



## interview to **Hulusi Taskiran**

Chairman of the Association of Insurance and Reinsurance Companies of Turkey



Born in 1957 in Istanbul (Turkey). Achieved BA degree at the faculty of Business Administration at Bosphorus University in 1980 and joined the insurance industry at the beginning of 1981.

He worked for the insurance company Sark Sigorta (now Allianz) between 1981-1988. In late 1988 he left the company as the manager of marine department and joined T. Genel Sigorta as the assistant general manager in charge of marketing and technical affairs. He became the general manager of the company in May 1993.

At the same time, he had been the founding general manager of Genel Yasam Sigorta between 1998-2003. In 2001 he became the CEO of both companies until 31.12.2008, when he retired. He is Vice Chairman of the Board of MAPFRE Genel Sigorta and MAPFRE Genel Yasam Sigorta.

He was elected the chairman of "the Association of Insurance and Reinsurance Companies of Turkey" in 2005 after 6 years as a board member. He has been re-elected twice since then.

He is also the chairman of the Insurance Guarantee Fund and chairman of the mutual Agricultural Company called Tarsim A.S which is in charge of all operations on behalf of the industry and State agricultural pool.

Mr. Taskiran has been married since 1985 and has a son of 16.



## *“Harmonisation with EU directives has been strictly followed”*

Turkey is a fascinating country as is its insurance market which combines the European traditional approach with the Asian potential to grow. What is your vision of the strategy and targets of insurance companies in Turkey?

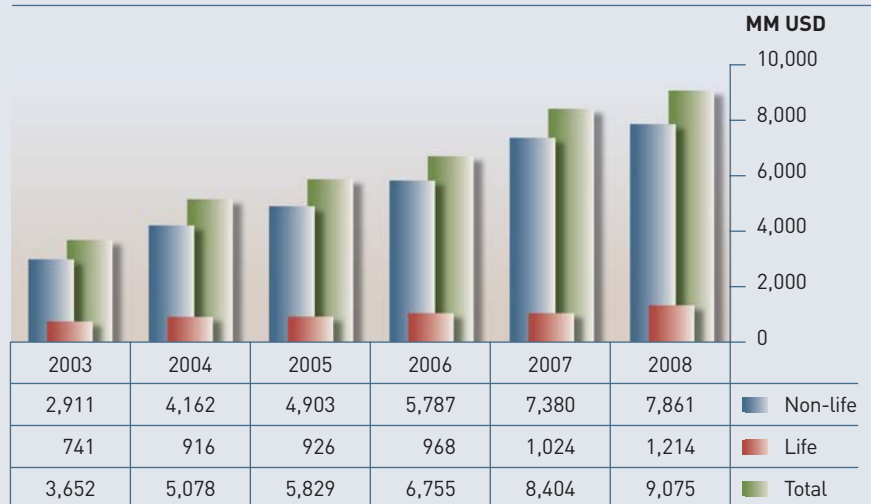
One of the main concerns of insurance companies in Turkey is to increase public awareness of the importance of insurance as there is great growth potential in this young and dynamic country. With this in mind, the Association of Insurance and Reinsurance Companies of Turkey has launched a new advertising campaign to draw people’s attention to the importance of insurance in their daily lives.

Another key target of insurance companies is to increase their financial strength to meet international standards by enhancing their value and implementing a customer-focused approach to services.

As at May 2009, there are 61 insurance and reinsurance companies in Turkey, 59 of them being insurance companies (23 life and 36 non-life) and the remaining 2 being reinsurance companies. Of these, 54 insurance companies and 1 reinsurance company are active. The number of people employed in insurance companies is 16,019. There are 13,579 agents and 70 brokers active in the market.

Between 2003 and 2006, Turkey’s premium income as a percentage of its GDP (figure 2) gradually increased from 1.43 % to 1.68 %. The drop registered in 2007 is due to the fact that the method for calculating Turkey’s national income was changed. In fact, Turkey’s national income in 2007 increased substantially compared to

**Premium Income (2003-2008) in USD**

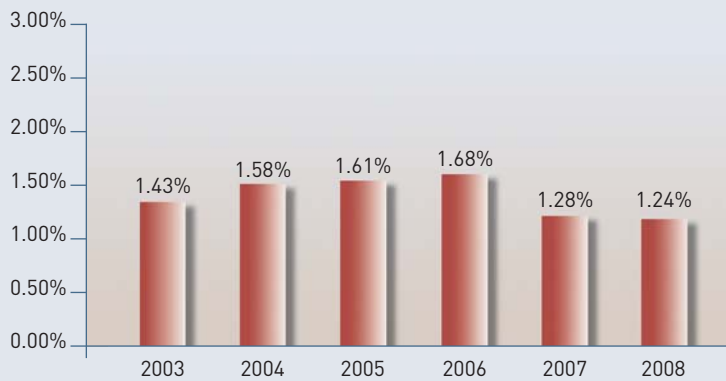


2006. In 2008, Turkey’s premium income as a percentage of GDP was recorded as 1.24 %, compared to 1.28 % in 2007. This drop can be ascribed to the impact of the global financial crisis on the Turkish insurance market.

**Could you briefly explain the history of the Association of Insurance and Reinsurance Companies to us, from your privileged position as President? What is its role? What were the milestones of the Association and what are its current prospects?**

The history of insurance in Turkey dates back to the 1870’s. At that time, insurance transactions and services were mainly carried out by foreign insurance companies. In 1900, insurance companies operating in Turkey decided to join under

## Premium Income vs GDP (2003-2008)



the umbrella of a “professional organisation” and established the “Insurers’ Syndicate of Turkey”, which had 81 members, all of them foreign companies.

After the proclamation of the Republic in Turkey in 1923, this Society was abolished and “The Club of Insurers” was established in 1924, which then took the name “Central Office of Insurers”. In 1952, some of the members of the Office established “The Association of Insurance Companies of Turkey”. On the same date, the Central Office of Insurers adopted the name “Office of Insurers of Turkey”. In 1954, both organisations merged under the name “Association of Insurance and Reinsurance Companies of Turkey”. It was not until 1975 that the Association adopted the name it uses today; “The Association of Insurance and Reinsurance Companies of Turkey”.

The Association of Insurance and Reinsurance Companies of Turkey is a specialised institution with the characteristics of a unique non-governmental institution established by law. Within the context of the Insurance Supervision Law, the Association is a legal entity established for the development of the insurance profession, the implementation of the principle of solidarity among insurance companies, the elimination of unfair competition among members and the preparation and implementation of any official duty transferred to it by the Regulatory Body. Membership is compulsory by law; therefore all insurance and reinsurance companies operating in Turkey are members of the Association.

**What are the main events where Turkish insurance companies meet? What about regional**



**conferences where the neighbouring players exchange ideas? Does Turkey play a leading role in discussions as an advanced competitor?**

The Association organises national and international conferences every year. These conferences bring together the managers and staff of insurance companies, government officials, academics and all other stakeholders in the sector. In this context, we have organised international conferences in cooperation with the OECD and the World Bank. We hosted the CEA (European Insurance and Reinsurance Federation) General Assembly in 2006 and we will be hosting the IMIA (International Association of Engineering Insurers) General Assembly this year in September.

Regarding our efforts in neighbouring markets, we held the “Eurasian Insurers Conference” in Istanbul in December 2004, with the participation of insurers from Azerbaijan, Georgia, Kyrgyzstan, Uzbekistan, Kazakhstan and Moldova. This Conference provided a platform for Eurasian insurers





Bridge over the River Bosphorus

to come together and discuss various issues. As an advanced competitor, Turkey provides Eurasian countries with the necessary information, expertise and know-how whenever required. The Association also regularly attends meetings of the CEA, OECD, IMIA and IUMI (International Union of Marine Insurance) and follows developments in insurance at European and global levels. These are then shared with member companies through comprehensive reports and working papers prepared by the Association.

**Insurance Law 5684 was approved recently, on June 14<sup>th</sup> 2007. What has it meant from the regulatory point of view in respect of the financial strength of insurance companies?**

In accordance with the new Law, harmonisation with EU directives has been strictly followed in fiscal and financial matters. The recent alteration of the minimum financial requirements to match not only premiums and claims but also risk basis calculations, has helped to achieve a triple in-

crease compared with traditional methods. As a result, the transparency of companies' financials has reached a higher standard with the introduction of the new reserve requirements. A committee has been established in the Treasury Department, with a view to following developments at EU level and accomplishing harmonisation studies regarding EU Solvency II requirements.

All these regulations have empowered the regulatory authority whose main mission is to protect the insured and maintain the healthy operation of the insurance market.

**What are the main difficulties that companies will have to face in order to fully comply with the Insurance Law? How does it rule in respect of insured and agents?**

The major inconvenience that companies will face in order to fully comply with the Insurance Law is related to the companies' financial structures. The changes in the calculation of

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Natalia Region, Turkey



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companies' capital requirements (solvency) and the establishment of new technical reserves are related to this issue. Also, the enhanced reporting requirements will need supplementary work.

One of the most important new features of the Insurance Law is the Insurance Arbitration Mechanism that consists of independent and impartial arbitrators, operating under the umbrella of the Association. The aim of the Arbitration Mechanism is to bring rapid and reasonable solutions to the problems of consumers as well as insurance establishments.

The "Regulation on Information Regarding Insurance Policies" also supports this system by enhancing consumer protection. When entering into contractual relations and during the term of a policy, the insured is provided with information regarding the subject matter of the policy, cover and other conditions, as well as any changes or developments that might affect them.

With regard to agents, those who want to be engaged in insurance agency work must be registered in the Register maintained by the

Union of Chambers and Commodity Exchanges of Turkey.

**When dealing with technical aspects of insurance, what has the Law established on enabled branches, the role of actuaries within the companies and earthquake claims reserves?**

Branches have been reorganised in line with EU directives. In this context, the Insurance Uniform Accounting System has been modified accordingly.

With regard to actuaries, the Law compels companies to work with a sufficient number of actuaries. The Treasury Department is held responsible for keeping a Register of Actuaries. Those who want to work as actuaries must be registered. Principles and procedures relating to the acquisition of "actuarial status" as well as the duties and powers of actuaries are determined by regulation.

With the new Law, the role of actuaries in companies has been enhanced. Many foreign companies have entered into the Turkish market





The Bazaar, Istanbul

and competition in the insurance sector has increased remarkably. This competitive environment provides the ground for actuaries to have a supportive role in the determination of tariffs in non-life branches as well. On the other hand, Actuaries also have an important role to play in the calculation of technical reserves, such as IBNR.

Regarding earthquake claims reserves, the new Law introduces the "equalisation reserve", a reserve which is allocated for insurance branches determined by the Department to balance claims rate fluctuations in future fiscal periods and to meet catastrophic risks.

**There is almost no country in the world whose insurance market is not adapting its strategies to the current financial crisis. Could you identify problems and opportunities in the Turkish Insurance market?**

The problems we face because of the global financial crisis are not as significant as those suffered by the global insurance players. The

investments of Turkish insurance companies have not been affected at all as these are entirely local, mainly in government bonds or bank savings. So we do not have any problem as far as the quantity and quality of the assets is concerned. The most important effect of the changing environment on financials will be a reduced amount of earnings on investments due to the sharp decrease in interest rates.

As a result of the financial crisis, the regulatory authority has taken additional measures. If insurance companies make cessions to reinsurers below a certain rating level, this will result in an increase in their capital requirements.

The main problem we face is decreasing insurance demand due to the shrinking economy. The Turkish economy is expected to have negative growth of 4 to 6% in 2009 and we are afraid that the insurance market will face a worse scenario in this respect. The reduction in insurance demand is causing strong price competition in the market which is the main problem for the market. Therefore gross premiums seem to fall not only because of shrinking demand but also rate reductions. I am personally pessimistic about this year both in terms of growth and results.

**Talking about foreign investments in the insurance market, what could be the advantages and disadvantages of the arrival of foreign shareholders?**

There has been a substantial increase in foreign entries into the Turkish market. Many international groups are now active. As at the end of September 2008, foreign owned insurance companies had a share of 53.91% of the total capital and a share of 75.22% of total premium income. The interest of foreign groups is a clear indicator of the growth potential of the Turkish market, which is young and developing.

Know-how transfer and new employment opportunities are important advantages of foreign investment. However, if there is no insurance awareness in society, increasing overall premium income is impossible. Therefore new entries into the market should be supported by new insurance awareness campaigns and advertisements. Otherwise, companies will continue to have intense competition over a relatively small and limited portfolio. Competition which has always been fierce has become even more aggressive with the entry of foreign investment into the market. In 2006 and 2007, foreign inves-

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The Blue Mosque, Istanbul



tors paid around USD. 100 million for 1% market share excluding excess capital and they seem to be prepared to pay more to increase their market share.

**Another interesting solution was created more recently for systemic risks, the TARSIM pool. Do you think it will become as robust as the US and Spanish models for agricultural insurance?**

TARSIM (Agricultural Insurance Pool) provides insurance coverage for catastrophic risks that threaten the Turkish agricultural industry and which cannot be carried by a single insurance company. Turkish authorities, when establishing the TARSIM Model, were inspired by the Spanish model for agricultural insurance. There are no major differences between the systems in Spain and Turkey. The system in Spain enshrines a reinsurance company established by the State and a managing company like TARSIM A.S of which I am Chairman of the Board. The Spanish mechanism has its own legal entity and is more independent than ours. In our system, there is no specific reinsurance company and we work with international reinsurance markets. In short, there is only an organisational difference between the two models. Spain is an important model for Turkey as the Spanish system has been functioning successfully for about 30 years. The Turkish model, on the other hand, is showing steady growth and in my view, it will become as robust as the one in Spain in the coming years.

**The international press has already reported on the completion of the Marmaray rail link under the Bosphorus. Transport in Istanbul will improve significantly; could you tell me what other important infrastructure works are in process or planned in Turkey in the near future?**

The Third Bosphorus Bridge and the second tunnel for motor vehicles are the two main projects being planned within the context of connecting the Asian and European continents. In addition, the construction of two tunnels at a total cost of nearly USD 32 Million continues. One of these tunnels is about to be finished.

**We would welcome your comments about the Turkic Republic insurance markets, such as Kazakhstan and Azerbaijan for instance, and their foreseeable development.**

These are growing and promising markets. Most

of the premiums are generated by the private sector mainly, which is a very positive sign. Kazakhstan especially is a rapidly developing country which reflects this in the remarkable growth of the insurance market in recent years. We must admit that the growth of insurance business in these countries is mainly dependent on the countries' infrastructural and industrial development. However, taking the increasing level of educational and cultural development of the public into consideration, there is no reason for not being optimistic in that respect as well.

Turkish investors are the second largest group of foreign investors in Kazakhstan with more than 2.5 billion USD. The Turkish insurance sector is doing business in Kazakhstan in a cooperative way with local companies to serve their Turkish clients for insuring their investments such as hotels and big shopping malls,

particularly in respect of engineering and property risks. Business seems to be dropping off nowadays because of the global crisis which has had a major effect on both economies, but I still believe that these countries are big opportunities for our sector, although I think that we unfortunately were late in taking positions and action in these two markets. I also believe the size of the Turkish market is a great opportunity for any foreign player wishing to use their presence in Turkey as a bridge to these markets.

Association of Insurance and Reinsurance Companies of Turkey

[http://www.tsrbsb.org.tr/tsrbsb\\_eng/](http://www.tsrbsb.org.tr/tsrbsb_eng/)

TARSIM

<http://www.tarsim.org.tr/>

**The Turkish Catastrophe Insurance Pool (TCIP) has been working for almost nine years. It is another model of public and private partnership. How do you think it will evolve in a medium term loss-free scenario?**

The Turkish Catastrophe Insurance Pool (TCIP) was launched by the Turkish government in cooperation with the World Bank in 2000 after the big earthquake of 1999. TCIP is a compulsory insurance programme that provides earthquake cover to householders up to certain limits with affordable premiums depending on risk zones, construction types and gross floor space of houses.

TCIP not only aims to alleviate the economic burden on the State in the event of an earthquake, but also ensures that risks are shared within the country with a certain amount of risk transfer to international markets through reinsurance. It also increases insurance awareness among the Turkish population; makes the insurance system apply sound standards to construction and guarantees the accumulation of necessary long-term resources for the compensation of earthquake losses.

TCIP is an important example of a functioning public-private partnership. While public authorities are responsible for the establishment of the legal framework, the conduct of regulatory supervision, the provision of risk management support and disaster management, the private sector is in charge of sales, operational services and claims management as well as the provision of risk management support.

However, the penetration level is currently 23%. This simply means that out of 100 households, only 23 are within the system. In a medium term loss-free scenario, we do not expect the penetration level to increase as house owners are not adequately encouraged to buy insurance. There are no penalties or fines imposed. The lack of State interest, support and long-term strategies that transcend governments are the main obstacles.

During the TCIP's first five years of existence, it was not been possible to accumulate a substantial amount of funds. However, the total amount of accumulated funds had reached almost one billion TL by 27<sup>th</sup> April 2009. When a medium-term projection is made in terms of a loss-free scenario, TCIP is expected to create a fund of about 3-4 billion TL in 7 years.

