

## **The Financial Crisis and the Greek Insurance Industry**

There is no doubt that Greece is at a critical crossroad and has the opportunity to mature into a modern European state. We will not comment on the reasons for Greece's current difficulties or the possible remedies, as the reader will already be aware of the deluge of articles on this subject from the World's press. Rather we will try to comment on the impact of this crisis on our industry.

### **Impact of the crisis on the Insurance Companies**

**On the corporate level**, until recently the main challenge for the Greek Insurance Companies was the valuation of Greek Government Bonds held in their reserves. The subsequent confirmation of the Greek Government that provided they are kept to maturity the bonds will be calculated at the acquisition value in companies' balances sheets has removed a potential negative factor for the balance sheets of local insurers. A further level of comfort in respect of Greek government paper came from the ECB which reaffirmed its acceptance of government paper as collateral from local banks.

**On the business level** some of the following risks for Insurance companies should be highlighted:

- Potential increase in fraudulent claims and moral hazard.
- Potentially increased difficulty in collecting premiums and increased exposures to general credit risk.
- Reduction or negative growth of market premium.

Although not Greece specific these effects are well known in times of financial crisis and will be felt all over Europe, as well as in Greece. The experience to-date, however, is that the above mentioned risks have not been felt in Greece to any unusual level. Currently, one of the most discussed issues in the market is the collectability of premiums from clients and agents. So far the feedback we have received is that is not negative, although this may be an issue going forward. Most Insurers have taken the opportunity to tighten terms of payment and better control their credit risk. Nonetheless, the possibility remains that credit risk may be an issue with regards to agents withholding premiums in the future.

**On a sovereign risk level,** although some scenarios for Greece leaving the Euro Zone and returning to the Drachma have been discussed, we believe they are most unlikely to arise. In the same way that any return to the drachma for the Greek state will not erase foreign currency denominated debt, similarly reinsurance contracts denominated in Euros will remain Euro denominated liabilities for the locals. Unless renegotiated the re-insurance contracts do not bear any currency risk in this scenario.

A scenario of default is also difficult to contemplate. One should not forget that 71% of Greek debt is owned by European countries and primarily by France, Germany and Switzerland. A default by Greece will have a huge chain reaction in Europe and result in an unmitigated disaster for the European banks and their indebted governments.

**On an industry segment level:**

Losses from riot, strike, civil commotion. Losses from the riots in December 2008 were mainly retained by local insurers, with little being passed to reinsurers, due to the hours clause/aggregation definition of each city, town or village being a separate loss.

One could also argue that Motor should show better results, following the large increase in petrol prices through high taxes, in conjunction with decreasing incomes, which will lead to lower vehicles usage, and so potentially to fewer accidents.

In Health, the outcome will probably be more positive. On one side, the National Health System is failing, but on the other with the decrease in salaries and expenses will lead to some public hospitals being closed or privatised. leading to a higher take up of private health insurance.

In pension covers, the developments should be positive, as the new measures create opportunities for new Life products, which will be needed to cover the greater demand created by the new social security laws (e.g. later retirement age, longer working life and major cut backs in the public pension sector).

**Current experience of BMS Hellas**

- We are still seeing new business everyday and requests for liability cover such as D&O is becoming more common.
- No surprising increases in loss frequency or severity.
- Clients are paying their reinsurance premiums on time.
- The weaker players in the market have already been exposed by the authorities, and there are no market rumours of further closures or



insolvencies. The recent move of the competent authority under the Bank of Greece also seems to have reduced the impact of any negative developments during the last 2 months.

In light of the above, we do not consider that re-insurers have reasons to be unduly concerned at this stage.

### **The opportunities**

- Due to the limited capitalisation of the market and the exposures to company balance sheets from natural perils and increasing third party liability exposures, reinsurance is an important product with continued high demand both for treaty and facultative.
- Insurance in Greece remains marked by significant low levels of penetration and low density which provides further room for the growth of insurance premium in both the life and non life segments.
- The two points above indicate significant future opportunities for reinsurers.

To summarise, we do not see any extraordinary short or long term problems that should concern reinsurers. On the contrary, we believe that reinsurance in Greece has an exciting prospect for growth and profitability in the future.

Should you have any specific concerns or questions then we will be very happy to hear from you and do our best to assist.