become a landmark for the Greek economy. The severe widening of the government bond credit spreads (almost to 1000 bp), the borrowing arrangements with the International Monetary Fund (IMF) and the initiation of an European Union (EU) supporting mechanism, with the use of a network of bilateral loans between EU member states, are the main events that have overwhelmed every economic activity. These arrangements were followed by severe contractionary policies and severe government spending cuts. The civil servants have seen their salaries reduced by more than 20 percent and unemployment has been increasing slowly but steadily. These phenomena have affected almost all Greek insurance companies as their bond portfolio, mostly invested in Greek government bonds, has lost a big part of its value. In addition, life insurers see their surrender rates increase and their premium income slowly decrease.

> "The Greek insurance market is in the middle of a major transformation as it is preparing for the implementation of Solvency II from 2012 onwards. "

In addition, the Greek insurance market is in the middle of a major transformation as it is preparing for the implementation of Solvency II from 2012 onwards. Solvency II, highly affected by Basel II, is a new and highly challenging regulatory and supervisory regime that is going to affect each and every aspect of insurance operations and the way that insurance business is being managed and conducted in general, throughout the EU. The preparedness in Greece is twofold: both from the side of the Greek insurance companies and from the side of the Greek supervisory authority, which very recently has merged with the banking supervisory authority, which also has a significant role as the central bank of Greece.

If we can differentiate between "organic" periods, which are characterized by accepting a comprehensive doctrine as an authoritative guide to life, stability and steady progress and "critical" periods, where the doctrine comes to be seen as an obstacle to further progress, the current period in Greece would be characterized definitely as a critical one. The current bet is to succeed in fully exploiting the benefits of the changing environment and the emerging opportunities to formulate a doctrine, rid of the rigidities of the previous one that will lead to the next organic period of stability and progress.

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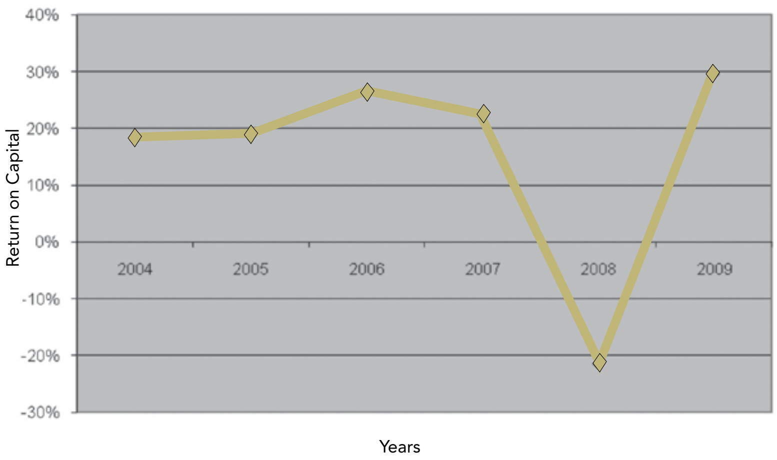
The present article reflects author's own views and should not in any case be perceived as reflecting official views of any of the European or National Regulatory or Supervisory Institutions and Committees. □

Graph 5:
Greek Insurance Market - Return on Capital



Own Capital and Technical Provisions (in billions euros)