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SINCE 1934
MARCH 1993
VIOMICHANIKI EPITHEORISSIS
No 7 SPECIAL SURVEY SERIES

IMPENDING BOOM

A Survey of the Greek Insurance Market

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IMPENDING BOOM

A Survey of the Greek Insurance Market

BY ROBERT McDONALD

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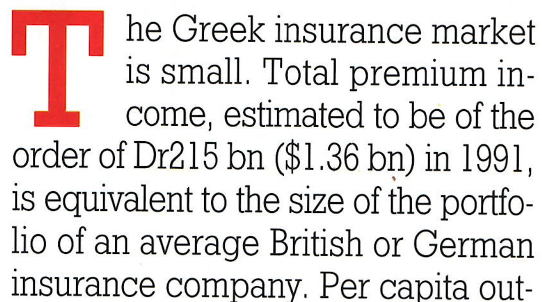
IMPENDING BOOM

GREEK INSURANCE MARKET: IMPENDING BOOM



The Greek insurance market is small. Total premium income, estimated to be of the order of Dr215 bn ($1.36 bn) in 1991, is equivalent to the size of the portfolio of an average British or German insurance company. Per capita outlays are the lowest in Europe. In 1989, each Greek spent the equivalent of $78.3 on insurance compared to $2,375.6 for every Swiss. Premiums totalled just 1.7 per cent of GDP whereas the European average was over 5 per cent.

Ieronymos Delendas: "There is a lot of potential in Greece. In other countries everything is insured. There is stagnation in the market. In Greece there is a lot of scope for growth."

There is tremendous potential for growth, particularly in the life sector where it is estimated that only one in seven Greeks have cover.

New Democracy policy envisages Social Security providing basic health and pension benefits with individuals topping up their cover privately according to their means. The 1992 tax reforms more than doubled allowable deductions for insurance premiums. The overhaul of the Social Security system last September boosted demand for both individual and group private health and pension schemes.

But the state has also been a hindrance to rapid development of the industry. Premiums have been set administratively eliminating competition. Investment portfolios are strictly regulated cramping profitability. The paperwork necessary to comply with tax auditing procedures is so great that one multinational complains of having to employ 50 per cent more staff in Greece than it does in third world African countries.

Legislation to liberalise the insurance market was drafted in 1987 but successive ministers have failed to introduce it in parliament. The suspicion in the industry is that the large companies affiliated with state-controlled banks have lobbied to have it delayed while they re-organised their operations to become more competitive.

These public sector firms historically dominated the market. But they were bloated with staff and had poor products by comparison with their private competitors and their market share has been rapidly waning. Over the past four years they have been shedding excess personnel, streamlining operations and developing new products. Industry gossip suggests that two — Ioniki and Astir — may be in line for privatisation.

New EC directives, which took effect on January 1, 1993 create a single European insurance market and allow foreign firms, operating on a domestic licence, to sell throughout the Community. There are special derogations for Greece and Portugal but, by 1999, the Greek market will have to be fully integrated. The coming years are going to be a period of upheaval. Because of the high degree of regulation few companies will fail but many small firms will be forced to merge with the major players. By the end of the century, the number of companies in the market place could be reduced by a half to two thirds but premium income, if it keeps growing at current rates, will have nearly trebled.

"There is a lot of potential in Greece," says **Ieronymos Delendas**, president of **Allianz**. "In other countries everything is insured. There is stagnation in the market. In Greece there is a lot of scope for growth."

PERIOD OF RAPID EVOLUTION

Doucas Paleologos: "In 'the good old days', bank managers made two to three times their salary from commissions. If you are hungry for capital you don't argue about the insurance."

There are currently more than 150 companies in the market, although only some 80 are underwriters. A little under half are branches of foreign companies. Many domestic companies have substantial foreign participations. For example, InterAmerican is 40 per cent owned by the French public sector life giant **UAP**; **Emboriki** is 35 per cent owned by **Assicurazioni Generali-Trieste**; and **Aspis Pronia** is 45 per cent owned by **Aegon** of the Hague.

Eight of the largest companies are owned by state-controlled banks: the **National Bank of Greece** owns **Ethniki**, **Astir**, **Eteva** and **Panellinios**; the **Commercial Bank** owns **Phoenix** and **Ioniki**; and the **Agricultural Bank** owns **Agrotiki General** and **Agrotiki Life**.

Private sector companies have, or are developing, links with private banks: **Emboriki** is 60 per cent owned by **Credit Bank**; **Allianz** is tied up with **Dresdner Bank** and has a local link with **Ergobank**; **InterAmerican** is associated with **Interbank** which is 98 per cent owned by **UAP** subsidiary **Banque Worms**; **Alico** has connections with **UBZ** of Zurich and the Athens-based **Euromerchant**; and **Aspis Pronia** has created its own mortgage bank, **Aspis Bank**;

The creation of conglomerates, linking insurers with banks and building societies is a growing international phenomenon known by the jargon terms **bancassurance** and **allfinanz**. Banks provide insurance affiliates with the names of customers providing "warm clients" for salesmen. Building societies offer integrated packages of mortgages, life cover, fabric and contents insurance. The financial institutions are prepared to cut the cost of insurance products simply to have the benefit of keeping funds within the group and pure insurance companies are finding it increasingly difficult to compete. Most countries' legislation, however, requires an arms length relationship between the various sectors and the EC is working towards drafting new regulations to prevent "spiders webs" of interwoven interests which could contravene competition rules.

In Greece, the relationship is still evolving. The basic legislation governing the industry made it illegal for banks to force customers to take out policies with their insurance subsidiaries. But as banks were the sole source of capital, it was easy for managers to coerce customers. "In 'the good old days' bank managers made two to three times their salary from commissions," alleges **Doucas Paleologos**, chairman of **Hellenovrettaniki** and former head of the **Association of Insurance Companies**. "If you are hungry for capital you don't argue about the insurance."

Obversely, some customers who might not otherwise have qualified for a loan, were able to secure one by offering to place their insurance with the bank's subsidiary. "It was an elegant way for a customer to bribe a bank manager," says

Constantine Birakos: "For the past three years the exemption from turnover tax on agricultural policies covering bank loans and product sales or puchases has been available to all insurers."

Nicholas Adamantiadis, managing director of **N. Canellopoulos - C. Adamantiadis General Insurance Enterprises**. "An unworthy borrower would get his loan and the banker would get his commission."

Legislation passed in the 1980s has largely ended this practice. Banks and insurance companies may co-operate but the insurance arm of the group must be a separate company with a separate management. Insurers may have an agent in the bank who can sell policies, provided that bank staff do not affect the sale. It continues to be a grey area. But says Adamantiadis, whose insurance companies are linked with **UBZ** through **American International Group** and are also involved in joint venture projects with the private bank Euromerchant: "Most banks are too busy today selling their sophisticated new services to worry about insurance. This facilitates separation."

There has in the past been animosity between the large public sector companies and purely private insurers. The private companies allege that under Pasok, the bank-related companies operated an informal "pooling" arrangement whereby they shared business emananting from banks. The lead company would keep a majority then cede portions to the other state companies so that all got part of the cake. Adamantiadis claims that the pool still operates "but not with the same rhythm and fidelity that it used to".

The private insurers also complain of socialist favoritism towards the **Agricultural Bank** companies which were allowed to sell farm policies without turnover tax and to use co-ops as agents. This gave them a significant price advantage and a dominant position in the farming community. Paleologos alleges that there was a very loose definition of what constituted an agricultural risk which led to unfair competition in other sectors as well. "It makes the private insurance companies sick."

Agrotiki Hellenic Insurance managing director **Constantine Birakos** claims that for the past three years the exemption from turnover tax on agricultural policies covering bank loans and product sales or purchases has been available to all insurers and that there is no longer any advantage to his company. He notes that there has been a strong lobby from general insurers to have a similar tax exemption on industrial risks.

The ill will between the public and private sectors led to the creation of two professional associations. The **Union of Greek Insurance Companies (EAEE)** had about 40 members but was dominated by the large state-controlled companies while the **Association of Insurance Companies (EAE)** represented the remainder. With deregulation of financial markets, many of the frictions have dissipated and in December 1992 the two associations merged as the **Association of Insurance companies of Greece (EAEE)** with former EAEE head **Lambros Kokkinos**, vice president and general manager of Ethniki, as the new chairman. The industry hopes that the merged association will be able to produce better market data to aid underwriting.

STATE COMPANY DOMINATION OF MARKET WANING

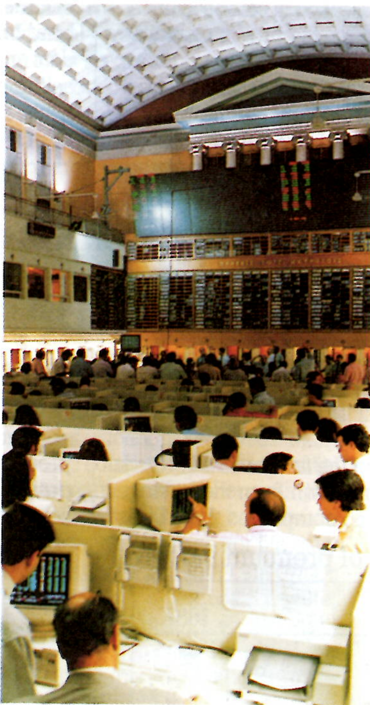
Assessing the exact size of the market is difficult. Various sources give different statistics. The results of some foreign branches are incorporated in head office consolidated accounts. Companies are required by law to make an annual return to the Ministry of Commerce giving details of their balance sheets and financial results by classes of business for publication in a yearly Insurance Bulletin. Many do not and the law has not been enforced so statisticians must search out their material from the balance sheets which all limited companies are obliged to publish each year in newspapers. The presentation of these accounts is not standardised and it is therefore difficult to obtain consistent data runs. We have used here the statistics of the former EAEE which have been drawn from the balance sheets of 86 companies. Estimates produced by the financial services company **ICAP** produce figures some 25 per cent higher.

Growth of premium income

Dr bn	1987	1988	1989	1990	1991
Life	17.8	28.0	38.5	53.5	75.0
Non-life	42.0	53.8	60.6	77.6	92.5
Re-insurance	3.1	3.5	3.6	3.9	4.5
Total[a]	62.9	85.3	102.7	135.0	172.0
Deflated 1987=100	62.9	75.1	79.5	86.8	98.6
% change					
Nominal		35.6	20.4	31.5	27.3
(Life)		(56.9)	(37.5)	(39.1)	(40.2)
Real		19.4	5.9	9.2	6.4
(Life)		38.2)	(20.9)	(15.5)	(16.8)
[a] According to ICAP	77.8	103.5	127.0	169.0	n.a.

Market shares of top ten insurers	1987	1988	1989	1990	1991	ICAP 1990
Ethniki	21.5	19.4	18.5	20.5	20.2	16.4
InterAmerican Life	13.4	13.2	14.4	14.9	16.2	11.9
Astir	8.7	7.8	7.2	6.5	6.1	5.2
Phoenix	8.6	7.7	6.7	5.7	4.7	4.5
Agrotiki	7.7	7.0	6.5	5.7	5.0	4.5
Agrotiki Life	—	4.2	4.3	4.3	4.0	3.4
Panellinios	3.0	2.3	—	—	—	—
InterAmerican General	2.6	2.6	2.6	2.6	2.8	2.1
Europaiki Pisti	2.2	2.2	2.4	2.3	2.2	—
Magdemburger	2.0	—	—	—	—	—
Hellenovrettaniki	1.8	—	—	—	—	—
AGF-Kosmos	—	2.0	2.2	2.3	2.3	—
Aspis-Pronia	—	—	2.2	2.4	2.5	1.9
Alico	—	—	—	—	—	5.0
Nationale Nederlanden	—	—	—	—	—	4.6
Public	52.5	50.9	47.5	46.7	42.9	37.4
Private	47.5	49.1	52.5	53.3	57.1	62.6

Source: Union of Greek Insurance Companies



Greater insurance company activity on the Athens exchange should provide a greater capital pool and help curb its volatility.

Several factors are consistent regardless of which figures are used. The life market which in 1982 represented about 10 per cent of premium income has grown in the course of the past decade to around 40 per cent and is expected to level off at around half, as elsewhere in Europe. Private sector firms have captured the lion's share of this market and their proportion of the non-life market has also grown, though to a lesser degree. Total premium income has grown at a rate approaching 30 per cent a year, although when deflated performance has been far less impressive – below 10 per cent. Claims have kept pace with premium growth and in the motor branch which accounts for about a third of all business the rate of increase has outstripped that for premiums.

Operating costs are high. Historically this was the result of overmanning. Latterly, there have been large costs for re-equipping and training as companies seek to improve productivity. Companies' average return on investments is low – around 11 per cent – because of large portfolios of property investments which in the currently depressed market generates low yields and is, additionally, subject to capital gains tax. With tariffs gradually being freed, companies are looking to generate more investment income. "The only solution is to move to paper," says **Basil Chardalias**, managing director of **Astir**. This should buoy the stock market. In other countries, large institutional investment portfolios both drive the market and have a stabilising effect upon it. Greater insurance company activity on the Athens exchange should provide a greater capital pool and help curb its volatility. This could convince some large companies that still prefer to secure their capital needs by borrowing to go public which would produce a virtuous cycle, further deepening the market and in turn attracting yet more investment.

Insurance company portfolios

	1988	1989	1990	1988[a]	1989	1990
		Dr bn			%	
Buildings	36.2	38.9	43.9	37.3	32.6	28.4
Government paper	37.3	52.9	70.2	38.4	44.3	45.4
Bank term deposits	8.2	10.1	12.0	8.4	8.5	7.7
Various[b]	15.4	17.5	28.6	15.9	14.6	18.5
Total	97.1	119.3	154.7	100.0	100.0	100.0
Average return	10.3	10.6	13.8[c]			

- [a] 79 companies; the 1989 & 1990 figures are for 86 companies.
- [b] These are limited by legislation to stocks, mutual funds, loans to insured people, shareholdings in subsidiaries and mortgage guarantee loans.
- [c] The 1990 increase is largely the result of the significant rise in the stock market that year.

Overall profitability has been poor. In 1991, the EAEE estimates that the industry as a whole generated Dr3.5 bn on total premium income of Dr172 bn. That was down nearly 10 per cent on 1990 when it was Dr3.9 bn on premium income of Dr135 bn. The market leader, **Ethniki**, with about a 20 per cent market share, posted losses for eight consecutive years before turning an operating profit in 1990. After carrying forward losses for two years, it expects finally to pay a dividend on its 1992 business. The situation has been similar for many general insurers. Performance in the life market has been better.

Financial Data of Greek Insurance Companies 1990 (Dr mn)

	Own Capital	Total Assets	Net profit	Depreciation	Income from investments	Net profit less income from investments	General expenses
Ethniki	8,726	43,490	418	271	3,686	-3,268	7,822
Phoenix	7,909	23,488	178	96	1,081	-903	4,889
Astir	7,063	23,035	158	143	1,051	893	2,826
Agrotiki	6,629	17,830	1,345	103	1,620	-275	3,410
InterAmerican Life	3,330	17,954	1,038	374	3,575	-2,537	6,007
Aspis Proinia	2,239	1,554	-473	88	331	-804	1,280
Emboriki	1,918	3,639	294	35	287	7	483
Metrolife	1,886	2,560	7	28	101	-94	396
Agrotiki Life	1,585	9,700	-405	81	1,030	-1,435	1,669
Laiki	1,512	2,823	53	58	285	-233	475
Total	65,607	250,605	4,065	2,197	20,464	-16,397	43,328

Source: ICAP & Hellenic Institute of Insurance Studies

GRADUAL PROCESS OF DEREGULATION

Nicholas Adamantiadis: "Every minister tries to show a draft law as his genuine baby without giving credit to his predecessor."

One of the main constraining factors has been the high degree of regulation. Tariffs for fire and motor insurance business have been administratively set. As motor cover is compulsory, successive governments have kept tariff levels low for social, economic and political reasons. To compensate, fire tariffs have been set inordinately high. Many elements of life business such as guaranteed minimum returns, allowable expenses and commissions have been determined by the authorities with the result that competition has been restricted largely to riders. Rules governing investments limited companies' flexibility in managing their portfolios.

This is all about to change. Third generation EC directives creating a single insurance market came into force at the New Year. Most countries have to have national legislation in place to implement the directives by July 1, 1994. Greece has derogations until December 31, 1998. New domestic legislation has been promised for the past five years but has been postponed repeatedly.

The basic law governing the industry was introduced by the colonels (LD 400/70). It laid down strict providential rules for reserves and investments and provided for joint industry-government determination of fire and motor tariffs with close ministerial oversight of the life sector. A presidential decree in 1985 (PD 118/85) required separate administrations for life and general insurers and provided that foreign firms setting up life companies must establish Greek subisidiaries. It brought reserve requirements into line with EC directives but kept controls on portfolio management. Accompanying legislation (Law 1569/85) defined the roles of agents and damage assessors but did not recognise the profession of brokers.

In 1987, a further reform bill was drafted designed to liberalise tariffs and make portfolio management more flexible by providing a list of permissible investments and allowing companies a wide degree autonomy in the spread of their holdings. It also provided for stricter controls on conglomerates and established a legal regime for brokers. The committee incorporated industry representatives and company spokesmen argue that, while the bill was not perfect, it went a ▶

Michael Psalidas: "The majority of business will remain in the country. London will not ensure the grocer in Naxos."

Christos Nicolaou: "The average Greek has a very strong 'national' identification. It will require a very conscious consumer to buy abroad."

long way towards opening up the industry to make it more competitive.

The draft was revised by the first New Democracy Minister of Commerce, **Athanassios Xarhas**, and tabled before the summer recess committee of parliament in August 1991. But Xarhas was replaced in that month's cabinet shuffle and his successor, **Andreas Andrianopoulos**, withdrew the bill for further consideration. Because of his pre-occupation with privatisation and price deregulation, the legislation was sidelined. The industry was promised that the bill would be in place before the end of 1992 but Andrianopoulos in turn was replaced by **Yannis Paleokrassas** who was in the job barely four months before he moved on to become the Greek Commissioner in Brussels. The new Undersecretary responsible for insurance matters is **Michalis Liapis**. He has set up yet another committee to consider the legislation and it is unlikely that it will be ready before mid-1993 at the earliest.

To be fair to the government, the third generation directives, non-life (92/49/EEC) and life (92/96/EEC), were only agreed in June and November 1992. (An earlier directive (91/674/EEC) set out a common system of accounting.) It now makes sense to introduce a law which will incorporate their basic principles. But the industry is fed up.

"Every minister tries to show a draft law as his genuine baby without giving credit to his predecessor," says Adamantiadis. "There were no immediate points in the Xarhas draft that needed correction. We are now on the eve of abolishing tariffs. Companies will have no framework in which to operate. Everyone will start improvising to the detriment of the industry."

The framework directives provide for limited harmonisation They do, however, introduce two fundamental changes. A single insurance company licence will be recognised throughout the Community and the state which issues that licence will exercise control over the company. A firm which operates legally in one state will be able to sell its products in all other countries of the Community without having to establish a presence there.

The loose nature of the directives is designed to take account of Europe's two longstanding insurance traditions. In the continental, the authorities, as well as monitoring companies' solvency, required prior notification of policy conditions and tariffs; in the Anglo-Saxon, found in the UK and Holland, there has been more emphasis on self-regulation by the market and consumers' organisations with supervision after the fact. The first concentrates on stability while the latter provides for more competition in pricing and products. The directives provide for an end to prior notification and the introduction of control after the fact which should allow greater flexibility in product design and pricing.

National governments will still be able to require prior notification for mandatory categories of insurance such as third party motor cover and permanent health insurance offered as an alternative to social security cover. They will also be able to invoke a concept known as "the general good". For example, it may be legitimate to ban the sale of kidnap and ransom insurance in Italy. Just how this will work in practice, however, will have to be determined through Court of Justice case law.

In the continental tradition companies traditionally have used historical cost accounting and not been taxed on the increased value of their assets, thus allowing them to build up large reserves for cross-investments in industry. In the Anglo-Saxon tradition, current cost accounting methods have been used and there is greater emphasis on investments generating short term profits for shareholders. The new accounting directive will allow these practices to continue but also will require presentation of the books according to the alternative system so that investors can assess the health of the company according to modes of accounting with which they are familiar.

For policies sold to private individuals, the contract law of the host country will apply. However, for large risks sold to firms with sufficient expertise to pursue their rights throughout the Community it will be up to the client to chose the jurisdiction for arbitration. To qualify for this option a company must have a balance sheet total of Ecu6.2 mn (Dr1.6 bn at current exchange rates) and turnover of Ecu 12.8 mn (Dr3.4 bn) or a minimum of 250 employees.

The provisions governing investments, including permitted assets, their diversification and spread, are more restrictive than those which had been foreseen by the Greek draft legislation.

The life directive allows the authorities to eliminate the necessity for a guaranteed interest rate on certain types of policies. This should promote the sale of unit-linked contracts and annuity contracts without surrender value. For policies on which a rate is set, the maximum can be up to 60 per cent of the rate for state securities.

Industry reaction to the changes has been mixed. There is concern that some large property and casualty business may go abroad. Equally it is pointed out that most of the major European companies are established in Greece. There will be stepped up competition from **Lloyds** underwriters, since Lloyds brokers will be able to operate in the country while local brokers remain hamstrung by the lack of legal cover. Once domestic brokers are recognised they will look to foreign partners for expertise and may eventually export large business risks such as liability insurance. But the majority of the business will remain in the country. "London will not ensure the grocer in Naxos," says **Michael Psalidas**, executive director of **Emboriki Insurance Company**.

On the life side, there is little concern. Most policies are sold door to door and come with extensive riders which require everyday servicing. The market is small and protected by the language. "It is always expensive to work in a language different than that of head office," says Delendas, "and Greece is such a small market that it is not worthwhile. Spain on the other hand would be a different matter."

Christos Nicolaou, managing director of **Scoplife**, the recently established life subsidiary of Scottish Provident, says that the average

Greek has a very strong "national" identification. "It will require a very conscious consumer to buy abroad."

Exchange controls will continue to provide a barrier for a transitional period. But this cuts both ways. To exercise the reciprocity elements in the legislation, the Greek industry will have to write life policies in currencies other than drachmas and will have to be able to make foreign currency investments in order to ensure that their assets keep pace with their liabilities. Exchange controls have been removed for long term capital movements but there continue to be bureaucractic restrictions which make only large-scale movements productive. Small firms will find it hard to compete. Some firms, such as Aspis Pronia, are nevertheless positioning themselves to write business among the expatriate Greek communities in Germany and the UK.

The other problem Greek companies will face in writing business abroad is their lack of knowledge of foreign market conditions. Psalidas of Emboriki says even a company of its size does not have the experience to properly assess the risks on foreign policies. "If we were confident in the lead underwriter, we might take a small share."

GENERAL INSURANCE
Motor

Mandatory third party motor and liability cover is the bane of Greek insurers. There has been an explosion of car ownership during the past decade and there are as a result many inexperienced drivers. Greece has one of the highest accident rates in the world. Companies are legally obliged to write motor business but do what they can to avoid it. For example, they do not advertise.

Motor cover accounts for about a third of all premiums totalling some Dr58 bn in 1991. Settled claims totalled Dr39 bn – roughly Dr15,000 for every car on the road – while those outstanding totalled Dr34 bn. Expenses associated with claims are high and, according to EAEE chairman Kokkinos, the industry lost Dr16 bn on auto business that year and expected to lose similar amount in 1992. There is some compensation to be had through writing add-ons such as fire, theft, and windshield cover but interviewees variously referred to the business in terms such as "catastrophic" and "money down the drain".

The problem is a political one. Cover is mandatory but no government wants to be seen to be responsible for raising premiums. Also, governments have not wanted to place further burdens on the passenger transport and haulage industries which are highly vocal and can cause trouble through strikes. The industry complains that, while premiums have trebled, the cost of repairs has increased tenfold, particulary the price of spares and labour. The average repair costs Dr120,000, according to Basil Chardalias, managing director of Astir Insurance.

Over the past five years, the tariff structure gradually has been being liberalised. Deregulation started with vehicles of 15HP (2,200 cc) and by year end 1992 had reached the stage where there was partial liberalisation for cars as small as 9 HP (1,300 cc).

New EC rules which came into ▶

(left) Greece has one of the highest accident rates in the world. Companies are legally obliged to write motor business but do what they can to avoid it.

(right) Motor cover accounts for about a third of all premiums totalling some Dr58 bn in 1991.

effect on January 1, 1993 meant that Greek third party liability levels virtually doubled – to Dr7 mn for material damage and Dr35 mn for bodily injury. This should have necessitated nearly a 100 per cent increase in premiums. This was deemed politically impossible, so the government and the insurers' association have reached a compromise.

From January 1, 1993 - June 30, 1994 premiums for vehicles of 9HP and above (125 cc for motorcycles) will be market determined. For smaller vehicles, premiums for damage cover will be "freed" but those for personal injury will not. Overall the increase in small car premiums will not exceed 35 per cent a year and for motorcycles not more than 30 per cent. The Ministry of Commerce will still have to vet these premium schedules. Premiums on options are freed.

As of July 1, 1994, there is supposed to be full liberalisation of premiums. The EAEE has said it is prepared to commit its members to this partial relaxation for 18 months in anticipation of "full and substantial" changes at the end of that period.

The issue will come to a head again soon thereafter. EC rules destined to take effect on January 1, 1996 will nearly quadruple cover to Ecu100,000 for damages (Dr26.24 mn) and Ecu500,000 for bodily injuries (Dr131.2 mn).

Fire

Lambros Kokkinos: "Premiums in the deregulated sector could fall immediately by 50 - 60 per cent."

Fire accounts for less than a fifth of premium income but has traditionally been a money spinner allowing companies to offset their motor losses. In 1991, e.g., premium income totaled Dr25 bn while settled claims totalled just Dr5 bn and outstanding claims Dr6.4 bn. Greece was the only EC country with an obligatory tariff and rates have run 3 - 4 times the European average. EC regulations require that fire premiums be freed by 1995.

The high premium rates have led to abuses. It is alleged for example that agents have charged rates of 8/mill and then covered off 95 per cent of the contract elsewhere in Europe at 2/mill kicking back a portion of the difference to the client in order to secure his custom.

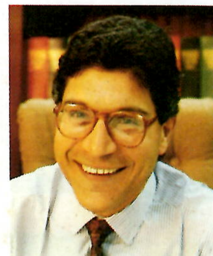
The industry argued that deregulation should be gradual. Partly this was because it did not want to lose its milch-cow but also, senior figures argued, it is necessary to give companies time to gain experience. Sudden deregulation in countries such as Spain, Portugal, Turkey, Cyprus and Germany led to many companies getting their fingers burned. The measures announced at the New Year freed premiums on all residential buildings and contents cover and on industrial and commercial policies worth more than Dr850 mn. The industry had expected a Dr1 bn floor.

Kokkinos predicts that premiums in the deregulated sector could fall immediately by 50 - 60 per cent and there is concern about "cutthroat competition by cowboys". Chardalias, e.g., cites an instance of one company selling cover, including earthquake, to a company at 0.65/mill when the going market rate was closer to 3/mill. "It is necessary to keep the rates at a logical level or we will lose our credibility. There are small Greek companies, abetted by foreign reinsurers, who do not care for the future," he says.

Delendas of Allianz adds "The market has been protected for a hundred years. The protection has meant that there is no local experience to allow good underwriting. There is insufficient local data. There must be preparation to avoid dumping. The sector has to be freed within two years. We should use the interim to study European data in order to make proper Greek comparisons."

Adamantiadis notes that deregulation comes at a time when the country is supposed to be going through a process of industrial expansion and refurbishment. He claims that there are always large losses associated with new generation equipment. "I am very sceptical about the property branch over the next two to five years. The only hope is that treaty reinsurers may impose strict terms and rates until the industry can gain experience."

Hull



George Caramanos: "The reserves of local companies are insufficient to cover large marine risks. Shipowners prefer the UK market."

Surprisingly for a maritime nation, the hull insurance market is dominated by foreign companies. Most of the business is written by Lloyd's or the Institute of London Underwriters with some placed in the French, German and US markets. A consortium of the bank controlled companies formed **Hellenic Ship and Aircraft Insurance** in the early 1970s. It held its reserves in dollars but exchanged these for drachmas when making settlements. When the drachma was devalued it had difficulties meeting its claims. Also, a number of its reinsurers in South America went bankrupt. The company went into liquidation in 1983. Today, marine business is confined almost exclusively to yachts, fish boats and ferries.

The problem according to **George Caramanos** of **P.P. Caramanos and Son** is that the reserves of local companies are insufficient to cover large marine risks. Exchange controls mean that insurers cannot operate in the dollar which is the international shipping currency and shipowners whose vessels fly foreign flags do not want settlements in drachmas. Shipowners prefer the UK market where there are also banking and other associated back up facilities.

Moreover says Caramanos, with the exception of Ethniki, none of the domestic companies have underwriters trained to do maritime business. He is trying to promote a local marine market with a lead underwriter and a consortium of companies prepared to take predetermined lines. The company would have to have full foreign exchange

facilities and its staff would have to be free of all political influence so that underwriting decisions could be taken on purely business criteria.

(right)
Alico headquarters in Athens.

(left)
Surprisingly for a maritime nation, the hull insurance in Greece is dominated by foreign companies.

Cargo

Cargo insurance is described as a steady but unspectacular market. According to Adamantiadis, it accounts for about 5 - 6 per cent of premium generation compared to 10 per cent in most other countries. The branch has never been regulated and stiff competition has kept rates down.

The majority of business is written on imports while most export cover is written abroad. There is little involvement of the Greek fleet in traffic to Greece. Most vessels survive by tramping and their insurance cover is written in the countries of operation.

The risks attached to road transport have increased greatly over the past two years because of the fighting in the former Yugoslavia. But, according to Psalidas of Emboriki, insurers have not been able to increase their rates because of resistance from companies which already face increased transport costs. No company has been prepared to take the lead in establishing a risk premium for fear that competitors will secure the business by failing to follow suit. To avoid the fighting, much cargo has been diverted via Italy. Psalidas argues that there should be a premium for goods on Italian routes because of the high incidence of theft and hijacking by organised criminal gangs.

Cargo insurance is described as a steady but unspectacular market.

Big projects

Insurance cover for the Athens Metro project has been allocated 40 per cent each to Allianz and Generali

Allianz company 'headquarters' in Athens.

with 20 per cent being taken by local companies. **Nicos Macropoulos**, chairman of the **Hellenic Insurance Brokers Association**, argues that if the broking profession had been properly recognised a consortium with greater Greek participation probably could have been put together. He is concerned that cover for the Spata project will also go to 'foreign' companies.

However, Delendas of Allianz claims that large international contractors who are involved in consortia for major projects tend to choose insurers they know. He claims Allianz has an international reputation for its all risks engineering cover and can support firms in foreign markets by offering them advice on local conditions. Rates, he claims, are a secondary consideration. Allianz, e.g., has done the cover for most Greek hydro stations, although under Pasok, he says this had to be fronted by a local company such as Ethniki.

Exotics

It is indicative of the degree of development of the Greek market that products which are common elsewhere in the world are generically referred to as "exotics". These include policies to cover financial and credit risks, professional liability and environmental liability.

According to Adamantiadis, less than one per cent of professionals carry insurance against malpractice suits. He argues that this is because there has been, until recently, little interest in consumer protection and because the social status of doctors and lawyers affords them advantage in those cases which come to litigation. He expects this sector to grow.

Insurers have been unprepared says Adamantiadis to get involved in providing environmental cover because there is only limited legislation and because there are "thousands of ways" of getting round what laws that exist. "Unless state agencies start applying legislative measures regarding environmental protection, not many companies will enter the Greek market."

Promotional cover is a recent innovation. The new private bank Euromerchant offers customers who maintain an account balance in excess of Dr3 mn for one month accidental death cover. If they maintain a balance in excess of Dr10 mn for three months they are offered supplementary hospitalisation benefit of up to Dr20,000 for up to 90 days. The bank absorbs the cost of the premiums. The scheme is complicated to operate requiring code numbered policies so that banking secrecy regulations are not contravened but it is the beginning of a series of promotional policies which will likely spread.

LIFE INSURANCE
Life and Health

Pavlos Psomiadis: "Straight life policies account for only about 5 % of total premiums. Most policies are packages which also include hospitalistion and pension provisions."

The growth sector is life insurance. Only about 15 per cent of Greeks currently have cover. Companies are targeting this area and report phenomenal rates of growth. Paleologos, says that premium income has been growing at 40 per cent a year which when compounded means that companies are doubling their production every two years. At Ethniki, where motor insurance had been the leader for 98 years, life has become the premiere branch.

It is a capital intensive business with high start up costs. Good salesmen are limited and require extensive training. Keeping them, once they are trained is difficult in competitive market conditions. Writing new business is expensive. First year commissions can be as high as 160 per cent of premiums. Nicolaou of Scoplife, which was founded in 1989, reckons that it takes at least three years to develop an agency to the point of profitability.

The market is rapidly changing. Straight life policies according to **Pavlos Psomiadis**, president of **Aspis Pronia**, account for only about 5 per cent of total premiums. Most policies are packages which also include hospitalisation and pension provisions. He estimates that about 40 per cent of premiums relate directly to life cover, 20 per cent to hospitalisation, 14 per cent to personal accident with the balance coming from other riders such as premium waiver, disability, death and income protection.

There are, as yet, no private companies solely selling health insurance. All health is sold through life companies and most is linked to life policies. Neither are there any private health insurance hospitals, although

Michael Prinarakis: "Large companies should be allowed to prepare their own mortality tables based on their own portfolio. For smaller companies, the insurers association should be developing domestic tables."

Dimitris Kondominas: "Private insurance and the social security sector cannot be mixed. The two must be allowed to compete. Opting out is the best system."

Paleologos of Hellenovrettaniki thinks this might come, with insurance companies investing in them as part of their property portfolio.

The life market is highly regulated. Companies are required to use common mortality tables based on French statistics. Administrative costs are fixed at between 1 - 6 per cent. There is a common guaranteed technical interest rate and commissions are also controlled. Basic premiums are thus roughly the same throughout the industry. The competition comes in the riders and on the cost of administration. The technical interest rate used to be fixed at 4.25 per cent but this was increased as of January 1, 1993 by one per cent which should release some blocked capital for investment or distribution. It was, however, an across the board increase.

InterAmerican is the decided life market leader with a vast book of ancilliary products particularly in the health line. But other insurers such as **Ethniki, Ioniki, Alico Scoplife** are rapidly developing matching and new products. Most major insurers, e.g., now offer a health card which allows a client to enter hospital and not to have to lay out any cash. This is advantageous to the companies as well because it means that their specialists deal directly with hospital experts in assessing costs.

Corporate image also counts. "There is quality in our business," says **Michael Prinarakis**, managing director of **Ioniki Life Insurance**. "Quality not only of product design but of the insurer himself." The other features of competition he says are service and participation on yield. Prinarakis argues that large companies like Ethniki and Inter-American should be allowed to prepare their own mortality tables based on their own portfolio. For smaller companies, he says the insurers' association should be developing domestic tables. If this is not possible, then he argues that British mortality tables should be used in preference to the French since they would produce a lower premium rate.

The government is promoting private life insurance as a top up to basic social security pension and health benefits. The 1992 tax law increased allowances for life and health premiums from 5 per cent of taxable income with a ceiling of Dr91,000 to 4 per cent with a ceiling of Dr200,000. The industry is divided on the effectiveness of this. The allowance assumes net taxable income of Dr5 mn. But this is for a household. It is not a lot in a modern family where both husband and wife are working. (If a couple lived together rather than being married, each would qualify for the Dr200,000 ceiling.) It is also meant to cover policies taken out for children and term policies to cover educational costs are becoming increasingly popular.

"There should be further tax incentives, no doubt about it," says **Dimitri Kondominas**, chairman of the largest life company **InterAmerican**. "I don't see why there should be any cap. The limit should be a percentage of total income, say 10 per cent. It would help the economy draw funds away from consumption into long term investment."

Psomiadis also argues for unlimited relief but does not think that it is politically realistic. He suggests it might make more sense to lobby for an allowance of Dr500,000. "If there was higher relief, the state would collect more taxes from the insurance companies and there would be less burden on the social security funds."

"It is a step in the right direction", says **Meletis Fouscaris** of **Alico**."It shows that the state has realized the important role private insurance can play. We believe that every year this allowance will get higher."

But the state companies are more cautious. Chardalias of Astir says that a premium of Dr100,000 will buy a "good life policy". Kokkinos of Ethniki says he would like a larger allowance but feels it would be impossible to persuade the Ministry of Finance to increase the threshold. "If the economy was in good condition, then the industry might press for unlimited allowances but we have to take into account, the general economic situation. It is only for a small group of clients that higher allowances would drive the market."

At the same time as it increased the allowances, the 1992 tax law dealt a blow to the insurance industry by taxing their earnings on Treasury bills at a rate of 10 per cent. A large proportion of insurance company reserves and investments – in some cases up to 75 per cent – are in government paper. Tax on life policies is calculated each year and deducted from the bonus, not rolled over and paid at maturity. Benefits are thus "seen" by many clients to be tax free. The 10 per cent tax was supposed to bring the insurance industry into line with banking which then faced a 10 per cent tax on interest payments. The rate for bank interest has since been increased to 15 per cent. "The tax on insurance is very heavy," says Kokkinos.

Pensions

The sector of private pensions and estate management is one which is just beginning to evolve in Greece. Private schemes tend to be whole life policies with an optional pension payout. Opting out of the state system is not permitted. Arrangements common abroad whereby tax can be avoided on lump sum payouts if the proceeds are invested in authorised securities until such time as the capital is realised are not known in Greece.

At the moment there is a three tier pension system. First there is the basic pension through **IKA**, **OGA** or one of the other recognised funds. Then there is the auxiliary pension which is comparable to occupational pensions in other countries but which has become bound up with the state system in Greece because historically it has been part funded by special levies and duties. (For example pharmacists' auxiliary funds have been part-funded by a tax on all prescriptions; journalists' by a tax on advertising.) Thirdly there is the private system.

The auxiliary funds have been a long standing focus of contention because of the disparities in the levels of taxes applied. The social se- ▶

Minos Moissis: "If the state really wants to promote the private pension sector it should get rid of the auxiliary pension tier. Employers contributions to private funds would then boom."

curity legislation passed last September provides for an equalisation fund and for the special taxes to be phased out over a decade. The auxiliary pensions of new entrants into the state system after January 1, 1993 will be funded solely by employees and employers each contributing three per cent of salary.

Minos Moissis, head of the actuarial department of **InterAmerican**, argues that if the state really wants to promote the private pension sector it should get rid of the auxiliary pension tier. Employers contributions to private funds would then boom. If this is deemed undesirable, he argues that individuals should be allowed to opt out and to set up personal pension arrangements as has been possible in the United Kingdom since 1988.

Moissis says that the average individual currently pays 15 per cent of income towards social security benefits, including pensions, health and disability benefits. (Official contribution rates are much higher than 15 per cent but ceilings cap the level of actual contribution.) "For the government to effect the transfer to the private sector which it professes to desire, there must be a set of motivations to the private sector." As well as the opt out provision, he suggests an increase in allowances to 8 per cent of taxable income with no upper limit. The Dr200,000 limit he says "cannot buy a serious insurance policy. There is insufficient premium to generate decent benefits. Typically the return is about 20 per cent of final earnings."

His boss, Kondominas, concurs: "Private insurance and the social security sector cannot be mixed. The two must be allowed to compete. Opting out is the best system. It leaves competition open and things become more efficient for everyone concerned."

Nicolaou of Scoplife says he believes the authorities do not fully appreciate the inter-relationship between insurance and taxation. Higher allowances would be offset by increased investments by insurers in Treasury paper to cover reserves on the new policies written. This would in turn generate more tax. He believes that allowance limits should be raised to 10 per cent of taxable income for individuals and should be without limits for pension products. This, he argues would help draw funds from the parallel economy.

GROUP INSURANCE

Group insurance is on the increase. Occupational schemes are a commonplace elsewhere in the world and there is nothing to prevent Greek employers offering a company plan. The law as it presently stands allows unlimited deduction of premiums as an operating expense for pension schemes and group insurance policies. As the competition for skilled workers increases, managements are increasingly offering group cover as an incentive for workers not to change jobs.

Moissis says there has been a sharp upturn of interest in group policies since the Social Security legislation and he foresees this becoming an important market sector. Psomiadis of Aspis Pronia complains, however, that the competition in group insurance is so intense that profits are "very thin". It is, nonetheless an area on which his company intends to concentrate.

MORTGAGES

Private mortgage insurance is a new phenomenon in Greece. Until recently there were only two mortgage banks both state-controlled. Mortgage interest was subsidised by the state and the banks were permitted to write the insurance cover in order to help offset the cost. The bank could decline the mortgage if cover was sought elsewhere.

Since 1989, private insurers have been able to write such cover. There are two possible methods: an endowment policy where the client pays the interest monthly and uses the principal from the proceeds from the matured policy to pay off the loan or a system whereby the client repays both interest and principal and the outstanding balance is covered by a reducing term policy. Most companies offering such products write term rather than endowment. Moissis of InterAmerican says that there is not a lot of business around at the moment because mortgage interest rates are so high at between 28 - 29 per cent. Nevertheless Prinarakis says that Ioniki is designing new policies to cover not only house purchases but loans for refurbishment of properties.

Aspis Pronia is the major player in this field. It has established the first private mortgage bank, Aspis Bank, and is investing in land for property development. It proposes within 1993 to begin constructing medium priced appartment blocks in the Athens suburb of Aghia Pareskevi and to follow with developments in similar middle class residential districts. It seeks to create a vertically integrated business whereby it will develop properties, provide the buyer with a mortgage and insurance to cover it and then provide fire, fabric and contents cover for the occupants.

MUTUAL FUNDS

Insurance companies have been expanding rapidly into mutual funds. They must create an independent fund management company with a separate administration and have a bank as the custodian of the securities. It is forbidden for them to blend reserves with mutual funds.

With the deregulation of tariffs, insurance companies will need to step up their earnings from investments. They have been looking to reorient their portfolios away from property into higher yielding bonds, stocks and shares. The number of mutual funds has quadrupled to 36 in the past two years with insurance companies responsible for half of them.

The market is expected to grow even faster as exchange control regulations are relaxed allowing greater flexiblity in investments on foreign exchanges where yields are higher.

For the moment, life companies sell mutuals in parallel with their insurance policies. There is as yet no legislation governing policies linked to unit trusts. Several companies are looking to develop them how. "Today," says Paleologos, "the companies have all the leeway. They have a lot of investments in buildings. But property has low yields and is subject to capital gains. Polycholders in future will be able to chose whether to invest in bonds, stocks or shares."

REINSURANCE

Albert Barry: "Most Greek companies have small retentions. Except for excess of claims, most companies reinsure any sum over Dr5mn."

Most reinsurance business is written abroad. Under the Metaxas dictatorship in the 1930s, an agency called **Hellenic Reinsurance** was formed from a pool of the state-controlled companies and it was made mandatory for all domestic and foreign firms to cede part of their premiums to it, the idea being to keep the premium income in the country. "It was," claims Adamantiadis, "an anti-insurance solution. Imagine earthquake risks with the re-insurance in Greece!" The compulsion was eventually dropped.

The company only attracted a small share of treaty business. Most domestic firms preferred to place their risks abroad and Hellenic Reinsurance was persistently unprofitable. It was wound up in 1991 after the National and Commercial Bank groups refused to provide a further capital injection.

"We paid out out a lot of money for many years," says Chardalias. "We wanted to make a healthy company but the Greek market didn't try to help. We tried to sell the company to foreigners but without success. It was not a pleasure for us to close the company."

There are some 10 - 15 companies active in the reinsurance market but it is dominated by Munich Reinsurance and Swiss Reinsurance, who have an oligopolistic hold on treaty business. Treaty arrangements, the volumes and terms of which are subject to annual negotiation, require the reinsurer to accept automatically the business offered to him. Once the risk exceeds treaty capacity a company must seek facultative cover. This is necessary for large risks such as those associated with the oil industry.

According to **Albert Barry**, managing director of **Barry S/A.**, most Greek companies have small retentions. Except for excess of claims, most companies reinsure any sum over Dr5 mn. Adamantiadis says there is scope for the development of the reinsurance market but probably not during the period of deregulation when losses can be expected to be high. "A number of well-known European re-insurers have not shown keen interest this year in the Greek market."

BROKERS

Nicos Macropoulos: "In the case of Athens Metro project, if the broking profession had been properly recognised a consortium with greater Greek participation probably could have been put together."

John Acton: "Everybody and his dog is an agent now. If you get rid of the tariff systems, the cowboys will go and you will get a professional market."

Basil Chardalias: "Tarrifs are gradually being freed. The only solution is to move to paper."

There are some 75 companies in Greece writing business as brokers generating annual premium income of the order of Dr10 bn. They have organised themselves into an association, the **Hellenic Insurance Brokers Association (SEMA)**, and it has received international recognition from the **Bureau International de Producteurs d'Assurances et Reassurances (BIPAR)**. But Greek law does not recognise the profession of broker as such.

Ordinarily, brokers assess client needs and the risk involved, design a tailor made package, then negotiate with several insurers asking each whether they would like to take a line. In Greece, says **SEMA** chairman **Nicos Macropoulos**, "brokers" have to negotiate with companies on their terms.

Macropoulos says insurance companies were in the past suspicious of brokers assuming that they were out to steal their business and export it. Now he says they are coming round to the idea that brokers actually generate custom. Most companies, however, still deal with offerings on a case by case basis. "Ethniki has accepted the idea in the past year. So too have Allianz and Astir. Phoenix is 'iffy'. Agrotiki won't work with brokers."

There is provision in the draft legislation to recognise and regulate the profession. But says Macropoulos, its future will depend on the terms and conditions laid down. The draft law provides for brokers to deposit a bank guarantee of Dr20 mn, or Dr10 mn if they have errors and ommissions (E & O) cover of Dr75 mn or more. These are professional indemnity policies. Macropoulos says there are plans to increase the E & O level to Dr100 mn and that EC recommendations could lead to it being increased to Dr200 mn. The insurance industry is said to want to see the bank deposit increased to Dr 50 mn and for brokers to be subject to regular audits.

Macropoulos believes that the conditions should be relaxed, initially, in order to allow the profession to get established. There should be either a higher deposit and lower E & O cover or vice versa. The law should set qualifications for operatives and require the broking companies to be of a reasonable size. He also favours audits. But he says "if the guarantee is set high as well as the E & O cover, then there will be very few brokers in Greece."

Macropoulos suggests that if the legislation is going to be delayed longer, there should be a separate bill governing the profession of brokers. If this is not forthcoming, he will seek the assistance of BIPAR in putting pressure on the authorities through Brussels. He fears that the absence of professional brokers is causing business to be lost abroad. "If a local broker had been able to make a pool to cover the Metro, then the risk probably could have been placed locally and reinsured."

He fears that once the provisions of the third generation directives come into play large Lloyd's brokers already represented in the Greek marine sector will steal a march on local companies in securing large industrial contracts and that much of this business will go abroad. He is himself a Lloyd's broker authorised to write non-marine business in Greece and is considering the possibility of securing a UK general business licence which theoretically should give him leagal-cover to do business in Greece under new EC rules.

The industry is divided on its approach to brokers. **John Acton** general manager for **Sun Alliance** argues that once the tariff system ends, then intermediaries will have to become more professional and brokers will come into their own. "Everybody and his dog is an agent now. If you get rid of the tariff systems, the cowboys will go and you will get a professional market."

However, Chardalias at Astir fears that brokers will all be chasing the same business. "I don't know whether they will be important for the Greek market. They will only be trying to get the lowest price."

It's a point taken up by Admantiadis. "Most brokers see the protection of their clients only in terms of low rates. The broker also ought to be concerned with the quality of cover and security. The UK market, for example, surrendered to pressures put on them by brokers and drove a number of Lloyd's syndicates out of business. Brokers are not always the solution unless they are qualified enough to look both ways. They must be technocrats having -know how- and balance between the interests of clients and the insurers."

Sun Alliance Greece, central offices.

INDUSTRY SEEKS A COMMON PURPOSE

There are a number of common strands in the thinking of the Greek insurers. Motor insurance is a disaster but a necessary evil. Premiums must rise but cannot bear the full adjustment cost. Ways must be found of cutting down overheads and the cost of repairs.

Fire and property insurance has been a good sector and should continue to be so even after deregulation provided that there is a suitable transition period to allow underwriters to assess risks properly and provide sensible quotations. It is the area most vulnerable to foreign penetration particularly where large risks are involved.

Life is a growth area both in terms of individual policies and group cover. Ancilliary products such as pensions, annuities, mortgage cover and unit-linked policies are virtually virgin territory and ripe for development by innovative product designers.

The state-controlled companies are losing market share because of its poor productivity but this is being improved. They will remain major players because of their links with large banks. **Emmanuel Alexandrakis**, general manager of **Phoenix**, was quoted in a recent magazine article as suggesting that the public sector companies should come under the control of a single unified board with each of the companies specialising in a single branch. This has happened within the Commercial Bank group where Phoenix now specialises in general insurance and Ioniki has been revamped as a purely life company. Alexandrakis declined to be interviewed for this article so it is not possible to say whether he continues to hold this view. It seems unlikely that the present government would entertain such a notion. Indeed the idea of some companies being privatised seems more likely.

Deregulation is necessary and welcome but the industry is concerned that it should be accomplished gradually. "Rapid deregualtion of a market that has been protected is dangerous," says Delendas. "It is better that competitors know the business because then they are working on the same level. If you get dumping it creates problems for knowledgeable companies. The main competition will not be on rates but on the level of costs for companies. Operational costs in Greece account for 25 - 30 per cent of total costs compared to 15 per cent abroad. The main problems are organisation, overmanning and insufficient EDP."

Kondominas concurs: "The problem for the Greek market is not foreign pentration. All of the big European players are already present in Greece. The danger is too much competition prematurely. Severe competition is o.k. in the UK where they have know-how and reserves but not in Greece."

Adamantiadis highlights the need for more education at company level and a stronger sense of professional ethics buttressed by a strengthened industry association. "Greeks need training, new methods of operation and the participation of key people in decision making to do with business ethics. We need more collective leadership rather than a family hierarchy oreintation."

Nicolaou calls for common action within the industry to educate the public about the benefits of insurance. "People get their information from advertisements which are sometimes misleading. Consumers do not have a good image of insurance companies. Companies must respect one another and adopt a common industry approach to education. There ought to be a common industry insurance campaign paid for according to market share. We have common things to win."

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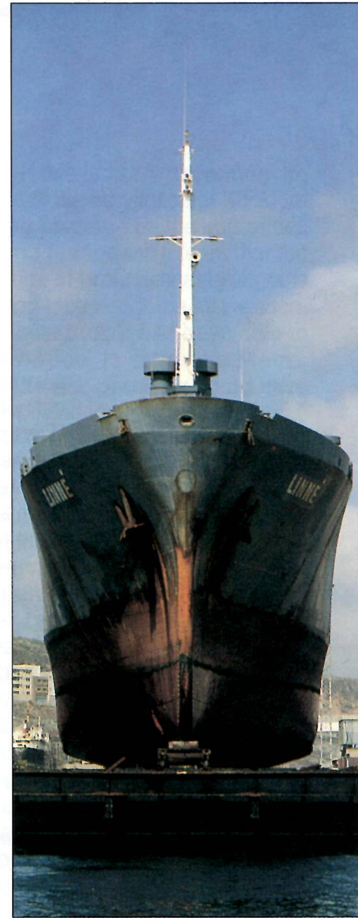

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