September 2021

Insights

Turkish Insurance Bulletin

Willis Towers Watson 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 a high-growth insurance market.

In this bulletin, we share the growth in Life gross written premiums (GWP), Non-life GWP and private pensions new contributions 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 2020. We also provide some updates on the market about the players and recent regulations, as well as a brief market outlook. We used the data published by Insurance Association of Turkey in our analyses.

Throughout 2020, the COVID-19 pandemic has vastly disrupted daily life as is known to all. Financial markets have been highly affected, which generated many uncertainties and challenges for governments and businesses. We, as Willis Towers Watson, have been closely monitoring the spread of COVID-19 and the measures taken by the governments.

Market statistics

Life insurance premiums

From 2019 to 2020, life insurance premium production showed a growth of 27.0% (10.9% in real terms), which is a dramatic decrease from the growth in 2019 which was 64.1%. The significant growth rate in 2019 was due to the currency and debt crisis experienced in the previous year and the increase reached the expected levels again in 2020, where we can see the nominal CAGR of 30.9%.

When we compare the GWP figures in 2020 to the GWP figures in 2017, there was an average annual growth of 28.2% in nominal terms which is comparable to the growth in the previous 5 years which had a nominal CAGR of 30.9% (15.4% in real terms).

During this tough period, we have published several insights and research to convey market information and to help businesses to understand and manage the crisis better. We have been and will continue to be supporting the fight against the pandemic by the industry, the work done by the medical community and the rebuilding of impacted sectors. COVID-19 has had significant impacts on the global insurance industry. We dedicate a section of this bulletin to the impact of COVID-19 on the Turkish insurance sector in 2020.

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

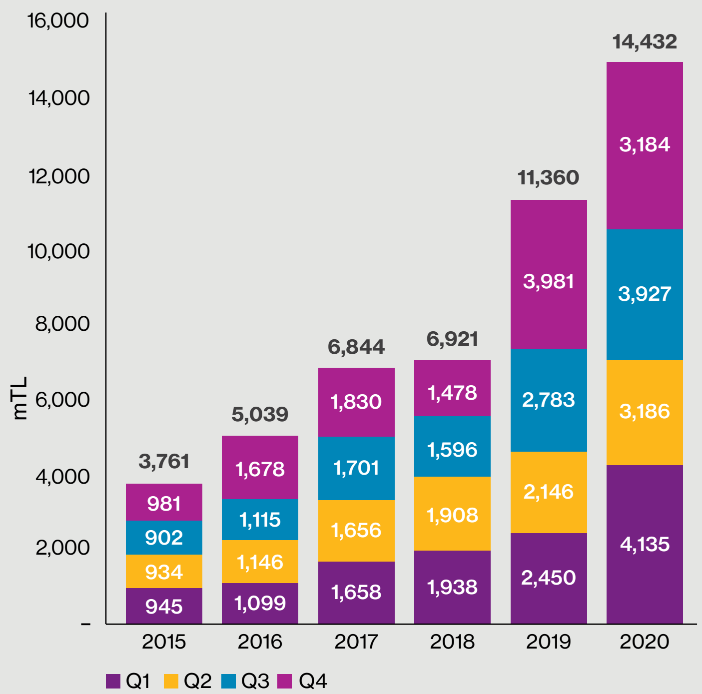

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Figure 2: **Change in aggregate contributions for private pensions and auto-enrolment**

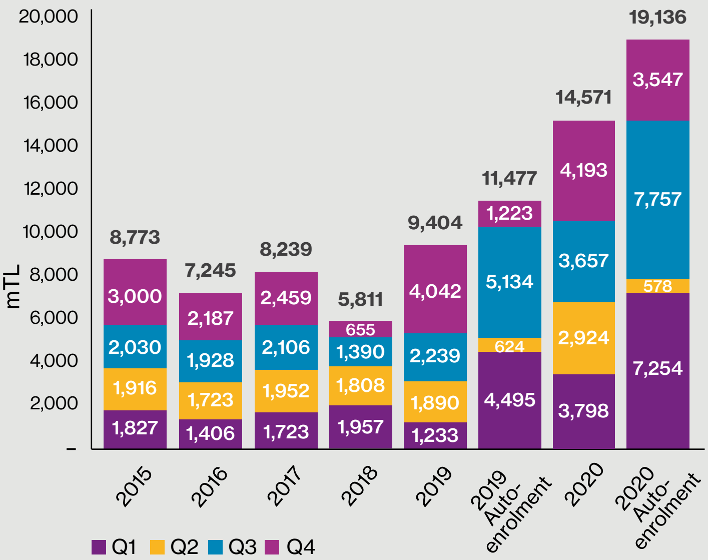


Figure 3: **Non-life insurance premium production GWP**

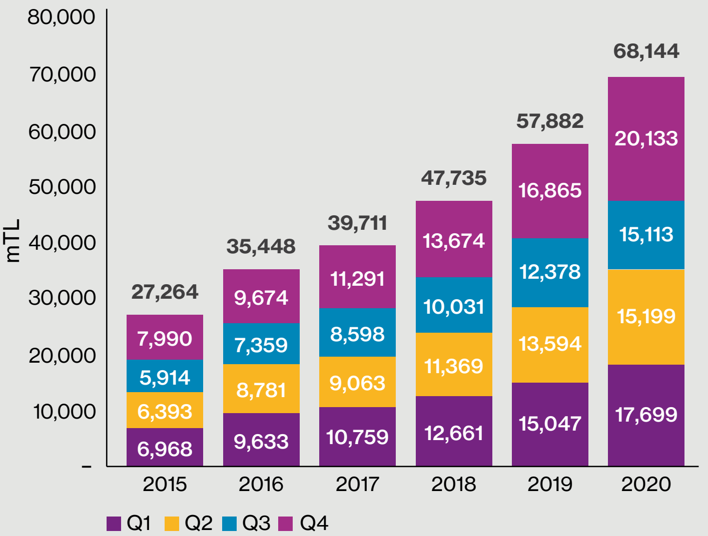
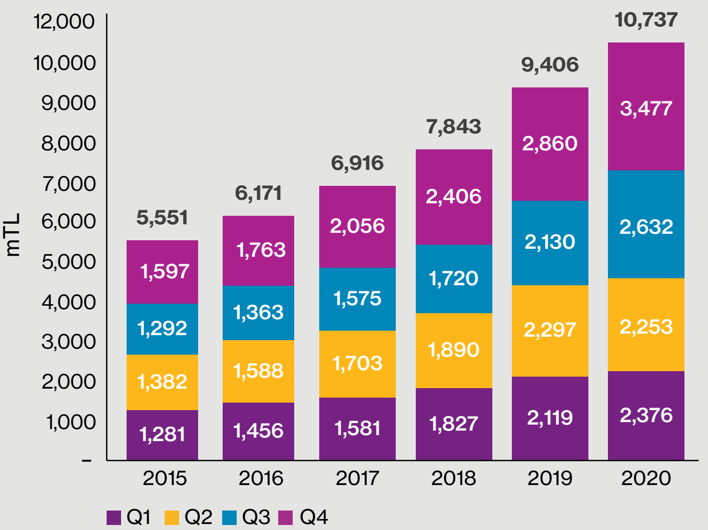


Figure 4: **Motor Casco premium production GWP**



*Private pensions and auto-enrolment contributions**

From 2019 to 2020, private pensions contributions increased by 54.9% (35.2% in real terms) compared to the previous year. In 2020, due to the pandemic, household savings rates increased in OECD countries and similarly had a positive effect on the pension contributions. In 2020, auto-enrolment contributions were 131% of private pensions contributions. Auto-enrolment system started to be implemented at the beginning of 2017 and according to the number of employees, the companies are included in the system gradually, until the end of 2018. The auto-enrolment contribution was determined to be at least 3% of the employees' gross salaries and, despite the high withdrawal rates, the auto-enrolment contributions were higher than the private pension contributions. The main reason could be the shift from the private pension contracts to auto-enrolment contracts, which further increased in 2020.

5-year CAGR was 10.7% (-2.4% in real terms). The 3-year CAGR was 20.9% (4.7% in real terms). The total contributions including the contributions to the mandatory auto-enrolment system, the 5-year CAGR increase to 30.9% (15.5% in real terms).

Non-life insurance premiums

From 2019 to 2020, non-life insurance premium production increased by 17.7% (2.7% in real terms). The 5-year CAGR in 2020 was 20.1% (5.9% 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, its growth rate slowed down from 18.5% in 2019 to 10.6% in 2020. 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 2020 due to the pandemic resulting in unfavorable economic environment and high inflation rates.

Motor Casco premiums

Motor Casco business continued to grow in nominal terms in the last 5 years. In 2020, the premium growth was 14.2% (-0.4% in real terms). The 5-year CAGR in 2020 was 14.1% (0.6% in real terms). Compared to the largest increase in gross written premiums in the given period occurred in 2019 by 19.9% (7.2% in real terms), 2020's performance was just as impressive under COVID-19's effects on claims behaviour and economy. Various nationwide lockdowns throughout the year inevitably caused the decrease in Motor claims frequency, whereas the volatile macroeconomic environment and the worsening effect of the pandemic on microeconomy resulted in high inflation by the end of the year.

On the other hand, the credit interest rates have been decreased at the end of the first half of 2020, as a COVID-19 measure taken by the Turkish government. This derived an unusual increase of 61.3% in new car sales in 2020, after being in a steady decrease for the previous 3 years (Source: Automotive Distributers' Association). The jump in new car sales resulted in higher number of policies by 8.3%, as well as a small increase in average premiums by 5.3%, which could have otherwise faced a drop due to the pandemic.

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

Motor TPL premiums

Motor TPL has been the most volatile line of business in terms of premium production in the last 5 years, due to the significant regulatory decisions and market movements. Looking back at the given period of the business, substantial premium growth in 2015 and 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 since 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 2020, Motor TPL premiums increased by 8.5%* (-5.3% in real terms). The 5-year CAGR in 2020 was 18.2% (4.3% in real terms) despite the volatile environment. The average premiums have also gone up since 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% and 2.1% respectively from 2018 to 2020.

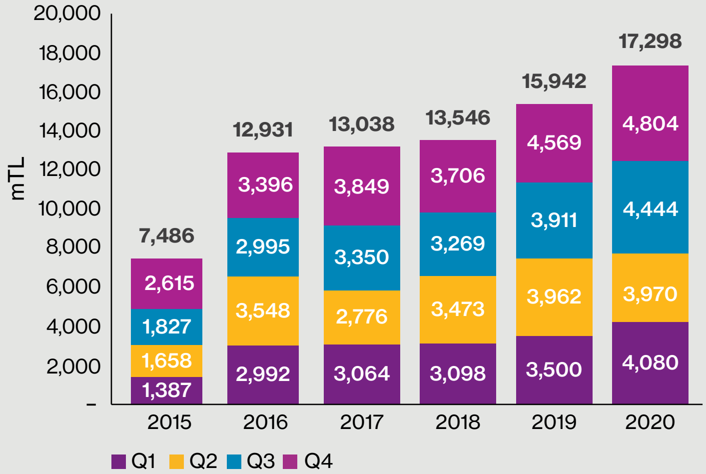
Motor TPL Pool premiums

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 6.8% (-6.8% in real terms) in the Motor TPL direct premiums from 2019 to 2020 includes a 16.5% growth (1.6% in real terms) from the Pool split and a 3.9% growth (-9.3% in real terms) from the Non-Pool split. In 2019, the annual growth rate for Non-Pool split was 18.3% (5.8% in real terms), which is significantly higher than 2020's growth rate, whereas Pool split displayed a similar growth of 16.8% (4.4% in real terms). This shows that during the year with the pandemic, due to competition and lower expected frequencies, Non-Pool split has experienced lower average premiums whereas Pool split has experienced the fixed and regulated increase on growth rates. Thus, the Non-Pool / Pool production ratio shrunk by 10.8% in 2020, which had a minor growth by 1.3% in 2019, resulting in the Non-Pool split to lose 2.1% of its proportion in total MTPL to the Pool split.

Health premiums

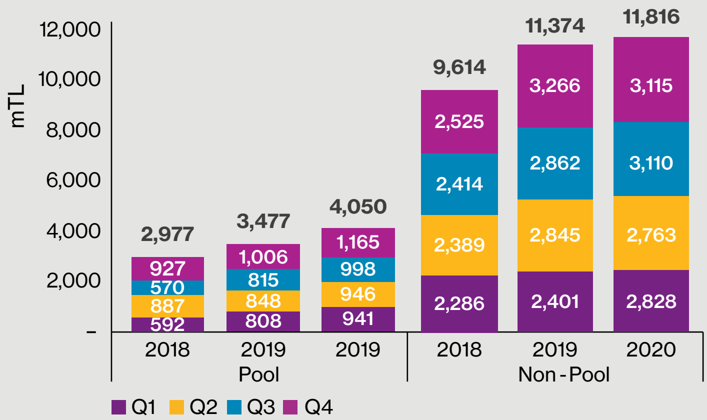
Health premiums continued to grow in 2020 and resulted in an increase by 20.8% (5.4% in real terms). The 5-year CAGR was 24.1% (9.4% in real terms). The total Health line includes the Illness, Health and Travel Health sublines. Among them, Health business has the biggest proportion in premiums by %96.6 on average in the last 5 years, which consists of Emergency Health, Foreigners' Health, Supplementary Health and Private Health subsegments.

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.

Figure 6: **Motor TPL direct 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.

Figure 7: **Health premium production GWP**

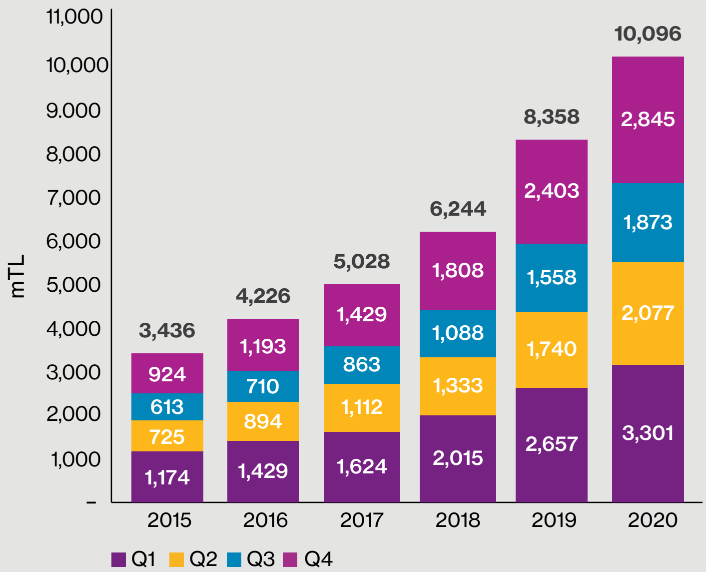


Figure 8: **Illness, Health and Travel Health policy count shares in total Health line**

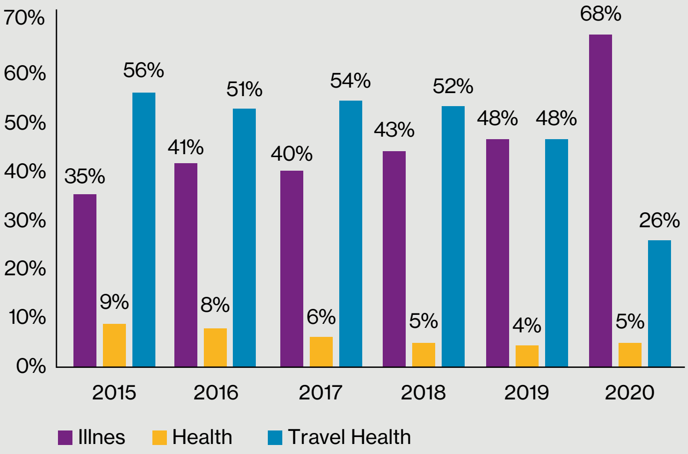


Figure 9: **Supplementary Health premium production GWP**

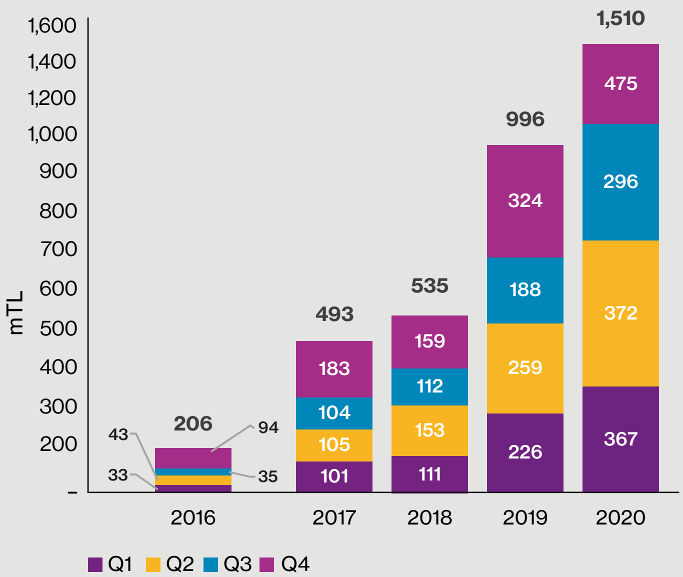
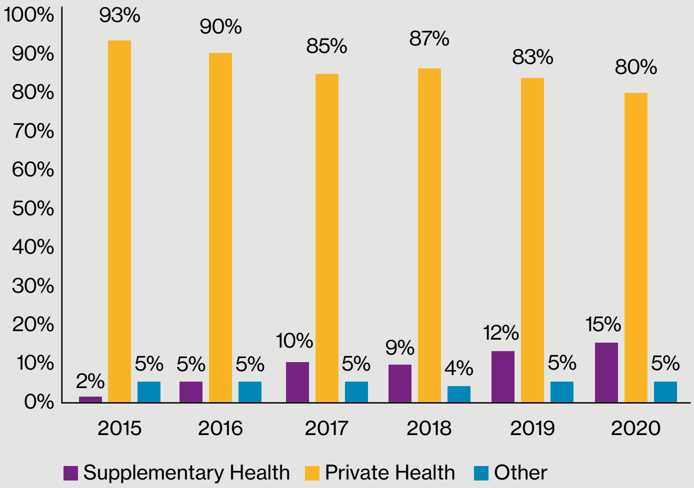


Figure 10: **Supplementary Health, Private Health and Other (including Emergency Health and Foreigners' Health) premium shares in Health subline**



On the other hand, the effect of COVID-19 has been more visible on the policy count in this line of business, where 2020's count decreased by 33.3% just after an increase of 37.8% in 2019. This overall major decrease was mainly due to the policy count reduction seen in Travel Health by 63.4%. As a result, Travel Health's proportion in total Health policy count shrunk from a 52% on average in the previous 5 years to 26% in 2020. Also, the overall Health line's average premiums hit the largest increase ever in the last 5 years by a growth of 81.1% when compared to the previous year.

2020's trends in the sublines have been distinctive when compared to the previous 5 years. The decrease in premium shares of both Illness and Travel Health in total Health line exhibits that the focus of the sector has been more on the pandemic related subsegments within Health subline. In fact, as will be observed under the next section, the major increase in Health subline observed in Figure 8 has been derived from the increases in Emergency Health and Supplementary Health.

In terms of number of insured people, Illness and Travel Health decreased by 14.6% and 75.9% respectively, whereas Health increased by 1.9% in 2020. Overall, clearly due to the pandemic, the number of insured people in total Health line decreased by 14.8% in 2020, where its growth rate was 10.8% in 2019.

Supplementary Health premiums

In 2020, Supplementary Health's premiums increased by 51.6% (32.3% in real terms) when compared to 2019. The 5-year CAGR was 83.5% (61.8% in real terms).

Over the last 5 years, Supplementary Health has been growing explicitly both in volume and proportion terms, while Private Health's share in Health subline has been decreasing. This shift from Private Health to Supplementary Health has continued significantly in 2020, where the share of premiums written in Supplementary Health increased by 3.0% and Private Health decreased by 2.6%. Similarly, Foreigners' Health displayed an unusual negative growth rate of 1.4% in 2020 due to COVID-19 and its impact on international travel.

The number of insured people in Private Health, Emergency Health and Foreigners' Health decreased by 1.9%, 2.0% and 8.1% respectively, whereas Supplementary Health increased by 18.6% in 2020. The same rates in 2019 had been increases of 5.7%, 5.4%, 39.8% and 47.2% for Private Health, Emergency Health, Foreigners' Health and Supplementary Health, respectively.

Fire and Natural Disasters premiums

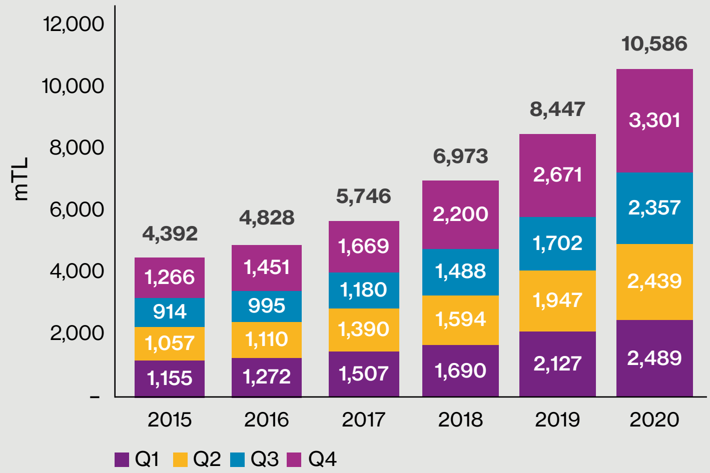
Fire and Natural Disasters continued to grow in 2020, and its premium production increased by 25.3% (9.4% in real terms). The growth rates have consistently been above the inflation rates in the last 5 years, resulting in the 5-year CAGR of 19.2% (5.2% in real terms).

This line of business displayed the largest premium growth in 2020 among the other significant lines analysed in this report. It grew its premium share in total Non-life premiums by 0.9% in 2020.

Other Lines' premiums

We have additionally analysed premium growth rates of Marine Cargo, Marine Hull and Engineering segments, which take up approximately 2%, 1% and 4% of total Non-life premiums on average in the last 5 years. Marine Cargo displayed a steady growth in the last 5 years, and it grew by 26.7% in 2020 (10.5% in real terms), which has been the largest growth rate in real terms in the last 5 years. Marine Hull premiums increased at a larger rate compared to the last 5 years' rates in 2020, by 50.3% (31.2% in real terms). Engineering has also grown majorly in 2020 by 52.3% (32.9% in real terms). This rate is almost double the amount of the largest premium growth rate of occurred in 2017 by 26.9%. Thus, Engineering's proportion in total Non-life premiums grew from 4.0% in 2019 to 5.1% in 2020. The effect of COVID-19 seems to be highly minimal in all three of the segments as their premium growths in 2020 have been majorly high.

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



Market share and ranks

In 2020, three of the top ten Life state insurance companies which were Ziraat Hayat ve Emeklilik, Vakıf Emeklilik ve Hayat and Halk Hayat ve Emeklilik merged under Türkiye Hayat ve Emeklilik. After the merger, Türkiye Hayat ve Emeklilik became the market leader with a share of 27.7% and is followed by Anadolu Hayat Emeklilik with 11.7% and Allianz Yaşam ve Emeklilik with 10.1% market share as at the end of 2020. While most of the insurers have grown significantly, the fastest within the top 10 are Fiba Emeklilik ve Hayat, which has grown about 50% and Allianz Yaşam ve Emeklilik, which has grown by 43.1%. Beyond the top 10, Katılım Emeklilik ve Hayat reached a growth rate of 93.6% compared to the previous year, while Demir Sağlık ve Hayat Sigorta experienced a decrease in premiums. Bancassurance has been dominating the distribution of the life insurance in Turkey. 84% of the Life premium production in 2020 was via bancassurance. The top companies have 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)	2020 production	2020 market share	2019 production	2019 market share
1	Türkiye Hayat ve Emeklilik	3,994	27.7%	3,568	31.4%
2	Anadolu Hayat Emeklilik	1,684	11.7%	1,229	10.8%
3	Allianz Yaşam ve Emeklilik	1,457	10.1%	1,018	9.0%
4	Metlife Emeklilik ve Hayat	1,343	9.3%	963	8.5%
5	AvivaSA Emeklilik ve Hayat	1,266	8.8%	905	8.0%
6	Garanti Emeklilik ve Hayat	1,112	7.7%	838	7.4%
7	Aegon Emeklilik ve Hayat	1,003	7.0%	722	6.4%
8	Cigna Finans Emeklilik ve Hayat	836	5.8%	667	5.9%
9	Fiba Emeklilik ve Hayat	446	3.1%	299	2.6%
10	BNP Paribas Cardif Emeklilik	315	2.2%	306	2.7%
Top 10 companies		**13,456**	**93.2%**	**10,515**	**92.6%**
Total Life companies		**14,432**		**11,360**	

Among top 10 private pensions providers, top 5 companies have been stable over the years.

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

Company (m TL)		31/12/2020 AuM	2020 market share	31/12/2019 AuM	2019 market share
1	Türkiye Hayat ve Emeklilik	29,838	18.8%	21,932	18.4%
2	Avivasa Emeklilik ve Hayat	29,414	18.6%	22,358	18.8%
3	Anadolu Hayat Emeklilik	29,357	18.5%	22,075	18.5%
4	Garanti Emeklilik ve Hayat	21,766	13.7%	17,147	13.4%
5	Allianz Yaşam ve Emeklilik	21,716	13.7%	15,945	8.0%
6	NN Hayat ve Emeklilik	5,802	3.7%	4,283	3.6%
7	Allianz Hayat ve Emeklilik	5,092	3.2%	3,733	3.1%
8	BNP Paribas Cardif Emeklilik	3,855	2.4%	2,985	2.5%
9	Katılım Emeklilik ve Hayat	3,516	2.2%	2,215	1.9%
10	Fiba Emeklilik ve Hayat	2,724	1.7%	2,093	1.8%
Top 10 companies		**153,079**	**96.7%**	**114,766**	**96.3%**
Total Pensions companies		**158,347**		**119,146**	

When we consider the auto-enrolment system, the picture of the 2020 production is not quite different. Türkiye Hayat ve Emeklilik takes 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)		31/12/2020 AuM	2020 market share	31/12/2019 AuM	2019 market share
1	Türkiye Hayat ve Emeklilik	6,334	56.0%	4,635	56.6%
2	Anadolu Hayat Emeklilik	1,185	10.5%	866	10.6%
3	Avivasa Emeklilik ve Hayat	1,020	9.0%	774	9.4%
4	Garanti Emeklilik ve Hayat	983	8.7%	632	7.7%
5	Allianz Yaşam ve Emeklilik	658	5.8%	452	5.5%
6	Katılım Emeklilik ve Hayat	256	2.3%	204	2.5%
7	BNP Paribas Cardif Emeklilik	200	1.8%	144	1.8%
8	Metlife Emeklilik ve Hayat	161	1.4%	111	1.4%
9	Axa Hayat ve Emeklilik	102	0.9%	74	0.9%
10	Cigna Finans Emeklilik ve Hayat	79	0.7%	63	0.8%
Top 10 companies		**10,979**	**97.1%**	**7,955**	**97.1%**
Total Pensions companies		**11,304**		**8,194**	

In 2020, Türkiye Sigorta became the market leader by increasing its market share in Non-life business following the merger it went through. Allianz Sigorta became the second in Non-life business, with a small reduction in its market share. While the top 5 companies maintained their rankings, Sompo Sigorta fell one place down and became the seventh in the market. One notable movement in the charts was from Eureko Sigorta, who went up in rankings and entered the top 10 Non-life companies in the tenth place.

The other significant observation was from Mapfre Sigorta, who maintained its eighth place in the market despite its negative nominal premium growth rate of 8.5% in 2020.

The concentration of the Non-life market within the top 10 insurers had a small shrink in 2020 from 71.7% to 70.5%, whereas the market concentration among top 10 has been stable in 2019.

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

	Company (m TL)	2020 production	2020 market share	2019 production	2019 market share
1	Türkiye Sigorta	8,887	13.0%	7,165	12.4%
2	Allianz Sigorta	8,135	11.9%	6,923	12.0%
3	Anadolu Anonim Türk Sigorta Şirketi	8,016	11.8%	6,607	11.4%
4	Aksigorta	5,272	7.7%	4,474	7.7%
5	Axa Sigorta	4,657	6.8%	4,104	7.1%
6	HDI Sigorta	3,476	5.1%	2,936	5.1%
7	Sompo Sigorta	3,333	4.9%	3,363	5.8%
8	Mapfre Sigorta	2,558	3.8%	2,797	4.8%
9	Neova Sigorta	1,899	2.8%	1,638	2.8%
10	Eureko Sigorta	1,836	2.7%	1,467	2.5%
Top 10 companies		**48,070**	**70.5%**	**41,473**	**71.7%**
Total Non-life companies		**68,144**		**57,882**	

Market updates

Mergers and acquisitions

The most significant market update of 2020 has been the merger of 6 public insurance companies under the Turkey Wealth Fund ("TWF") that previously operated under public banks. The aim was to make the insurance and private pension sector a part of global competition to decrease the costs by increasing operational efficiency; to use all distribution channels, especially banks, more effectively; and to offer a wider range of products.

According to a statement made by Turkey Wealth Fund ("TWF") in August 2020 through Public Disclosure Platform (KAP);

- Güneş Sigorta A.Ş., Halk Sigorta A.Ş. and Ziraat Sigorta A.Ş. merged under the name of Türkiye Sigorta A.Ş.
- Vakıf Emeklilik ve Hayat A.Ş., Halk Hayat ve Emeklilik A.Ş. and Ziraat Hayat ve Emeklilik A.Ş. merged under the name of Türkiye Hayat ve Emeklilik A.Ş.

TWF further announced that it was decided for the registered capital ceiling to increase from 540 million TL to 5 billion TL due to the merger.

There have been several companies who began writing premiums in 2020. Ana Sigorta A.Ş. was established in September 2020 to operate in various lines of Non-life business. Gri Sigorta A.Ş. started to operate in October 2020 as a Non-life insurance company with a nominal capital of 50 million TL. Bereket Takaful was founded by Bereket Sigorta A.Ş. in 2019 and has started to operate under the name Bereket Katılım Sigorta A.Ş. in 2020. Atlas Mutuel Sigorta and TMT Sigorta have been established as mutual insurance associations who both began to write premiums in Non-life segment in 2020.

There have been several changes in company names in 2020. Cigna Hayat ve Finans A.Ş. changed its name to Cigna Sağlık Hayat ve Emeklilik A.Ş. in the last quarter of 2020. Dubai Starr Sigorta A.Ş. changed its name to Dubai Sigorta A.Ş. in the third quarter of 2020.

Regulatory updates

IFRS 17

The International Accounting Standards Board (IASB) published the IFRS 17 Insurance Contract standard in May 2017. IFRS 17 will replace IFRS 4, with the objective of making insurers' financial statements more useful for users and harmonize insurance accounting practices across the various jurisdictions. At that time, IFRS 17 was scheduled to be applied for annual reporting periods starting on or after 1 January 2021. Feedback from stakeholders highlighted a number of concerns and implementation challenges in the Standard. Following that feedback, IASB issued the Exposure Draft Amendments to IFRS 17 in June 2019. IASB opened a comment period to solicit additional feedback on certain key areas. In November 2019, IASB began deliberations on the most significant items from that feedback.

On 25 June 2020, IASB issued the final amendments to IFRS 17 Insurance Contracts, effective 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.

In the past 4 years, most of Turkish insurers defined their in-house IFRS 17 team and started to work on the Standard. Consulting firms have been working jointly together with the insurance companies in order to assist to determine their accounting strategies and to support the local teams. Some companies performed gap analysis in terms of system requirements, data, methodology and determined their strategy in implementation, whereas others are yet to decide on these topics. IFRS 17 will still be on the agenda of both multinational and local players in the coming years.

Private Pensions System (BES)

A change in regulation has been applied on 25 May 2021, regarding the enrolment of children under the age 18 to 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. The new decision has been an ongoing topic of discussion for the insurance companies and the future impacts are yet to be seen.

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 system, state contribution and employee contribution structure seem to be similar to the current private pensions system. However, the most important amendment 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 the 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 banks in the finance industry has been growing in the recent years and participation insurance could potentially follow the same trends.

Currently, there are 12 participation insurance players in the market, Neova, Bereket and Doğa Sigorta on the non-life side, and Katılım, Bereket Emeklilik on the Life side have been writing 96% of the partipication insurance premiums. The premium production has been 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

As covered in our previous bulletins, according to the circular numbered 2017/01, additional caps for all segments of business had been 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. Most 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 additionally introduced the pool for risky insured, known as the “Motor TPL Pool” (by regulation update #30121). Over the past 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 February 2016, the General Terms & Conditions were harmonized with the previous Law amendments, together with the new General Terms & Conditions of compulsory Motor TPL products, to be effective from June 2015. A standardization in depreciation, material damages and bodily injuries calculations were provided.

A new calculation method was prepared and added to the General Terms & Conditions in order to ensure that disputes could quickly be resolved, and legal claims could be reduced. Thus, it was aimed to agree and close claims faster by providing standardization in bodily injuries calculations. The new regulations were expected to improve the claim processes for bodily injury claims and therefore improve the management of this line of business.

On 20 March 2020, a change in Motor TPL General Terms & Conditions had been made as follows:

- In the calculation of payments for loss of support following disability or death, TRH 2010 life table was to be used, and the technical inflation was determined as 1.8%. The inflation was left to be updated by the Treasury, if necessary.
- Compensation for loss of support was to be paid in a lump.
- There were several changes in the calculation of the probability of re-married.
- For negative calculations, the compensation for loss of support was to be regarded as zero.
- For material damages, a standardization on depreciation calculations was provided with some changes in the formulas.

Later in 2020, as published in the official newspaper dated 9 October 2020, some articles of the General Terms & Conditions of Motor TPL published in 2016 were cancelled by The Constitutional Court.

Based on this decision, uncertainty had arisen over the loss of support compensation calculations according to the TRH mortality table, with technical interest 1.8%. It was observed that for the cases concluded after this decision, the PMF mortality table with technical interest 0% was decided according to the compensations used, as before 2016. By the end of 2020, there had been an 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 2020 year-end in order to be preserved for the ambiguity the cancellation decision had caused.

In May 2021, the cancellation decision of The Constitutional Court was put on Turkish Assembly’s agenda. 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 enacted 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.

Premium/Equity Ratio for Motor TPL

According to the circular numbered 2020/05, the sum of Motor TPL premiums produced by the insurance companies in one calendar year has been limited by at most 5 times of the end of their previous year's equity. These circumstances were decided to be effective as of 2021. For 2020's remaining 8-month period after May, it was decided to be calculated from the beginning of March 2020 and to be applied as at most 4 times of the end of their previous year's equity.

Minimum Capital Amounts

According to the circular numbered 2020/10, 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 25 million TL. In addition to this 25 million TL, for each insurance lines of business or coverages under these lines that they request a licence, these companies were to pay certain minimum capital amounts.

- For Non-life companies writing in all branches, minimum 95 million TL capital is required for the branches, as an addition to the base required minimum capital, giving a total of 120 million TL.
- For Life companies writing in all branches, minimum 122 million TL capital is required for the branches, as an addition to the base required minimum capital, giving a total of 147 million TL.
- For Reinsurance companies writing in both Non-life and Life, minimum 30 million TL capital is required for both segments, as an addition to the base required minimum capital, giving a total of 85 million TL.

A Year Under COVID-19

Since its sudden occurrence in the last month of 2019, COVID-19 has had a high-speed global spread, forcing disruptions in all economies, businesses and daily lives in 2020. The year with the pandemic has brought several uncertainties and challenges to the insurance sectors in all countries. In this section, we aim to analyse the year-long impact of COVID-19 on the Turkish insurance sector, by stating the regulatory measures taken, analysing external data to get any insight on the claims behaviour during this period, as well as examining the impact on premium growths quarterly.

Measures taken in Turkish insurance regulations

In order to minimize the spread of the pandemic and to continue the insurance services offered to the society within the scope of the measures taken for this purpose, some measures were presented to the public by the Ministry of Treasury and Finance by a sector announcement in March 2020. Majority of these measures addressed to remote or electronic facilities in expert investigations, objection applications to the Insurance Arbitration Commission, reporting health insurance claims and filling in the Accident Detection Reports (KTT) for material damage claims. Moreover, an additional month was allowed in case of delays in premium payments. For Motor TPL policies, the additional premium due to delays were halted and no-claims-discount rights of the insureds were not adversely affected.

Moreover, with a sector announcement dated in April 2020, it was decided to extend the validity period of the Motor TPL Pool policies with a policy expiry date between 30.04.2020 and 31.05.2020 for 1 month without any additional premium. Also, the application related to Motor TPL policies were extended to be effective by the end of May 2020. Premiums could also be paid in instalments minimum of 6 months.

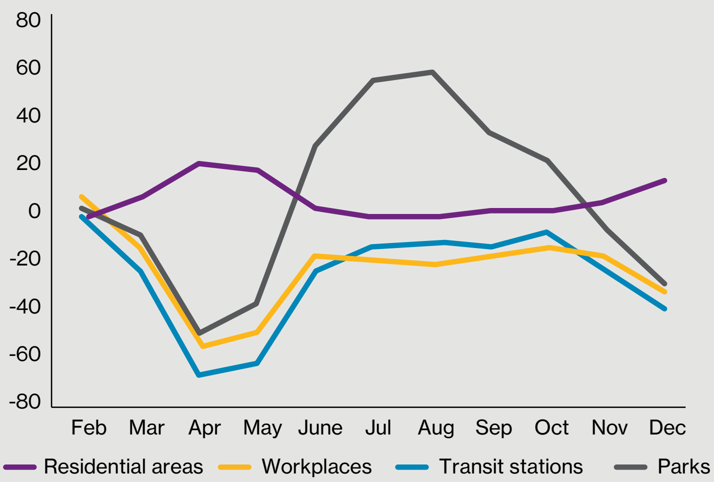
In Life segment, a significant increase was seen in the amount of loans in 2020 and therefore in the premium production of credit Life policies. In particular, the increase in individual loans had an effect in same direction on the premium production. On the other hand, both the individual pension and auto-enrolment system contributions increased. The Central Bank has researched that households in developed countries save more during the pandemic period. It is stated that during the pandemic period, participants tended to save more.

Impact on claims behaviour

Following the announcement of the first known COVID-19 case in mid-March 2020, Turkey had its initial closures in educational institutions, indoor activities of businesses and places of worship, domestic travels and selected international flights. A total lockdown for those who are over the age of 65 and weekend-long lockdown for all people were effective throughout April and May 2020. First easing of restrictions attempt was in mid-May with reopening shopping malls, which was then followed by reopening most public places and domestic flights in the beginning of June. Turkey remained open for tourism as well throughout the summer of 2020. In October, prohibitions on large public events were imposed. A nationwide curfew on people aged 65 and older and 20 and younger, halt in all indoor activities and weekend lockdowns for all people were reintroduced in November, which remained effective until the end of 2020.

In order to make sense of the data of lockdown periods, we have interpreted it together with the mobility records in 2020. We have used Google's released daily mobility records in several different locations, such as residential areas, workplaces, transit stations and parks as given below in Figure 16. This data takes the first five weeks of 2020 as the base level for each day of week and gives out the percent change from the basis in each of the categories daily. We have then calculated the monthly averages.

Figure 16: **Percent changes in mobility records of Turkey in 2020***



* Source: Google Mobility Records data dated 15.02.2020-31.12.2020. Percent changes in each month are calculated by taking January 2020 as the base level, where the pandemic has not officially begun.

Figure 17: **Nominal quarterly GWP growths – Non-life & Life split**

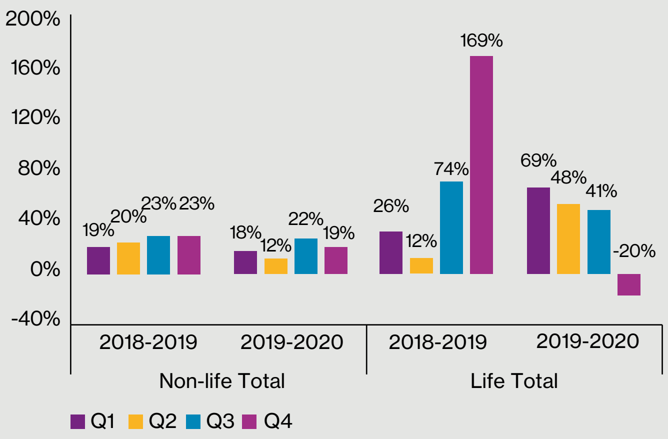
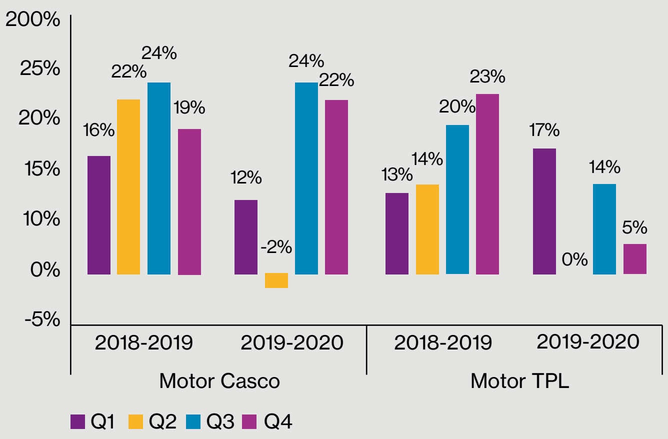
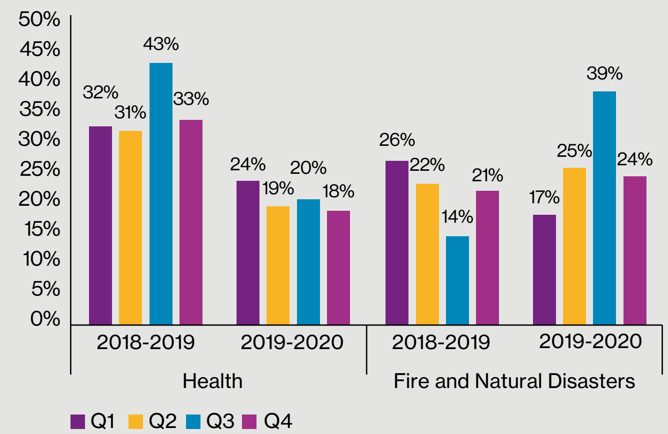


Figure 18: **Nominal quarterly GWP growths – Motor Casco and Motor TPL***



* For Motor TPL line, the figures above cover all premiums except for the indirect Pool premium.

Figure 19: **Nominal quarterly GWP growths – Health and Fire and Natural Disasters**



During the first nationwide lockdown period on April-May 2020, the presence in all locations apart from residential areas, which will be referred as outdoor areas in this report, has significantly dropped by 53% on average when compared to January 2020. Following the first easing of restrictions, the mobility towards residential areas decreased in parallel with the increase in outdoor areas. A significant observation regarding this period is the substantial increase parks. Unlike the remaining outdoor areas, possibly due to a seasonal effect of the summer months, the mobility towards parks have majorly increased until mid-Fall 2020. With the second nationwide lockdown hit in November 2020, a similar trend in all locations have been observed as in April-May 2020 period.

A year into the pandemic, recovery seems to be on the horizon with vaccinations increasing in spread. Although there remains much work to be done, Turkey is heatedly getting prepared for a normalisation period. Easing the restrictions have been scaling up in parallel with the vaccination endeavours. Considering all these, we do not expect any further nationwide curfews in Turkey.

Impact on premium growth

Comparing the nominal quarterly gross written premium growths in 2019 and 2020 reveals the actual numeric impact of COVID-19 on Turkish insurance production. The effect of the pandemic is more visible for the Non-life segment, where the second quarter has been the most affected when compared to the other quarters.

In Life segment, as also discussed above, the significant growth rate observed in the last two quarters of 2019 was due to the currency and debt crisis in 2018. The negative growth rate in the last quarter of 2020 seems to be a compensation for the excessive growth in 2019.

Looking at branch-based performances in nominal quarterly GWP production of Non-life segment;

- Motor Casco's monthly production has dropped by 2% in 2020Q2 when compared to 2019Q2, whereas it grew by 22% in the same period the previous year. This shows a clear slowed-down effect of the pandemic, where the outbreak was initially announced, and the restrictions began in that quarter. The following quarters of 2020 have not displayed figures directly impacted by the pandemic, due to the increase in new car sales as explained above.
- The impact on Motor TPL's premiums seems to have continued throughout 2020 after the second quarter, as the growth rates in 2020 were lower by 14%, 6% and 18% in Q2, Q3 and Q4 respectively, when compared to 2019.
- Health premiums have been affected overall in all quarters by the pandemic, without a concrete seasonal effect of the pandemic being apparent in the figures.
- Fire and natural disasters segment has behaved totally different from the rest of the subsegments analysed under Non-life. The business increased its growth rate in 2020 in all quarters after the second, when compared to 2019.

Market outlook

2020 has been a challenging year for all industries on a global scale. Naturally, the Turkish insurance sector has been affected in terms of premium growth under severe conditions in economics, changes in daily lives and forced insurance regulatory environment.

As a result of the measures taken within the scope of the pandemic, there have been temporary decreases in claims frequencies in certain Turkish insurance branches. Both the insurance arbitration and judicial justice processes slowed down and stopped for a certain amount of time in 2020, and the conclusions of the cases were postponed to a later date. On the other hand, in the post-pandemic normalisation period, an increase in claims frequency is expected as a result of both the increase in social and economic mobility depending on the speed of normalisation and the acceleration in the judicial justice processes. Therefore, it is expected that the changing course in 2020 will return to normal in 2021. As also advised by the regulator, with the claims frequency returning to its normal course in 2021 after the pandemic, it will be useful to plan the distribution of 2020 profits cautiously in the following periods. Nonetheless, the economic volatility, increasing inflation rates and resulting uncertainties remain as significant challenges in the Turkish insurance sector.

Another significant agenda item in the Turkish insurance sector has been the enrolment of children aged under 18 to the Private Pensions System. Although the ultimate effect of this regulation change is yet to be seen, the overall expectation is to observe increase in the habit of saving at younger ages and growth in the sector along with it. Also, the future of the credit life insurance, which constitutes a major part of the Life branch, will be formed following the regarding regulatory changes. Moreover, with the Private Pensions Fund Trading Platform (BEFAS) recently commencing its operations, the participants are aimed to trade in the funds offered not only by the company they have their contract with but by all pension companies in the sector. The opportunity to receive support directly through the mobile and web-based applications of pension companies is also a significant indicator of the acceleration in Turkish insurance sector's digitalisation efforts.