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## *Auxiliary funds as an underpinning of market credibility: "The Greek Case"*

Good morning, ladies and gentlemen.

I would like to thank Professor Rokas and AIDA for the kind invitation to attend and address to you on this very important conference. AIDA is a respected international organisation, with important scientific work in the promotion and development of insurance and private insurance law, so it is with great pleasure that the Hellenic Association of Insurance Companies has put this conference under its auspices.

Many years ago, when I was starting my insurance career, an old wise man of the industry told me that "*insurance is a very strange business, because you sell a product and you find the cost of goods sold many years later*", which doesn't sound very rational! So when you have a business like that, it means that definitely you have many important legal issues that arise and therefore you need organisations such as AIDA, and forums such as this conference, for the exchange of ideas and opinions on current developments.

I believe we are all keenly aware, internationally and certainly locally, of what has transpired over the past six years. We have had an economic crisis of unprecedented proportions, that definitely affected all industries but more importantly that has transformed the Greek economy and the way the average person in Greece thinks and feels about the future. And in the context of this, it has also transformed the Greek social state which up to now was providing pension coverage and health insurance, in a way that was extremely generous and very inexpensive; numerous statistics can verify this. If until now we thought of the Greek state as an insurance company, at the end of the day, given the crisis, we unfortunately found out that this insurance company did not have neither proper reserves, nor enough capital.

So what happened?

All these entitlements and all these very nice products for the average Greek citizen suddenly went away.

In a way, while we had the Greek state crowding out private insurance – and here I think it is of note that Greek insurance penetration (gross written premium as percent of GDP) perennially has been at around 2-2.5% versus a European average of 7-8%. No wonder it wasn't growing. There was no need, in a way, if the state was giving away insurance "*for free*".

Today this has all changed and the state can no longer perform its role as the exclusive insurer of citizens . The Greek Insurance Industry went from EUR5.5 billion gross written premium a couple of years ago, to EUR4 billion last year. It is a very small industry, with many companies, about 35 insurance groups, that has performed extremely well its basic duty of compensating the policyholders, but at the same time did not have proper supervision for decades.

The insurance association is 107 years old. There are companies that have been in Greece for over 150 years. So we have a long history as an insurance industry.

At the same time the history of Greek insurance supervision is three years old. What this has caused is several spectacular failures, such as one that was mentioned before, that have traumatised our credibility as an industry, and so this, together with the social state that I described before, has led to the underdevelopment of our industry.

But things, as I said, have changed. The average Greek citizen realises, starting with health and then pensions that they need to do something on their own, and to do that despite the total absence of any tax incentive to buy insurance. We used to have some moderate tax incentives; we now have none, due to the crisis. We are hopeful that this will turn around again. We do hope that the state will see it that way as well.

So the average Greek now, despite the absence of tax incentives, during the economic crisis, has been buying health insurance. And we feel responsible and optimistic that in the next day of the Greek economy the private insurance industry will have a significant role to play in complementing the state in terms of coverages.

I am not going to go into well-known issues – the inverted demographic pyramid, all these things that are causing the system of entitlements to not be sustainable any longer. It is, in our day and age, becoming clear, fortunately, to the people out

there, never mind audiences such as this, that the insurance product is not a luxury product, in that if, as Adam Smith I heard before said, the average person did not insure themselves essentially they are self-insuring.

And you are least able to self-insure if you are economically weak, both as a person, as a family, and certainly as a state. We have a situation here where we are in an earthquake zone, and yet any talk of mandatory cheap coverage for the entire population in terms of earthquake coverage is not met with let's say general acceptance. Any talk of private insurance in pensions, when pensions have collapsed, is again at the initial stages.

But again, as I said, things are changing and we are extremely optimistic that, given certain preconditions to which I will refer in a second, the Greek insurance industry is about to grow significantly.

What are these preconditions? One is a proper framework. Solvency II is that framework. It is theoretically the correct framework. It is a risk-based framework, so it makes theoretical sense. But let's not forget that Solvency II is the general guideline that we are in the midst of a process of translating it into national laws, interim measures, technical standards and a million other things.

And during this process - the state, the supervisory authorities, the associations, the industry – we are all responsible to have an effective translation into practice, a translation that will not create bureaucracy. Because that would be a disaster. Bureaucracy will be transferred to prices and prices will rise and the average Greek will remain uninsured, etc., etc. So the framework is the first item and as I said January 1st, 2016 it's going to be there

The second item is proper supervision. Three years ago supervision of the Greek insurance industry was transferred to the central bank, along with many able employees that were coming from an authority that had another couple of years of life. And so we now have strict proper supervision. The supervisors, the central bank, are responsible to make sure that as Solvency II is implemented they keep a level playing field. Otherwise there will be arbitrage and unfortunately there are some players that do not play a fair game, and this will create problems, problems for our industry, problems in the end for our credibility, because the pillar for our growth

and what we are missing and what we need to fix, is the issue of credibility. So Solvency II and the proper supervision are the two essential elements to improve our credibility.

And last but not least, the auxiliary funds. In Greece there are two auxiliary funds, as the professor mentioned before. There is one longstanding one, which is the one on motor. This is a fund that, despite significant and effective efforts from the current management of that fund, if it was a company it would be insolvent. It is several hundred millions 'in the red'. And this is, to put it technically, a hot potato, because when you have a state in the fiscal condition that this fund is, nobody wants to touch that. By the same token, this fund continues to perform, with difficulty.

The other fund is a new fund. It is the auxiliary fund for life. It is a fund that has a relatively low income from contributions from the companies, from the market. And provided there was no need to use it for the next few years, we would be OK. Unfortunately there are discussions using it to solve problems of the past, so there are some legal issues there, etc., etc. So even for that young fund … life is complicated.

So what is the Association's position on all this? Funds are extremely important. They are an underpinning of our industry; they are an underpinning of our credibility. But we must not forget that they are a last resort, a very, very last resort.

There is, and there I respectfully disagree with the professor, there is moral hazard. There is moral hazard because theoretically everybody should play a fair game, so that the fund is not used so they are not asked to contribute. But you only need one or two not to play a fair game, and you create – you see what I am getting at.

The last point I want to make is sort of the back testing, and I was happy to hear the professor mention that before 2010 is a different legal regime, if I understood you well. The gaps, the deficits in the auxiliary fund for motor and any issues that might touch the auxiliary fund for life, are issues that are directly the effect of insufficient supervision by the state for decades in the past. Therefore it would be absolutely unfair, and I think quite possibly illegal, for the state to ask the industry, and through the industry essentially to ask the new policyholders, the existing policyholders, to subsidise the deficits of the past. There are technical solutions, technical solutions

in managing the funds and in financing the deficits, and even for Greece these days markets are very hot, to manage the problem.

And I think that the solution is more in that direction, and definitely not in the direction of asking the industry to fix in one shot problems that arise from inadequate supervision in the past.

With this, I would like to close, just saying that we have turned a new page in the Greek insurance market. We have not seen the numbers yet. We are optimistic, but the optimism depends on us, as an industry, but also depends on the state; it depends on how Solvency will be involved, will be implemented, and it depends on the supervisors.

I think the future is bright, but there is a lot of work that needs to be done. Thank you very much.