FOREWORD

VARIOUS STRUCTURAL CHALLENGES ARE AVAILABLE FOR THE DEVELOPMENT OF INSURANCE AND PENSION INDUSTRY AND TO INCREASE INSURANCE PENETRATION.

TSB PERFORMED A COMMON WORK WITH MEMBER INSURANCE COMPANIES TO ADDRESS THE STRUCTURAL CHALLENGES FOR THE GROWTH POTENTIAL AND TO DETERMINE THE 5 YEARS ROAD MAP OF THE SECTOR.

As a neutral and reliable authority, the vision of the Insurance Association of Turkey is the reference institution in the field of insurance and private pension through conducting research, activities of publicity and education, organizing and coordinating the activities of all stakeholders in the sector. Representing the sector at the highest level, TSB conducts studies in line with the sector’s needs, seeks solutions for the sectoral issues and contributes to the sustainable development of the sector.

In that regard, TSB has decided to prepare a roadmap to guide the sector and to shape the sector strategy in Turkey.

Insurance constitutes one of the key pillars of modern societies. At its core, insurance creates social benefit through pooling and distribution of individuals’ and companies’ risks. In face of adverse events, insurers uphold security and stability in the society by covering the losses incurred by individuals and companies.

Turkish insurance sector, which dates back to 1870s, is going through critical times. While the premiums in the sector have grown with a CAGR of 20% in the last five years, current 2% penetration rate is low compared to peer countries with similar income levels. Over the past five years, motor branch have been the driver of non-life insurance, credit protection branch and, due to incentives, pensions have been the driver of life insurance. Given the current growth potential of the sector and future acceleration in GDP growth of Turkey, the role of the sector is expected to become more critical than ever. Furthermore, age demographics and expected population increase rate are promising in terms of the size of the population that will create further demand for insurance products in short and middle-term.

However, there are number of structural barriers in the way of sector development and penetration increase. TSB has conducted a study with insurance companies to address these barriers and define a five-year road map for the sector.

With the outcomes of the Strategy Determination Workshop on February 7, 2019, the Perception Survey report, which was also made by the Association, constituted other important sources. To draw a clear picture of the sector, meetings with various stakeholders have been conducted and international benchmarking studies have been carried out. Growth potential of the sector has been identified and the barriers that the sector is facing. In light of the sector’s identified barriers, a new vision, 5 strategic objectives and a road-map with 14 initiatives to achieve this vision have been specified.

We express our gratitude to stakeholders of the sector for their valuable contributions to this study. We hope that by shaping the sectoral practices and policies, “Sector Strategy Report” will be beneficial for our sector, community and other stakeholders.

Insurance Association of Turkey
EXECUTIVE SUMMARY
State and potential of the sector

Turkish insurance sector has achieved strong growth in the past few years and the insurance penetration rate of gross premiums and annual pension contributions to GDP has reached to 2%. Sector can be characterized under 3 themes:

• Sector has strong demand fundamentals: Demand fundamentals supported by young population and expected growth after economic stabilization are promising for the insurance sector. Young population constitutes a significant component of the Turkish population, hence there is a sizable population which is expected to demand insurance products. In line with that, companies and individuals need protection against number of risks which require social transfer mechanisms for efficient financing. Currently, insurance sector is filling that role in the society and intends to develop and expand that role.

• Competitive market environment with successful growth over the past: The sector has achieved strong growth in both life and non-life branches in the past years. As past successful growth made a clear investment case for foreign capital, numerous international insurance companies have commenced their operations in Turkey. 62 insurance companies operating in the sector and their market shares indicate strong competition dynamics and a competitive market.

• There is potential for higher insurance penetration: Analyses of cross-country penetration rates and income levels have shown that Turkish insurance sector has the potential to reach higher penetration rate. While current penetration rate of 2% is a significant achievement, there is still a long way to provide a better protection against risks for companies and individuals. 

3%
IDEAL PENETRATION LEVEL OF TURKEY WITH INCOME LEVEL
Considering income levels in Turkey, insurance sector has potential to reach 3% penetration. Yet, globally there are countries which have reached penetration rates beyond their fair share. Key differentiator for these countries is positioning of insurance by the public authorities. Steps to be taken in this area, Turkey reaching a penetration level of over 4% of the insurance sector may allow positive decomposed between countries.

**Role of insurance in society**

Main function of insurance is to provide protection for individuals and businesses against adverse events out of their control. When certain risks realize, insurance supports recovery processes of individuals and businesses by compensating their losses. In addition to that, insurance sector takes on 4 critical roles:

- **Economic role**: Insurance supports overall economic growth through social transfer of risks that individuals and entities face and supports new ventures and innovation. Insurance supports economic stability and protects investments.
- **Financial role**: Insurance companies create long-term funding enabled through assets and liability maturity. It can also provide counter-cyclical financing given long-term and predictable liabilities.
- **Disciplining role of insurance**: Increase awareness of risks across sectors and individuals and promotes self-protection against risks.
- **Risk management role**: Provide protection through pooling of risks and undertakes burden from social state in help enterprises and individuals.

Just as it is the case in other countries, insurance sector is critical for Turkey given its roles. As the insurance sector develops further, it is expected to fulfill its role better and make greater contributions to Turkey’s economic development. In that regard, it is crucial to address the barriers and structural challenges ahead of the sectoral development.

**Barriers and structural challenges of the insurance sector in Turkey**

Barriers and structural challenges of the sector are assessed under five pillars:

- **General context**: Under this pillar, societal challenges or challenges related to macroeconomic conditions have been addressed. National income levels and effects of relevant developments are discussed under challenges related to macroeconomic conditions. As national income level determines purchasing power and demand for insurance products, the penetration rate in Turkey is low compared to the peer middle income countries. Recognition of role of insurance, sector cohesion, consumer trust and awareness, prevalence of risky business model in non-life are the other challenges that are analyzed under this pillar.
- **Market infrastructure**: This pillar examines institutions and capabilities of the sector. While the sector needs an institutionally and financially independent regulatory body to provide required checks and balances, the association needs to position itself to promote sector priorities and act as a strong advocate of these priorities. Most significant challenges in terms of capabilities are constraints in technical and managerial resources, limited development of next generation technical capabilities (pricing, claims handling, underwriting) and limited use of joint data and analytics.
- **Branches**: Sustainability of non-life insurance is threatened by the heavy focus on motor products and technical losses incurred in MTPL. Meanwhile, there are significant protection gaps in many branches, implying high vulnerability against adverse events for many households and businesses. In health, broad coverage by universal health insurance compared to international benchmarks, reduces the need for private health insurance. Main challenges in life are life insurance positioning and life insurance gap. Also, sector-wide innovation has been limited.
- **Distribution channels**: This pillar analyzes the challenges pertaining to distribution channels. It is observed that particularly agencies are struggling to meet the new requirements that have emerged in line with market developments. Given the emerging customer trends, emerging technologies, fragmented market structure composed of small agencies, limited collaboration of agencies with insurers in employee development and technological investments, business model of agencies is under threat. Digitalization in distribution channels has also been limited due to the constraints such as regulatory requirements. As distribution channels hold the customer data and relationship, insurance companies were not able to deepen their relationship with customers.
1. EXECUTIVE SUMMARY

VISION

BECOMING A STRONG AND SUSTAINABLE INSURANCE SECTOR TO PROVIDE A SIGNIFICANT CONTRIBUTION TO TURKEY’S ECONOMIC AND SOCIAL DEVELOPMENT

Regulation: Some of the challenges stated under this pillar limit sector’s ability to adapt global developments in the sector. Requirements such as physical policies and signatures restrict the digitalization of processes; complex and expensive product development processes (due to approval requirements) restrict innovation in the sector. While unclarity around sector standards and inefficient financial controls make it more difficult to constrain the undesired practices in the sector, regulatory unclarities in customer rights and data protection create challenges regarding customer protection. It is required to perform a critical and detailed review of regulations aiming consistency and alignment with technological developments.

Sector vision, strategic objectives, road map

With the critical role of the sector for social and economic development, growth potential and structural challenges considered, a new vision, strategic objectives and a road map to reach the objectives have been defined.

The strategic vision of the sector is to “Establish a strong insurance sector which takes an important role in building Turkey’s future”. To achieve this vision, 14 initiatives around 5 strategic objectives have been defined.

With the implementation of the identified initiatives, insurance penetration of 2% is expected to reach 3% in the next five years and the sector is expected to reach a size of 300-350 billion TL with 22% CAGR. With support from public authorities, Turkey can unlock further growth and penetration rate that is higher than expected levels in cross country comparisons. Launch of complementary pension system that is currently in the agenda, closer collaboration with public and regulatory authorities can help the sector reach a size of 300-350 billion TL in the next 5 years. In this case, by increasing the penetration rate by another 1%, with a penetration rate of 4-4.5%, the performance of the sector will be higher than expected.

Strategic Objective 1 – Improve customer trust, awareness and engagement: Actions regarding consumer-focused approach and protection of consumer are critical for reaching this objective. These steps include clarification of contracts, better monitoring of customer satisfaction, clarification of code of conduct, increasing awareness of distribution channels. This objective also includes initiatives around increasing insurance awareness through the following an engaging communication strategy. Finally, strengthening self-regulation of the sector to prevent deviations from ethical practices and increasing sector-wide collaboration through the reform of the sector association is vital for this objective.

Strategic Objective 2 – Revise a modern institutional structure: Set up of an independent and strong regulator is crucial for the development of the sector. The regulator will contribute to trustworthiness and efficiency of the sector by taking an active role in increasing the clarity and consistency of the regulations and introducing a stricter mechanism to implement financial controls. Another initiative under this objective is adoption of...
future-looking, stable and consistent regulations. With the adoption of more agile product approval processes and establishment of “sandbox” framework to support innovation, the sector’s capacity is expected to be enhanced. Engaging communication strategy and reform of TSB mentioned in previous objective will support the modern institutional structure.

**Strategic Objective 3 – Develop close and effective partnership with the government and regulator:** This objective entails initiatives for working closely with the government and the regulator to reduce the burden on the public sector and to develop the insurance sector. One of the areas to work together is devising the role of insurance in health system. Role sharing between public and private sectors is critical for the development of private medical insurance. Another working area would be reduction of total cost of MTPL and improvement of branch profitability. Efficient use of data, cost reduction through preventive measures, more granular differentiation in pricing in the short-run, switch to free market system in the long-run is envisioned under this initiative. Repositioning of life insurance considering expected pension system second Pillar is another important initiative for this objective. This initiative requires determining the tax benefit in life products and products that are suitable to the institutional agenda and designing the support of public authorities. Finally, through increased deterrence and stickiness, improvement of compliance in compulsory lines is recommended.

Deterrence can be increased by revising the penalties and collaborating in detecting and tracking leakages with the authorities.

**Strategic Objective 4 – Expand insurance offerings and engage with emerging ecosystems:** This objective is primarily concerned with proliferation of insurance products, increase in penetration rates and minimization of protection gaps, hence primary initiative for this objective would be increasing product and channel variety to promote inclusiveness. This initiative suggests increasing awareness around basic insurance products (e.g. casco and home insurance), cultivating products already getting traction (e.g. cyber risks, credit and surety products), strengthening inclusive value propositions in insurance (e.g. takaful). In increasing the variety of products, services and channels, micro insurance products stand out as they target low-income households and SMEs. Another important initiative to note is improvement of sector data sharing and analytics capabilities. As part of this initiative, collaboration with authorities is necessary for addressing regulatory barriers for digital products and services, and implementation of clear and consistent standards.

**Strategic Objective 5 – Enhance sector participants’ capabilities and sophistication:** Previous strategic objectives aim to address the relationship of the sector with the customer, public and regulatory authorities and to increase efficiency of the sector. Final strategic objective is structured around building the sector’s own capabilities to help it respond adequately to the evolving needs of all stakeholders in a changing world. One of the important steps under this objective is enhancing the skill set of talent pool (in technical and managerial roles). This initiative covers action items such as expansion of sector talent pool, creation of talent skilling programs. With improvement of sector data sharing and analytics capabilities and creation of databases that enable decision-making, it is aimed to ameliorate technical capability of the sector. Finally, agencies which constitute an important stakeholder should be supported in preparing for future with emphasis on their financial sustainability, positioning, ability to keep up with digitalized world and should be assisted in working more efficiently.
STATE AND THE POTENTIAL OF THE SECTOR
In last five years, the Turkish insurance sector has grown with a CAGR of 20%. Insurance penetration which covers non-life, life and annual pension contributions has reached to 2%. Yet the market is heavily focused on motor products. Sector is struggling to achieve a technical profit, hence relies on investment income to make a net profit.

Market can be characterized under 4 main themes:

• 1. Strong demand fundamentals: Insurance market in Turkey is underpenetrated and possess upside opportunity given its demographics and economic growth potential.

• 2. Competitive market environment with successful growth: Insurance sector is a prominent sector in Turkey with broad set of stakeholders. The sector has grown with a CAGR of 20% in the last five years, making a clear investment thesis. Competitive market context is established across business branches.

• 3. Technical profitability is challenged by structural hurdles and the sector is open to the macroeconomic effects: Structural hurdles affect the sector adversely, limiting technical profitability in the non-life branch. Non-life profitability has shrunk over the past years, delivering similar returns to risk-free rate in 2018. Profitability levels are above international markets in life and pensions branch.

• 4. There is a potential for higher penetration level: Insurance penetration is highly dependent on income levels [i.e. ability to afford insurance] of a country, yet at branch level there are various other drivers for penetration and unique practices emerge to achieve penetration above fair share. In that regard, there is an opportunity to increase the penetration level in Turkey.
2.1. Strong demand fundamentals

Insurance market in Turkey is underpenetrated and possess upside opportunity given its demographics and economic growth potential.

Turkey has considerably younger population compared to European markets, yet the potential has not yet been fully translated in overall insurance sector penetration. ~70% of the population is between 15-64 years old, pinpointing a large insurable population, and ~25% of the population is younger than 15 years old indicating strong demand in the mid-term. Furthermore, population growth rate is substantially higher than that of many countries in Europe.

Figure 1 Key population statistics

<table>
<thead>
<tr>
<th>Population size and growth</th>
<th>Population by age group</th>
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<tr>
<td>CEE countries, 2017, MM</td>
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<tr>
<td></td>
<td>Turkey vs. EU 27, 2017</td>
</tr>
</tbody>
</table>

Source: World Economic Outlook/IMF, CIA, Eurostat
Size of insurance market is closely correlated with overall economic development. Over the past decade, gross written premium evolution resembled GDP growth pattern. Looking forward, GDP growth is promising and is expected to outperform many developed European markets.

**Figure 2 Gross written insurance premiums and GDP growth rate**

Historically there has been a strong relationship between GDP and GWP, both in nominal and in real terms. Enforcement of rigid MTPL tariffs temporarily decoupled GDP and GWP growth in 2016.

Historical GDP and insurance GWP growth 2006–2018, (year-on-year change in %)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
<th>Insurance GWP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>2008</td>
<td>2.7</td>
<td>2.5</td>
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<tr>
<td>2010</td>
<td>2.7</td>
<td>2.5</td>
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<tr>
<td>2012</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>2014</td>
<td>2.7</td>
<td>2.5</td>
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<tr>
<td>2016</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>2018</td>
<td>2.7</td>
<td>2.5</td>
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</tbody>
</table>

**GDP growth rates’ average in selected countries**

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<thead>
<tr>
<th>Country</th>
<th>2013-2017</th>
<th>2017-2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Italy</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>France</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Germany</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Spain</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Poland</td>
<td>2.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Nominal GDP growth 2 Constant prices (2010); Source: Worldbank, Turkish Insurance Association
2.2. Competitive market environment with successful growth

Insurance sector is a prominent sector in Turkey with a broad set of stakeholders. The sector has grown with a CAGR of 20% in the last five years, making a clear investment thesis. Competitive market context is established across business branches.

Insurance sector has reached ~55 BN TL in gross written premiums, growing with 20% CAGR over the past 5 years. Non-life branches account for the majority of the market and share of life has been stable.

Insurance ecosystem in Turkey consists of a number of key stakeholder groups – Associations & Committees, Regulator & Supervisor, Consumers, Ministries, Insurance companies, Distributors and various supporting entities such as loss adjusters, pools and sector chambers. Insurance market is fragment with 62 players, and total premiums or fund size of top 5 player in non-life, life and pensions market account for 44%, 53% and 72% respectively, indicating competitive market environment.

Market has attracted significant foreign investment, and majority of the top players are subsidiaries of global insurance incumbents. Share of the foreign capital in the sector remains high over the past 5 years at around 70%.
2. STATE AND THE POTENTIAL OF THE SECTOR

2.3. Challenges on Technical Profitability

Structural hurdles affect the sector adversely, limiting technical profitability in the non-life branches. Non-life profitability has shrunk over the past years, delivering similar returns to risk-free rate in 2018. Profitability levels are above international markets in life and pensions branch. Depreciation of currency and inflation are negatively affecting profitability.

Figure 4 Insurance sector profitability in non-life and life branches

<table>
<thead>
<tr>
<th>ROE for Life insurance companies in Turkey</th>
<th>Benchmark vs. European peers – Life</th>
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<tr>
<td></td>
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<tr>
<td>2014: 16.3%</td>
<td>2%</td>
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<tr>
<td>2015: 18.0%</td>
<td>8%</td>
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<tr>
<td>2016: 25.0%</td>
<td>9%</td>
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<tr>
<td>2017: 31.3%</td>
<td>7%</td>
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<tr>
<td>2018: 37.6%</td>
<td>5%</td>
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<tr>
<td></td>
<td>Germany, Denmark, Finland, Italy, Norway, Poland, Slovenia, Switzerland, Brazil, Hungary, United States, Czech Republic, Turkey, 2017, 2018</td>
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<table>
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<tr>
<th>ROE for Non-Life insurance companies in Turkey</th>
<th>Benchmark vs. European peers – Non-Life</th>
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<td></td>
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<tr>
<td>2014: 14.0%</td>
<td>4%</td>
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<td>2015: 14.7%</td>
<td>6%</td>
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<tr>
<td>2016: 14.6%</td>
<td>5%</td>
</tr>
<tr>
<td>2017: 16.5%</td>
<td>9%</td>
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<tr>
<td>2018: 23.1%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>Germany, Denmark, Finland, Italy, Norway, Poland, Slovenia, Switzerland, Brazil, Hungary, United States, Czech Republic, Turkey, 2017, 2018</td>
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Note: Yearly average of 2 year Turkish government bond yield (TRTK2YT) is used as risk-free rate. A constant 5% equity is assumed.
Furthermore, sector was compensating negative technical results with returns from investments, which are mainly investment in low risk local investment vehicles. These vehicles performance is mainly dependent on the interest rates in Turkey. Negative technical results mainly stem from dysfunctional economics of motor third party liability insurance products.

Figure 5 Combined ratio in non-life branch (2014-2018)\(^5\)

<table>
<thead>
<tr>
<th>Net combined ratios for Non-Life insurance companies (2014-2018)</th>
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<tr>
<td>Other expense</td>
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<tr>
<td>Distribution commission</td>
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<tr>
<td>Loss ratio</td>
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<tr>
<td>Net technical result excl. allocated investment income (MM TL)</td>
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<td>…And including investment income (MM TL)</td>
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</table>

\(^5\) Source: TSB, BDK, OECD global insurance trends report, AXCO analysis

Historically, non-life insurance companies have been making underwriting losses on their books as evidenced by high combined ratios. The underwriting losses have been compensated by substantial incomes on investment, which have led to relatively high RoE in the industry.
2. STATE AND THE POTENTIAL OF THE SECTOR

Recent macro-economic developments are expected to challenge sector in near and mid-term future in three folds:

- **Currency depreciation**: Motor lines account for ca. 50% of insurance, devaluation affects insurers in two-folds, first motor demand decreases as vehicles prices spike in local currency terms, second MTPL premiums are linked to Turkish Liras yet cost of spare parts increase with foreign exchange, resulting in increased claims costs. On the other hand, in the second half of the year, the stabilization in the economy, with the stabilization of exchange rates and the fall in inflation, is seen as a positive development.

- **Inflation**: Affordability is very important factor in insurance, high inflation results in loss of purchasing power, hence limits disposable income for buying insurance. Furthermore, margins in real terms are severely affected as insurance prices do not adjust real-time given the policy durations. On the other hand, in the second half of the year, the stabilization in the economy, with the stabilization of exchange rates and the fall in inflation, is seen as a positive development.

- **Interest rates**: Life insurance is highly dependent on credit-linked life products. In 2017, credit-linked products account for ca. 75% of premiums and 55% of policies. Interest rates have increased from low 10% to above 20% in the last few years. High interest rates curb lending volumes which affects credit linked business, such as term-life dependent life insurance business, casco and property insurance. On the other hand, in the second half of the year, the stabilization in the economy, with the fall in interest rate, is seen as a positive development.

**Figure 6 Key economic factors imposing challenge on insurance sector**

<table>
<thead>
<tr>
<th>Significant currency devaluation</th>
<th>Significant inflation</th>
<th>Significant increase in interest rates</th>
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<tr>
<td>FX rates</td>
<td>Consumer price index</td>
<td>TRLIBOR1M</td>
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<tr>
<td>USD/TL</td>
<td>EUR/TL</td>
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<tr>
<td>FX</td>
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<tr>
<td>CPI</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
<td>12%</td>
<td>14%</td>
<td>16%</td>
<td>18%</td>
<td>20%</td>
<td>22%</td>
<td>24%</td>
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<td>USD/TL</td>
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<tr>
<td>TRLIBOR1M</td>
<td>7.5</td>
<td>7.0</td>
<td>6.5</td>
<td>6.0</td>
<td>5.5</td>
<td>5.0</td>
<td>4.5</td>
<td>4.0</td>
<td>3.5</td>
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* Source: Turkstat, Oxford Economics, S&P market intelligence

2.4. Turkey’s potential for increasing insurance penetration

Insurance penetration is highly dependent on income levels (i.e. ability to afford insurance) of a country, yet at branch level there are various other drivers for penetration and unique practices emerge to achieve penetration above fair share. In that regard, there is an opportunity to increase the penetration level in Turkey.

Key factors affecting the insurance penetration can be examined under 3 main categories:

- **Macroeconomic factors**: Income level, workforce participation, insurance affordability, economic growth, population growth, share of urban population.

- **Role of the government**: Government’s role in coping with risks (ex: role of government in disaster financing), mechanisms to increase the role of private sector (ex: incentives, compulsory insurance etc.).

- **Cultural and geographical factors**: Frequency of the risk realization (ex: high risk of hail storm, hurricanes etc.), risk awareness and social solidarity.
From insureds perspective, insurance ownership has a direct link with an individual's income level. Buying behavior can be characterized in four stages:

**Stage 1: Unaffordable**

Individuals who do not have enough income and do not own assets/properties to protect therefore don’t buy (and cannot afford) core insurance protection (some penetration in unemployment insurance, credit-linked life, micro insurance can be considered here, but it does not affect the overall profile of the group).

**Stage 2: Compulsory insurance**

Individuals who have enough income to make down payment on a car loan or a mortgage typically become eligible for compulsory insurance (MTPL, fire, earthquake, credit-linked life, etc.).

**Stage 3: Short-term risks**

As assets of an individual reaches a certain level, ownership of health insurance, property insurance, short-term life insurance and personal accident insurance increases. This is the first step of voluntary insurance, as the individual has properties or risks to insure and owns compulsory protections.

**Stage 4: Long-term risks**

Voluntary protection against long term risks such as retirement and death happen typically after covering for short term risks and requires higher income levels.

This behavior is closely linked with income levels. Overall, the higher the income (i.e. affordability) is, the higher number of potential insured people are.

In Turkey, equivalized famine line (6.4 K TL/1.8 K USD), minimum wage (17 K TL/4.6 K USD) and equivalized poverty line (21 K TL/5.8 K USD) create inherent barriers in increasing penetration by limiting the addressable population with conventional insurance coverages.

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2. STATE AND THE POTENTIAL OF THE SECTOR

Figure 8 Median income and insurance & pensions annual contribution penetration

Median equivalized income\(^1\) vs. Non-life + Life + Pension contribution penetration to GDP
2017

Based on the income levels, Turkey's penetration level – with 2% insurance and annual pensions contribution penetration is slightly below its fair share.

In addition to income levels, various factors drive insurance penetration at branch level. To unveil these factors various factors were tested using single-factor and multi-factor regression analysis. Accordingly, outperforming countries were investigated to identify practices supporting penetration.

1 *Median income/GDP* of other countries are assumed to be the same for Colombia, Tunisia, Egypt, Nigeria and Morocco

*Source: TurkStat, OECD, Gallup, Swiss Re, Türk-iş, Expert opinion*
### Figure 9 Factors affecting insurance penetration by branch

#### Factors driving insurance penetration at different stages

<table>
<thead>
<tr>
<th>2017</th>
</tr>
</thead>
</table>

#### Unaffordable

- % of population unable to save

#### Compulsory

- MTPL
- \# of vehicles
- \# of vehicles/capita
- Damage cost/GDP
- Leakage
- Property
- GDP/Capita
- \# of dwellings/offices
- Crime rate
- Participation in workforce

#### Short-term risks

- Cassio
- GDP/Capita
- Average vehicle age
- Damage frequency
- Vehicle and part prices
- Health
- Total health spend
- Government share

#### Long – term risks

- Life and Pensions
- GDP/Capita
- Financial literacy
- Average individual wealth
- Participation in workforce
- Share of urban population
- Directly proportional
- Inversely proportional

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![Image of a person working on a laptop with various graphs and charts on the screen.]
2. STATE AND THE POTENTIAL OF THE SECTOR

2.4.1. Motor Third Party Liability insurance
Motor Third Party Liability (MTPL) penetration is dependent on vehicle ownership, total number of vehicles, damage costs and leakage. Penetration gap for Turkey in MTPL branch is mainly driven by leakage which is at around 20%. Leakage is partially at automobiles with 10% (~1 mm vehicles) but mostly in motorbikes and tractors at 70% (~2 mm vehicles) and 50% (~1 mm vehicles) respectively.

Countries with low level of MTPL leakage established deterrence mechanisms with strong sanctions.

Figure 10 Modelling of MTPL penetration

<table>
<thead>
<tr>
<th>Country</th>
<th>MTPL - Prediction</th>
<th>Actual penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>0.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0.8%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Finland</td>
<td>1.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Greece</td>
<td>0.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>France</td>
<td>0.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Austria</td>
<td>1.0%</td>
<td>0.0%</td>
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<tr>
<td>Belgium</td>
<td>0.0%</td>
<td>0.2%</td>
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<tr>
<td>Norway</td>
<td>0.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Latvia</td>
<td>0.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.8%</td>
<td>1.0%</td>
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<tr>
<td>France</td>
<td>1.0%</td>
<td>0.0%</td>
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<tr>
<td>Portugal</td>
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<td>France</td>
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<tr>
<td>Belgium</td>
<td>0.6%</td>
<td>0.8%</td>
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<tr>
<td>Norway</td>
<td>0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### Table 1: Sanctions against uninsured vehicles in MTPL branch

<table>
<thead>
<tr>
<th>Country</th>
<th>Enforcement practice</th>
<th>Monetary Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>• Monthly penalty is imposed to owners of uninsured cars</td>
<td>0.16% of premium</td>
</tr>
<tr>
<td></td>
<td>• Owners of uninsured cars lose their right to no claims discount</td>
<td>(monthly accrued in case insurance is not renewed)</td>
</tr>
<tr>
<td>Croatia</td>
<td>• Awareness program “Stop Uninsured Driving” initiated</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>• Intensified police effort</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>• Daily penalty imposed to owners of uninsured cars</td>
<td>USD 2 (daily)</td>
</tr>
<tr>
<td></td>
<td>• Penalties fund compensation of victims of uninsured drivers and guarantee MTPL obligations</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>• Daily penalty imposed to owners of uninsured cars</td>
<td>USD 37 (daily)</td>
</tr>
<tr>
<td></td>
<td>• Further incompliance leads to removal of vehicle from the register and removal of license plate</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>• Owners of uninsured cars risk one time monetary penalty</td>
<td>GBP 1000 (one time)</td>
</tr>
<tr>
<td></td>
<td>• Uninsured cars taken away from owners</td>
<td></td>
</tr>
</tbody>
</table>

11 Source: AXCO, Insurance Europe, public commentaries
2.4.2. Property insurance

GDP per capita, number of dwellings and offices, burglary rate and participation in workforce explain property insurance penetration. Yet, in addition to these factors some countries stand out with high insurance penetration in the branch.
Government’s approach to disaster recovery financing is an important determinant of property insurance penetration. In Netherlands, although country is prone to flood risk, flood risk considered uninsurable and hedged through disaster funds and calamities compensation act. Therefore, property insurance penetration is lower than that is expected in the country. Whereas in Denmark, hail and storm related climate risk is high yet government expects landowners to secure their assets against storms and hails. Furthermore, property insurance is compulsory for mortgaged properties which also supports penetration.
Figure 12 Property insurance practices in France

### Property insurance in France

<table>
<thead>
<tr>
<th>Additional factors</th>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of enforcement</td>
<td></td>
<td>Mortgage lenders require property owners to insure the buildings. For rental property, tenant is obliged to obtain a property insurance.</td>
</tr>
<tr>
<td>Cancellation policies</td>
<td></td>
<td>Cancellation within the first year is not possible. Cancellation of insurance contract only possible with the proof of another replacing contract. There are also auto-renewal clauses in contracts, increasing stickiness.</td>
</tr>
<tr>
<td>Contract periods</td>
<td></td>
<td>Duration of contracts for large corporate accounts is 2–3 years</td>
</tr>
<tr>
<td>Insurance awareness</td>
<td></td>
<td>There is a better understanding of risks and higher level of insurance awareness in France.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GDP penetration in respective branch</th>
<th>X3.6</th>
<th>GDP/Capita PPP (USD)</th>
<th>x1.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>0.8%</td>
<td>42,850</td>
<td>Turkey</td>
</tr>
</tbody>
</table>

France is also one of the countries where property insurance penetration higher than expected levels. In France, tenants are obliged to obtain property insurance and auto-renewal is common practice. Cancellation of a policy requires a proof of replacement contract from another company or end of rental agreement.

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13 Source: AXCO, press releases
2.4.3. Health insurance

Health insurance penetration is dependent on total spend on healthcare, GDP/capita and government’s share in healthcare financing. High national spend on healthcare, high GDP/Capita and low share of public financing drives insurance penetration. Considering Turkey’s situation among those metrics slightly below the expected penetration level.
2. STATE AND THE POTENTIAL OF THE SECTOR

Figure 13 Modelling of health insurance penetration

Turkey is at expected level given the factors driving health insurance penetration

<table>
<thead>
<tr>
<th>Health – Prediction vs. actual penetration levels</th>
<th>Difference between actual vs. predicted penetration levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realized penetration</td>
<td>Predicted penetration</td>
</tr>
<tr>
<td>GDP/Capita</td>
<td>Total health spend</td>
</tr>
<tr>
<td>Government share</td>
<td></td>
</tr>
</tbody>
</table>

14 Source: OECD, Eurostat, Worldbank, WHO, AXCO

countries where above the expected level penetration is achieved, for instance, in Slovenia or Australia a number of practices are observed.

In Slovenia, a co-payment model is used, in which depending on the criticality of the treatment government pays for certain portion of the cost. Rest is either financed out of pocket, or most commonly paid by a supplementary insurance. Cancellation policies are flexible to consider consumer protection angle. Typically contract periods are longer with minimum contract period of 18 months. To incentivize early adoption, delays in obtaining voluntary supplementary insurance is penalized with an additional levy on premiums.
In Slovenia, a co-payment model is used, in which depending on the criticality of the treatment, government pays for certain portion of the cost. Rest is either financed out of pocket, or most commonly paid by a supplementary insurance. Cancellation policies are flexible to consider consumer protection angle. Typically contract periods are longer with minimum contract period of 18 months. To incentivize early adoption, delays in obtaining voluntary supplementary insurance is penalized with an additional levy on premiums.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage of public facilities</td>
<td>Low</td>
<td>Typically uses a co-payment model. Depending on criticality of the operation co-payment contribution varies</td>
</tr>
<tr>
<td>Extent of enforcement</td>
<td>Voluntary</td>
<td>Insurance has a mandatory part which is run by Health Insurance Institute of Slovenia. Yet, majority of population supplements/complements to the mandatory portion to increase co-payment coverage</td>
</tr>
<tr>
<td>Cancellation policies</td>
<td>Flexible</td>
<td>Easy to cancel as auto-renewal does not exist. Also requires 30 days notice for cancellation</td>
</tr>
<tr>
<td>Contract periods</td>
<td>Annual</td>
<td>Minimum contract period is 18 months for health policies</td>
</tr>
<tr>
<td>Other factors</td>
<td></td>
<td>Delays in obtaining a voluntary supplementary insurance (after becoming eligible for mandatory insurance) results in 3% premium loading</td>
</tr>
</tbody>
</table>

In Australia, a different model is place. Government strongly incentivized private medical insurance (PMI) and public system requires additional coverage such as access to private hospitals, dental, spectacles, home nursing etc. which are addressed by PMI. Almost half of the population own private medical insurance. Government incentives include rebates on health insurance premiums depending on age and income, young buyer discount and penalties such as surcharge for purchase at old age or uninsured high income earners.

- “Government recognizes the fact that private healthcare users take pressure off the public system, especially with respect to public hospitals.”

– Health insurance association of Australia -
Lately, in collaboration with insurers government created standard health insurance packages with easy to understand restrictions and coverage. Although the model supported insurance penetration and presents a good example for collaboration between insurers and government, it hinders a healthy competitive market environment as the model is community rated rather than individual risk rated and risk-equalization mechanisms are in place to reallocate risks among companies.
2.4.4. Motor own damage insurance

Motor own damage (MOD) penetration is dependent on GDP per Capita, average vehicle age, damage frequency and vehicle and part prices. Turkey has further upside potential in terms of penetration. Although in MOD branch, other than these metrics success is heavily dependent on company performance and cultural aspects, in many country companies bundle offerings with MTPL either as a complementary partial or comprehensive own damage cover (often adding extended liability coverage as well).
There is further upside potential to increase Casco penetration in Turkey.

There is a positive correlation between GDP/Capita, Damage frequency, Average vehicle age, Vehicle and part prices, and the predicted and actual Casco penetration levels. The diagram illustrates that countries with higher GDP/Capita and Damage frequency tend to have higher predicted and actual Casco penetration levels. Conversely, countries with lower GDP/Capita and Damage frequency tend to have lower predicted and actual Casco penetration levels.

16 For Switzerland, Spain and Netherlands damage frequency is assumed to be average of Western European peers; for Latvia, Eastern European peers.

2. STATE AND THE POTENTIAL OF THE SECTOR

2.4.5. Life insurance and Pensions
Life and pension penetration - measured as life insurance premiums and annual pensions contribution - penetration is mainly dependent on GDP per capita, financial literacy, average individual wealth levels, participation in workforce and share of urban population. Turkey has room for increasing penetration in this branch.
In addition to aforementioned metrics, role of government is critical in life and pensions branch. For example, in Chile which achieved significantly above its fair share, a mandatory funded pensions scheme is in place, minimum level of contribution is set to 10% of income. At the time of retirement pensioner can opt for pension payment, an annuity or a combination of both. Many individuals who is not willing to carry longevity risk transfer pension to life insurance companies for annuity payments.

Furthermore, protection and savings lines are tax incentivized and unemployment and funeral insurances are compulsory.

In the UK, auto-enrolment system is in place which boosts penetration through occupational pensions and tax benefits exist. Cancellation is harder with deterrence mechanism established to prevent early exist. Majority of annuity business is conversion of pensions pot into annuities and purchased life annuities are limited. Term life and endowments are main lines in the life insurance branch. Although life insurance for mortgages is not mandatory, it has notable size (over one third of the term life business) and a common practice, which grew with growing mortgage business over the last few years. Multi-benefit plans are common combining life, critical illness, unemployment covering individual and family members.

**Figure 16 Modelling of life insurance and pensions contribution penetration**

<table>
<thead>
<tr>
<th>GPD/Capita</th>
<th>Financial literacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average individual wealth</td>
<td>Participation in workforce</td>
</tr>
<tr>
<td>Urban Population</td>
<td></td>
</tr>
</tbody>
</table>

17 Source: OECD, Worldbank, Global Financial Literacy Excellence Center, Credit Suisse
3
ROLE OF INSURANCE IN SOCIETY
Main benefit of the insurance is generally perceived as it provides protection against risks that individuals and entities have limited control. Had the risk been realized, insurance would support them in recovery. Although hedging and mitigating such risks is a key function of insurance, it is just one of its roles in the broader context. In case of small businesses it may mean spending all lifetime savings for recovery of a disaster or in case of life insurance it may mean providing enough income for one’s family in case of death.

Insurance, however, has much more comprehensive impact than provision of protection, though its value to government, financial sector, businesses and public derive from this primary function. Because it manages, diversifies and absorbs the risks of insureds, insurance is often a precondition for the development of other productive activities, such as buying a home and starting or expanding a business.

Role of insurance can be summarized in four holistic groups:

- **Economic role**: Insurance supports overall economic growth though social transfer of risks that individuals and entities face and supports new ventures and innovation.
- **Disciplining role of insurance**: Increase awareness of risks across sectors and individuals and promotes self-protection against risks.
- **Risk management role**: Provide protection through pooling of risks and undertakes burden from social state in help enterprises and individuals.
- **Financial role**: Insurance companies create long-term funding enabled through assets and liability maturity. It can also provide counter-cyclical financing given long-term and predictable liabilities.
The ways in which insurance contributes to society, businesses, financial sector and government can be summed up in 8 key contributions under these four groups.

<table>
<thead>
<tr>
<th>Role of insurance</th>
<th>Description and relevance for Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic role</strong></td>
<td>Cementing social state role of nations by providing social transfer mechanisms for example, though compulsory insurances. Also, it provides protection and security enabling innovation and new ventures. Insurers are a source of financial stability unless they are involved in cash-flow underwriting and taking high investment risks.</td>
</tr>
<tr>
<td>• Providing a mechanism for social transfer among members of the society, security and stability</td>
<td></td>
</tr>
<tr>
<td>• Providing stability to the financial sector</td>
<td></td>
</tr>
<tr>
<td><strong>Financial role</strong></td>
<td>Insurance sector is better positioned to match long-term financing needs compared to the banking sector given the long-term liabilities of insurance sector. Insurers would provide a link between financial markets and support liquidity for borrowers and savers.</td>
</tr>
<tr>
<td>• Providing long term economy funding &amp; enabling maturity matching</td>
<td></td>
</tr>
<tr>
<td>• Driving the development of the financial markets</td>
<td></td>
</tr>
<tr>
<td><strong>Disciplining role</strong></td>
<td>Increases awareness and define conditions for hedging certain risks in mining, traffic, agriculture, and reduce Turkey's shadow economy by ensuring damages are paid under registry.</td>
</tr>
<tr>
<td>• Disciplining sectors and reduce shadow economy</td>
<td></td>
</tr>
<tr>
<td><strong>Risk management role</strong></td>
<td>Providing an offering for financing costs of risks such as earthquakes, ability to finance healthcare by pooling and exporting these risks to reinsurers, financials markets. Private capital can be involved to cover risks historically covered by the government through social transfer mechanisms.</td>
</tr>
<tr>
<td>• Providing instruments for protection of citizens and businesses against adverse events</td>
<td></td>
</tr>
<tr>
<td>• Providing a mechanism to take risks off the government</td>
<td></td>
</tr>
</tbody>
</table>
3. ROLE OF INSURANCE IN SOCIETY

3.1. Economic role of insurance

Insurance sector supports growth of the economy through fostering demand, enabling and catalyzing supply and fostering trade, which typically requires insurance in all sorts of transactions (e.g. logistics, trade credit and financial loss insurance etc.) The individual protection positively propagates across society as those who suffer from those risks are reimbursed and can sustain his/her purchasing power. Similar phenomenon is applicable for entities as well who suffer from a risk and who are more likely to recover rapidly without disrupting supply chain. Such security, peace of mind and fast recovery instill stability to economy. This stability is further cemented by insurers long-term funding provisions to business and major projects. Insurance also reduces shadow economy as the damages and funds allocated for risk management are executed through registered accounts.

In Turkey, insurance sector provides protection more than 34 times of the gross domestic product, reaching to 127 trillion TL.

Many types of risks that citizens and businesses face, and major capital projects (such as Osman Gazi Bridge, Istanbul-İzmir highway and Çanakkale highway and many other national assets) are insured and enabled by the coverages provided by Turkish insurance sector. These coverages provided comfort to private sector and foreign investors.
3.2. Financial role of insurance

Insurance sector accounts for significant portion of financial sector not only by the employment in financial sector that it creates, but also by the fact that it complements banking given its assets and liability structure, facilitates access to credit and fund major projects where banking would be challenged in terms of liquidity. All these financial roles support growth and development of countries. Insurance also support non-monetary financial intermediation, which has impact on stability of the national currency. The funds of insurance companies support the capital of commercial companies or cover public budget deficits, yet in both cases on-contrary to banking sector, insurance sector do not increase money supply but only redistributes it (e.g. banks can decrease reserve requirements which would increase money supply, whereas insurance sector uses accumulated funds)

Insurers are also major players in investment markets especially in developed countries where insurance penetration is high. In addition to the long-term financing provided through these markets, insurance sector is key gatekeeper of certainty for businesses and for family life which in return plowback into financial system as additional funding.
3. ROLE OF INSURANCE IN SOCIETY

**Figure 19 Role of insurance in fostering investments (European example)**

Turkish insurance sector brings stability to overall economy though significant investment in TL denominated assets such as deposits and government bonds.

**3.3. Disciplining role of insurance**

Insurance has a key role in disciplining sectors and society. Through insurance, public safety and new product development is promoted by raising awareness about safety. Henceforth, companies are promoted to develop and adopt technologies and practices that save lives and foster innovation (e.g. seat belts, safe driving, compliance with traffic rules, fire prevention, worksite safety measures). Insurance instills the mindset of solidarity, cooperation as well as individual responsibility. To ensure that the insurance mechanisms functions, requires each participant who are insured in an insurance pool to be act responsibly in mitigating insured risks as much as possible.

In Turkey, compulsory insurances such as personal accident insurance for mining employees, LPG sector, liability for private security personnel or medical malpractice insurance disciplines these sectors by motivating individuals to act cautiously given their increased awareness around risks, furthermore in voluntary insurances, prices adjust based on the preventive measures deployed e.g. commercial fire insurance.
3.4. Risk management role of insurance

Finally, from risk management angle, insurance sector intends to design solutions and contributes to solving urgent global societal challenges such as ageing population and emerging threats such as climate change and cyber risks. Insurers constantly weigh those emerging risks and supply protection products while reimbursing those who affected from the risks. (e.g. catastrophic events such as floods, earthquakes, storms, hurricanes, etc…)

For example, in contrast to national public plans covering basic health care such as those in France and the U.K., some countries such as Switzerland and now the United States aim for comprehensive health coverage through private insurers. They do so by imposing a mandate or penalty tax on individuals and/or larger employers, while insurers for their part are subject to certain requirements such as premium increase reviews and no pre-existing conditions exclusions. The insurance sector can also have a significant impact in reducing the financial consequences of health risk, not only by offering alternate and additional coverage to public plans but also by encouraging prevention and emphasizing rehabilitation. Similarly, malpractice and general liability related insurances motivate individuals and companies to act more consciously about practices or actions and indirectly foster risk mitigation.21

For these reasons, insurance should rightly be perceived with its all roles that it plays in national development, supporting prosperity of the society and fostering innovation. Yet, to fulfill its role to the utmost extent, insurance sector needs to overcome a number of barriers that are in the way of development of the sector.

4

BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

Barriers and structural challenges of the sector are assessed under five pillars:

- **General context**: External factors that are often beyond the control of the sector or individual players such as economic development, intra-sector cooperation or understanding of role of insurance in the economy
- **Market infrastructure**: Enabler and infrastructural factors such as market institutions, skilled labor resources, shared data and analytics capabilities
- **Branches**: Branch specific factors especially in main lines such as innovation, product economics, scope of the coverage by the government
- **Distribution**: Distribution and channel specific factors such as professionalism, economic viability and digitalization
- **Regulatory**: Regulation and legislation related barriers including products, distribution, financial stability

Across these 5 categories, there are 26 barriers in the way of development of insurance sector in Turkey.

Hereunder, these challenges are prioritized based on insurance sector CEO feedback collected through a survey.

**4.1. Barriers related to general context**

1. **Income levels**

   Income level, as the main driver of insurance penetration, remains as the most important barrier in the way of increasing penetration

   - Insurance buying behavior is strongly correlated with income levels in a country, asset ownership, share of population who can afford minimum living expenses
   - In Turkey, almost 70% of the population is unable to save as majority of the population is below the poverty line and can barely afford minimum living expenses. Hence they are not able to put aside money for buying assets such as a car or a house which would require insurance
   - For the remaining 30% need for insurance products gradually increase as affordability and asset ownership increases. Broadly estimated

   - all of this group can consider buying compulsory insurance,
   - 2/3 of this population can afford short term risk insurances such as health, casco, etc…
   - and only 1/3 of this group can afford long-term risk products (such as life)

   - Income levels is expected to remain as a very important barrier in mid-term, as Turkey is expected to remain in middle-income trap, in absence of structural initiatives have taken in place

Details of the perspectives around income level and its impact on overall insurance penetration is provided in the “Section 2 State of Insurance sector in Turkey” section of this report.

2. **Recognition of role of insurance**

   The fundamental importance of insurance for economic & social stability and prosperity is not recognized by policy makers and senior government. The sector lacks the senior access that the banking sector enjoys
• Insurance sector was not able to establish similar stature with the banking sector mainly because of two reasons:
  - **Size of the sector:** insurance sector has been small sector and was not recognized as a major contributor
  - **Representation:** Sector lacked the institutional framework / lobbying power (and discipline) to develop an effective relationship with the government, regulator, TSB, and other stakeholders

• Although one of the main drivers of insurance sector growth is government’s policies, there has not been a clear demonstration of the partnership between government and sector to increase the contribution to economic growth and contribution sector makes to the nation is largely invisible

3. Sector cohesion

Competitive dynamics stand in the way of carving out areas for cooperation that could help unlock opportunity for all players

• Insurance sector has witnessed a high degree of collaboration in such areas as articulation of the need for price liberalization and creation of joint databases

• Insurance sector also took major steps to foster collaboration by performing joint initiatives such as periodic sector round-tables, established life and non-life committees, monthly meetings

• However, there is an opportunity to do more in terms of increasing alignment, coordination and cooperation within the sector:
  - In many cases lobbying efforts can be still isolated at individual firm level and a coordinated single voice do not exist – which has significant negative impact on the sector in numerous cases
  - Often overarchung problems of the sector are overlooked and short-term individual gains are pursued instead of sector-wide common benefits

• Coupled with lack of institutional framework and low levels of recognition of the sector’s role, sector has not been able to fully unlock existing opportunities for market players

4. Consumer trust and awareness

Low levels of consumer trust in insurance companies coupled with low levels of financial literacy on the value that insurance provides

• Consumer trust and confidence in the sector have been low due to past experiences, examples include
  - Losses in life savings products
  - Certain cases of mis-selling – i.e. not getting the right product with the right coverage or product sold without customers’ conscious consent
  - Issues with claims payments
  - Very high and inconsistent premium charges
  - Issues around the Availability/Supply of insurance products (e.g. MTPL when cap was introduced)

• Low levels of financial literacy as well as cultural norms (e.g. getting support from Family/Relatives when needed, government as “benevolent father”) negatively affect insurance awareness

• Activities to increase insurance awareness (e.g. nation-wide or targeted campaigns, PR activities) have been limited and dispersed

5. Prevalence of risky business models

Non-life profits are not driven by underwriting profits but by investment returns from high interest bank accounts, exposing the sector to the developments in the far more volatile banking sector

• Historically, non-life insurance companies have been making underwriting losses on their books as evidenced by high combined ratios (103–115% between 2014–2018, and 107% in 2018)

• Combined ratios are greater than 100% in many key branches, however structurally loss-making branches that destroy profits made in other lines of business are mainly MTPL and MOD

• The underwriting losses have been compensated by substantial incomes on investment (e.g. insurance reserves sitting in high interest deposits) which supported ROE of the sector

• Compensating underwriting losses with investment incomes is a highly risky business model as the 2002 and 2008 global financial crises demonstrated. High interest on bank deposits are usually paired with higher risk exposure to the
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

banking sector and financial markets

- Higher interest rates bring stronger investment returns, but the onus remains on improving underwriting performance

6. Economic developments

Economic downturn not only creates challenges on its own but also makes it difficult to win government support for bold action to unlock the sector

- Currency devaluation, increase in inflation and interest rates and declining GDP per capita impact insurance sector’s growth and profitability negatively.
  - Examples include but not limited to:
    - Already high and rising claims costs resulting in underwriting losses. Currency depreciation will increase losses further as claims costs are increasing based on USD and EUR
    - Slower premium growth puts pressure on liquidity
    - Citizens suffer loss of buying power making it difficult to raise prices to reflect cost of risk and administration
    - Underlying credit growth that drives credit linked term life insurance (~65% of life insurance) contracts
    - High interest rate environment limits the growth/penetration in savings life products

4.2. Barriers related to market infrastructure

7. Regulatory set-up

There is a lack of separate/standalone, independent regulatory and supervisory body for insurance (currently residing in the Ministry of Finance, far away from Minister)

- Regulatory body sits under Ministry of Finance and Treasury
- Main areas of development identified as:
  - Limited lobbying power
  - Further room to provide focused expertise and to foster a culture of engagement
  - Various committees are ineffective (e.g. Discipline)

- TSB had been reactive in setting sector standards and taking corrective actions in the sector – TSB currently does not play an effective role in self-regulation/disciplining

8. Role and positioning of the Association

TSB is not well positioned to promote sector priorities and act as a strong advocate with sector stakeholders.

- TSB has room improvement to position itself more strategically in leading the sector agenda
- In creating a “one industry voice”, TSB is not positioned well enough.
- Skill gap is not limited to technical roles only – there is a need for trained professionals in managerial roles too
- There is also a need to raise the bar in terms of qualifications required – such as language, eligible educational degrees, etc.

10. Next generation technical capabilities

Sector lacks next generation technical capabilities and is not ready to embrace the technology driven changes that will affect the sector.

- Insurance sector’s overall performance is affected by the individual insurers’ capabilities as well (in addition to other stakeholders and their performance as stated under other structural issues/barriers)
• Insurers have significantly improved/upgraded their technical capabilities in time, however there is still a large gap compared to best practices in utilizing technology and tools, digitization and automation, advanced customer analytics etc. There is also significant dispersion across players in terms of technical capabilities such as underwriting and pricing, claims management etc.

• Firms would need to drive their initiatives at individual never to develop next generation technical skills to embrace the technological changes that will affect the sector

Sector strategy will not address structural issues at insurer level, but aims to develop the right sector infrastructure for and show direction to insurers to be able to develop their individual capabilities

11. Joint data and analytics

Shared data and analytics collaboration is not sufficient for example to reduce fraud, establish catalogue for car repair cost, medical treatments...

• Major efforts have been made jointly with government authorities and sector over the past decades to establish sector-wide data platforms such as establishment of SBM, HAYMER, TRAMER etc.

• However, there is still potential/gap in terms of sector's shared data and reporting capabilities, in terms of:
  - Improving data quality (completeness and reliability of collected data)
  - Value added reporting is limited in terms of collecting broader data from insurers, providing further details and breakdowns, trend reviews and insights
  - Enriching current databases with external data such as banking sector information, telco payments, utilities and additional dimensions such as fraud and insurance scoring
  - Creating new databases based on needs (e.g. fraud database)
  - Use of joint databases to develop effective relationships with stakeholders such as government platforms and distribution channels

4.3. Barriers related to branches

12. Motor branch dependency in non-life

High dependency on motor branch poses a long-term threat for both channel economics (agents) and investment income (mobility, shrinking premium)

- Motor branch, mainly MTPL, accounts for majority of the non-life premium generation (~50% share of motor in total premiums in 2018)
  - Over the past 3 years MTPL accounted for the 40% of the non-life premium growth (its share in non-life premiums was 33% in 2018)
  - Casco accounts for 16% of total premiums
- Especially in developing European markets, premium mix is similar to that of Turkey. In US, the portfolio is much more diversified

Highly motor-dependent business creates structural issues in three areas:

- Non-life insurers have been relying on growth generated by motor (especially MTPL) and innovation in other areas has been limited
- Highly commoditized products (simpler products with price as the main differentiator) which does not differentiating proposition and eroding value
- In the long-run nature of motor business is expected to change driven by shared mobility, reduced premiums driven by innovations mobility space which will require sector to diversify the business/lines

13. MTPL losses in non-life

Dysfunctional MTPL economics results in significant underwriting loss. A new approach to engage policy makers is needed to reduce "branch cost"

- Non-life insurance sector is burdened with growing underwriting losses from MTPL
  - Sector underwriting net losses in 2018 was 2.4 BN TL
  - MTPL U/W loss in 2018 was 2.1 BN TL
  - Losses from MTPL cannot be offset by underwriting revenues from other lines
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

**Figure 21 Combined ratio and technical results breakdown by key branches (2018)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Gross premiums (MM TL)</th>
<th>Net technical result excl. allocated investment income (MM TL)</th>
<th>...and including investment income (MM TL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle third party liability</td>
<td>123% 113%</td>
<td>-2,124 -787</td>
<td>-562 304</td>
</tr>
<tr>
<td>Land vehicles</td>
<td>104% 81%</td>
<td>-18 91</td>
<td>751 559</td>
</tr>
<tr>
<td>Fire and natural forces</td>
<td>104% 59%</td>
<td>-65 575</td>
<td>842 1,001</td>
</tr>
<tr>
<td>Other</td>
<td>96% 62%</td>
<td>575</td>
<td>24</td>
</tr>
<tr>
<td>Health and sickness</td>
<td>102% 78%</td>
<td>-194</td>
<td>354</td>
</tr>
<tr>
<td>Accident</td>
<td>61% 14%</td>
<td>111% 28%</td>
<td>111% 28%</td>
</tr>
<tr>
<td>General liability</td>
<td>140% 24%</td>
<td>69% 34%</td>
<td>69% 34%</td>
</tr>
<tr>
<td>Marine goods on transit</td>
<td>61% 16%</td>
<td>62% 35%</td>
<td>62% 35%</td>
</tr>
<tr>
<td>Total</td>
<td>111% 28%</td>
<td>111% 28%</td>
<td>111% 28%</td>
</tr>
</tbody>
</table>

- Although there is substantial dispersion in underwriting & pricing and claims management performance across individual players, main structural issues resulting in dysfunctional economics of MTPL can be summarized as follows:
- Price cap: insurers cannot sufficiently undertake core activities of insured assessment and pricing of risk, differentiate good from bad, hence cannot discipline insureds sufficiently
- High claims frequency and cost
- Fraud
- Additional costs stemming from uncertain/inconsistent by-laws etc.

**14. Protection gaps in P&C**

Large protection gaps across many lines indicate a high vulnerability to adverse events for many households and businesses

- Low insurance penetration in the market is mainly driven by large protection gaps in core lines (both compulsory and voluntary lines).
- Examples of protection gaps include:
  - Leakages in compulsory lines
  - MTPL: ~20% (driven by motorbikes and tractors)
  - DASK: ~50%

- Protection gaps in key voluntary lines estimated to be
  - Casco: ~70%
  - Home protection: ~75%
  - Commercial fire: ~55%

- Protection gap is not just result of lack of compulsion or incentivization, it is very much related to affordability, awareness as well as government’s role in reimbursement of potential damages

- While sector needs to become more innovative in terms of products and channels, there is a lot to do to increase penetration in core lines

---

21 Source: TSB
15. Innovation

Sector has been characterized by a low level of innovation despite the presence of large foreign insurers.

- Growth and penetration in non-life insurance sector has been mainly driven by select lines which include mandatory insurance:
  - Mandatory lines make up ~40% of total premiums in the market:
    - MTPL (33%),
    - DASK (2.5%),
    - Agriculture – government support (5%)
  - Other key lines include:
    - Health (11%),
    - Casco (16%),
    - Fire (15%)

- Life insurance has been limited to credit-linked insurance (~66% of life premiums are credit-linked)

- Innovation in the sector has been low in terms of new product and channel development affecting insurance uptake ratios

- There are product and channel expansion areas where sector can drive greater value, examples include:
  - Addressing larger protection gaps (linked to previous barrier): SME
  - Increasing the inclusiveness of insurance products and services: micro insurance, Takaful

- Fostering the growth of emerging areas: credit, surety, building completion

- Innovation has been limited in channel development. Conventional channels are still predominant in the sector. There is room for increasing the role of digital channel as well as developing new channels such as B2B2C, worksite marketing etc.
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

Table 4 Key characteristics of micro-insurance

<table>
<thead>
<tr>
<th></th>
<th>Traditional insurance</th>
<th>Microinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clients</strong></td>
<td>• Low risk environment</td>
<td>• Higher risk exposure/vulnerability.</td>
</tr>
<tr>
<td></td>
<td>• Establish insurance culture</td>
<td>• Weak insurance culture</td>
</tr>
<tr>
<td><strong>Distribution models</strong></td>
<td>• Sold by licensed intermediaries or by insurance companies directly to clients that understand insurance</td>
<td>• Sold by non-traditional intermediaries to clients with little experience of insurance</td>
</tr>
<tr>
<td><strong>Policies</strong></td>
<td>• Complex police documents with many exclusions</td>
<td>• Simple language, with few exclusions</td>
</tr>
<tr>
<td></td>
<td>• Good statistical data</td>
<td>• Limited historical data</td>
</tr>
<tr>
<td></td>
<td>• Pricing based on individual risk (age and other characteristics)</td>
<td>• Group pricing</td>
</tr>
<tr>
<td></td>
<td>• Monthly to yearly payments, often paid by mail-based on an invoice, or by debit orders</td>
<td>• Often higher premium to cover ratios</td>
</tr>
<tr>
<td></td>
<td>• Complicated processes</td>
<td>• Very price sensitive market</td>
</tr>
<tr>
<td><strong>Control of insurance risk</strong></td>
<td>• Limited eligibility</td>
<td>• Broad eligibility</td>
</tr>
<tr>
<td></td>
<td>• Significant documentation required</td>
<td>• Insurance risk included in premiums rather than controlled by exclusions</td>
</tr>
<tr>
<td></td>
<td>• Screening, such as medical tests, may be required</td>
<td>• Link to other services (e.g. credit)</td>
</tr>
<tr>
<td><strong>Claims handling</strong></td>
<td>• Complicated processes</td>
<td>• Simple and fast procedures for small sums</td>
</tr>
<tr>
<td></td>
<td>• Extensive verification documentation</td>
<td>• Efficient fraud control</td>
</tr>
</tbody>
</table>

23 Source: Lloyd's 360 risk insight, Microinsurance Center
In commercial domain, microinsurance also supports micro, small and medium enterprises (MSMEs) in two folds:

- **Resilience:** It increases resilience of MSMEs though better risk management, less dependence on costly risk coping strategies and sustained productivity or fast recovery after a shock.

- **Investments and funding:** It spurs investments in MSMEs and environment for investments as it encourages investments in high risk opportunities with higher returns, opens up new funding opportunities as financial institutions will have higher trust and frees up fund allocated aside for coping with business risks.

Micro enterprises typically needs life, accident and health of owner and family; vehicles, inventory, premises and crops for business. Whereas in SMEs in addition to the aforementioned insurances business continuity and liability insurers stand out.

Furthermore, new types of risks are emerging and insurers have started to focus on coping with those risks. Yet, currently these opportunities are quite nascent in Turkish market.

16. Barriers limiting PMI penetration

Broad coverage by SGK (social security) and unclarity around health system make it difficult to define the role of insurance in the health space.

- Currently, majority of the burden is on the government as public share in total health expenditures approaches to 80%, the government would be keen to pass some of the burden to the private sector to reduce budget pressure.

Figure 22 Source of financing of total healthcare expenditure in Turkey

![Figure 22 Source of financing of total healthcare expenditure in Turkey](source)

**Turkish healthcare expenditure**

2014-2018, BN TL and as % of total expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Private</th>
<th>Out of Pocket</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>89 (4)</td>
<td>76 (16)</td>
<td>69 (69)</td>
</tr>
<tr>
<td>2015</td>
<td>97 (5)</td>
<td>88 (19)</td>
<td>76 (16)</td>
</tr>
<tr>
<td>2016</td>
<td>113 (6)</td>
<td>102 (23)</td>
<td>88 (69)</td>
</tr>
<tr>
<td>2017</td>
<td>131 (6)</td>
<td>120 (27)</td>
<td>102 (77)</td>
</tr>
<tr>
<td>2018</td>
<td>155 (8)</td>
<td>27 (17)</td>
<td>120 (77)</td>
</tr>
</tbody>
</table>

Share in total expenditure

- Private: 5%
- Out of Pocket: 17%
- Public: 77%

Source: Ministry of Health – Health statistics yearbook
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

- However, progress to date has been limited:
  - Limited/no platforms to shape the role of private insurers and government in health insurance
  - Uncertainties in government policies in health (e.g. City hospitals/PPPs)
- Low levels of trust in insurers (e.g. As the healthcare services is a foundational pillar of a social state, authorities tend to be cautious in cooperating with insurers in this domain regarding customer protection)
- Social security system in Turkey provides one of the most comprehensive coverages, creating a barrier in the way of PMI

Figure 23 Coverage of public healthcare systems in select countries

<table>
<thead>
<tr>
<th>Public Healthcare Coverage international comparison</th>
<th>Eye Check</th>
<th>Health Check</th>
<th>Hospital</th>
<th>Maternity (regular)</th>
<th>Dental Care</th>
<th>Glasses</th>
<th>Prescriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Partial coverage]</td>
<td>![Extensive coverage]</td>
<td>![Partial coverage]</td>
</tr>
<tr>
<td>Brazil¹</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Partial coverage]</td>
<td>![No coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
</tr>
<tr>
<td>France²</td>
<td>![Partial coverage]</td>
<td>![Partial coverage]</td>
<td>![Partial coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
</tr>
<tr>
<td>Italy²</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
</tr>
<tr>
<td>Germany</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Partial coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
</tr>
<tr>
<td>Sweden</td>
<td>![Partial coverage]</td>
<td>![Partial coverage]</td>
<td>![Partial coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
<td>![Extensive coverage]</td>
</tr>
</tbody>
</table>

²⁴ Source: AXCO, public commentaries

- Introduction of complementary insurance has been an important step for increasing PMI penetration, however there is still substantial gap compared to many benchmark countries mainly because there is limited motivation to enroll
17. Life insurance positioning

Unclear demarcation between life insurance and pension products limits growth in savings branch

- Life insurance has been limited to mainly credit-linked products and positioning of life savings has been unclear due to two key reasons:
  - Life savings products have been cannibalized by pension products in the sense that existing pensions products are mainly used for savings for life events such as marriage, education or vacations
  - Most of the pensions policies are cashed out before retirement age
  - Average tenure of existing contracts are 3.8 years
  - Only ~7% of current participants has been in the system for more than 10 years
  - Life and pension players have been focusing on pensions mostly given the push from government and frequent changes in the system; life savings products have been secondary to private pensions
  - Addressable population for life and savings products are quite limited given the income levels in Turkey – which also affects the penetration in life savings products

### Figure 24 Comparison of pensions contribution p.a. penetration vs. life insurance penetration

<table>
<thead>
<tr>
<th>Savings scheme cross-roads</th>
<th>2013–2017 Average, Penetration in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life insurance penetration (%)</td>
<td>Pensions contribution as % of GDP</td>
</tr>
</tbody>
</table>

Countries opted for life insurance as primary savings scheme

- Denmark
- Finland
- Norway
- Portugal
- Italy
- Japan

Countries opted for pensions as primary savings scheme

- France
- Belgium
- Germany
- Austria
- Portugal
- Italy
- Japan

Source: OECD
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

18. Life insurance gap

Certain life savings and risk products are at nascent stage in the market:

- Credit-linked nature of life insurance in Turkey has resulted in limited innovation in life branch (due to insurers’ mainly focusing on private pensions and growing life insurance through credit linked products)
- There are key gaps (and potential expansion areas) in life products:
  - Insurers mainly focus on term-life products with death coverage. Annuities and life insurance products with other coverages are not well developed
  - Tax advantages are reduced with introduction of new pension scheme
  - Long term care products have not grown so far given the young population of Turkey, and existing SCHEK services, yet given the increasing dependency ratio, long term care and nursing is expected become more prominent in future
  - Employee benefits market is not established in Turkey, corporate pensions, long-term disability benefits, flex benefits options are not offered by insurers or promoted at workplaces

Figure 25 Breakdown of life premiums and # of policies by sales approach

<table>
<thead>
<tr>
<th>Premiums by life segment</th>
<th>BN TL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.6</td>
</tr>
<tr>
<td>2014</td>
<td>3.5</td>
</tr>
<tr>
<td>2015</td>
<td>4.1</td>
</tr>
<tr>
<td>2016</td>
<td>5.4</td>
</tr>
<tr>
<td>2017</td>
<td>7.3</td>
</tr>
<tr>
<td>2018</td>
<td>7.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Life policies by sales approach</th>
<th>MM policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.8</td>
</tr>
<tr>
<td>2014</td>
<td>3.0</td>
</tr>
<tr>
<td>2015</td>
<td>3.1</td>
</tr>
<tr>
<td>2016</td>
<td>2.8</td>
</tr>
<tr>
<td>2017</td>
<td>2.6</td>
</tr>
<tr>
<td>2018</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Highlights

- Life business is very concentrated in 2 product lines – term life and personal accident
- Certain other offerings such as education, unemployment, tailored critical illness are tested by some insurers yet the penetration has been limited
- Business mainly acts as secondary collateral in case of death of the borrower as majority of policies are credit linked sales.
4.4. Barriers related to distribution channels

19. Agencies

Economic viability of agencies is under threat and there will be additional hurdles agencies will face as sector evolves (e.g. digitalization, data protection)

- Lower levels of professionalism/institutionalization, limited product knowledge (specialization), role definition of brokers and agencies and poor customer service are among the issues identified related to agencies
- Insurers do not invest in the agencies as the majority of agencies are not tied-agents
- Smaller agencies cannot survive in a competitive market place: a large portion of agencies (75%) produce less than 1 MM TL premiums, meaning that they cannot survive with their insurance activities
- Digitalization and law on the protection personal data standards put additional pressure on agencies. Agencies will need to invest in systems, processes as well as training in order to be able to adapt to changing landscape
- As the insurance distribution landscape in Turkey evolving with online channels and direct sales force taking role in insurance sales, it will become difficult for agencies to differentiate themselves from competition

Figure 26 Overview of economics of agency channel

Distribution of agencies by number of employees

<table>
<thead>
<tr>
<th>Employee Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 employee</td>
<td>20%</td>
</tr>
<tr>
<td>2 employees</td>
<td>41.3%</td>
</tr>
<tr>
<td>3 employees</td>
<td>13.6%</td>
</tr>
<tr>
<td>4 employees</td>
<td>5.0%</td>
</tr>
<tr>
<td>5 employees</td>
<td>2.7%</td>
</tr>
<tr>
<td>6-10 employees</td>
<td>2.3%</td>
</tr>
<tr>
<td>10+ employees</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

~95% of the agencies has less than 4 employees

Financial feasibility of agencies

<table>
<thead>
<tr>
<th>Premium Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;500K TL</td>
<td>23%</td>
</tr>
<tr>
<td>500K-1MM TL</td>
<td>20%</td>
</tr>
<tr>
<td>1MM TL - 5MM TL</td>
<td>55%</td>
</tr>
<tr>
<td>5MM TL</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Would be unprofitable to solely focus on insurance business

Achieved scale to solely focus on insurance

Source: TSB
4. BARRIERS AND STRUCTURAL CHALLENGES OF THE INSURANCE SECTOR IN TURKEY

20. Limited customer ownership and engagement
Lack of customer ownership limiting customer engagement and management - hostage to distribution partners who capture lion share and inability to leverage deep customer information for more tailored offering

- Turkish insurance market is dominated by traditional intermediaries such as agents, brokers and banks. Hence, relationship mainly remains with the intermediary
- Especially in case of agencies, channel wants to keep customer ownership; therefore agencies are reluctant to share customer data
- For majority of agencies in non-life and banks in life, insurance is not the sole business, which may cause loss of certain penetration opportunities when insurers cannot act on customer insight to generate engagement
- Limited customer ownership also results in loss of control over customer lifecycle, from sales process to manage customer relationships. Examples include:
  - Increased reputational risk for the sector when sales and servicing is weak through intermediaries
  - Inability to leverage deep customer information for more tailored offering and to improve customer experience

21. Low level of digitalization
Low levels of digitalization in almost all channels, especially in agents and regulatory barriers in the way of digitalization

- Digital innovation has been limited in insurance sector compared to other industries in Turkey such as banking
- Although the performance of individual players in terms of digital transformation differs, there are several barriers in the way of digitalization that are relevant for all players
  - Regulatory barriers – requiring physical policies and physical signatures
  - Uncertainties in regulations & by-laws – no common understanding of regulations and its applications across insurers
  - Agency channel which has the highest share in non-life is very immature in terms of digitalization and insurers are reluctant to invest in agencies due to mostly non-exclusive relationships
- Given changing customer needs and expectations (multi-channel behavior blurring boundaries between online and offline, consumer needs around simplicity and accessibility) digitalization is an important agenda item for the whole sector
4.5. Barriers related to regulations

22. Financial controls
Lack of sector wide standards and stringent financial transparency and control – Resulting in non-compliant practices (e.g. cash-flow underwriting)

- Financial stability is a key attribute of a prospering insurance sector and is a core area for regulation to address
- There is a need in the sector to establish more stringent financial controls (through regulator) in order to eliminate uncompliant applications and high risk business models which negatively impact sector’s financial stability. Costs of financial distress caused by such companies are on the whole society, which pose a threat on the insurance sector reputation
- Higher frequency of reporting and more granularity of reported numbers should be considered
- Requirements to set-up and operate an insurance company are not stringent enough. Furthermore, IFRS17 and Solvency practices are not effectuated so far, hence visibility on risk profile and stability in stress scenarios

23. Barriers in the way of digitalization
There is a need to adapt legislations to be more reflective of digital innovation (e.g. requirements around physical policies and signatures)

- Requirement of physical policies and signatures during the application process and notary approved warnings are ineffective in terms of cost and time
- Regulations and incentives on technological devices (telematics, e-call systems etc.) which can help on more accurate pricing for motor insurance and shortening the response time in case of accidents are lacking

Details were provided under "Low level of digitalization" barrier in this document

24. Barriers in the way of innovation
Complex, costly and time-consuming new product development process (due to approval requirements) limiting the innovation in the sector

- Product development process is cumbersome, requiring a number of approvals from authority in advance
- Test and learn process is not possible, as the product should be approved before market roll-out
- Agility is becoming more and more important as new offerings need to be launched each day with changing with technology
- There are options related to product approval processes (e.g. Regulatory sand-box for fintechs, "use and file" process instead of "file and use" process where insurers get approvals once products are over certain thresholds etc.), which have not been tested/used in Turkey

25. Regulatory alignment and simplification
Frequent legislation changes, which often result in inconsistencies and complexity

- There are a number of structural issues identified required regulatory alignment and simplification:
  - Regulations might be shaped without effective and meaningful consultation of insurers from the earliest stages
  - Regulatory stability has been low
  - Trying to adapt new regulations frequently, becoming financial and operational burden for the insurance companies
  - Lack of coordination and communication between authorities that are responsible for regulatory changes cause inconsistencies

- In case of inconsistencies, there is vagueness in terms of insurance regulation as a number of laws are governing insurance practices
- Regulations and their reflection to customer communications (e.g. policies) are very complicated, needs for simplification

26. Consumer protection
Need for clear guidelines around consumer protection, data protection, responsibilities for mis-selling etc. to build confidence in the sector

- Consumer protection is a critical aspect of a functioning insurance market and will be particularly important for creating the required trust with citizens and businesses to accelerate growth in the emerging insurance market
- Key concerns around consumer protection practices are
  - Clarification on governing authority and counterpart for complaints and public awareness related
  - Absence of active monitoring of complaint handing performance, common complaints
  - Sector is prone to conduct risks as
  - Definition of mis-sell is not clear and customer awareness and understanding are limited
  - Legal procedure in case of mis-sell and responsibilities are not clear (e.g. Mis-leading due to provision of limited product information or sale an unneeded product by the insurer or the distributor)
5

SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP
5.1. Growth potential and objectives

As detailed in the Section 2.4, Turkey’s potential for increasing insurance penetration, overall insurance penetration (including non-life, life GWP and annual pensions contributions) is dependent on median income level of a country. Once country penetration levels are estimated based on single factor regression of median income level, Turkey has room to reach ca. 3% penetration from its current penetration at 2% (including non-life, life GWP and annual pension contribution).

In addition to that, there are countries that exceed their fair share in terms of insurance penetration. A common theme among these countries is the positioning of insurance sector by public authorities. Allocation of roles between insurance sector and public authorities in terms of managing risks that society may face directly affects development of insurance sector and financial burden on public authorities. In that context, depending on the support by public authorities in strengthening role of insurance, Turkey can unlock further growth and penetration rate that is higher than its fair share. Launch of complementary pension system that is currently under discussion by authorities, closer collaboration with public and regulatory authorities can help the sector reach a size of 300-350 billion TL in the next 5 years. Such growth would imply another 1% increase, resulting in 4-4.5% insurance penetration.
Figure 27 Penetration potential

Median equivalized income\(^2\) vs. Non-life + Life + Pension contribution penetration to GDP
2017

Source: TurkStat, OECD, Gallup, SwissRe, Türk-İş
Two scenarios were investigated in assessing the future state of the sector:

- A status-quo scenario, in which the insurance sector grows with economic developments and taking limited improvement actions, implies 160-180 BN TL premiums and contributions with ~7% real CAGR and ~15% nominal CAGR (based on Ministry of Finance GDP and inflation expectations). GDP penetration is expected to remain stable reaching around ~2.1% from ~2% today.

- A target scenario, in which strategic initiatives are adopted in addition to overall economic development, implies 200-250 BN TL premiums and contributions with 13% real CAGR and 22% nominal CAGR. The growth implies an upside of 5% real CAGR to be delivered through initiatives.

The target implies a future state where insurance coverage is higher across all branches.

### Figure 28 Target state vs. today in key branches

<table>
<thead>
<tr>
<th>Branch</th>
<th>TODAY 2019</th>
<th>TARGET 5-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTPL</td>
<td>~ 20% Leakage</td>
<td>~ 5% Leakage</td>
</tr>
<tr>
<td></td>
<td>~ 19 MM vehicles</td>
<td>~ 30 MM vehicles</td>
</tr>
<tr>
<td>Property</td>
<td>~ 50% Leakage</td>
<td>~ 10% Leakage</td>
</tr>
<tr>
<td></td>
<td>~ 10 MM dwellings</td>
<td>~ 20 MM dwellings</td>
</tr>
<tr>
<td>Other Property</td>
<td>~ 8 BN GWP</td>
<td>~ 25 - 30 BN GWP</td>
</tr>
<tr>
<td>Casco</td>
<td>~ 26% insured vehicles</td>
<td>~ 45% insured vehicles</td>
</tr>
<tr>
<td></td>
<td>~ 6 MM insured vehicles</td>
<td>~ 15 MM insured vehicles</td>
</tr>
<tr>
<td>Health</td>
<td>~ 3 MM insured people</td>
<td>~ 9 MM insured people</td>
</tr>
<tr>
<td></td>
<td>~ 4% of the population</td>
<td>~ 11% of the population</td>
</tr>
<tr>
<td>Term Life</td>
<td>~ 6 BN GWP</td>
<td>~ 23 BN GWP</td>
</tr>
<tr>
<td>Life Savings</td>
<td>~ 0.5 BN GWP</td>
<td>~ 16 BN GWP</td>
</tr>
<tr>
<td>Other Lines</td>
<td>~ 9 BN GWP</td>
<td>~ 28 BN GWP</td>
</tr>
<tr>
<td></td>
<td>0.24% penetration</td>
<td>0.35% penetration</td>
</tr>
</tbody>
</table>
Recommendations developed in this report do not include or targets do account for an impact related to pensions.

Figure 29 Expected GWP in each scenario

Gross written premiums
2014-2024, BN TL, for pensions annual contributions are considered

- **Nominal CAGR**
  - 7% CAGR
  - 13% CAGR
  - 22% CAGR
  - 30% CAGR

- **Real CAGR**
  - 7% CAGR
  - 13% CAGR
  - 22% CAGR
  - 30% CAGR

<table>
<thead>
<tr>
<th>Year</th>
<th>Status-quo</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>36</td>
<td>20</td>
</tr>
<tr>
<td>2018</td>
<td>73</td>
<td>41</td>
</tr>
<tr>
<td>2024</td>
<td>169</td>
<td>130</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Status-quo</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>10%</td>
<td>21%</td>
</tr>
<tr>
<td>Life</td>
<td>9%</td>
<td>25%</td>
</tr>
<tr>
<td>Pensions</td>
<td>5%</td>
<td>43%</td>
</tr>
<tr>
<td>Non-life</td>
<td>6%</td>
<td>13%</td>
</tr>
</tbody>
</table>

- **Driven by economic developments and incremental changes**
- **Driven by strategic initiatives**
- **Including second pillar revisions in pension**

---

**Ministry of Treasury and Finance GDP and inflation estimations are available until 2021, as an estimation proxy inflation rate and GDP growth rate of 2021 is used until 2024; Source: TSB, Ministry of Finance and Treasury, TurkStat.**
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

Figure 30 Expected penetration level in each scenario

Life & non-life insurance and pensions contribution penetration
GWP / annual contribution as a % of GDP
P&C branch is expected to remain the largest branch in terms of insurance premiums in the next 5 years. Motor branches are still expected to be the largest branch in P&C premiums, yet increasing inclusiveness, insureds ratio in compulsory lines and diversification of the coverages are expected to drive growth.

Government’s vision and action plan for healthcare system in Turkey is critical in setting the future of health insurance. Most of the upside in this branch is dependent on to what extent and how government will transfer the financing of health care to private sector.

Life insurance penetration growth is expected to be mainly driven by life savings and annuities. Once the pillar two pension scheme positioning is determined, depending on the design, a room for growth is expected to emerge especially for annuities. Other life savings products such as long-term care or those aligned with overall national objectives such as education is expected to grow in parallel, especially with reinstating of full tax incentivization.

To unearth the full potential of the insurance sector needs a vision that support role of insurance in a nation.

ESTABLISH A STRONG INSURANCE SECTOR WHICH TAKES AN IMPORTANT ROLE IN BUILDING TURKEY’S FUTURE
5.2. Vision and strategic objectives

The overarching vision is supported by five key objectives to establish a strong and insurance sector which takes an important role in building Turkey’s future.

Figure 31 Vision and objectives of the insurance sector

ESTABLISH A STRONG INSURANCE SECTOR WHICH TAKES AN IMPORTANT ROLE IN BUILDING TURKEY’S FUTURE

14 strategic initiatives were defined to overcome the barriers in the way of sector’s development and to achieve these objectives.
### Figure 32 Strategic initiatives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Enhance consumer protection and conduct</td>
<td>4. Set-up an independent and strong regulator</td>
</tr>
<tr>
<td>2. Pursue an engaging communication strategy</td>
<td>5. Adopt future-looking, stable and consistent regulations</td>
</tr>
<tr>
<td>3. Redefine the role of TSB</td>
<td>6. Devise the role of insurance in health system</td>
</tr>
<tr>
<td></td>
<td>7. Improve the cost efficiency of MTPL</td>
</tr>
<tr>
<td></td>
<td>8. Reposition life insurance considering expected Pillar II</td>
</tr>
<tr>
<td></td>
<td>9. Improve compliance in compulsory lines</td>
</tr>
<tr>
<td></td>
<td>10. Foster full-fledged digitalization of the sector</td>
</tr>
<tr>
<td></td>
<td>11. Increase product and channel variety to promote inclusiveness</td>
</tr>
<tr>
<td></td>
<td>12. Enhance skill set of the sector's talent pool</td>
</tr>
<tr>
<td></td>
<td>13. Improve sector data sharing and analytical capabilities</td>
</tr>
<tr>
<td></td>
<td>14. Support agencies in preparing for future</td>
</tr>
</tbody>
</table>

- **Increase trust and awareness with insured oriented approach**
- **Revision of the institutional operation and structures in the sector to provide effective and efficient cooperation**
- **Develop a close and effective partnership with the government and Regulator**
- **Expand insurance offering and engage with emerging ecosystems**
- **Enhance the expertises and competencies needs to the sector**
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

5.3. Strategic initiatives

Initiative 1: Enhance consumer protection and conduct

Drive a more consumer-focused approach (through better monitoring of customer satisfaction, simplification and increased transparency in policy information to increase consumers’ confidence and trust in the sector

- Simplification and transparency in contracts: Simplify contracts and improve transparency in disclosures to make them more consumer-centric
  - Simplified policy wording and T&Cs for standard contracts (e.g. Define and implement min. standards for mass products to clearly communicate terms)
  - Greater transparency in policy information
- Customer service focus: Improve service levels of insurers through better reporting and monitoring of customer satisfaction (via TSB)
  - Develop customer complaint reporting and monitoring mechanism via TSB (e.g. aggregated complaint data to be reported to TSB)
  - Clearly define customer complaints and SLAs (e.g. Number of unsolved complaints, complaints settled > 1 month)

- Define legislation and standard definitions around customer protection and conduct principles. Perform sector-wide and/or company level conduct risk assessment and take necessary measures and establish mechanisms to mitigate conduct risks

- Develop supporting initiatives aimed at protection of customer interest – e.g. improving distribution channels awareness on consumer protection standards through training, licensing requirement etc.

Initiative 2: Pursue an engaging communication strategy

Develop a persistent communication strategy to increase insurance awareness through different media and engage both public and government institutions.

- Develop a strategic communication plan aiming to raise the profile of insurance sector:
  - Engage with public broadcasting media and influencer marketing on themes that are material for development of insurance sector (disciplined public relations)
  - Work closely together with related government entities to increase awareness around personal responsibility in respect of protection coverage, savings, and role of insurance as well as importance and contribution of insurance to society
  - Establish distinguished branding for insurance sector supported projects/initiatives
Figure 33 Case examples of insurance sector and government collaboration in the UK\textsuperscript{31}

**CASE EXAMPLES OF INSURANCE SECTOR AND GOVERNMENT COLLABORATION IN THE UK**

Examples from industry and government collaboration

**Enhancing the role of industry**

- Increased dialogue with the government to increase savings and protection provision, where appropriate, and help consumers manage financial distress

**Commitment from insurers’ to support UK economy**

- Increased long-term investment from insurers in UK infrastructure projects both for the benefit of policyholders and the UK economy as a whole

**Buy-in lever for Government**

- What is the optimal balance between state and private provision

**UK Addressable Risk Management market**

- £2 BN
- £13 BN
- £7 BN
- £12 BN

<table>
<thead>
<tr>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>£7 BN</td>
<td>£12 BN</td>
</tr>
<tr>
<td>£13 BN</td>
<td>£2 BN</td>
</tr>
</tbody>
</table>

**Buy-in lever for Government**

- How can insurers be more involved in long term investment to drive sustainable economic growth?

- Insurers Infrastructure Forum initiated for transparent communication of insurers’ commitment. Example projects:
  - Aviva – funding of “Inverness College”
  - Prudential – funding children’s hospital
  - L&G – funding student accommodation schemes
  - FriendsLife – loan facility for sustainable energy

\textsuperscript{31} Source: The UK Insurance Growth Action Plan December 2013, Vision for the Insurance sector in 2020 July 2019
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

**Figure 34 Insurance awareness program best practices in select countries**

<table>
<thead>
<tr>
<th>Insurance awareness programs</th>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>Official Curricula</td>
</tr>
<tr>
<td>Iceland</td>
<td>Official Curricula</td>
</tr>
<tr>
<td>Italy</td>
<td>Io &amp; i rischi (me and risk)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Money Wise</td>
</tr>
<tr>
<td>• Typically these programs are developed jointly with insurance associations and exist in most European countries</td>
<td></td>
</tr>
<tr>
<td>• Finland and Iceland put insurance awareness on their official curricula starting from primary school</td>
<td></td>
</tr>
</tbody>
</table>

| **Games and Competitions** | |
| Germany | Safety 1st |
| Finland | Economic Guru, Zelda |
| Austria | Less Risk – More Fun |
| Italy | Grand Prix of Applied Mathematics |
| • Most of the countries developed online games for the children to boost awareness |
| • Italy and Finland, have nationwide competitions about insurance and financial knowledge |

| **Consumer and Information Websites** | |
| Belgium | ABCAssurance |
| Denmark | Forsikrings-oplysningen (Ask about insurance) |
| Ireland | Insurance Information Service |
| Netherlands | Van A tot Zekerheid (From A to Security) |
| • Consumer Protection and information websites are developed in cooperation with insurance association |
| • Some countries such as Ireland and Sweden even provide customer services and complaints management through these websites |

| **Insurance and Savings Tools** | |
| Sweden | Compensation Check (Health Spend) |
| Germany | GDV’s Pension Calculator |
| Norway | Norsk Penjon (Norwegian Pensions) |
| Denmark | Pension Calculator |
| • Health expense compensation calculator, pension calculator are common online tools to increase savings awareness |

---

32 Source: Insurance Europe
33 Source: OECD (Policy Issues in Insurance Risk Awareness, Capital Markets and Catastrophic Risks)
### Initiative 3: Redefine the role of TSB

Improve stature and effectiveness of the association to play an extended role to foster sector cohesion, self-regulation and advancement

- **Orchestrating strategic, self-regulatory and PR agenda of the sector effectively**

  - **Strategic**: Set up a working group with related govt. entities to define (quantify) areas where insurance sector can play greater role. Define an agenda including topics that are most important to members and create alignment through committees (current HD and HE committees)

  - **Self-regulatory**: Craft a code of conduct for insurers on interactions with each other and with other stakeholders (e.g. government entities) and escalation of violations to the board. Define compliance requirements and deterrence mechanisms such as sanctions to self-regulate the sector. Reinitiate the discipline committee formed of independent members (ex-senior leadership in the sector/treasury, academics)

  - **PR**: Perform road-shows targeting ministries and authorities across organization layers to explain role of insurance in supporting their agenda (e.g. access to finance, protection gap, sustainability of social services) Run targeted PR efforts jointly with the government such as a branding for insurer supported initiatives and contribute to insurance sector image

### Good practices on natural disaster risk and insurance awareness

<table>
<thead>
<tr>
<th>Country</th>
<th>Stakeholders</th>
<th>Description</th>
</tr>
</thead>
</table>
| Canada     | • State Farm Insurance  
• Red Cross  
• Weather Network
| Insurance companies  
• Western Ontario University | Reaching more than 750,000 children, this program aims to raise the risk awareness of children against natural disasters

| Japan   | • General Insurance Association of Japan  
• National Association of Commercial Broadcasters | More than 100 radio presenters are invited to learn and experience the effects of earthquakes through seminars and simulations annually. They share their experiences with the public on their shows

Educational programs for elementary school children to teach them the importance of disaster risk reduction

Educational videos, advertisements for newspapers and TV, posters and flyers to promote earthquake insurance and disaster preparedness
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

Figure 35 Case example of Association of British Insurers’ self-regulatory role

<table>
<thead>
<tr>
<th>Areas of sector disciplining</th>
<th>Periodically updated code in line with the insurance context of the date</th>
<th>Sanctions</th>
</tr>
</thead>
</table>
| Mandatory code of practices  | Code of Genetic Testing and Insurance                                   | • Expelled from the association  
|                              | Code regarding taking predictive genetic tests related to health insurance | • Not accepted as a member |
| Voluntary code of good practices | Guide to Minimum Standards of Critical Illness Cover |                       |
|                              | Code regarding informing customers about policies for critical illnesses |                       |
|                              | Transparency and Access in Motor and Travel Insurance for Older People   |                       |
|                              | Code for the members who use age restrictions for motor and travel – mandate to offer solution |                       |
|                              | Endowment Mortgage Policy Review Code of Practice                         |                       |
|                              | An agreement on guiding customers who are short on their mortgage payments |                       |

Source: ABI

- Review and revisit Association’s governance structure (e.g. Board composition and structure, election process, executive committee structures) to enable above changes
- Review and revisit Association’s organization structure and resources
Initiative 4: Set-up an independent and strong regulator

Ensure strong and independent regulation and supervision through a dedicated insurance regulator and supported by clear and consistent regulations and stricter financial controls.

- Establish an institutional regulatory framework for insurance:
  - Independent standalone regulator (SEDDK) with the right organizational structure and resources (e.g. know-how, expertise)

- With accountability and right level of representation

**Figure 36 Key consideration in regulator set-up**

**Key considerations for set-up**

- Independence from political agenda
- Access to senior government officials
- Access to data and information on market players
- Breadth of sector insights sharing/reporting
- Staffing plans for required resources
- Key functions (incl. regulation, supervision, conduct)
- Clear responsibilities, KPIs and accountability, including measures in case of stress scenarios
- Transfer knowledge from regulator and supervisor
- Competitive benefits to retain/acquire talent
- Advanced sector reporting expertise
- Thought leadership skills
- Advanced analytics capabilities
- Platform for regulatory sandbox for InsureTech
- Automated processes
- Independent budgeting
- Funding of the insurance regulatory and supervisory body (e.g. fees from sector, budget allocation, combination of the above, etc.)
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

Figure 37 Case example: Regulator set-up in Austria

**CASE EXAMPLE: REGULATOR SET-UP IN AUSTRIA**

Case study 1: Austria (Integrated Model)

<table>
<thead>
<tr>
<th>Overview different regulators</th>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Ministry of Finance (BMF)</td>
<td>Transition to integrated model</td>
</tr>
<tr>
<td>• Develops and defines the legal framework</td>
<td>• In 2002, there was a single integrated supervisory authority established in Austria</td>
</tr>
<tr>
<td>• The legal framework is then passed through the legislature</td>
<td>• The Finanzmarktaufsichtsbehörde (Financial Market Authority – FMA) was established under public law as an independent institution with its own legal personality</td>
</tr>
<tr>
<td>Oesterreichische Nationalbank (OeNB)</td>
<td>Adamant of the integrated model for Austria</td>
</tr>
<tr>
<td>• Monitors the country’s financial macroeconomic stability</td>
<td>• The integrated approach reflects Austria’s strongly interlinked financial market</td>
</tr>
<tr>
<td>• Directly involved in banking supervision</td>
<td>• Conflicts between conduct and prudential departments are easier to solve in an integrated entity</td>
</tr>
<tr>
<td>Financial Market Authority (FMA)</td>
<td>• Cross-sector micro-prudential supervision permit a consistent approach to risk analysis backed up by effective measures</td>
</tr>
</tbody>
</table>

- Insurance: The FMA supervises all undertakings of insurance companies authorized to conduct business in Austria
- Insurance firms based in EEA don’t need additional license from FMA

---

35 Source: Baker McKenzie Law Office, BMI, IMF, IMF
**Case study 2: United Kingdom (Twin Peaks Model)**

### Overview different regulators

- **Bank of England (BoE)**
- **Prudential Regulation Authority (PRA)**
- **Financial Conduct Authority (FCA)**

#### Highlights

- **Shift towards a Twin Peaks model**
  - As a consequence of the financial crisis, the UK fundamentally reorganized regulation and supervision
  - The public opinion was that the integrated approach had failed
  - This led to shift from an integrated to twin peaks model whereby the FCA is responsible on conduct matters and the PRA responsible on prudential issues

- **Rationale for shift**
  - The change of model is a major shift in philosophy towards a more pre-emptive and intrusive approach to supervision
    - The approach to supervision has a focus on early intervention rather than reactionary changes due to its forward looking and judgment based nature
  - The historical legalistic and bureaucratic approach to regulation under the FSA was seen as inappropriate for prudential matters

### Insurance industry association

- The Association of British insurers (ABI) is the leading association for the insurance sector in the UK
- ~90% of the insurance market is member (~250 members)
- The primary roles of the ABI include
  - Influential lobbyist on behalf of the insurance industry and frequently petitions government (engaging with politicians, policymakers and regulators at home and abroad)
  - Being the public voice of the sector, promoting the value of its products and highlighting its importance to the wider economy
  - Helping encourage consumer understanding of the sector’s products and practices
  - Supporting a competitive insurance industry in the UK and overseas

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Source: Baker McKenzie Law Office, BMI, IMF
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

Figure 39 Case example: Regulator set-up in Spain

Case study 3: Spain (Sectoral Model)

Overview different regulators Spain

- AMCESFI is designed to supervise the Spanish financial system with the aim of preventing or detecting systemic risk
- Its legal structure has been conceived as a collegiate body, without its own legal personality and attached to the MINECO, although with functional independence

Macroprudential Authority Financial Stability Board (AMCESFI)

• Central bank of Spain and the prudential supervisor and regulator of banks
• Independent authority with operational and budgetary autonomy
• Has enforcement powers

Ministry of Economy (MINECO)

• Regulator for the Spanish stock markets
• Has enforcement powers

Government department with wide regulatory powers

Banking

Bank of Spain (BDE)

• Central bank of Spain and the prudential supervisor and regulator of banks
• Independent authority with operational and budgetary autonomy
• Has enforcement powers

Securities

National Securities and Exchange Commission (CNMV)

• Regulator for the Spanish stock markets
• Has enforcement powers

Insurance

General Directorate of Insurance and Pension Funds (DGSFP)

• Regulator for insurance companies
• Part of the MINECO and has no regulatory power alone
• Responsibility:
  - The supervision of the insurance industry
  - Customer protection in insurance
  - Making insurance regulation proposals to the MINECO

Weaknesses of regulatory model

- Regulators with sectoral interests impede the natural evolution of the industry and create inefficiencies
- Regulators with sectoral interests have an incentive to encourage their own sector to the detriment of Other/New sectors
- More energy may be spent undermining other regulators than developing regulatory excellence in the organization

- Regulatory arbitrage
  - Legal loop-holes allow for risk arbitrage between sectors
  - For example, banks can transfer some of their credit risk to their insurance books and go undetected by the BDE
- The DGSFP is not independent
  - The insurance regulator is a part of the ministry
  - A lack of independence is not optimal for the Continuity/Consistency of the regulator

Source: Baker McKenzie Law Office, BMI, IMF
• Revisit existing regulations leveraging set-up of the new regulator to increase clarity and consistency:
  · Improve clarity of regulations, making sure that sector practices are standard
  · Co-develop regulations [sector, academics input] with a long term and multi-stakeholder view and ensure effective and meaningful consultation at the earliest stage possible
  · Allow for sufficient time to observe benefits/drawbacks of new regulations
• Improve financial transparency and oversight over P&L, BS and cash flows by creating a stricter mechanism to periodically monitor, report and act on
• Establish a cooperation platform between association and the regulator to enable association to play a proactive role in pointing out risky practices and promoting financial stability

Initiative 5: Adopt future-looking, stable and consistent regulations

Revisit existing regulations & develop new regulations to meet the requirements of changing business environment/needs
• Set up a joint team and process to revise legislation and by-laws related to overall insurance practice and online processes, including
  · Unification of existing insurance regulation (TTK, consumer protection, insurance code) (Consistency)
  · Customer protection and conduct act (Future-looking)
  · Barriers in the way of certain life/annuities products and taxation policies (Consistency)
  · and other critical areas
  · and discuss with regulator across organizational layers
• Plan/expedite adoption of IFRS17 and Solvency practices to improve financial transparency
• Evaluate different product approval processes such as (Future-looking)
  · Use & file - Do not require filing before product reaches a certain scale [e.g. in terms of total premiums or # of product holders]
  · Competitive – if product is compliant to certain core principles, do not require approval instead of existing file & use procedure
• Support implementation of regulatory sand-box framework for InsurTech (a platform under which regulator and insurers pilot, test and review new insurance solutions) to ensure Turkey participates in technology driven insurance innovation (Future-looking)

Initiative 6: Devise the role of insurance in the health system

Define the role of insurance in managing the growing healthcare financing burden on the government and impact of aging population on health system, and create an accelerated growth opportunity for medical insurance, esp. for complementary insurance
• Create awareness of authorities on the challenge
  · Present the comprehensive picture on rising healthcare burden on government and learnings from other countries where government and private insurers share the burden
  · Communicate the concerns around aging population and dependency ratio before the hurdle exacerabtes, and work with government authorities to clarify long term plans for health system and long-term care financing
• Offer support with the healthcare financing burden and discuss the role of insurers:
  · Identify areas where insurers can take some of the burden (what costs can be transferred to private sector)
  · Revisit existing/develop new PMI products [e.g. complementary insurance] to gradually take over public healthcare financing burden (based on the agreed areas)
  · Based on the cooperation principles in long-term care financing, introduce and promote relevant products
• Develop a transition plan with government to gradually phase in standard product tiers and phase out of certain public coverages

In Europe, many government’s took actions to transfer certain risks to private sector, in extreme examples such as Netherlands, private medical insurance is practically compulsory. In France, due to certain deductibles and limitations of the public healthcare services private medical insurance is commonly preferred. In summary, government intentionally reduced its “benevolent father” role and enabled social transfer through insurance sector.
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

Figure 40 Role of PMI in national health system in select European countries

<table>
<thead>
<tr>
<th>ROLE OF PMI IN NATIONAL HEALTH SYSTEM IN SELECT EUROPEAN COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under the generic term “health reform”, many governments are withdrawing at least in part from the healthcare system and are increasingly restricting themselves to the task of laying down the necessary legal parameters</td>
</tr>
</tbody>
</table>

**Netherlands**
- The primary focus of the Dutch government was to promote public health, guarantee a minimum level of quality and ensure universal access to basic health services. The Dutch government became worried about seemingly uncontrollable growth of health care spending. Controlling costs is one of the main reasons the Dutch enacted healthcare reform in 2006
- After years of increased government involvement in the supply of health care, and in the face of waiting lists and shortages, the system was privatized in 2006, making PHI compulsory for every citizen. Since then, the Health Insurance Act has obliged each person who legally lives in the Netherlands to buy individual private health insurance

**Germany**
- Private health insurance plays a substitutive role in covering the two groups who are mostly exempt from SHI (civil servants, who are refunded parts of their health care costs by their employer, and the self-employed), and those who have chosen to opt out of the SHI scheme

**France**
- Statutory health insurance in France covers the whole working population but no necessarily for all their requirements. Public health care system is designed with differentiated deductibles to limit consumption
- Demand for private health insurance arises from the need of “top up” provision. Private health insurance has grown with the gradual erosion of proportion of healthcare costs paid by the statutory system. For example, PHI covered 33% of the population in 1960 and 86% by 2000

**Belgium**
- Most people obtain complementary insurance for expenses not covered by public security. Most companies offer these insurance plan as an added benefit to their employees

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38 Source: OECD, WHO

**Initiative 7: Improve cost efficiency of MTPL**

Utilize wide range of data, technologies and preventive measures to decrease total cost of MTPL to the sector and liberalize the market in mid-to-long term

- Reduce the total cost of MTPL through different measures without major changes in the current tariff system
  - Define additional tiers in risky pool and in general tiers
  - Incorporate past traffic fines considering severity into premium calculation
  - Incorporate new factors for better allocating drivers into risk tiers
  - Introduce usage-based insurance by deploying telematics and other modern technologies to granularly differentiate pricing based on active monitoring of driver behavior
  - Work with highway directorate and municipalities to identify high frequency and costly accident zones analytically and take preventive actions
  - Cope with fraudulent claims by working with police force in claim validation process through external sources such as MOBESE or past records etc.
  - Liberalize tariffs (longer term): address authorities’ apprehensions related to removal of pricing cap (e.g. instill trust in sustainability of product supply)
Initiative 8: Reposition life insurance considering expected Pillar II

- Develop a clear positioning for life insurance (e.g. distinction between life insurance and pension products) and comprehensive life savings offerings by promoting annuities products to complement pensions and improving tax benefits.
- After clarification of Pillar II in pensions, life savings should be repositioned according to mid and long-term saving needs along with increased tax advantages. Introduction of regulations and development of capabilities are necessary to differentiate investment products of the sector from the conventional banking and pension products.
- With the related regulations in mind, obstacles lying ahead of annuity market should be addressed and new annuity products complementing the new pension system should be offered. Restrictions on access to various life insurance products for individuals over 56 should be removed (for example; FX annuities, payment in instalments).
- Governmental support offered to citizens for funding education at private institutions should be extended to education insurance products.
- New products compatible with different life styles should be introduced, especially takaful life insurance (for example; haj/umrah insurance with savings, religious education insurance).

Initiative 9: Improve compliance in compulsory lines

- Increase compliance in MTPL and DASK through close monitoring and initiatives aiming persistency of policies in order to eliminate leakages.
- Create a working group to define measures aiming to eliminate leakages in compulsory insurance mainly in MTPL and DASK.
- Discuss different mechanisms and consider pros and cons to create solution for Turkey, considering options such as:
  - Reduce leakage in MTPL:
    - Increase sanctions for the uninsured driving
    - Identify uninsured vehicles and work with enforcement units to track uninsured vehicles
    - Reduce leakage in DASK through mechanisms such as:
      - Increasing strictness for persistency of contracts
      - Incorporate auto-renewal clauses in insurance contracts
      - Require certain replacement contracts for cancellation of DASK policies
      - Leverage customer database to identify leakages and promote DASK policies penetration
      - Promote electronic payments and installment alternatives for purchase

Initiative 10: Foster full-fledged digitalization of the sector

- Remove legal barriers to allow fully digital products and processes (end-to-end) and ensure clear and consistent standards & practices among players.
- Work with the regulator regarding adopting legislation to accept e-signature to insurance products and to allow for the use of digital and online channels as a legally valid way of notifying/informing clients:
  - Set up a working group comprised of insurance companies and technology providers to develop pilot digital solutions and a proposition on related regulatory requirements
  - Organize working sessions with government stakeholders in order to test feasibility of the defined requirements

Initiative 11: Increase product and channel variety to promote inclusiveness

- Increase insureds ratio by closing protection gaps in basic lines as well as diversifying offerings and channels by targeting underserved branches such as low-income, SMEs etc.
- Target increased insurance penetration through a focused and structured approach aiming at closing protection gaps:
  - Focus on increasing awareness of basic insurance products (such as casco and home/property insurance)
  - Focus on cultivating products already getting traction
  - Credit and surety products: Focus on selective sectors and cooperate with relevant associations to promote financial insurance products
  - Takaful: Increase cooperation with banking sector to create awareness and diversify offerings (e.g. Islamic savings products, haj travel insurance, etc.)
- Develop models to increase inclusiveness (to target branches who cannot afford insurance): establish regulatory base and introduce micro-insurance for low income households and micro/small enterprises.
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

**Figure 41 Micro-insurance offerings targeting micro, small and medium enterprises**

- **Peru**
  - Multi-risk cover
  - Partnering with MFIs and offering a variety of credit-linked products to small businesses

- **Philippines**
  - Bundled products
  - Offering bundled products for convenience stores and also uses convenience stores for sale of retail products

- **Pakistan**
  - Health and life products
  - Marketing to SME retailers, with coverage from $1000 to $5000. Different packages created including hospital cash and life

**Figure 42 Approach to address protection gaps**

- **Addressing protection gaps (leakages) in mandatory lines**
  - Examples: MTPL, TCIP

- **Addressing protection gaps in basic line**
  - Examples: Home, Casco, SME

- **Accelerating the growth in newly emerging lines**
  - Examples: Financial insurance, Islamic insurance

- **New product areas to address customer needs as well as changing requirements**
  - Examples: Cyber, Micro insurance

Channel innovation and diversification to increase accessibility
Initiative 12: Enhance skill-set of the sector’s talent pool

Increase human resources quality & skills of managerial and technical roles in the sector through attracting better talent as well as training existing human resource pool

- Attract talent pool by systematically covering universities:
  - Develop a university coverage plan
- Run awareness programs involving insurers and association (e.g. management of insurance companies participating and contributing in lectures, workshops, seminars etc.)
- Providing guidance on curriculum and participate in scholarship programs through coordination of the association
- Develop sector apprenticeship programs
  - Define standards with government authorities for the apprenticeship prog.
  - Create positions for apprenticeships roles in insurers through coordination of the association

Figure 43 Case example: Apprenticeship model in the UK

CASE EXAMPLE: APPRENTICESHIP MODEL IN THE UK

Overview
- Everyone over age 16 eligible
- Combines practical work with trainings
- Qualifications earned if successful at end of apprenticeship
- Degrees range from high school to masters

Role of Government
- Defining standards, relevant roles and qualifications
- Operating a platform for vacant apprenticeship positions and educators

Role of Employers
- Creating apprentice positions in line with standards
- Providing theoretical education
- Collaborating with educators for a productive on-the-job training
- Arranging assessment process of apprentices

Funding and Incentives
- Expenses are shared by government and employers: while large employers contribute to apprenticeship program, the government pays most of the smaller employer’s expenses

Source: apprenticeship.gov.uk

- Create/revisit knowledge sharing platforms (e.g. seminars, joint initiatives) through the association to guide insurers in equipping business functions such as claims, underwriting, sales with advanced analytics-based tools and process automation
Initiative 13: Improve sector data sharing and analytics capabilities

Improve sector’s data sharing and analytics capabilities through increasing quality and breadth of data collected and reported as well as creating new databases for enhanced decision making (e.g. Fraud)

- Improve breadth and quality of data in the existing sector data pools
  - Create a data dictionary to standardize data collected from insurers
  - Define data quality standards and metrics (e.g. completeness, validity etc.)
- Monitor and report internal data quality in core databases, improve in required areas by implementing control rules and procedures
- Define new data fields to be collected from insurers in order to enrich current databases
- Enrich with external data sources such as credit bureau, telco, utilities
- Develop insightful sector-wide reporting across business dimensions and value added synthesis (actionable metrics rather than plain data)
- Set-up new data consortiums & collaborations – Develop databases for sector wide analytics tools in coping with fraud, insured risk scoring, address based property insurance registry
- Perform strategic studies for and provide relevant data to government and ministries to support their agenda and prioritization
- Invest in agencies in terms of systems and incentives to collect and share customer data and support “know your customer” initiatives

### Exemplary databases

<table>
<thead>
<tr>
<th>Database</th>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICO</td>
<td></td>
<td>• Calculates insurance scores of individuals based on their credit scores for companies in auto and home insurance</td>
</tr>
<tr>
<td>Insurance Fraud Bureau &amp; Insurance Fraud Register</td>
<td></td>
<td>• Insurance Fraud Register (IFR) is managed by Insurance Fraud Bureau (IFB) and sponsored by ABI to have an industry-wide insurance fraud database • IFB works with insurance companies and law enforcement agencies to prevent organized insurance fraud using analytical softwares and operating an intelligence cheatline</td>
</tr>
<tr>
<td>Insurance Fraud Enforcement Department</td>
<td></td>
<td>• Insurance Fraud Enforcement Department (IFED) is specialist task force against insurance fraud • IFED is funded by ABI &amp; Lloyds and collaborates with insurance companies, IFB and other law enforcement agencies</td>
</tr>
<tr>
<td>Informa – HIS</td>
<td></td>
<td>• Database for automotive, accident, property, life and liability insurance • Aims to detect and prevent insurance fraud</td>
</tr>
</tbody>
</table>

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Figure 44 Insurance databases in select European countries

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40 Source: CII, FICO, Informa HIS
Initiative 14: Support agencies in preparing for future

Address challenges of agencies in terms of their business viability and contribution to insurers and ensure their future readiness

- Define a future looking strategy for agencies: Set up a working group comprising TSB, TOBB, SAIK, and other stakeholders to critically review current strategy in the face of technological and regulatory challenges and threats
- Clarify agency categories and establish licensing for different groups:
  - Define sector-wide agency categories/branches (e.g. product focus, geography, number of employees, GWP production)
  - Clarify definitions and differentiation between tied agency, multi-insurer agency and broker
  - Establish licensing and training requirements relevant for defined categories
- Assess new agency models to improve econ. viability of agencies incl. agency consolidation, agencies positioned only as sales force of insurers (tied relationships)
- Encourage transition to tied agency relationship: Benefiting from exclusivity, support professional and technological development of tied-agencies
- Establish balance of power between insurers and distributors through platforms (such as regulation information platform, product guidelines, process improvement guidelines) for smaller agencies that cannot carry the increasing compliance and data & analytics cost.

In international markets, brokers and agencies are distinctive position. Brokers typically work on commission basis paid by customer to provide more complex insurance needs, whereas agencies act as representatives of insurers paid according to sales performance and tend to focus on simpler standard products.

Figure 45 Role of brokers and agencies in select countries41

<table>
<thead>
<tr>
<th>ROLE OF BROKERS AND AGENCIES IN SELECT COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of broker and agent channels in different markets</td>
</tr>
<tr>
<td>Examples</td>
</tr>
<tr>
<td><img src="https://via.placeholder.com/15" alt="UK" /></td>
</tr>
<tr>
<td><strong>Number of Insurers</strong></td>
</tr>
<tr>
<td>4+ Insurers</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
</tr>
<tr>
<td><strong>Target Customer</strong></td>
</tr>
<tr>
<td><strong>Financial Requirement</strong></td>
</tr>
</tbody>
</table>

**License Requirement** | ✓ | ✓ | ✓ |

**Required Indemnity Insurance** | Max. of ~£1.5 MM p.a. or 10% of income | £1.7 MM p.a. Covered by the insurer | 100 K |

41 Source: AXCO

Typically, in UK and Germany, brokers act as independent representatives of customers, certain large companies have in-house brokers.
5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

Figure 46 Licensing requirements for insurance roles in Spain

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Roles</th>
</tr>
</thead>
</table>
| **Group A**  | • 500 hours of training  
• University degree  
• Aptitude test  

• Managers and technical directors in brokers, multi-firm agencies and banks |
| **Group B**  | • 200 hours of training  
• High school degree  
• Aptitude test  

• Tied agents and tied bancassurance operators  
• Customer advice and support staff |
| **Group C**  | • 50 hours of training  
• Aptitude test  

• Support staff  
• Reinsurance brokers who are not finalizing sales |

- At least 50% of the management team of broking firms and multi-firm intermediaries must be Group A employees.  
- For tied intermediaries, 50% must be Group B  
- Brokers must have business with a least 3 insurers  
- The scope of the trainings is broad, including:  
  - Data privacy  
  - Money laundering  
  - Marketing etc.  

5.4. Strategic road-map  
14 initiatives are prioritized in three waves considering impact and ease of implementation. Accordingly, initiatives that are expected to bring higher impact and easier to implement initiatives are prioritized higher.  

Impact is assessed considering on three factors:  
- **Benefits to sector**: Based on the importance assigned by insurance company CEOs in a survey.  
- **Benefits to insureds**: Benefits to society in terms of managing risks and protection, easier access to products & channels. Extent of benefits is assigned as high-mid-low based on interviews and expert opinion.  
- **Benefits to government**: Alignment of initiatives with government objectives. Extent of alignment is assigned as high-mid-low based on interviews and expert opinion.  

Where possible impact is quantified in terms of contribution to penetration.  
Ease of implementation is assessed considering two factors:  
- **Complexity**: Complexity of the initiative in terms of required effort and stakeholders involved.  
- **Readiness**: The higher the existing capabilities and willingness are, the relatively easier to implement the initiative.  

Based on the prioritization initiatives are translated into a strategic road-map in three waves.
The road-map for delivering the strategic initiatives covers a 3-year period. Yet, deadlines and responsibilities should be detailed in the Phase 0 – i.e. planning and PMO set-up phase – of the road-map.
## 5. SECTOR VISION, STRATEGIC OBJECTIVES, AND ROAD-MAP

### Figure 48 Time-plan of the strategic road-map

<table>
<thead>
<tr>
<th>Activity</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning &amp; PMO set-up</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve compliance in compulsory lines</td>
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<td></td>
<td></td>
<td></td>
<td>Regulator, TSB</td>
</tr>
<tr>
<td>Set up of an independent and strong regulator</td>
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<td></td>
<td>MinFin / Regulator</td>
</tr>
<tr>
<td>Redefine the role of TSB</td>
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<td></td>
<td>TSB</td>
</tr>
<tr>
<td>Pursue an engaging communication strategy</td>
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<td></td>
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<td></td>
<td>TSB</td>
</tr>
<tr>
<td>Improve cost efficiency of MTPL</td>
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<td></td>
<td>TSB, Insurers</td>
</tr>
<tr>
<td>Reposition life insurance considering expected pillar II</td>
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<td></td>
<td></td>
<td></td>
<td>Insurers, TSB, Regulator</td>
</tr>
<tr>
<td>Foster full-fledged digitalization of the sector</td>
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<td></td>
<td></td>
<td></td>
<td>Regulator, TSB</td>
</tr>
<tr>
<td>Improve sector data sharing and analytics capabilities</td>
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<td></td>
<td></td>
<td></td>
<td>TSB, SBM, Insurers</td>
</tr>
<tr>
<td>Support agencies in preparing for future</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>TSB, TOBB, SAIK</td>
</tr>
<tr>
<td>Devise the role of insurance in health system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>TSB, Min Health, Insurers, Regltr.</td>
</tr>
<tr>
<td>Enhance consumer protection and conduct</td>
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<td></td>
<td></td>
<td>Insurers, TSB</td>
</tr>
<tr>
<td>Adopt future-looking, stable and consistent regulations</td>
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<td></td>
<td></td>
<td>Regulator</td>
</tr>
<tr>
<td>Enhance skill set of the sector’s talent pool</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>TSB, TSEV, Insurers</td>
</tr>
<tr>
<td>Increase product and channel variety to promote inclusiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Insurers, TSB</td>
</tr>
</tbody>
</table>

Wave 1: Improve compliance in compulsory lines, Set up of an independent and strong regulator, Redefine the role of TSB, Pursue an engaging communication strategy, Improve cost efficiency of MTPL, Reposition life insurance considering expected pillar II, Foster full-fledged digitalization of the sector.

Wave 2: Improve sector data sharing and analytics capabilities, Support agencies in preparing for future, Devise the role of insurance in health system, Enhance consumer protection and conduct, Adopt future-looking, stable and consistent regulations, Enhance skill set of the sector’s talent pool.

Wave 3: Increase product and channel variety to promote inclusiveness.