Insurance in Turkey (2007)

Total non-life premium production in the Turkish insurance sector amounted to TRY 9.6 billion in 2007.

The growth experienced in the non-life insurance sector in previous years remained on course in 2007. Premium production increased 16% in the twelve months to end-2007 and amounted to TRY 9.6 billion. A total of TRY 5.3 billion was paid out as claims last year while the sector's outstanding loss claims was on the order of TRY 2.7 billion. The sector booked an overall underwriting profit worth TRY 226 million. The branch with the highest underwriting profit was marine, which also had the highest level (29%) of underwriting profitability.

The scope of unemployment insurance in Turkey was expanded effective 1 February 2008 while the general clauses for debt repayment insurance published by the Treasury became effective as of the same date.

Passage of a new general health insurance law, expected in 2008, will open new avenues of growth and development in health insurance while also increasing the number of policyholders in the longer term.

Existing growth potential as well as a plethora of uninsured risks in Turkey continued to attract the attention of international investors with the result that 2007 was witness to still more acquisitions in the Turkish insurance sector.

Last year Eureko BV acquired an 80% stake in Garanti Sigorta, the Holland-based Financial Services Group purchased 58.2% of Ray Sigorta, and global giant Mapfre acquired an 80% share in Genel Sigorta.

Most recently, the Zurich Financial Services Group signed an agreement with TEB Mali Yatırımlar to buy another Turkish general insurer, TEB Sigorta. Conclusion of the deal is expected to take place in the first quarter of 2008. Besides these acquisitions last year, Coface and Atradius, two of the world's biggest credit insurers, set up a company and began selling credit insurance policies in Turkey as well.

Nourished by such acquisitions and new startups, foreign investment inflows into the Turkish insurance sector reached USD 1 billion in 2007, twice their previous year's level of USD 500 million. It is very likely that foreign interest in the sector will continue in 2008 and that there will be still more acquisitions and startups. Such developments are expected to have a favorable impact on the dimensions of the Turkish insurance sector as well as on its financial strength and service quality.

A long-awaited insurance sector law finally goes into effect

Unquestionably the most important development for the Turkish insurance sector in 2007 was a new law governing the insurance sector. This law (Statute 5684), which had been in something resembling legislative limbo for well over a decade, finally went into effect in June last year. One of the objectives of the new law is to bring the Turkish insurance sector into compliance with international standards and norms and to this end it provides for mechanisms aimed at more effectively accounting for the activities, assets, subsidiaries, claims, equity, debts, and financial structures of insurers and reinsurers as well as of all the elements that might have an impact on insurers' administration. Two other innovations provided for by the law are a system of arbitration and three executive commissions representing insurance companies, insurance agents, and insurance assessors respectively.

A third innovation introduced by the law is the requirement, which went into effect on 1 January 2008, that all insurers employ actuaries in the conduct of their business. Prior to this rule change, life and pension companies in Turkey had to employ actuaries but general insurers did not.

As of the same date, a new insurance branch and sub-branch structure for the sector also went into effect. This is an important change in that it represents the passing of another milestone in the process of bringing Turkey's insurance sector into compliance with EU norms.

The scope of unemployment insurance in Turkey was expanded as of 1 February 2008 while the general clauses for debt repayment insurance published by the Treasury became effective as of the same date. The latter change now makes it possible to provide insurance coverage for financial obligations assumed by private individuals as consumer, motor vehicle, and mortgage financing loans made by banks.

Statute 5684 also calls for regulations concerning the information that must be provided in insurance-related contracts. These new regulations, which went into effect as of 1 March 2008, govern not only the preparation and establishment of insurance contracts but also require that all information concerning the insured, the policyholder, and the beneficiary, the subject of the insurance contract, the elements of coverage, and all other features be set down in writing. Another new feature is a requirement that someone wishing to be a party to a insurance contract must be provided during the negotiation stage with a summarized information sheet that details the insurance and whose form and content are specified by the Treasury.

The new law makes important changes in the principles governing the formation and operation of insurance and reinsurance companies, specifically in issues relating to the calculation of their current risk reserves and of their outstanding loss reserves (both incurred but not reported and incurred but not enough reported), as well as in the rules governing the impairment of an insurer's financial structure. These changes will make it necessary for insurance companies to strengthen their capital structures which, in the longer term, will increase confidence in the sector and as a result boost its profitability as well.

By requiring insurance, reinsurance, and pension companies to realistically measure and assess their capital adequacy, the new regulations force insurers to choose one or the other of two options: either they engage in rational pricing based on what they have or else, if they are unwilling to do that, they must increase their capitalization accordingly.

Due to its broad scope, the insurance law necessarily deals with a wide range of subjects that include professional organizations, arbitration, insurance regulation and accountancy, and private pensions. In that respect, the law makes it necessary for a large number of secondary regulations as well. While some of these have already gone into effect, others have not and hopefully those will be published in 2008.

Another important development in 2007 was a partial deregulation of the rates schedule in compulsory traffic insurance.

Under the new system, the Treasury sets base prices but insurers are allowed to charge premiums within a band ranging between - 5% and +10% of those.

This is viewed as a first step taken towards complete deregulation of the rates schedule, which is now supposed to take place in July 2008. This change in the rules allows insurers to shape their portfolios based on their own actuarial information and to price the policies they sell more rationally.

Two other developments that will increase people's confidence in the insurance sector are the introduction of an arbitration system that will make it possible to resolve insurance contract-related disputes without having to go to court and a Council of Ministers resolution concerning international activities in the insurance sector that sets out the conditions under which foreign insurers may do business in Turkey.

Last year an insurance sector roadmap for the years 2007-2013 was published concerning the sector's involvement in Turkey's European Union harmonization program. This roadmap spells out the changes that will be made in the legal framework governing the Turkish insurance sector over the next seven years.

Looking to the more immediate future, an important item on the agenda will be insurance coverage for the mortgages that will be sold under Turkey's new long-term home financing system. When this system becomes operational, it is expected that there will be a significant increase not just in mortgage insurance but also in compulsory earthquake insurance policies and in homeowner “package” policies.

Passage of a new general health insurance law, expected in 2008, will open new avenues of growth and development in health insurance while also increasing the number of policyholders in the longer term.

In light of the important 2007 developments in the sector summarized above, it is reasonable to expect that 2008 will be an even more successful and profitable year for the Turkish insurance sector-always with the proviso of course that there be no catastrophic events.

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