The Greek insurance sector:

Recovering like the rest of the economy but with its own challenges

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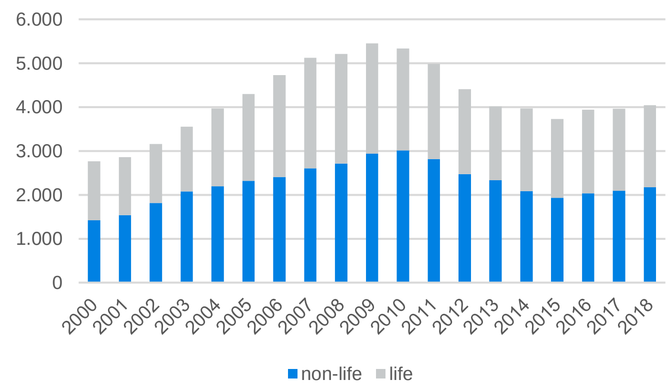
As with the overall Greek economy, the insurance sector has had a very tough time over the last 10 years. The insurance market contracted every year between 2009 and 2016 and, even with improvement in the last couple of years, is still nearly 30% below the peak level reached in 2009. The insurance sector was hit by some obvious general problems with the Greek economy like the contraction in gross domestic product (GDP) making customers less able to pay insurance premiums, the restrictions on investing in international funds and the losses due to haircuts on Greek government bond holdings. Furthermore, the problems of the banking sector have had a knock-on effect on insurance, because for several major insurers banks were either shareholders and/or the main distribution channel. However, there were also some structural issues in the insurance sector which predated the global financial crisis, such as high guaranteed interest rates on traditional life savings products, onerous long-term medical expenses policies and an old-fashioned (and expensive) traditional agency distribution system. One of the few silver linings of the economic crisis was that car use tended to fall, thereby reducing road traffic accident frequency and giving some respite to motor insurers.

FIGURE 1: PREMIUM INCOME (IN EUROS THOUSANDS)

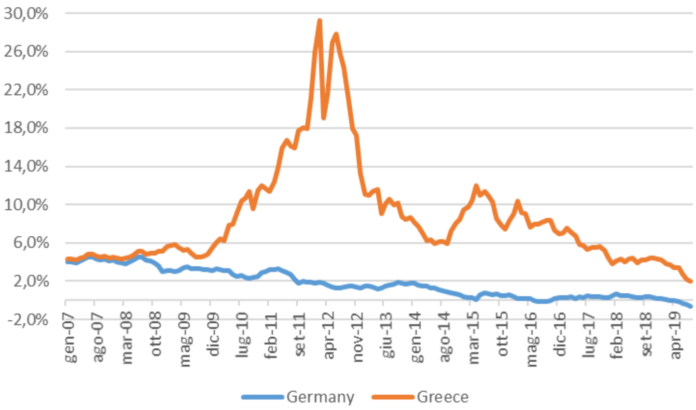


Source: Hellenic Association of Insurance Companies

In the middle of this difficult period there was a major Europe-wide change to regulation, with the implementation of Solvency II. This created some important technical challenges for insurers in all countries, including Greece, such as how to define the so-called 'contract boundary' on long-term renewable contracts, and calculation of the stochastic value of policyholder options and guarantees. But Solvency II also introduced a more economic perspective on the business and a greater understanding of risks and how to manage them. This has meant that once Solvency II is 'digested,' insurance companies tend to be better managed.

During the difficult years, several companies exited the market, although most foreign owned players have stayed. The number of licensed insurers fell from 85 in 2008 to 55 by 2017, a trend expected to continue in 2019 and beyond with further mergers and acquisitions. Recently things have been looking much better, however. The insurance sector has benefited from a general improvement in the economy, while those companies still invested in Greek debt have been helped by declining yields on Greek government bonds. Insurers were important holders of these bonds and suffered from debt restructuring that imposed 'haircuts' on bondholders. Now declining yields mean important capital gains for those few insurers that chose to reinvest during the subsequent period of high yields (see the chart in Figure 2).

FIGURE 2: 10-YEAR GOVERNMENT BOND YIELDS



Source: European Central Bank

The insurance sector has started to grow again, albeit slowly, though life insurance is still declining. Greek insurers have also been getting to grips with some of their longer-standing issues. Actions have been taken to modernize distribution systems. For example Ergo, one of the leading foreign companies, has restructured its exclusive network of insurance advisors and introduced technological tools to assist them in applying the best sales practices and customer service techniques. Another leading foreign company, NN, has renewed its bancassurance agreement with Greek bank Piraeus. Historically, bancassurance did not reach the same levels of market share in Greece as in other Southern European markets like Italy, Spain and Portugal, but the channel certainly offers potential to grow.

Legacy blocks of health business have been restructured, and companies are carefully managing the run-off of old high-guarantee savings business. Demand for health coverage is still high, but insurers now structure products to avoid long-term guarantees. These improvements are leading to strong results from insurers. For example, Eurolife ERB (which was sold by Eurobank to Fairfax in 2016, and is one of the largest insurers in the market) posted a profit before tax of nearly EUR 200 million in 2018, more than double that achieved in 2017, helped by realized gains on investments of EUR 159 million. Ethniki, the market leader owned by the National Bank of Greece, also posted solid results.

Although the situation is looking much more promising than a few years ago, there are still challenges. The legacy problems are now more under control but have not disappeared. But the long-term prospects should be good. Greece still has an insurance penetration to GDP which is less than half the European average, and cutbacks to state pension and health benefits during the years of austerity can give opportunities for insurers to fill the gaps. In particular, the off-and-on sale of market leader Ethniki will be watched closely in the market.

Milliman's regional team has been active in the Greek market for many years, helping insurance companies across a wide range of strategic and technical issues, including mergers and acquisitions, IFRS 17 implementation, risk management and Solvency II. Please contact Demosthenis Demosthenous (d.demosthenous@milliman.com) or Ed Morgan (ed.morgan@milliman.com) for more information about our services in the Greek market.

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