



***TURKISH INSURANCE MARKET
OVERVIEW & STRUCTURE
And
COOPERATE GOVERNANCE AND
INTERNAL SYSTEMS***

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TURKISH INSURANCE MARKET OVERVIEW & STRUCTURE



Industry Structure and Recent Trends

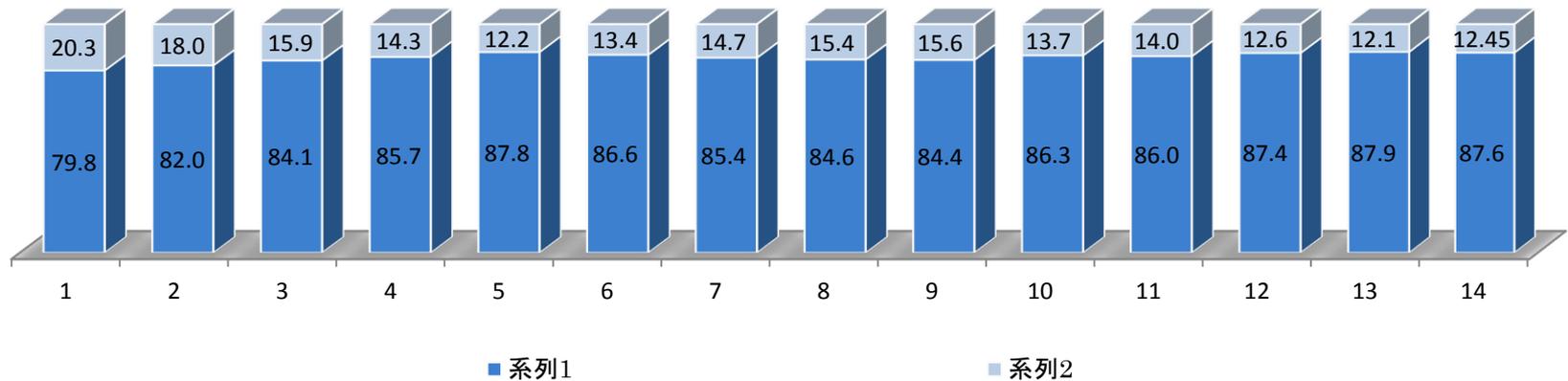
Premium Volume and Coverage

- The Turkish insurance sector is a growing part of the country's financial services industry. In 2016, the insurance sector comprised about 4% of all financial services sector assets
- In 2016, Insurance sector achieved 40.5 billion TL gross premium (35 billion non – life) and realized an increase by 30% in nominal term and 20% in real terms.

(Milyon ₺)	2012	2013	2014	2015	2016
Premium Income					
Non Life Premium	17.118	20.832	22.711	27.296	35.450
Life Premium	2.710	3.395	3.280	3.761	5.039
Total Premium	19.829	24.227	25.991	31.056	40.488
Non Life Share (%)	86,33	85,99	87,38	87,89	87,55
Life Share (%)	13,67	14,01	12,62	12,11	12,45
Insurance Coverage					
Non Life Coverage	49.326.172	62.334.348	75.961.929	85.389.071	89.115.156
Life Coverage	387.781	485.712	564.914	670.804	746.487
Total Coverage	49.713.953	62.820.060	76.526.843	86.059.874	89.861.644

Industry Structure and Recent Trends

- The Turkish market is dominated by the non-life sector which accounts for more than 87 percent of premiums.

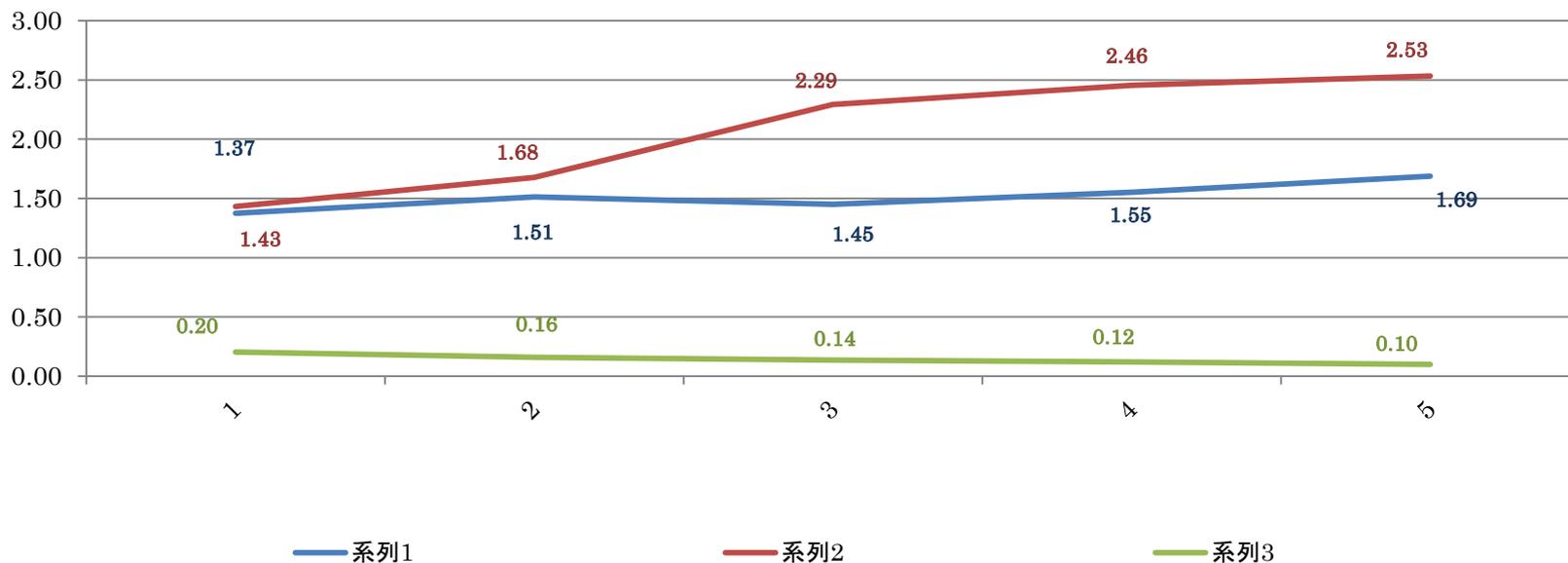


- Insurance penetration remains low compared to OECD and EU, however, and in combination with growing per capita income, is fueling industry expectations of long term sector growth.

Industry Structure and Recent Trends

Gross Domestic Premium and Pension Fund Versus GDP

- The Turkish insurance sector is a growing part of the country's financial services industry. In 2016, it takes about 4.2 percent of GDP and share in financial sector has been increasing gradually.



Industry Structure and Recent Trends

Number of Companies

- There are 61 authorized insurers operating in Turkey.
 - 37 non-life insurers
 - 18 life and pension companies
 - 4 pure life insurers
 - 2 reinsurers (Milli Re, VHV Re)
 - Most of insurers are joint stock companies, there are two mutual insurers.

- International participation is very strong in the industry .
 - 27 non-life insurers, 17 life insurers and 1 reinsurers have foreign capital participation.
 - Foreign groups' market shares are 65% (EU origin groups have a 50%).
 - Four Islamic banks have ownership linkages with insurers and interest in the market for Takaful products.

Industry Structure and Recent Trends

- Market share of top 10 companies is 75% in Non-life business.
- Market share of top 10 companies is 82% in Life business

Non-life Sector - as percentage of total premiums (%)

1	Allianz Sigorta AŞ	16.83
2	Anadolu Anonim Türk Sigorta Şirketi	13.06
3	Axa Sigorta AŞ	10.38
4	Mapfre Sigorta AŞ	8.14
5	Sompo Japan Sigorta AŞ	6.52
6	Aksigorta AŞ	5.52
7	Güneş Sigorta AŞ	4.00
8	Ziraat Sigorta AŞ	3.90
9	Eureko Sigorta AŞ	3.60
10	Groupama Sigorta AŞ	3.35

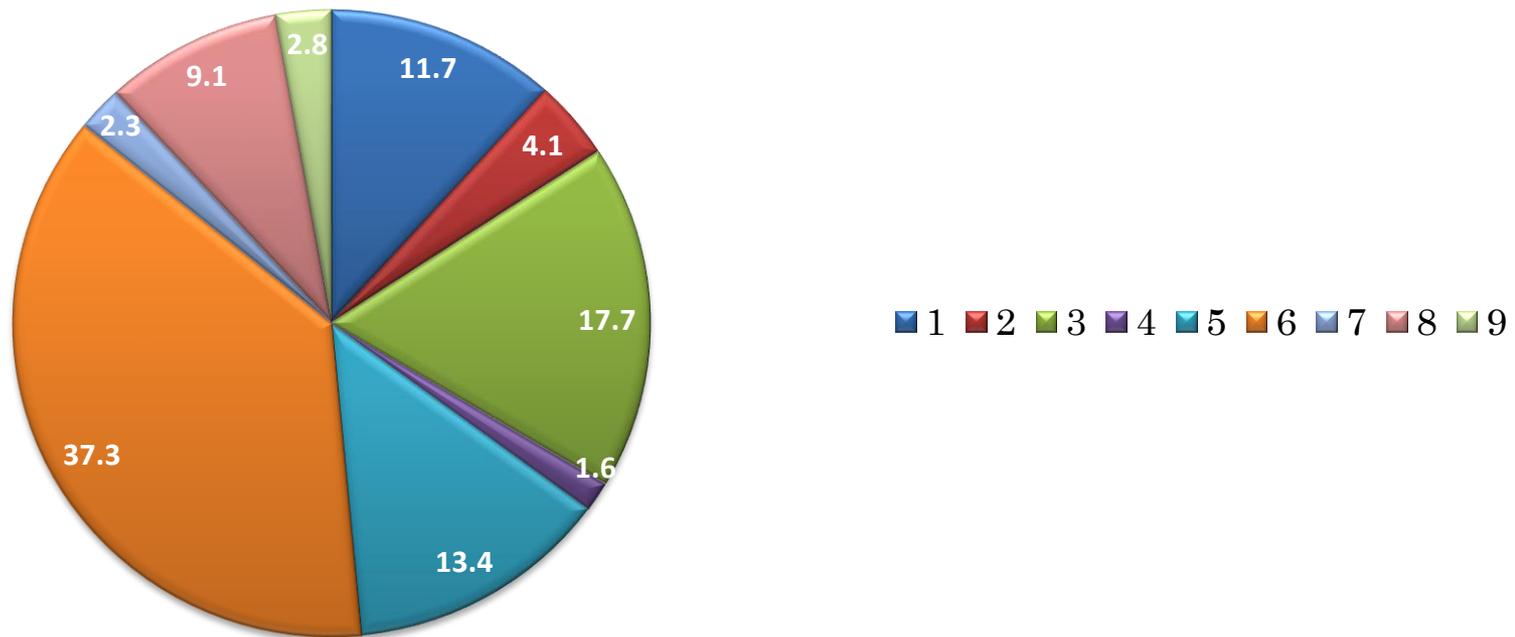
Life Sector - as percentage of total premiums (%)

1	Ziraat Hayat Emeklilik AŞ	17.58
2	Acıbadem Sağlık ve Hayat Sigorta AŞ	12.00
3	Anadolu Hayat ve Emeklilik AŞ	8.13
4	Metlife Emeklilik ve Hayat AŞ	7.74
5	Allianz Yaşam ve Emeklilik AŞ	7.41
6	Garanti Emeklilik ve Hayat AŞ	6.65
7	Halk Hayat ve Emeklilik AŞ	6.43
8	Vakıf Emeklilik AŞ	6.07
9	AvivaSa Emeklilik ve Hayat AŞ	5.15
10	Cigna Finans Emeklilik ve Hayat AŞ	4.89

Industry Structure and Recent Trends in *Non - life Insurance*

- Motor insurance accounts for approximately 55 percent,
- Property insurance accounts for approximately 25 percent,
- Construction and engineering insurance accounts for approximately 4 percent,
- Personal Accident and Healthcare Insurance account for close to 16 percent of premiums.

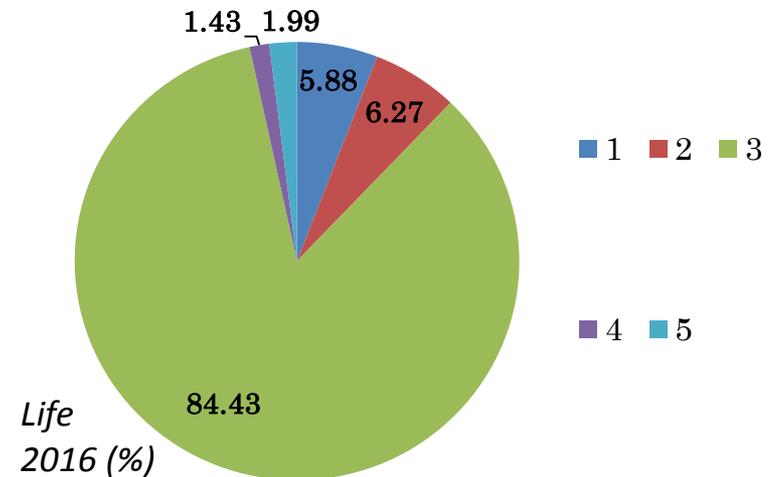
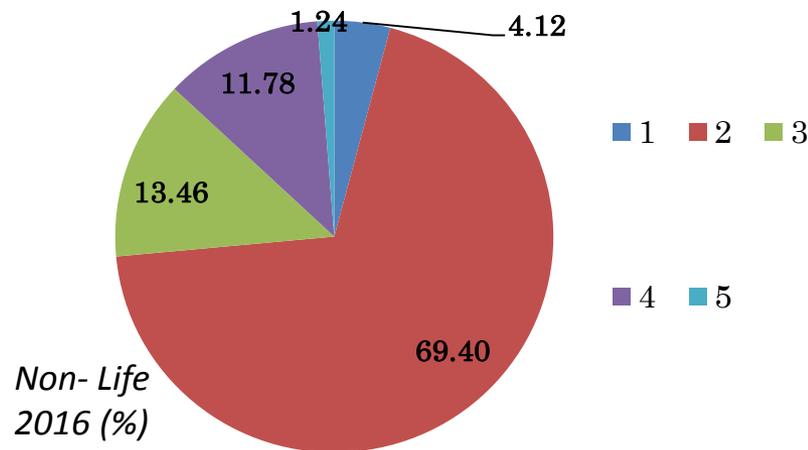
Non – Life premium shares in total Gross Written Premium



Industry Structure and Recent Trends

The Source of Premium Production

- In 2016, there were 15,600 licensed insurance agents and 144 insurance brokers
- Insurance policies are distributed mainly through licensed agents and brokers, banks, and direct sales. In Turkey, private insurance agents have a significant weight in distribution channels.
- They produced 61.5% of total premium in 2016 while banking agencies and brokers had a share of 22.4% and 10.5%, respectively. 4.3% of total premium was generated by the companies on their own.



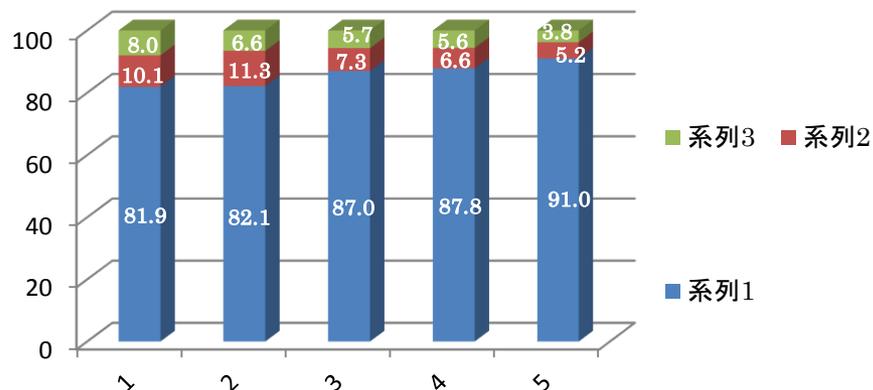
Industry Structure and Recent Trends

Life Insurance

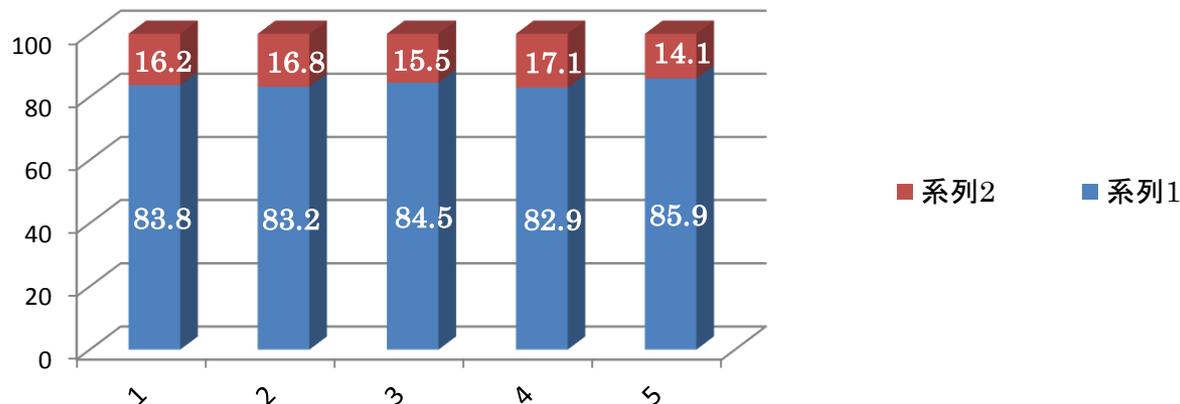
- The life sector makes up 12 percent of gross premiums.

- In life sector premiums ;

- Term life products 91 percent,
- Whole life 5 percent,
- Group term life is 75 percent,
- Individual whole life 10 percent,

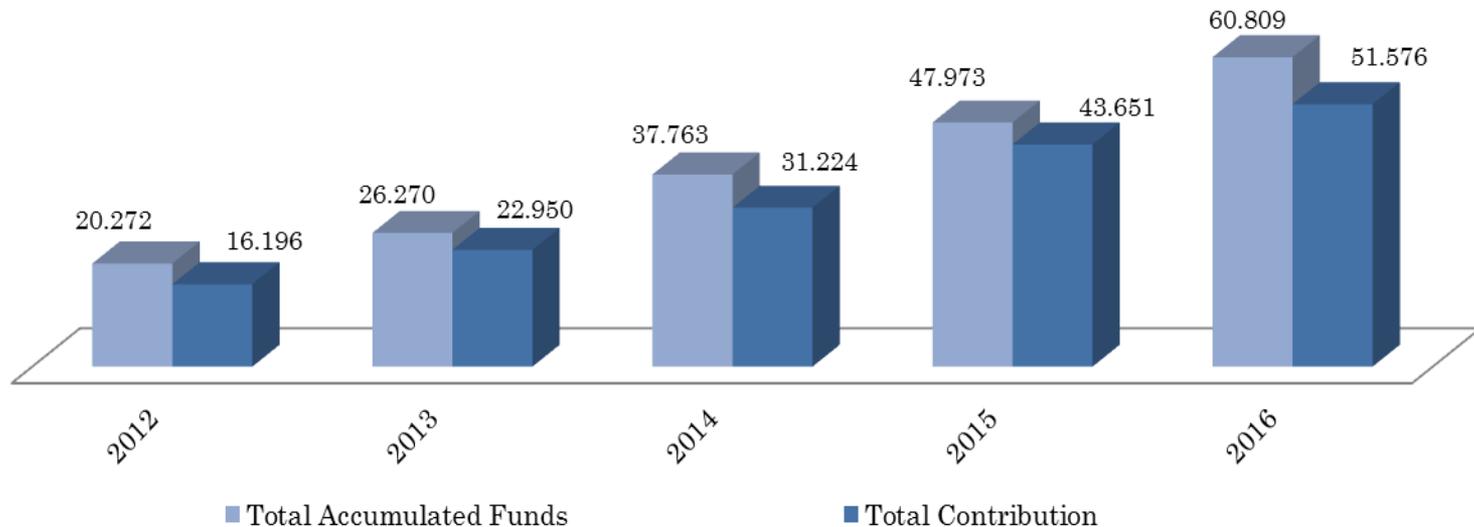


- 86 percent of life production from credit life policies (casco, property).



Industry Structure and Recent Trends – *Pension System*

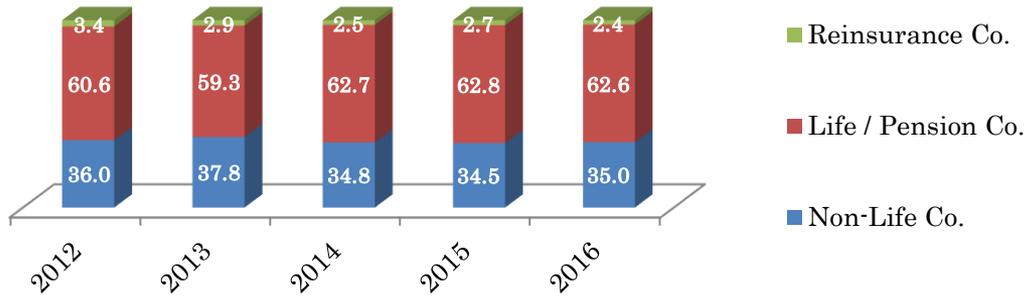
- State contribution 25%
- Automatic participation system from January 2017
- 6.7 million participants as of September 2017



- As of September 2017; 63.3 billion funds and 9.4 billion state contribution

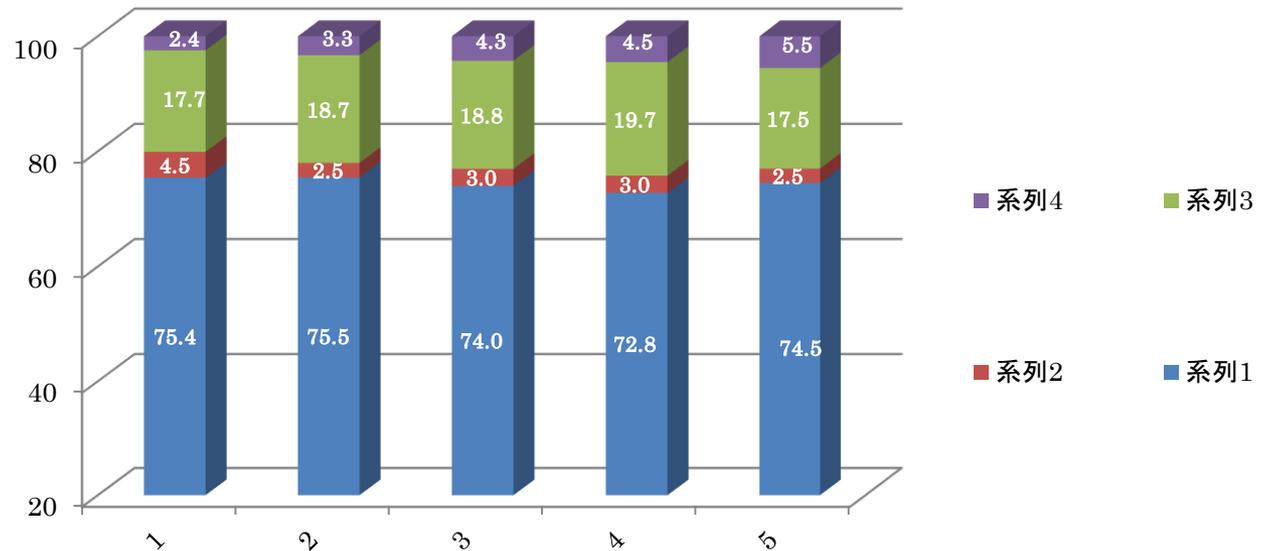
Industry Indicators and Solvency Position

Distribution of Total Assets of Insurance, Reinsurance and Pension Companies (%)



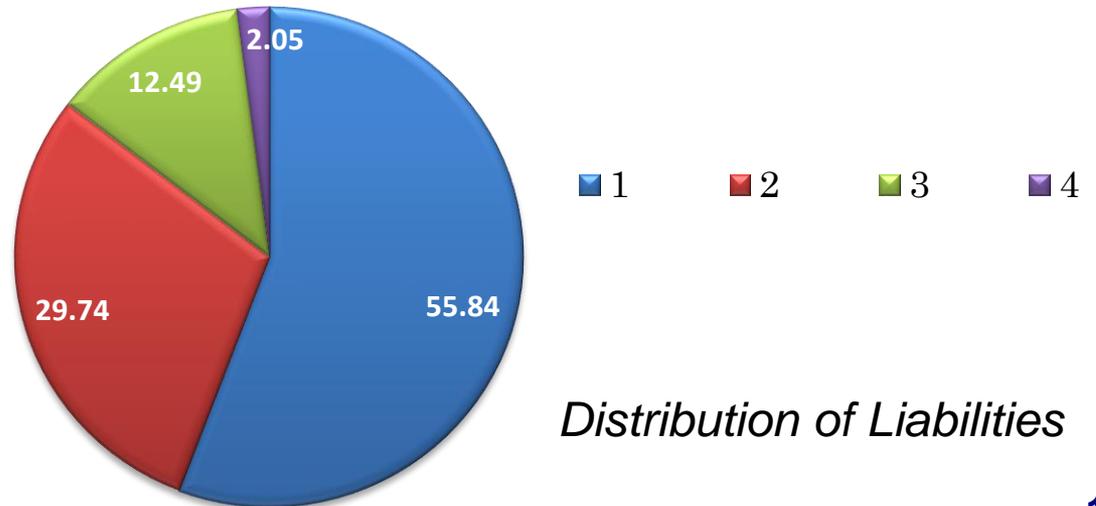
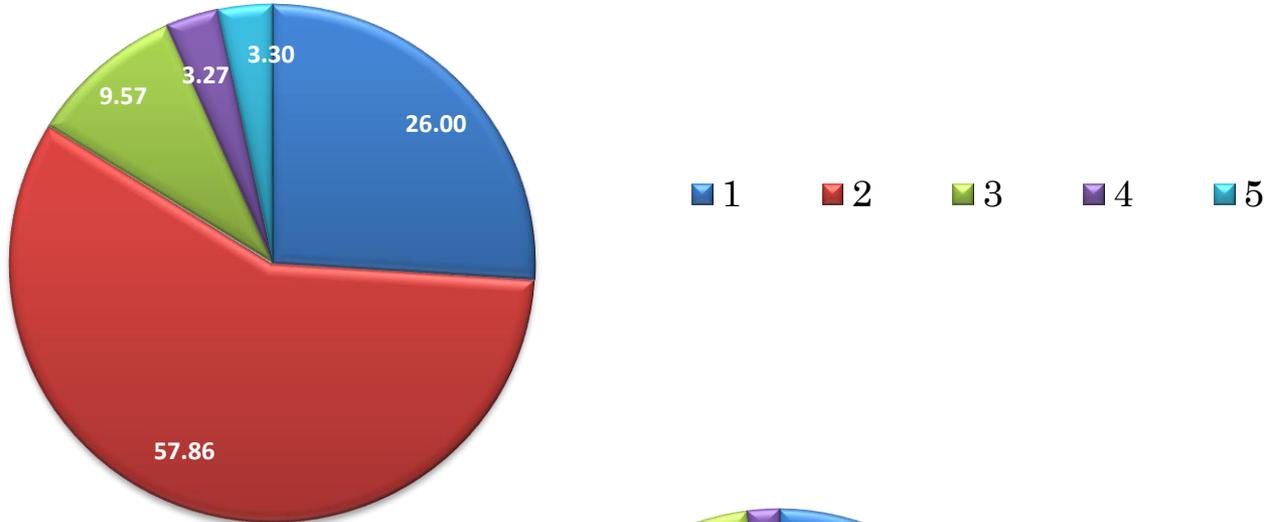
Total assets increased by 24 percent comparing with the previous year (from 98 billion in 2015 to 122 billion in 2016)

Type of investments



Industry Indicators and Solvency Position

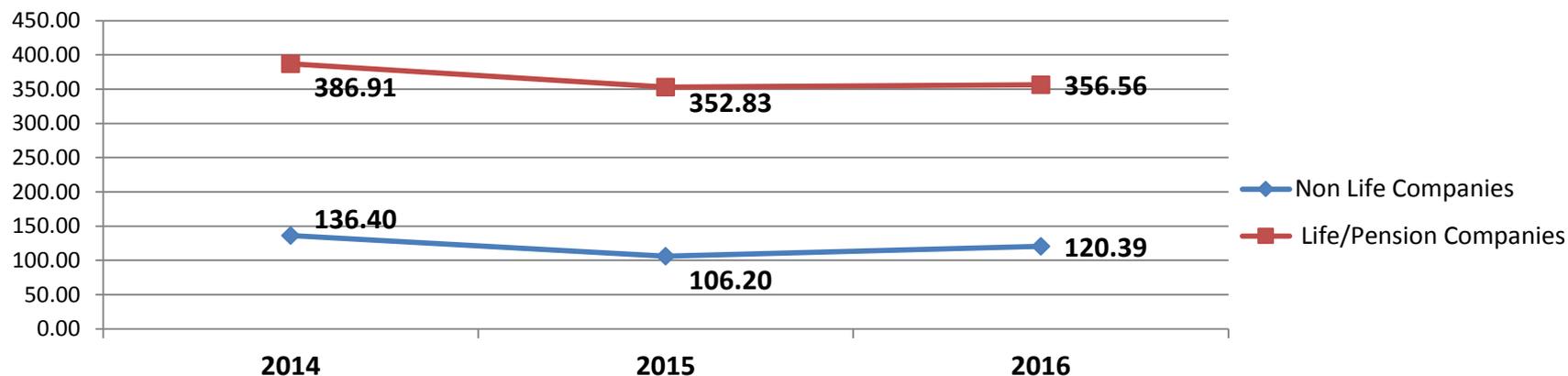
Distribution of Total Assets



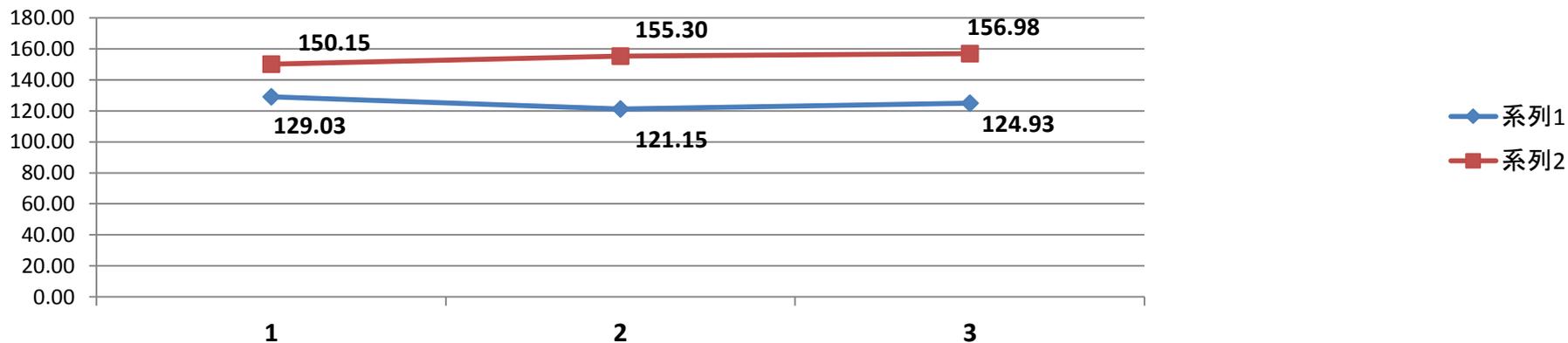
Distribution of Liabilities

Industry Indicators and Solvency Position

Non-life, Life & Pension Companies – Solvency ratios (%)



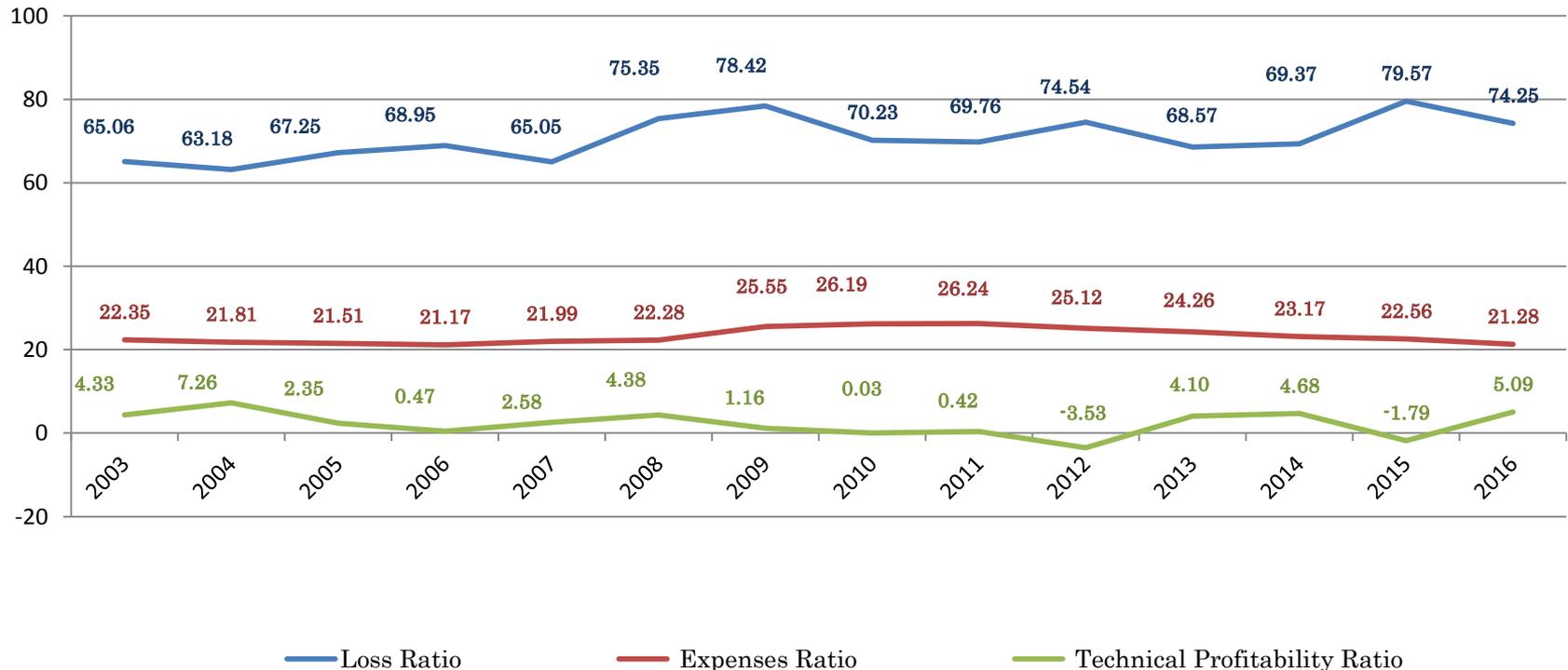
Non-life, Life & Pension Companies – Assets covering technical reserves (%)



Industry Indicators and Solvency Position

Technical Profitability

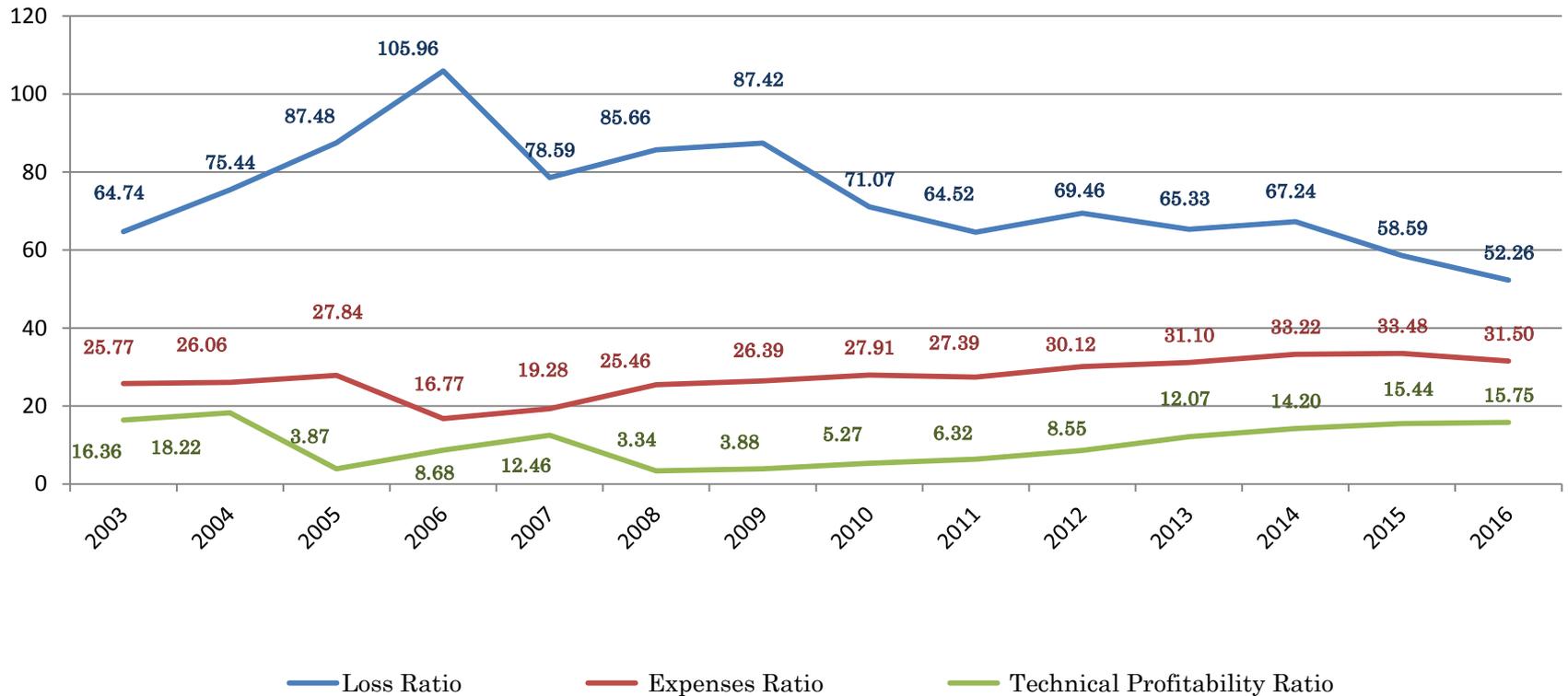
Non-Life Companies



Industry Indicators and Solvency Position

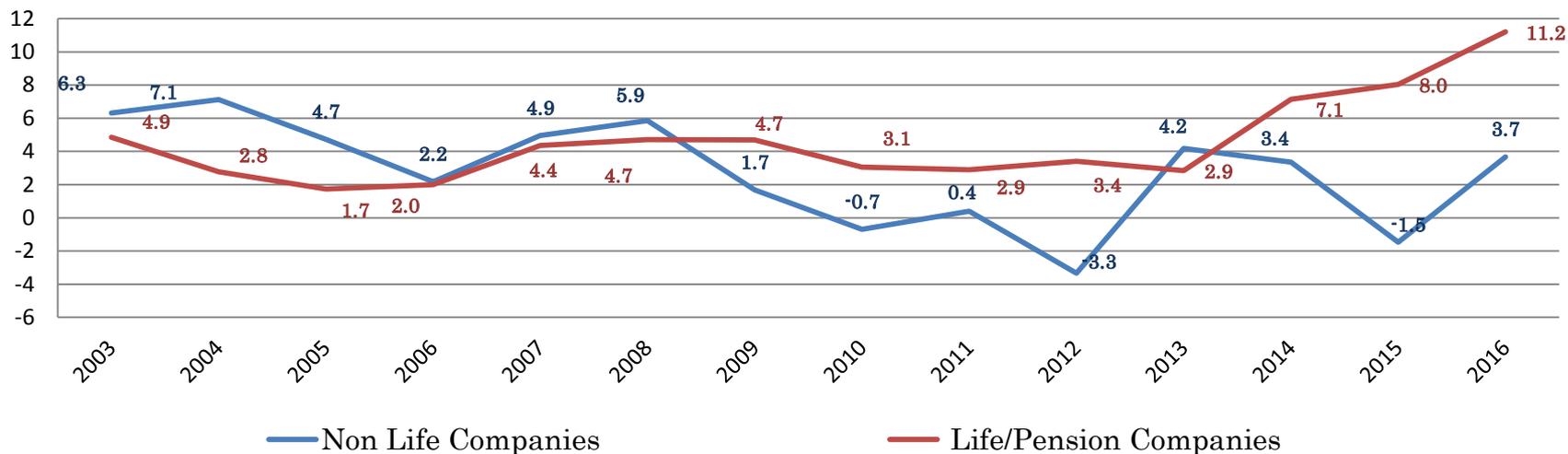
Technical Profitability

Life & Pension Companies

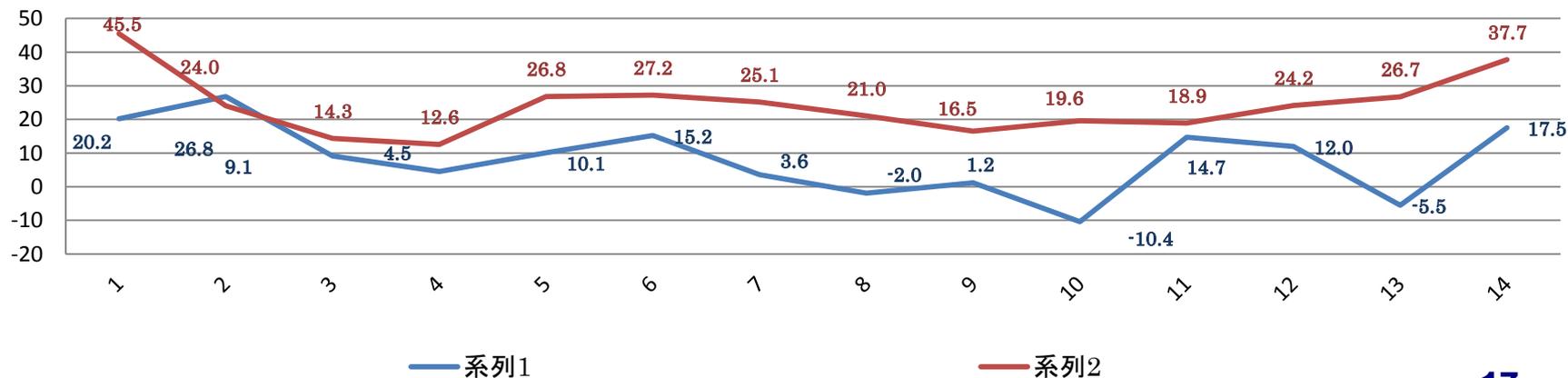


Industry Indicators and Solvency Position

Return on assets - ROA



Return on equities - ROE



Industry Structure and Recent Trends

- The market is characterized by several insurance products that are compulsory for consumers. (e.g. earthquake insurance, and motor third party liability)

Compulsory Insurance Products	
1. Motor third party liability for bodily injury and property damage.	10. Professional liability cover for tour operators.
2. Earthquake insurance on private dwellings.	11. Medical malpractice insurance for doctors and dentists.
3. Third party liability for bodily injury and medical expenses for passengers on intercity and international transport.	12. Professional indemnity insurance for independent auditors
4. Third party liability for passengers on vessels registered to carry 12 or more passengers.	13. Sea pollution liability for companies situated near the shoreline
5. Personal accident cover for intercity coach passengers.	14. Public liability insurance for private security guards.
6. Personal accident cover for miners.	15. Third party legal liability and passenger liability for aircraft.
7. Professional indemnity insurance for companies providing professional services to banks.	16. Insurance of goods that are subject to finance leasing.
8. Liability of companies engaged in the production, storage, and handling of LPG cylinders.	17. Professional indemnity insurance for electronic signature certificate providers.
9. Liability insurance for companies engaged in the production, storage, transport, and sale of combustible, explosive or flammable materials.	

Risks and Vulnerabilities

- Turkey is a country that is integrated with the global financial markets and attracting foreign capital intensively.
- As a result, the global risks have effects on Turkish Insurance Sector.
- Republic of Turkey Prime Ministry Undersecretariat of Treasury has been regulating the market in order to eliminate these risks and also minimize their effects.

Risks:

- **Long Tail Liabilities**
- **Natural Catastrophes**
- **Longevity**

Risks and Vulnerabilities

Long Tail Liabilities

- Uncertainty about claims and litigation is one of the main risks for the sector. With the modifications on compulsory motor third party liability (MTPL) insurance general requirements (terms&conditions), steps were taken in order to make the pricing more effective in which companies make a loss for a long time.

Natural Catastrophes

- The fact that earthquake has been the most experienced disaster in the last 60 years in Turkey is not a coincidence since almost all of our country is within an earthquake region (nearly 90%). Moreover, this type of earthquake is not only able to affect the region, but also the country's economy, as well.
- Supporting the insurance operations with events aimed at increasing public awareness, Natural Disaster Insurance Institution and Turkish Catastrophe Insurance Pool (TCIP) highlights that Compulsory Earthquake Insurance is primary social responsibility. TCIP has **136 billion Euro** coverage capacity for earthquake losses in Turkey.

Risks and Vulnerabilities

Longevity

- Aging population is now a problem for Turkey. This phenomenon has also results such as increase in care and health needs.
- In this respect, Turkish Treasury and insurance companies are working collaboratively and attention is paid to awareness of pension.
- The regulation on annuity products have been fulfilled and the work on special public instruments for companies which will sell these products in order to manage investment risks is under way.

1- What are the cooperate governance and internal systems?

Cooperate Governance:

The framework of rules and practices by which a board of directors ensures

- accountability,
- fairness,
- responsibility and
- transparency



in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community).

Internal Systems:

- Internal systems are divided into three groups. These are internal control, internal supervision and risk management
- Internal Control: The objective of the internal control system is to
 - ensure the protection of company's assets,
 - effective and productive performance of activities in accordance with the laws and other relevant legislations, company policies and rules and insurance practices,
 - reliability of accounting and financial reporting system and timely availability of information

- Risk Management: Risk management is definition, measurement and analysis of the risks exposed by the company based on separate activities and across the company.
- Effective risk management processes should define the risks and set forth what the required controls are and how the risks will be managed.
- Internal Supervision: The objective of the internal supervision system is to assure the senior management that the company activities are carried out in line with the laws and other relevant regulation in addition to the company strategies, policies, principles and targets and that internal control and risk management systems are effective and efficient.

2- Why these terms are very important?

- After the Enron and WorldCom accounting scandals in USA, it is understood the importance of more controlled and long running management.
- The new management mentality is meaning that the board of directors doesn't manage the company independently from stakeholders, employees, customers and the community or by their own rules. This new management system necessitates strong internal systems.

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- The board of directors assumes
 - the final responsibility for the creation of internal systems and their effective, sufficient and compliant operation,
 - protecting the information obtained from accounting and financial reporting system and
 - defining the authorizations and responsibilities within the company.

Expected topics in the GLOPAC Program are listed as follows

- 1- Do Japanese regulations compel the board to implement the cooperate governance principles in the company?
- 2 – Are Japanese insurance companies required to report information on their internal systems to the Supervisory Authority, if they required doing so, what kind of information/reports should be submitted?

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- 3 - Management risk is the effect of company management style on company operations. Therefore, management risk indirectly affects the company's capital. However, it is very difficult to measure these qualitative risks.
 - How kind of methods can be used to measure management risk?
 - Are there any methods to measure the management risk on capital adequacy for Japanese insurance companies?

