DECEMBER 2022

Insights

Turkish Insurance Bulletin

WTW's Turkish Insurance Bulletin aims to keep senior executives around the world up to date with the developments in the Turkish insurance industry - a market that remains one of high-growth.

In this bulletin, we share the growth in life gross written premiums (GWP), Non-Life GWP and new contributions in private pensions including auto-enrolment contributions. In addition, we share how the Motor Casco, Motor Third Party Liability (Motor TPL), Fire and Natural Disasters and Health branches performed in 2021. We also provide some updates on the insurance market in general and recent regulations, as well as a brief market outlook. We used data published by the Insurance Association of Turkey in our analyses.

2021 was a mixed year in terms of the impact of COVID-19. In the first half of 2021 financial markets were still very affected by the pandemic and activity was low. There was a huge reduction in consumer spending as more people stayed in as a result of two lockdowns and general public concern about contracting the virus. The second half of 2021 was a completely different story with financial markets bouncing back due to increased social, financial, and political mobility. However, the damage to the global economy from the pandemic period, combined with political tensions causing increasing energy prices has gone on to trigger inflation. Inflation has hit all industries, all over the world. WTW has closely monitored the recent trends in inflation and in this bulletin we provide comprehensive guidance to help the insurance industry tackle this issue. We also look at the impact of inflation on the Turkish insurance market in 2021 and the outlook for 2022.

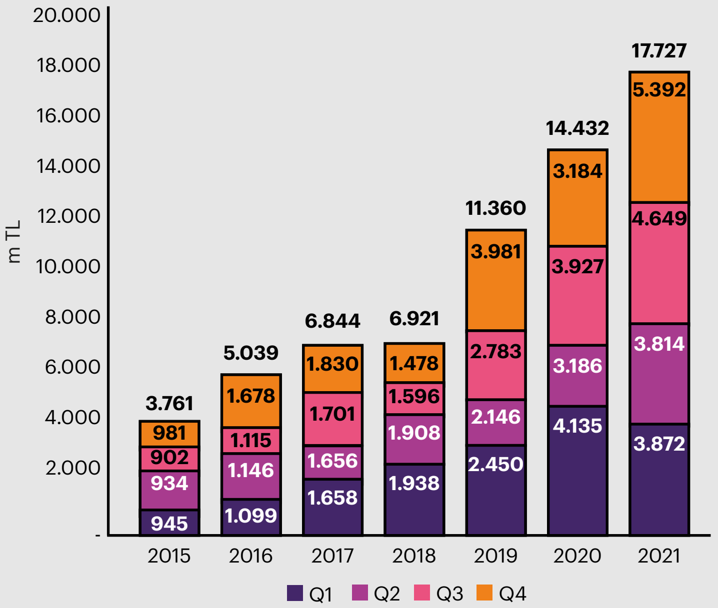
Market statistics

Life insurance premiums

From 2020 to 2021, life insurance premium production showed growth of 22.8% (-9.7% in real terms), which is a dramatic decrease from the growth in real terms in 2020 which was 10.9%. Even though growth in nominal terms shows the same trend compared to 2020, the significant real growth rate decreases in 2021 was mainly due to the dramatic increase of inflation in 2021 with year-end value of 36.1%.

When we compare the GWP figures in 2021 to the GWP figures in 2018, there was an average annual growth of 36.8% in nominal terms which is comparable to the growth in the previous 5 years which had a nominal CAGR of 28.6% (8.4% compared to 2020 value 15.4% in real terms, mainly due to increase in inflation).

Figure 1. **Life insurance premium production GWP**

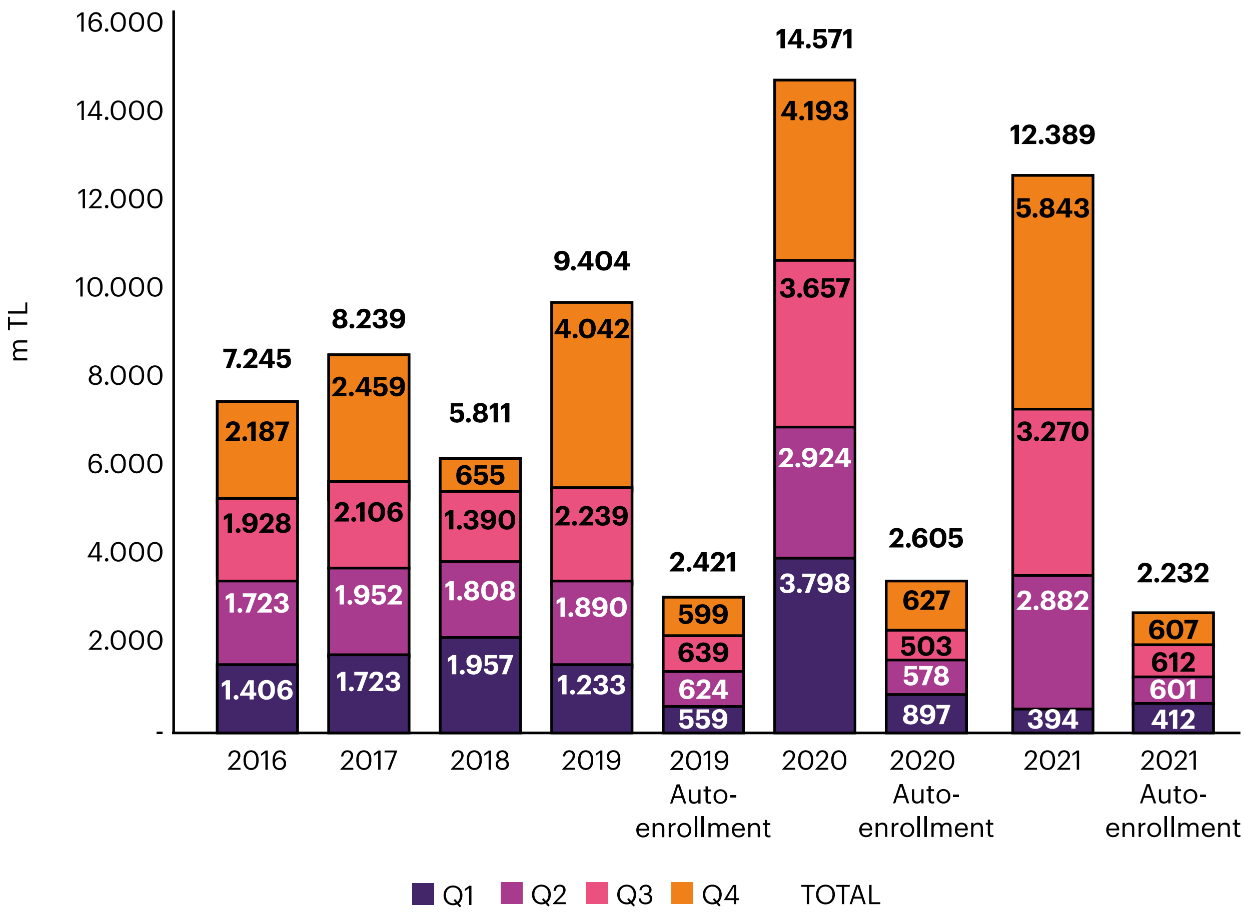


Private pensions and auto-enrolment contributions*

From 2020 to 2021, private pensions contributions decreased by 15.0% (-37.5% in real terms) compared to the previous year. In 2021, due to the increase in inflation, household savings rates decreased (an overall decrease in propensity to save, expectation in further increase in inflation pushed households to consume rather than save before prices go up) and had a negative effect on the pension contributions. In 2020, auto-enrolment contributions were 18% of private pension contributions. Auto-enrolment started to be implemented at the beginning of 2017 with companies gradually included according to the number of their employees, until the end of 2018. The auto-enrolment contribution was determined to be at least 3% of the employees' gross salaries and, because of the high withdrawal rates, the auto-enrolment contributions were smaller than the private pension contributions.

5-year CAGR was 11.3% (-6.1% in real terms). The 3-year CAGR was 28.7% (6.9% in real terms).

Figure 2. **Change in aggregate contributions for private pensions and auto-enrolment**

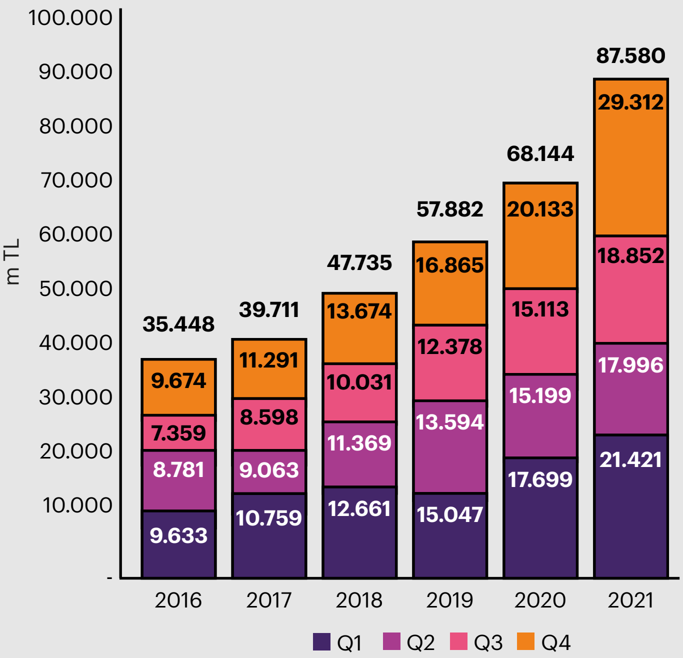


*The private pensions contributions are calculated as the difference of aggregate contributions between 01/01/2021 and 31/12/2021 The published contributions are the total lifetime contributions paid by business in-force at the publication date. e.g. if a policy lapses after 01/01/2020 and before 31/12/2020, then its contributions are included in 01/01/2020 figure but not in 31/12/2021 figure. As a result, the difference between two dates is not equal to the premium production written between these dates.

Non-life insurance premiums

From 2020 to 2021, Non-Life insurance premium production increased by 28.5% (-5.6% in real terms). The 5-year CAGR in 2021 was 19.8% (1% in real terms). Motor lines had started to recover after the negative or stagnant growth they faced in 2017 due to the regulatory environment. However, with the outbreak of the pandemic combined with softening cycle, its growth rate slowed down from 18.5% in 2019 to 10.6% in 2020 and to 8.3% in 2021. Non-motor lines continued to grow at a consistent rate. For the Non-Life industry, the substantially positive real-premium growth rate of 8.4% in 2019 could not proceed in 2021 or 2020 due to the pandemic resulting in an unfavourable economic environment and softening cycle. This will have had significant consequences for 2022 profits, particularly when combined with the super imposed inflation.

Figure 3. **Non-Life insurance premium production GWP**

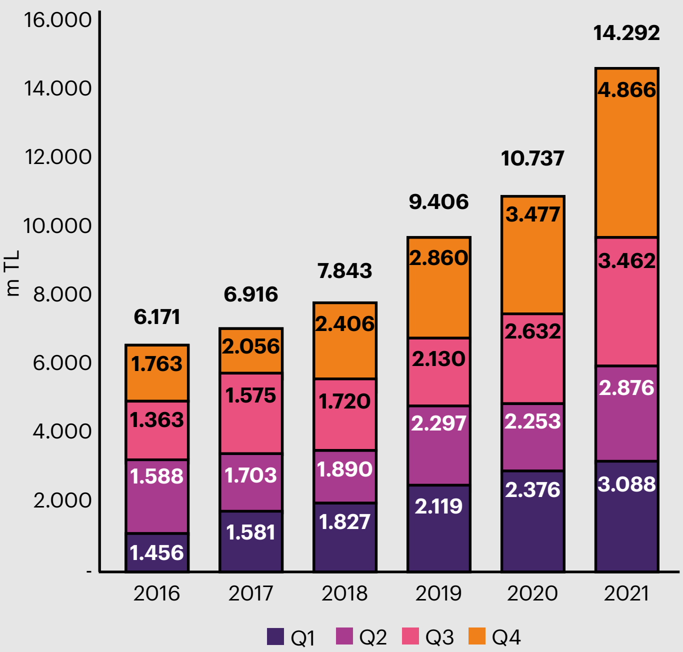


Motor Casco premiums

Motor Casco business continued to grow in nominal terms in the last five years. In 2021, the premium growth was 33.1% (-2.2% in real terms). The 5-year CAGR in 2021 was 18.3% (-0.3% in real terms). Compared to the modest, but still impressive growth in GWP of 14.2% (0.4% in real terms) in 2020 , during the height of COVID-19, 2021 did not present much improvement. Even with doubled growth figures in nominal terms, 2021 was a year of weakening price strength against inflation. Various nationwide lockdowns throughout the first half of the year inevitably caused a decrease in motor claims frequency during the same period, however the during the recovery that followed, the frequency of motor claims rose to an even higher level than before the pandemic occurred. The post COVID-19 global economy, together with local economic volatility, led to a strong hike in inflation in the Turkish market.

New car sales remained strong but were 4.5% less than in 2020 when they increased significantly due to the Turkish government decreasing credit interest rates in response to the economic situation brought about by COVID-19. On the other hand, the number of Casco policies still grew by 14.5% in 2021. Despite its an increase in Casco penetration in terms of numbers, it is mainly driven by the very low coverage Casco add-ons on top of MTPL policies.

Figure 4. **Motor Casco premium production GWP**



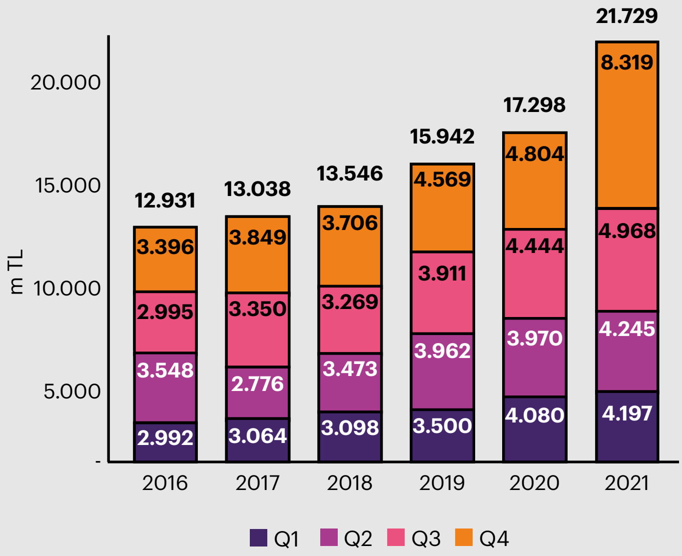
Motor TPL premiums

Motor TPL has been the most volatile line of business in terms of premium production in the last five years, due to the significant regulatory changes and market movements. Looking back at the given period of the business, substantial premium growth in 2016, both in nominal and real terms, stood out as a result of high Motor TPL prices due to major incurred losses and inflationary pressures by the increase in injury claim numbers and damage claim costs. This rise in premium production was then disrupted by the introduction of a capped tariff regime for the entire business.

Average premiums dropped significantly by 16.2% in 2017 as an immediate effect of the price caps. In the same year, the regulator introduced a Motor TPL insurance pool for certain high-risk policyholders (which will be referred as Motor TPL Pool throughout this report) due to challenges for certain segments in finding coverage.

More recently, Motor TPL premiums began to recover from 2018, after 2017's volatile regulatory environment. The nominal increasing trend which reached the top by 17.7% in 2019, took an unavoidable hit by the pandemic in 2020, where the business still managed to end the year with growth. In 2021, Motor TPL premiums increased by 25.6%* (-7.7% in real terms). The five-year CAGR in 2021 was 10.9% (-6.5% in real terms). The average premiums also went up after 2018, following the reducing effect of the price caps in 2017. Taking only the direct premiums of Motor TPL into consideration, excluding Green Card, the average premiums grew by 8.1%, 14.8%, 2.1% and 7.9% respectively from 2018 to 2021.
On the other hand, lack of price strength combined with increase in the minimum wage led industry to an underwriting loss at the end of the year. Relatively lowering interest rates against inflation did not help the industry to recover the profit gap with investment results in Motor TPL. We see this as a catalyst for the industry to change the underwriting approach for this line of business and place more focus on underwriting performance.

Figure 5. **Motor TPL premium production GWP (including the Motor TPL Pool) ***



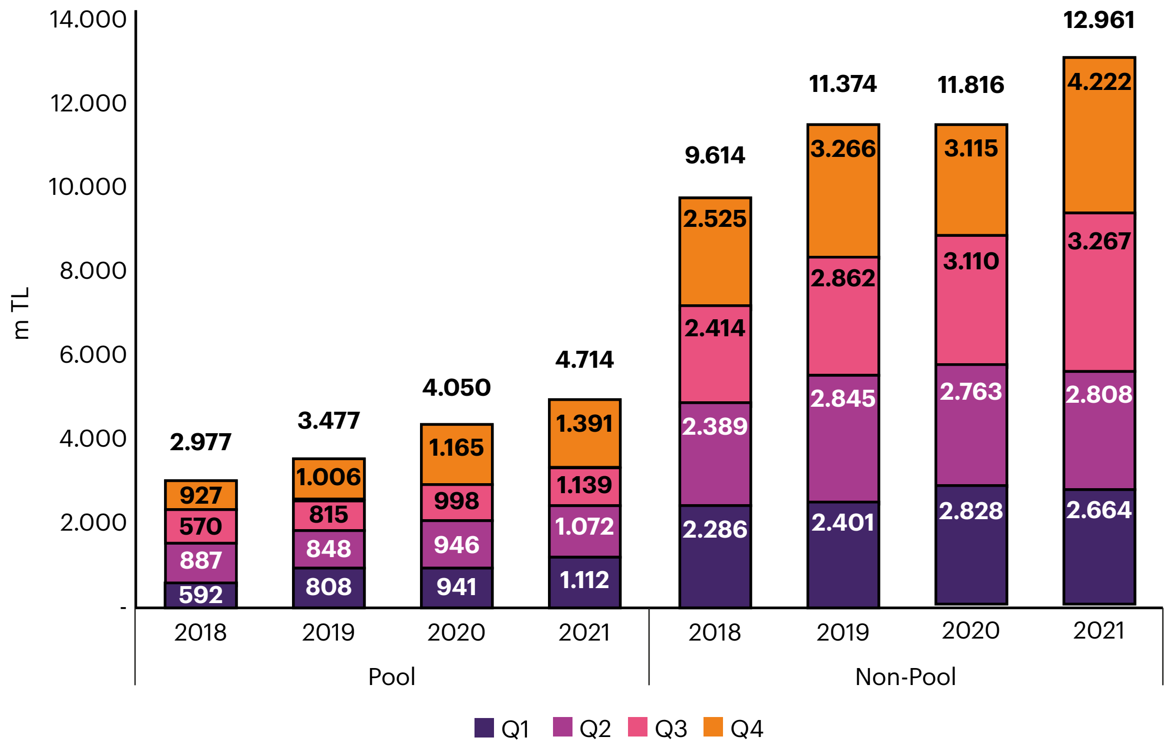
*Data published by Insurance Association of Turkey includes both direct and indirect businesses. To avoid double counting on Pool business in the figures, we excluded indirect Pool premiums. The figures above cover all premium productions of Motor TPL business except for the indirect Pool premium.

Motor TPL Pool / Non-Pool premiums

Following the implementation of the Motor TPL Pool in the last quarter of 2017, insurance companies' Motor TPL premium totals began to be split as "pool" and "non-pool".

The growth of 11.4% (-2.8% in real terms) in the Motor TPL direct premiums from 2020 to 2021 includes a 16.4% growth (-14.5% in real terms) from the pool split and a 9.7% growth (-19.4% in real terms) from the non-pool split. In 2020, the annual growth rate for the non-pool split was 3.9% (-9.3% in real terms), which is significantly lower than 2020's growth rate, whereas the pool split displayed a stable growth of 16.5% (1.6% in real terms). This shows that during the year and a half of the pandemic, due to competition and lower expected frequencies, the non-pool split has experienced lower average premiums whereas the pool split has experienced the fixed and regulated increase on growth rates. Thus, the non-pool / pool production ratio shrunk by 6% in 2021, which also had a shrinking trend by 10.8% in 2020.

Figure 6. **Motor Casco premium production GWP (split for the Motor TPL Pool)**



*Pool and Non-Pool businesses include only direct premiums of Motor TPL in order to avoid double counting and exclude Green Card business.

Health premiums

Health premiums continued to grow in 2021 and resulted in an increase of 29.5% (-4.8% in real terms). The five-year CAGR was 25.3% (5.7% in real terms). The total Health line includes the Illness, Health and Travel Health sublines. Among them, Health businesses have the biggest proportion in premiums of 95.6% on average over the last five years, consisting of Emergency Health, Foreigners' Health, Supplementary Health and Private Health subsegments.

Policy counts in health businesses increased by 24.6%, after a decrease of 33.3% in 2020 which represents a recovery to pre pandemic levels. An overall major increase in 2021 was mainly due to the 44.6% increase in the number of travel health insurance policies taken out following the reduction in COVID-19 restrictions. On the other hand, there is a shift from comprehensive products to lower cost products, in particular supplementary health policies, as health premiums increased significantly due to medical inflation and this shift is expected to have continued in 2022.

Figure 7. **Health premium production GWP**

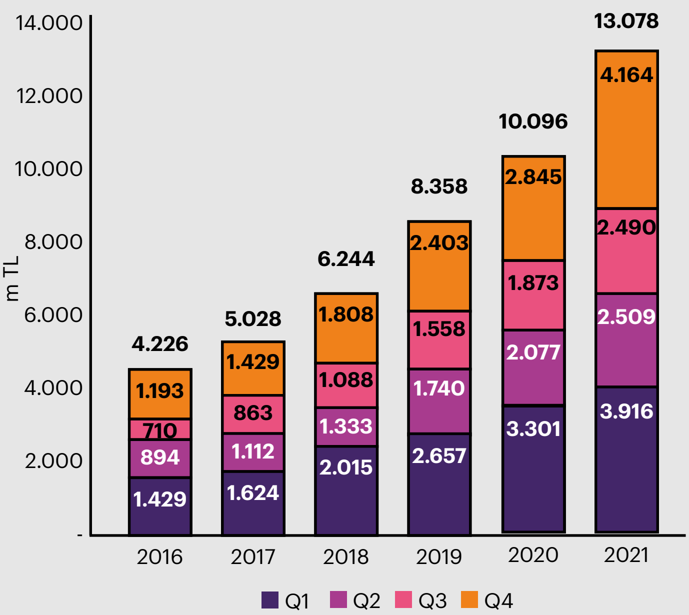


Figure 8. **The proportion of Illness, Health and Travel Health policies within the total Health line**

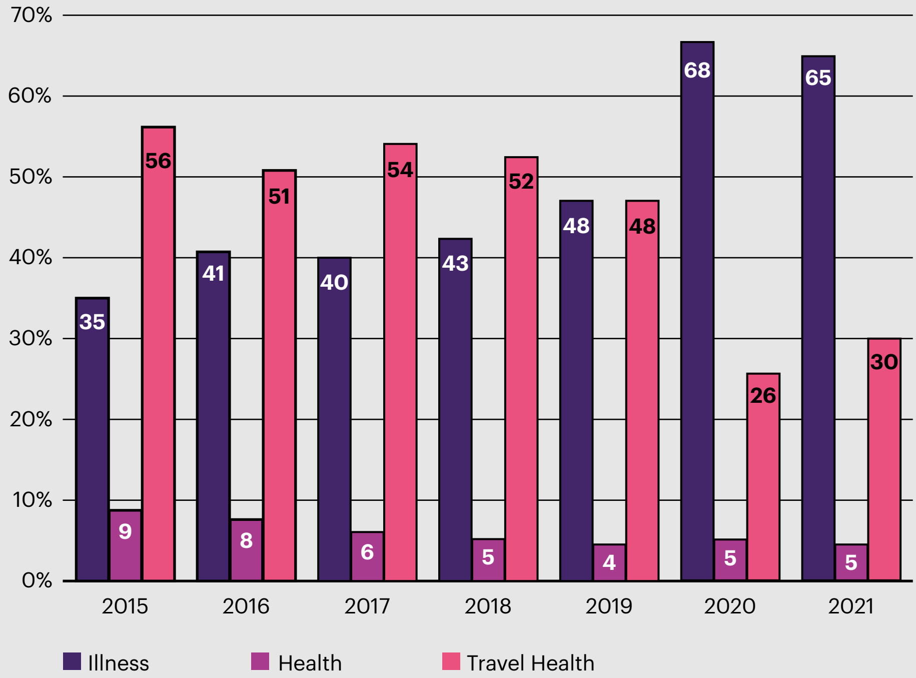
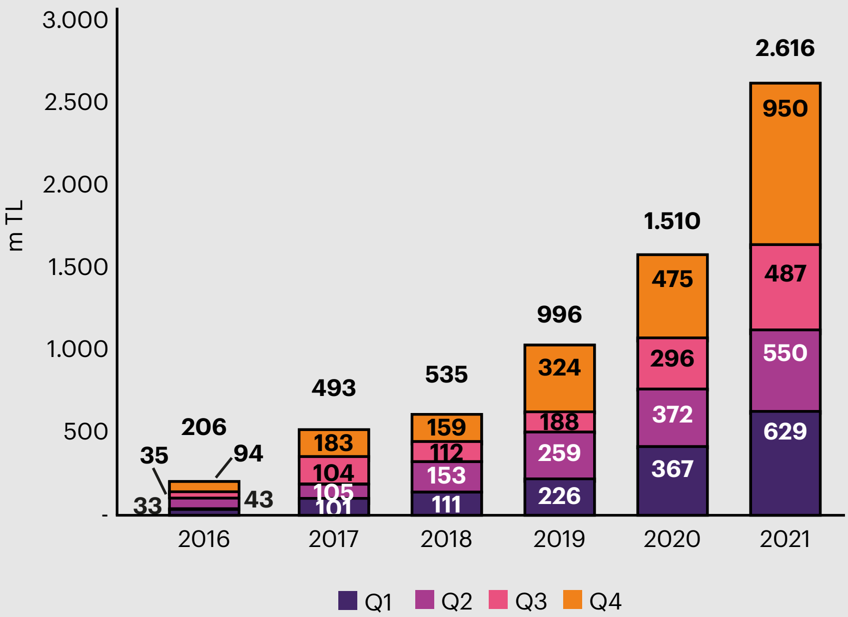


Figure 9. **Supplementary Health premium production GWP**



It's clear to see the impact of COVID-19 was significant in 2021 as well as in 2020, compared with the previous five years. There was a minor increase in the travel health policies, but the number is still lower than the pre pandemic 2019 figures. This is partly due to an increase in the number of group policies within travel health. However, despite a strong increase in the number of people insured, it is not reflected in the policy numbers. Even though the number of mainstream health products seem low, it is the most significant line in terms of GWP (more than 95%), which is due to both significantly higher policy premiums and group policies. In terms of the number of people insured, while illness insurance had a decreasing trend of 2.9%; travel health had a major increase of 205.2% due to the reduction in COVID-19 restrictions. Health insurance overall increased by 10.2% in 2021, while the total number of people with health insurance increased by 39.5% in 2021. This is clearly due to the end of the pandemic and is in stark contrast to 2020 where there was a negative growth rate of 14.8%.

Supplementary health premiums

In 2021, supplementary health premiums increased by 73.3% (27.3% in real terms) when compared to 2020. The five-year CAGR was 69.7% (41% in real terms). Part of the growth is as result of the impact of inflation on average premiums, which will be even more significant in 2022.

Over the last five years, supplementary health has been growing explicitly both in volume and proportion terms, while private health's share in the health subline has been decreasing.

This shift from private health to supplementary health continued significantly in 2021, where the share of premiums written in supplementary health increased by approximately 6% and in private health, decreased by approximately 4%. Foreigners' health insurance displayed a small growth rate of 0.5% in 2021 as safety regulations related to COVID-19 were scaled back.

The number of insured people in Private Health, Emergency Health and Foreigners' Health increased by 30.3%, 25.9% and 30.9% respectively, whereas Supplementary Health had a much larger increase with a rate of 61.5% in 2021. In 2020, the number of Private Health, Emergency Health and Foreigners' Health policies decreased by 1.9%, 2% and 8.1% respectively while Supplementary Health increased by 18.6% due to the ongoing impacts of COVID-19. Figure 10: Supplementary Health, Private Health and Other (including Emergency Health and Foreigners' Health) premium shares in the health subline

Figure 10. **Supplementary Health, Private Health and Other (including Emergency Health and Foreigners' Health) premium shares in the health subline**

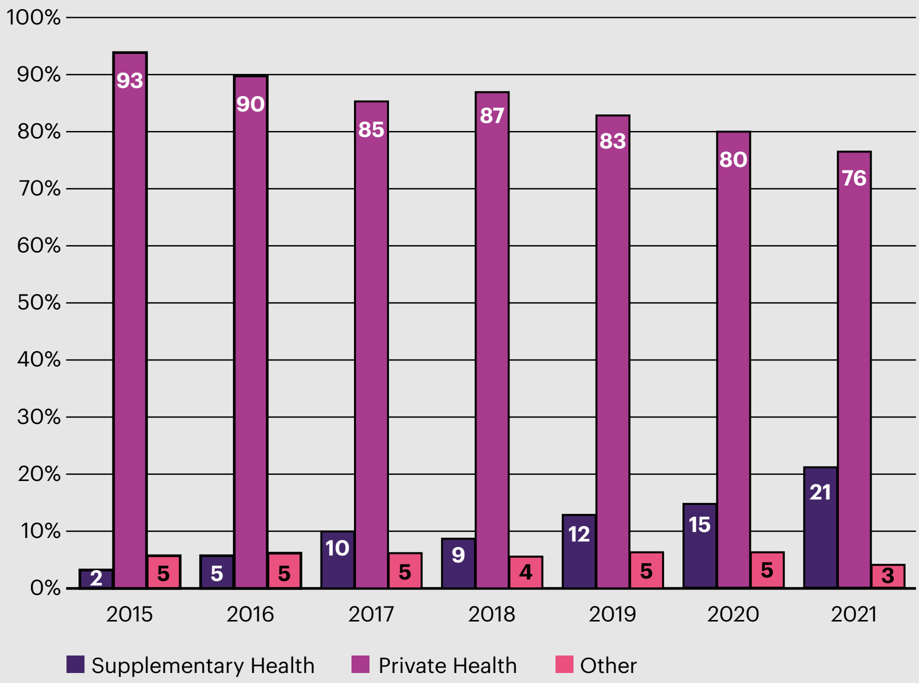
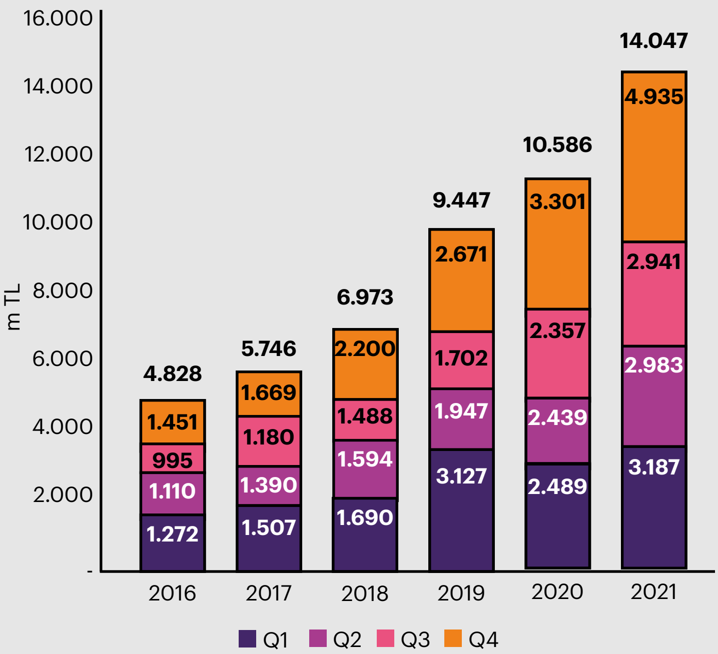


Figure 11. **Fire and Natural Disasters premium production GWP**



Fire and Natural Disasters premiums

Fire and Natural Disasters insurance continued to grow in 2021, and its premium production increased by 32.7% (-2.5% in real terms). The growth rates have consistently been above the inflation rates in the last five years, resulting in the five-year CAGR of 23.8% (4.4% in real terms).

2021 was a year that saw many of the negative effects of climate change. This highlighted the importance of insurance against natural disasters and resulted in large increases in the number of these policies In the wake of these concerns, efforts have been initiated to transform the scope of DASK (natural disaster insurance institution) insurance into compulsory natural disaster insurance. The flip side was that this had a negative impact on bottom-line figures. The loss ratio of the Fire and Natural Disasters branch was 44,9% in 2020, but after 4,2 billion TL in claims payments over the year the loss ratio was pushed up to 54% in 2021.

Other lines’ premiums

We have also analysed premium growth rates of the Marine Cargo, Marine Hull and Engineering segments, which take up approximately 2%, 1% and 4% of the total Non-Life premiums on average in the last five years. Marine Cargo experienced a steady increase between 2016 and 2021, growing in a major rate of 53.2% in 2021 (12.5% in real terms), which was the largest growth rate in real terms in the last five years. Marine Hull premiums increased at a larger rate compared to the last 5 years’ rates in 2021, by 70.3% (25.2% in real terms). Engineering also grew in 2021 by 31.3% (-3.5% in real terms). Compared to 2020, the rate of growth is smaller. The proportion of Engineering premiums within Non-Life premiums overall grew from 4.0% in 2019 to 5.3% in 2021. The effect of COVID-19 was insignificant across all three segments with premium growth in 2021 being very high.

Market share and ranks

Türkiye Hayat ve Emeklilik is the market-leading insurance company with a share of 22.2% and is followed by Anadolu Hayat Emeklilik and AgeSA Hayat ve Emeklilik, which both had a market share of 11.1% at the end of 2021. Türkiye Hayat ve Emeklilik lost more than 5% market share over 2021. The fastest growing insurers within the top 10 companies were Aegon Emeklilik ve Hayat, which grew about 62,4% in 2021 and AgeSA Hayat ve Emeklilik, which grew by 55.2% and captured Allianz Yaşam ve Emeklilik's third position in terms of market share. Beyond the top 10, Bereket Katılım Hayat and BNP Paribas Cardif Hayat reached a growth rate of 109.6% and 101,7% respectively compared to the previous year, while NN Hayat ve Emeklilik, Katılım Hayat ve Emeklilik, Groupama Hayat and Demir Sağlık ve Hayat experienced a decrease in premiums. Bancassurance has been dominating the distribution of the life insurance in Turkey. 79% of the Life premium production in 2021 was via Bancassurance. The top companies have either been bank affiliates or had long-term distribution agreements with the leading banks.

Figure 12: **Top 10 Life companies by market share**

	Company (m TL)	2021 production	2021 market share	2020 production	2020 market share
1	Türkiye Hayat ve Emeklilik AŞ	3.926	22,2%	3.994	27,7%
2	Anadolu Hayat Emeklilik AŞ	1.968	11,1%	1.684	11,7%
3	AgeSA Hayat ve Emeklilik AŞ	1.966	11,1%	1.266	8,8%
4	Allianz Yaşam ve Emeklilik AŞ	1.869	10,5%	1.457	10,1%
5	Aegon Emeklilik ve Hayat AŞ	1.629	9,2%	1.003	7,0%
6	Garanti Emeklilik ve Hayat AŞ	1.457	8,2%	1.112	7,7%
7	Metlife Emeklilik ve Hayat AŞ	1.452	8,2%	1.343	9,3%
8	Cigna Sağlık Hayat ve Emeklilik AŞ	1.001	5,6%	836	5,8%
9	Fiba Emeklilik ve Hayat AŞ	587	3,3%	446	3,1%
10	BNP Paribas Cardif Emeklilik AŞ	471	2,7%	315	2,2%
Top 10 companies		**16.327**	**92,1%**	**13.456**	**93,2%**
Total Life companies		**17.727**		**14.432**	

Among the top 10 private pension providers, the top five companies have been stable over the years.

Figure 13: **Top 10 Private Pension companies by market share**

	Company (m TL)	31/12/2021 AuM	2021 market share	31/12/2020 AuM	2020 market share
1	Türkiye Hayat ve Emeklilik	43.799	19,2%	29.838	18,8%
2	AgeSA Hayat ve Emeklilik	42.094	18,5%	29.414	18,6%
3	Anadolu Hayat Emeklilik	41.507	18,2%	29.357	18,5%
4	Allianz Yaşam ve Emeklilik	32.125	14,1%	21.716	13,7%
5	Garanti Emeklilik ve Hayat	31.520	13,8%	21.766	13,7%
6	NN Hayat ve Emeklilik	8.194	3,6%	5.802	3,7%
7	Allianz Hayat ve Emeklilik	7.337	3,2%	5.092	3,2%
8	BNP Paribas Cardif Emeklilik	5.385	2,4%	3.855	2,4%
9	Katılım Emeklilik ve Hayat	5.344	2,3%	3.516	2,2%
10	Fiba Emeklilik ve Hayat	3.938	1,7%	2.724	1,7%
Top 10 companies		**221.243**	**97,1%**	**153.079**	**96,7%**
Total Life companies		**227.911**		**158.347**	

When we consider the auto-enrolment system, the picture of the 2021 production is not dissimilar. Türkiye Hayat ve Emeklilik took the lead in terms of asset size. Anadolu Hayat Emeklilik and AvivaSA Emeklilik ve Hayat follow the dominating government player. This is mainly due to lower cancellation rates of public organisations compared to private companies.

Figure 14: **Top 10 Auto-enrolment providers by market share**

	Company (m TL)	31/12/2021 AuM	2021 market share	31/12/2020 AuM	2020 market share
1	Türkiye Hayat ve Emeklilik	8.582	54,5%	6.334	56,0%
2	Anadolu Hayat Emeklilik	1.700	10,8%	1.185	10,5%
3	Garanti Emeklilik ve Hayat	1.556	9,9%	983	8,7%
4	AgeSA Hayat ve Emeklilik	1.335	8,5%	1.020	9,0%
5	Allianz Yaşam ve Emeklilik	1.022	6,5%	658	5,8%
6	Katılım Emeklilik ve Hayat	364	2,3%	256	2,3%
7	BNP Paribas Cardif Emeklilik	276	1,8%	200	1,8%
8	NN Hayat ve Emeklilik	253	1,6%	189	1,7%
9	Metlife Emeklilik ve Hayat	207	1,3%	161	1,4%
10	Axa Hayat ve Emeklilik	142	0,9%	102	0,9%
Top 10 companies		**15.436**	**98,1%**	**11.089**	**98,1%**
Total Pensions companies		**15.740**		**11.304**	

In 2021, Türkiye Sigorta remained the market leader in Non-Life business following the merger it went through. Anadolu Sigorta became the second in Non-Life business, with an increase in its market share, which resulted Allianz to be in the third place. While the top five companies roughly maintained their rankings, Sompo Sigorta and Mapfre Sigorta maintained their ranks and became the seventh and eighth respectively in the market.

The concentration of the Non-Life market within the top 10 insurers had a small increase in 2021 from 70.5% to 70.7%, whereas the market concentration among top 10 was stable in 2021.

Figure 15: **Top 10 Non-Life companies by market share**

	Company (m TL)	2021 production	2021 market share	2020 production	2020 market share
1	Türkiye Sigorta AŞ	11,750	13.4%	8,887	13.0%
2	Anadolu Anonim Türk Sigorta Şirketi	10,735	12.3%	8,016	11.8%
3	Allianz Sigorta AŞ	9,854	11.3%	8,135	11.9%
4	Aksigorta AŞ	6,988	8.0%	5,272	7.7%
5	Axa Sigorta AŞ	5,924	6.8%	4,657	6.8%
6	HDI Sigorta AŞ	4,808	5.5%	3,476	4.9%
7	Sompo Sigorta AŞ	3,455	3.9%	3,333	3.8%
8	Mapfre Sigorta AŞ	3,205	3.7%	2,558	5,8%
9	Neova Katılım Sigorta AŞ	2,648	3.0%	1,899	2.8%
10	Eureko Sigorta AŞ	2,565	2.9%	1,836	2.7%
Top 10 companies		**61,933**	**70.7%**	**48,070**	**70.5%**
Total Non-Life companies		**87,580**		**68,144**	

Market updates

Mergers and acquisitions (General Changes)

- 2021 was a quite year in terms of mergers and acquisitions in the Turkish insurance market, despite the expectation of further consolidation in the insurance industry globally. The merger of six public insurance companies under the Turkey Wealth Fund ("TWF") in 2020 was the latest significant update in the Turkish insurance market in the last few years.
- Contrary to consolidation expectations, the appetite to start new insurance companies significantly increased in 2021. There were two companies which began writing premiums in 2021. Arex Sigorta A.Ş. was established in April 2021 to operate in various lines of Non-Life business, including artwork insurance. Prive Sigorta A.Ş. started to operate in March 2021 as a Non-life insurance company. There were also some new other initiations getting prepared for licence application and targeting to kick-off in 2022. In addition, two companies changed their titles in 2021. AvivaSa Emeklilik ve Hayat A.Ş. changed their title to AgeSa Hayat ve Emeklilik A.Ş. in June 2021 as the company's 50% of shares were transferred to Ageas Group, while Neova Sigorta A.Ş. changed their title to Neova Katılım (Takaful) Sigorta A.Ş. in June 2021. It was announced that Türk Katılım Reasürans A.Ş. would be established as Türk Reasürans A.Ş. in September 2021.

Regulatory updates

IFRS 17

Specific to the insurance industry, simultaneous applications of IFRS 17 Insurance Contracts, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers will effectively start from the periods after 1st of January 2023 according to the final amendments issued by IASB.

On 25 June 2020, the IASB issued the final amendments to IFRS 17 Insurance Contracts, effective for companies with annual reporting periods beginning on or after 1 January 2023. IASB also extended the temporary exemption for adopting IFRS 9 Financial Instruments for some insurers in order to allow the simultaneous adoption of IFRS 9 and IFRS 17.

IFRS 17 is a principle-based standard, requiring a significant amount of judgement and interpretation. The policies which companies develop will dictate not only the transition balance sheet but also the emergence of earnings for the in-force business and future new business written.

SEDDK announced that a specialised committee has been setup to overcome the issues that will likely occur in the transition process. The specialised committee (SEDDK) will announce the agreed solutions and applications of TFRS 17 (in parallel with the standard) regarding the exceptions that could occur in specific Turkish cases, such as the reporting of the reinsurance activities, pool regulations and the Takaful (Islamic Insurance).

Since the transition consists of some significant changes to companies' IT infrastructures, SEDDK considers the probability of delays after the effective date of the standard, which is 1 January 2023. In these cases, SEDDK will allow the companies to prepare financial accounts specific to the transition completion date.

In the past four years, most Turkish insurers have defined their in-house IFRS 17 team and started to work on the Standard. Consulting firms have been working jointly with the insurance companies to assist the determination of their accounting strategies and to support the local teams. Some companies performed a gap analysis of system requirements, data andmethodology, and determined their strategy in implementation, whereas others are yet to decide on these topics. The adverse developments of interest rates against inflation and volatility in the Turkish economy will create yet another challenge for the industry. IFRS 17 together with TFRS 17 will still be on the agenda of both multinational and local players in the coming years.

Natural Catastrophes

With the addition of earthquake and volcanic eruption coverage to fire, loss of profit due to fire, construction, assembly and machinery insurance, changes in tariff and instruction provisions came into force on 1 July 2021.

Private Pensions System (BES)

A change in regulation has been applied on 25 May 2021, regarding the enrolment of children under the age 18 in the Private Pensions System. With this change, the statement about limiting the enrolment of people without legal capacity to the system has been removed, which directly aimed the inclusion of people aged 18 and below. On 26 June 2021, the works and transactions regarding the inclusion of children under the age of 18 in the private pension system will be carried out within the framework of the provisions of the Turkish Civil Code No. 4721

Centralised Platform for Pension Funds (BEFAS)

A new regulation has been applied on 5 May 2021, regarding the foundation of a centralised platform (BEFAS) for all pension funds from all companies. With this change, participants are free to invest their assets in any pension fund regardless of the company where their participation certificates are issued. The aim of this change is to allow participants to freely monitor each fund's performance and invest in the ones with better performance. This change is expected to increase competition in the fund management and pension market, hence the total AuM in the market.

Integrated Pension Plans

A change in regulation was applied on 28 September 2021, regarding the methods and basis for the integrated pension plans. The aim of this change was to increase premium production and AuM in the life and pension markets.

Supplementary Private Pensions System (TES)

A new private pensions system will be applied in 2022. The details are not crystal clear yet, but it is expected to involve a restructuring of the Private Pensions System (BES). In supplementary private pensions systems, the structure of state contributions and employee contributions seems to be similar to the current private pensions system. However, the most important amendment is expected to be the severance indemnity to be included in TES. The details are currently being discussed between the regulators, TSB and the pensions committee that includes the representatives from the companies. This is expected to be a major development in the pensions market and will grow the pensions market in Turkey. The aim is to increase retirement savings in Turkey.

Participation Insurance System

Participation Insurance (also known as Takaful or Islamic Insurance) regulations on working procedures and principles were published on 20 September 2017 (by regulation update #30186). The share of participation of banks within the finance industry has been growing in the recent years and participation of insurers could potentially follow the same trend.

Currently, there are 12 insurance participants in the market: Neova, Bereket and Doğa Sigorta on the Non-Life side, and Katılım, Bereket Emeklilik on the Life side have written 96% of the participation insurance premiums.

The premium production was 3.9 billion TL, representing a 22% growth in the last year. This excludes contributions to private pensions and auto-enrolment funds with participating nature.

Motor TPL Price Caps and Motor TPL Pool

Most recently, according to dated 31 December 2021, the monthly increase rates on the price cap increased to 1.5% from February 2022. It was also announced that maximum premiums were increased by 20% in February 2022. From May 2022, the price cap increased by 0.75% and it reached to 2.25% (by the circular numbered 2022/10).

As covered in our previous bulletins, according to the circular numbered 2017/01, additional caps for all segments of business were applied on 10 April 2017. As of 1 September 2017, the allowance for inflation in the caps was to increase by 1.5% monthly (by the circular numbered 2017/08). As of 1 January 2018, the caps were to increase by 5% (by the circular numbered 2017/23) and the application period was extended until the end of 2018. By the circular numbered 2019/01 and dated 4 January 2019, it was stated that the decisions taken in 2017 would be valid during. More recently, in May 2020, the rates of monthly increase on the price cap changed to 0.75% for the period June-December 2020 and then to 1% effective from January 2021 (by the circular numbered 2020/05).

Moreover, as also covered in our previous bulletins, on 11 July 2017, the regulator also introduced a pool for risky insured, known as the “Motor TPL Pool” (by regulation update #30121).

Over the past few years, there were no additional changes in the Motor TPL Pool except for the changes in pool shares of insurance companies due to mergers. It continues to be applied under the same circumstances.

Motor TPL General Terms & Conditions

In 2020, as published in the official newspaper dated 9 October 2020, some sections of the General Terms & Conditions of Motor TPL published in 2016 were removed by The Constitutional Court. By the end of 2020, there was unpredictable uncertainty in nursery expense, disability rate and loss in value calculations. Most of the Motor TPL market players in the Turkish market set aside additional reserves for the 2020 year-end to protect themselves against the uncertainty caused by this decision.

In May 2021, The Constitutional Court’s decision to not to proceed with sections of the TPL was put on the agenda of the Turkish Assembly. The Sub-Committee of the Assembly approved The General Terms & Conditions of Motor TPL published in 2016, that were subject to The Constitutional Court’s cancellation decision. As of June 2021, this development has not been put in force by the Assembly yet, as the legislation process has still been ongoing. In case of The General Term & Conditions becoming a law, the decision to make loss of support compensation calculations according to the TRH mortality table is to be decided and the substantial uncertainty over Motor TPL line of business is to eventually come to an end.

There have also been some new paragraphs added, relating to compensation for depreciation, loss of support and permanent disability in article 90 and 92 in Highway Traffic Law on 09/06/2021.

The new paragraphs in article 90 containing details of compensation calculations for compulsory Motor TPL insurance are as follows:

- The depreciation compensation is calculated by considering the market value of the vehicle, the level of use, the damaged parts and the amount of damage.
- Compensation for loss of support is calculated in accordance with life annuities and generally accepted actuarial rules, based on the life table prepared using national birth and death statistics, and the discount rate determined not to exceed 2 percent in the general conditions of compulsory liability insurance.
- Permanent disability compensation is calculated in accordance with life annuities and generally accepted actuarial rules based on the life table prepared using national birth and death statistics, the discount rate determined not to exceed 2 percent in the general conditions of compulsory liability insurance.

New paragraphs in article 92 about exclusions from compulsory Motor TPL insurance are as follows:

- Compensation claims of the beneficiary loss of support, corresponding to the fault of the support person.
- Indirect damages such as loss of income, loss of profit, business interruption and rent deprivation.
- Claims for loss of value depreciation compensation for vehicles that have been withdrawn from traffic or scrapped due to damage.
- Claims for damages caused by the vehicles used in terrorist acts and sabotage arising from these acts within the scope of the Anti-Terrorism Law and which are not covered by the liability risk of the insured.
- With payments made by the Social Security Institution regarding loss of income, if the insurer is liable to the Social Security Institution pursuant to Article 21 of the Law No. 5510, this liability continues to the extent of the fault of the insured.

Capital and solvency

In 2021, there have been several changes to capital and solvency regulation.

Minimum Capital Amounts: According to the circular numbered 2021/24, the paid-in capital of the insurance companies, mutual associations and reinsurance companies that have completed the establishment procedures and applied for the first licence after the publication date of this circular was decided to be at least 36,576 million TL. In addition to this 36,576 million TL, for each insurance lines of business or coverages under these lines that they request a licence, these companies are to pay certain minimum capital amounts.

- For Non-Life companies writing in all branches, a minimum of 138,986 million TL capital is required for the branches, in addition to the base required minimum capital, giving a total of 175,562 million TL.
- For Life companies writing in all branches, a minimum of 178,491 million TL capital is required for the branches, in addition to the base required minimum capital, giving a total of 215,067 million TL.
- For Reinsurance companies writing in both Non-Life and Life, a minimum of 43,891 million TL capital is required for both segments, as an addition to the base required minimum capital, giving a total of 124,358 million TL.

Dividend Distribution: According to the 2021/25 circular, it has been decided to limit the profit distributions to be made on the results of the 2021 financial statements of insurance, reinsurance and pension companies to a level that will not reduce the capital adequacy level below 135%, for 2022.

Capital Adequacy Calculation: According to the Circular No. 2016/29 amending the Circular on making changes in the coefficients used in the calculation of capital adequacy, the coefficients in Article 8 of the regulation on the measurement and evaluation of the capital adequacy of reinsurance and pension companies have been changed as follows:

- c) Motor Casco: 0.15
- h) Motor TPL: 0.21

Capital Cap for Motor TPL Premium Production: According to the circular numbered 2021/26, the sum of Motor TPL premiums produced by the insurance companies in one calendar year has been limited to a maximum of four times the amount of their previous year's equity. These circumstances were decided to be effective as of 2022 and onwards. The limitation on Motor TPL premiums was five times of previous year’s equity according to circular numbered 2020/08.

Reserving and Financial Reporting

URR Calculation (Unexpired Risk Reserve): In calculating URR, the loss ratio increased from 95% to 100%. If a calculation is made for the works where all the direct works is transferred to the pools established in Turkey, the gross loss ratio increased from 100% to 105%, and the gross loss ratio used for other works increased from 85% to 95%. In addition, if a calculation is not made, the used loss ratio of URR calculation has been increased from 85% to 90%. (By circular 2021/31 on 30/12/2021).

Cashflow Discount Rates: It was announced in the circular (2021/30) dated 30.12.2021, that net cashflows resourced from case and IBNR reserves to be discounted with 14% to cash value as of reporting period. This was the first update on cashflow discount rates since 2017 and will potentially continue in the following years.

Market outlook

2021 was a complex year for most industries, globally, with a combination of factors coming together including the pandemic recovery, the beginnings of economic inflation and increasing political tensions. Naturally, the Turkish insurance market has been affected in terms of premium growth and profits due to the severe conditions in economics and politics and increased regulation.

Market outlook

As a result of continued pandemic conditions and restrictions in the first half of 2021, claims frequency remained as low as it did in 2020, which triggered further price reductions particularly in Motor lines. An over-estimation of pandemic claims frequency on the price of insurance, led the market to lose price strength. During the second half of 2021 a sharp return to pre-pandemic conditions raised bottom-line concerns against a backdrop of increasing economic volatility. In the last quarter, the impact of high was heavy on claims cost and claims backlog. Liability reserves were impacted significantly by the 50% increase in minimum wage as well as current claims. The Regulator started to take early measures to secure 2022 capitals by introducing limits to 2021 profit distributions which is explained above in Regulatory Changes sections of this bulletin. However, the majority of the Non-Life companies were not already in a situation to distribute dividends according to profit loss results of their 2021 year-end balance sheets. Inflation pitched the discussions on cap prices and tariff liberation, which is followed by reopening of direct compensation and driver-based insurance agendas in Motor third party liability insurance.

Regulatory changes aim to increase overall savings and premium production in Private Pension System and Life Insurance markets respectively, and at the same time the opportunity to receive support directly through the mobile and web-based applications of life & pension companies became a significant indicator of the acceleration in Turkish insurance market's digitalisation efforts.

The Turkish insurance market met the economic challenges of 2022 with resilience. Despite significant experience of managing volatilities, the level experienced since the last quarter of 2021 was totally beyond any worst-case scenarios.

Insurance companies increased prices in-line with the claims inflation. On the other hand, discrepancies across the future inflation expectations triggered hardening cycle in property and causality lines which is expected to continue until the elections. Even though this leads a significant increase in 2022 GWP production, it is not resourced from increase in insurance penetration. Contrarily, inflationary stress on purchasing power puts pressure on policy numbers not only for new business but also for renewals. Impact of economic volatility is not as significant as Non-Life on the life and pension side. However, it still raises topics such as increasing lapse rates and lack of new contract entry due to increasing economic troubles of individuals. Pension returns lower than inflation also leads people to either to invest in other instruments such as real estate or spend their money. Therefore, reducing insurance penetration comes forward as another agenda item of Turkish insurance market.

SEDDK, the Insurance and Pensions Regulation and Supervision Agency, has changed the management team effective from July 2022. The new management team has started to work on the planning of new regulatory changes that will hopefully increase the pace of the developments and improvements in the market and most importantly help the market to overcome the negative impact of the economic circumstances mostly due to the very high inflation rates. Turkey has been through many challenging times in the past and the Turkish Insurance Market is always resilient.

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