

## **Financial crisis and recession: the impact on the Insurance Enterprises**

### **Executive Summary**

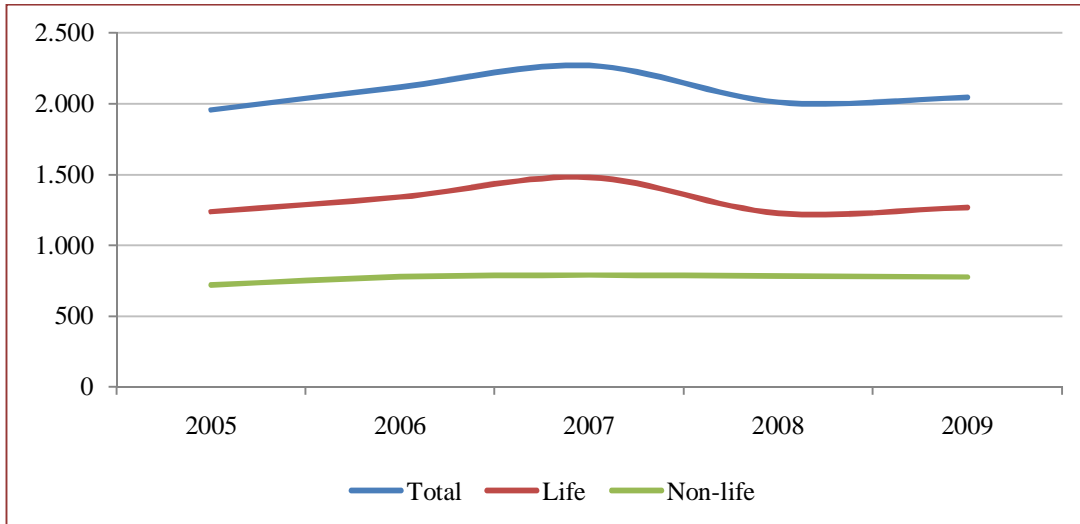
The financial crisis, which originated from the USA and quickly spread to Europe and the rest of the world, started after a sharp fall in the real estate prices. Cause of the crisis was the rapid credit expansion in an environment of low interest rates. Also, during the same period of time, it was observed that complex and poorly rated financial products were used, whose structure was characterised by a lack of transparency. At the same time, the banks grew in size and interdependency.

The crisis impacted negatively on the asset prices and the credit expansion, mainly in the countries where the sectors of financial services, construction and export activities were developed.

After the crisis, economic recession, unemployment and illiquidity issues caused many businesses of the financial sector to face intense problems which forced some of them to go bankrupt. The coordinated action of international organisations, governments and central banks limited the effects of the financial crisis but the recession that followed forced the European countries to adopt fiscal austerity programs.

## Financial crisis and recession: the impact on the Insurance Enterprises

### Premium per capita, EU-27



In the European insurance market, it was observed that premium rapidly decreased in 2008 and that it stabilised in 2009. Life insurance premium were decreased in 2008 while Non-life premium decreased in 2009. In particular, motor insurance premium decreased for two years in a row, 2008 and 2009. Premium per capita in Life insurance of 2008 returned to 2005 level while the corresponding value in Non-life did not significantly change.

In Greece, premium stopped growing at the pre-2007 pace and grew by 2-4% in 2008 and 2009. Life insurance, which rapidly grew before 2007, decreased in 2008 and stabilised in 2009. On the contrary, Non-life insurance continued growing at a pace of 4-8% without being influenced by the environment. Certainly, this should be attributed to the motor insurance premium growth (about 15% in 2009).

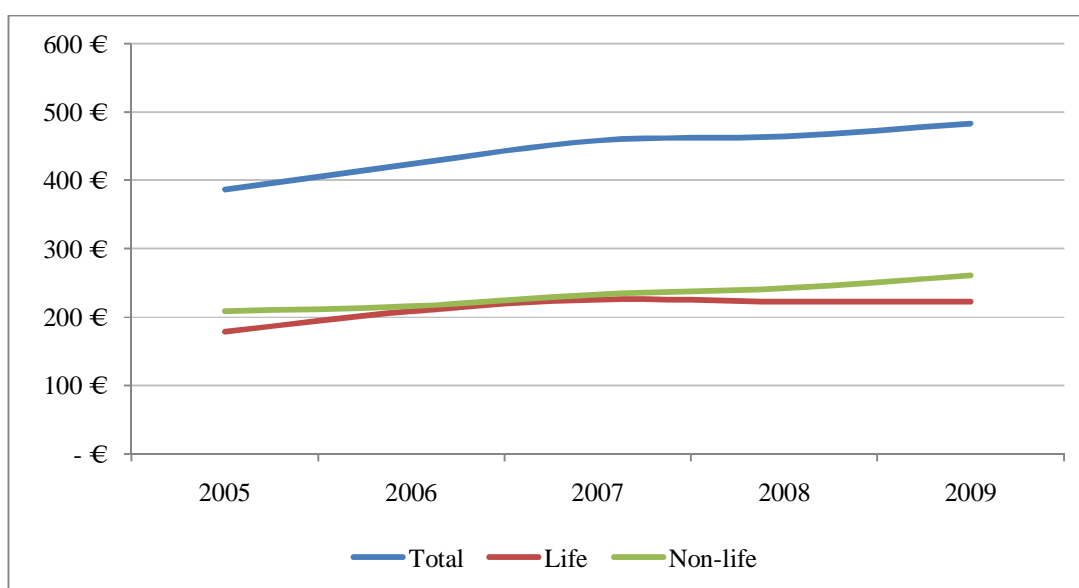
While the effects of the financial crisis were profound in the premium production, it was not the same with the paid claims, which continuously grew at an annual rate of 6-12%.

At the same time (2008), important financial figures were decreased, such as Assets (-2.5%), Equity (-25%) and pre-tax outcome (losses of 480 million €).

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Average premium per capita grew during the last five year period driven by Life insurance growth until 2007 and Non-life insurance after 2007. The proportion of investments to GDP grew from 4,8% in 2005 to over 5,2% in 2007. The ratio fell sharply in 2008 but returned at an even larger value in 2009.

**Premium per capita, Greece**



The availability of liquidity allowed the ratio of premium debtors to premium to continuously fall until 2007 but the illiquidity issues that emerged then shot the ratio at a much higher level.

It should be noted that Private insurance has the potential to grow when the economic growth is restored.