Insurance and Private Pensions Sector in Turkey

5 October 2017
AGENDA

i. Turkish Insurance Market: An Overview
ii. Hot Topics
iii. Importance of the Insurance Sector for the economy & it’s Prospects
iv. Potential of the Insurance Sector and the Opportunities
v. Conclusion
i. Turkish Insurance Market: An Overview
## Main Indicators

**Total Assets:** 138 Billion TL

<table>
<thead>
<tr>
<th>Premium Production:</th>
<th>Number of Companies:</th>
<th>63</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016: 40,5 Billion TL</td>
<td>Non-life: 39</td>
<td></td>
</tr>
<tr>
<td>2017/8: 29,7 Billion TL</td>
<td>Pension and Life: 22</td>
<td></td>
</tr>
<tr>
<td><strong>Pension:</strong></td>
<td>Reinsurance: 2</td>
<td></td>
</tr>
<tr>
<td>Pension Funds: 72,8 Billion TL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Participants: 6,8 Million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Premium Production (2011-2016)

Hayat Dışı

Million TL

<table>
<thead>
<tr>
<th>Year</th>
<th>Hayat</th>
<th>Hayat Dışı</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>14.479</td>
<td>2.686</td>
<td>17.165</td>
</tr>
<tr>
<td>2012</td>
<td>17.119</td>
<td>2.711</td>
<td>19.830</td>
</tr>
<tr>
<td>2013</td>
<td>20.832</td>
<td>3.395</td>
<td>24.227</td>
</tr>
<tr>
<td>2014</td>
<td>22.712</td>
<td>3.280</td>
<td>25.992</td>
</tr>
<tr>
<td>2015</td>
<td>27.068</td>
<td>3.761</td>
<td>30.829</td>
</tr>
<tr>
<td>2016</td>
<td>35.450</td>
<td>5.039</td>
<td>40.489</td>
</tr>
</tbody>
</table>

CAGR = %15

%30,5
Premium Production 2017/8

Million TL

<table>
<thead>
<tr>
<th></th>
<th>2016/8</th>
<th>2017/8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non life</td>
<td>23,372</td>
<td>25,253</td>
</tr>
<tr>
<td>Life</td>
<td>2,945</td>
<td>4,464</td>
</tr>
</tbody>
</table>

Increase: 13%
Breakdown of Insurance Premiums by Branches, (2016)

- **MTPL**: 31.9%
- **LIFE**: 12.4%
- **LAND VEHICLES**: 15.2%
- **FIRE & NATCAT**: 11.9%
- **GENERAL DAMAGES**: 8.6%
- **SICKNESS/HEALTH**: 10.4%
- **OTHERS**: 5.8%
- **ACCIDENT**: 3.5%
Loss Ratio by Branches (2017/Q2)

Loss Ratio (%) by Branches:

- **Traffic**: 88%
- **Land Vehicles**: 68%
- **Fire and Natural Disaster**: 38%
- **Illness/Health**: 80%
- **TASİM**: 14%
- **General Losses**: 37%
- **Accident**: 18%
- **Total Nonlife**: 69%
- **Life**: 41%

The graph shows the gross loss ratio (%) for each branch as of 2017-06.
### Profitability (2017/Q2)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-life Branches</td>
<td>1,3 billion TL</td>
</tr>
<tr>
<td>Life Branches</td>
<td>606 million TL</td>
</tr>
<tr>
<td>Private Pension</td>
<td>110 million TL</td>
</tr>
<tr>
<td>Total Technical Profit</td>
<td>2 billion TL</td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,9 billion TL</td>
</tr>
</tbody>
</table>
ii. Hot Topic: MTPL
Loss in MTPL

Since 2006 total amount of loss: 7,3 billion TL
**Ceiling Tariff and pool took into effect**

<table>
<thead>
<tr>
<th>Total Premium (Million TL)</th>
<th>2016/6</th>
<th>2017/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.188</td>
<td>5.474</td>
<td></td>
</tr>
</tbody>
</table>

% -11.5

<table>
<thead>
<tr>
<th>Number of Policy (Million)</th>
<th>2016/6</th>
<th>2017/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.2</td>
<td>8.6</td>
<td></td>
</tr>
</tbody>
</table>

% 4.9
Tariff System

Estimated Loss

2,3 Billion TL

Estimated Loss Ratio

% 125
MTPL/Realistic Solution:

1. Decreasing Traffic Accidents
2. Action for the Tariff system
3. Action for the Regulation
4. Action for the Court system
II. Agenda

MTPL Action Plan

1. Decreasing Traffic Accidents
1. Decreasing Traffic Accidents: High claim frequency

According to data of Turkish Statistics Institute; 1,182,491 accidents happened, 7,300 people killed and 303,812 people injured.
EU vs. Turkey: Fatality in the accidents per 100 thousand people

<table>
<thead>
<tr>
<th>Country</th>
<th>Fatality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>9</td>
</tr>
<tr>
<td>EU</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: IRTAT, 2016
*: In the same period, the number of accidents incurred by the those who caused 3 and more accident in the preceeding 365 day-period
We have taken initiative with all the stakeholders relating to the road safety in order to significantly reduce the number of traffic accidents.
II. Agenda

MTPL Action Plan

2. Tariff System
2-Action for the Tariff system

- Implementing Free Tariff for the vehicles outside of the MTPL pool
- Revising Premium level based on UW year basis for the MTPL Pool
- Declining share of Social Security Institution on the MTPL premium
II. Agenda

MTPL Action Plan
3. Regulation
3- Action for the Regulation

- General Conditions of MTPL studies going on

- Considering the current situation on MTPL Must not any regulation which burden new cost to the Industry

- Supporting equivalent parts /OSEM

- Loss in Value Problem
%95 of claims files are about traffic and %75 of them are related to losses in value.

The average cost of demands made for loss in value is 2.037 TL.

Loss in value calculated by arbitration is 3.385 TL.

The overall cost of loss in value by arbitration is 5.195 TL.

- Arbitration Fee: 100 TL
- Arbitrator Fee: 350 TL
- Expert Fee: 330 TL
- Legal Expenses: 1800 TL
- Total: 2580 TL

*Includes expenses for experts and legal expense.*
II. Agenda

**MTPL Action Plan**

4. *Cooperation with the Court System*
Cooperation with the Court System

Working to ensure that court decisions are in compliance with the regulation

<table>
<thead>
<tr>
<th></th>
<th>Decisions taken in compliance with the regulation</th>
<th>Decisions taken not in compliance with the regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Courts</td>
<td>39</td>
<td>42</td>
</tr>
<tr>
<td>Arbitration</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>69</td>
</tr>
</tbody>
</table>
Cooperation with the Court System: Courts & Arbitration

➢ Cooperation with the Courts
  • Memorandum of Understanding with the Turkish Justice Academy
  • 8-10th November 2017 Workshop with the Turkish Justice Academy
  • 1-2nd December 2017 Workshop with participation of the Members of the Supreme Court of Appeals
  • 19-20th January 2018 Workshop with the members of Regional Courts

➢ Cooperation with Arbitration
  • 88% of the arbitration makes decisions against the insurance companies
ii. Hot Topic: Malpractise
Malpractise

- Loss ratio is % 240 for the 2016
- Hard to get reassurance
- Tariff level did not change since 2010
- Increasing Premium level
- Limitation for the non-pecuniary indemnity demands (%15 of total indemnity)
ii. Hot Topic: Auto-enrolment
Pension System - Auto enrollment

➤ **3.3 Million participant; 1.2 Billion TL Fund; %55 opt-out rate**

➤ Revision is on the Agenda:

• Effective Communication is important.
  How and for how long?
  Support by the Government(Public broadcast)

• Employer Contribution is necessary

• Bonus system should be revised

• Third Pillar: Under the 18 age
iii. Importance of the Insurance Sector for the economy & its Prospects
Creating Employment

19,353 direct employee

Over 100,000
Attracting Foreign Capital

Share of foreign capital in total paid-up capital

71%

8 Billion USD Capital

Providing Coverage for the Economy

35 times of GDP, 90 trillion TL (30 trillion USD)

Payment for the Losses (2016/Q2)

2016 Incurred Loss

- Life: 2,4 Billion TL
- Non-life: 21 billion TL
- Total: 23,4 Billion TL

2017/Q2 Incurred Loss

- Life: 1,3 Billion TL
- Non-life: 12 billion TL
- Total: 13,3 Billion TL
## Incurred Loss in Credit Life Insurance

In Credit Life Insurance:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017 (September)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insureds</td>
<td>74,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Incurred Loss</td>
<td>1,1 Billion TL</td>
<td>800 Million TL</td>
</tr>
</tbody>
</table>
Second Quarter of 2017, 6.4 million claim files

Per day

50,803 files

71,7 million TL claims
Social Solidarity: Paid Claims

173 Million TL

2000-2016

3 Billion TL

2006-2016
Providing Funds - billion TL (2017/Q2)

- T-bills & Gov. Bonds: 41.1 billion TL
- Corporate Bonds: 9.1 billion TL
- Capital Market: 23.6 billion TL
- Bank Account: 37.6 billion TL
- Other: 2.8 billion TL

Total: 114.2 billion TL
iv. Potential of the Insurance Sector and the Opportunities
Prospects for Growth

2016 - Premium Production/GDP (%)

Europe: 6.7%
Turkey: 1.6%

2016 - Insurance Density ($)

Europe: 1,620
Turkey: 1,144

Source: Sigma No3/2017
Importance of Private Pension Funds in the Economy

Private Pension Funds/GNP of OECD Countries (%)

Source: OECD
In 2016;

- **Economy of Turkey is 17th economy in the world**

- Turkish Insurance Industry’s ranking: 36 in the world

Source: TCMB, IMF, Sigma, TBB, 2016
Banking vs. Insurance

Assets - 2016

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Sector</td>
<td>2,6 trillion</td>
</tr>
<tr>
<td>Insurance Sector</td>
<td>123 billion</td>
</tr>
</tbody>
</table>

Share in Financial Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Sector</td>
<td>87%</td>
</tr>
<tr>
<td>Insurance Sector</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Banking Sector

Insurance Sector
The Bottomline is..
The Bottomline is..

Turkish economy presents opportunities for local and international insurance companies thanks to its dynamics and solid legislative infrastructure
Premium Production by Distribution Channel (2017/8)

**Non-life**
- Bank: 15.2%
- Broker: 12.1%
- Other: 1.6%
- Center: 5.5%
- Agency: 65.7%

**Life**
- Bank: 82.20%
- Broker: 4.83%
- Center: 7.69%
- Agency: 5.28%
Premium Production by Agency (2017/8)

- MTPL: 40%
- KARA ARAÇLAR: 22%
- OTHER: 18%
- HEALTH-ILLNESS: 10%
- FIRE & NATCAT.: 10%
## Demographic Structure

<table>
<thead>
<tr>
<th>Population</th>
<th>79.8 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Population</td>
<td>92.3%</td>
</tr>
<tr>
<td>Age 0-14</td>
<td>23.7%</td>
</tr>
<tr>
<td>Age 15-64</td>
<td>68%</td>
</tr>
<tr>
<td>Age 65+</td>
<td>8.3%</td>
</tr>
<tr>
<td>Average</td>
<td>31.4%</td>
</tr>
</tbody>
</table>

| Ratio of Internet Usage     | 66.8%        |
| Ratio of Social Network Usage| 60%          |
| Ratio of Cell-phone Usage   | 98.5%        |
| Ratio of Smartphone Usage   | 84%          |

Source: TUIK (2016), Ministry of Customs and Trade (2017)
Opportunities: Penetration rate

- Every 3 house out of 4 lack household insurance
- Half of the companies don’t have fire insurance
- Every 2 vehicle out of 3 lack land vehicle insurance
- Half of the houses don’t have TCIP insurance
Digital distribution channels in insurance business have become critical especially reaching to younger generations

Providing tailor-made insurance product for customer needs and

Focus on the customer satisfaction

would contribute to increase the insurance penetration in Turkey.
Turkish Insurance Association Efforts

- Strategy Committees
- Distribution Channel Committee
- Communication & Public Relations
- Insurance Education from the very beginning
Thank you very much for your patience.

Mehmet Akif Eroğlu
Secretary General
Turkish Insurance Association
akif.eroglu@tsb.org.tr