

INSURANCE – GENERAL

Türkiye: Further potential waiting to be tapped

The insurance market in Türkiye continues to attract investors' attention but stakeholders need to exert greater efforts to develop the sector, said speakers at the first Türkiye Rendezvous, held in Istanbul last month.

By Osama Noor

Operators need to exert greater effort to increase Türkiye's insurance penetration rate and take the industry to the next level, said Insurance and Private Pension Regulation and Supervision Authority (SEDDK) chairman Mehmet Akif Eroğlu in his keynote address at the opening of the inaugural Türkiye Rendezvous.



Mr Mehmet Akif Eroğlu

In addition to the existing 70 insurers (45 non-life, 21 life and pension and four reinsurers) operating in the market, there are eight more applications for insurance licences currently being vetted, he said. International investors hold 55% of the equity of domestic players.

The market GWP reached TRY107.2bn (\$5.8bn) in the first seven months of this year, registering a jump of 91% over the same period last year, while the CAGR reached 20% for the period between 2012 and 2021. Total assets of the insurance market on 31 December 2021 reached TRY427bn, a 39% increase over the previous year.

The pension and life sector has grown since the Private Pension System (PPS) was introduced in 2003

and now covers 14.1m participants with TRY348bn in total funds. This is a remarkable development, said Mr Eroğlu.

Even with the progress accomplished over the years, indicators for the insurance market remain far below their potential as the penetration rate for pension and life business stands at around 0.5% and non-life insurance penetration at less than 2%.

"[Thus], the insurance industry is not in parallel with the Turkish economy which was ranked as the 18th in the world while the insurance industry ranked 38th in the global insurance market," said Mr Eroğlu.

He said that there had been several regulatory initiatives over the past two decades which helped advance the insurance industry. "Over the past 20 years, penetration has grown from 1.3% to 1.7% but couldn't break this mark," he said, noting that the penetration rate should reach 3% at least.

Market challenges

The insurance industry has been suffering from chronic problems such as the motor TPL business which has caused sector losses of TRY11.5bn in the past 16 years. The SEDDK is working on solutions and providing



initiatives to help insurers overcome such challenges, but operators need to revisit their strategies and focus on other lines of business and seek new distribution mechanisms to target new areas, said Mr Eroğlu.

"We have to create a sustainable insurance industry," he said noting that it is on the SEDDK's agenda to help improve the insurance industry through identifying risks including areas such as Nat CAT as well as the ageing society. He urged the insurance industry to take advantage of the favourable demographics in Türkiye where over 67% of population is aged between 20 and 64.

Türkiye as a hub

Türkiye's favourable demographics, strategic location and its advanced insurance regulatory environment, where many laws and regulations have been amended to align with the EU's, makes the country an ideal hub for insurance and reinsurance business in the region, said Invest in Türkiye head of financial investments unit

INSURANCE – GENERAL

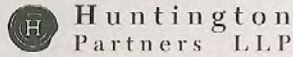
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Ahmet Cüneyt Selçuk.

He said that Türkiye possesses the necessary ingredients to make it a reliable hub in line with the insurance association's 2024 plan to reform the sector. Among the attracting features are the favourable time zone, connectivity with the region as well as having access to a population of 1.5bn people, \$24tn in GDP and \$7.9tn in trade volume.

Huntington Partners managing partner Gerard Pennefather said that the theme of the rendezvous, "Creating an Insurance Hub towards 2024", was very appropriate and topical as Istanbul emerges as an increasingly important global financial centre.



Mr Gerard Pennefather

"With significant steps taken by the government to build appropriate physical and regulatory infrastructure, we are confident that Istanbul [will] resume its natural position as the pivot

between east and west."

He said that insurance will play a vital role for both Türkiye and the region.

"Within the region, and within Türkiye specifically, we hope to be instrumental in developing systems that provide pressing solutions to the challenging issues of the day, ranging from the tackling of health, pensions, climate change and the delivery of grain in times of significant global upheaval.

"We are also interested in energy security and using insurance as a risk-mitigating tool for donor initiatives to help reduce the economic burden of host countries to the plight of refugees ... Istanbul will emerge as a hub for all of these initiatives, not only for itself, but also for the region," said Mr Pennefather.

State of the market

AM Best general manager – MENA, South and Central Asia Vasilis Katsipis said that global economic and political conditions have changed

significantly over the last few years. The world is currently in a period of political instability and economic turbulence with tensions in parts of the world.

"It is even more pivotal now to protect the economic future than it was a few months ago," said Mr Katsipis, adding that the rise in global



INSURANCE – GENERAL



inflation has been accompanied by the strengthening of reinsurance rates and capacity.

Milli Re director and general manager Fikret Utku Ozdemir said 2021 was challenging for the Turkish insurance industry with the increasing rates of inflation and large-scale events such as floods and forest fires. The sector worked hard to adopt to the new environment, however, technical profitability in 2021 registered half of the previous year, he said, attributing this to the increase in cost of claims and because insurance prices have not increased in parallel with other goods and services. He warned that technical profitability will be a concern that needs to be addressed.

Howden multinational and large clients practice TMEA regional CEO and chairman Atinc Yilmaz said that reinsurance will witness another

hard market in 2022 because of the excess in global reinsurance capital which is estimated at around \$500bn. For the Türkiye insurance market, he expects growth to continue in the next 15 months. The hardening of the reinsurance markets will be a challenge, however, and insurers might need to revise their rates and raise their capital.

Turk Reasurancs (Turk Re) deputy general manager – project and technology management, HR, claims, modelling Erdem Karabostan said that the Turkish insurance industry is well structured, and the market is diversified but remains competitive and concentrated.

He said that with the sector's strong fundamentals, insurers have the ability to benefit from the country's great potential. He urged players to conduct precise segmentation of customer profiles and

come up with specific products that respond to their needs.

Sustainable pricing in hyperinflationary environment

Inflation in Türkiye continues to be the main concern despite stable foreign exchange rates, said AXA Türkiye COO Sanem Buçukoğlu. She called for the adoption of systemic analysis to deal with the impacts of inflation through acquiring the necessary fundamental strengths for early detection of deterioration in cost drivers. Ms Buçukoğlu said that the prices of motor and health insurance were under severe impact.

She said that the Türkiye insurance sector has become agile in dealing with inflation challenges but the environment requires constant monitoring.

Geopolitical tension

Türkiye is at the heart of many crises across the world which changed the geopolitical landscape, said The London Energy Club chairman and OECD executive Mehmet Ögütçü.

He said that the biggest conflict is going to be between China and the US. As this conflict will intensify in terms of technology, climate change, financial flow, "It is going to cause huge risk for all of us including insurers because these are manmade risks ... it is difficult to predict, analyse, assess and manage properly. Our challenge as businesses is to predict, assess and develop mechanisms to manage it affectively."

IUC Group founder and CEO



INSURANCE – GENERAL



Menekşe Uçaroglu said the Türkiye market has been resilient in the face of various crises including the pandemic and other subsequent risks. Türkiye has been ranked third on the Resilience Index in 2022 and 15th on the Nat CAT resilience index, she said.

Ms Uçaroglu said that inflation has had a negative impact on results, especially long-term contracts. Overall, she said that the sector has proved to be resilient although some providers were troubled due to the nature of their businesses.

Aon Türkiye co-CEO Ferhan Özay said that inflation and the pandemic have had both direct and indirect impacts on the Türkiye insurance industry; however other risks should be counted in the context including supply chain disruption, Russia president Vladimir Putin's invasion of Ukraine and the energy crisis.

Even more important is reinsurance capacity which will ultimately affect the market because, in the past, reinsurers used to spread and diversify businesses to avoid risks in certain regions, but today risks such as COVID, climate change and inflation are no longer local.

Eureko Insurance chief operating officer and board member Süha Çele said that inflation has had impacts on claims. For retail lines, which are sold in Turkish lira, claims have been problematic because of the variations in exchange rates. Commercial lines continue to suffer because of inflation although most policies are in hard currency.

Digitalisation in the healthcare

Bossany Consulting International founder and CEO and Huntington Partners senior adviser Bill Bossany said that digitalising the healthcare value chain enhances the customer experience in areas such as underwriting, customer on-boarding, policy administration, medical management, wellness management and customer service.

"Digitalisation does not mean running everything on a website or an app. It is dependent on customer interaction," he said.

In Türkiye, private health insurance premiums are projected to have grown by 29.5% in 2021. By July 2022, total private health insurance buyers will surpass 2.5m with supplemental health insurance reaching \$152m in 1H2022, up 137% from the same period in 2021.

He said that digitalising the healthcare value chain would lead to enhanced customer experience, better loss ratio control, improved health management and stronger health plans.

InsurTech to enhance customer experience

InsurTech Hub programme leader Ebru Şevli shed some light on Türkiye's roadmap noting that InsurTechs offer more economical insurance solutions than traditional insurance companies.

"They are making it based on what the customer wants," she said, adding that there remains a long way to go. "We have not reached the boundaries

of this evolution. It is all related to innovation."

Takaful, sharing the Malaysian story

Global takaful contributions totalled to \$23.1bn in 2019 with the GCC region controlling over \$10bn while Türkiye ranked fifth with \$577m.

Citing the Malaysian takaful industry as an example, the commonality with the Turkish market is the dual banking-takaful system, said Sterling Insurance Brokers CEO Abdul Halim Jantan.

"In the takaful industry, we refashioned the conventional system which can be done in Türkiye with its dual banking system," said Mr Jantan.

He said that the required fundamentals for takaful to grow include harmonised governance frameworks, futureproof operating model, investment in emerging technologies/products and talent development and innovation.

Areas of strength in Türkiye are the strong level of investment in tech start-ups, the industrial base for European conglomerates, the educated population and the secular window for Islamic finance, said Mr Jantan.

Organised by Middle East Insurance Review with Huntington Partners as lead sponsor and AM Best as sponsor, the first Türkiye Rendezvous was held with the theme 'Creating an Insurance Hub towards Vision 2024'.

