

Insurance in Turkey and main problems of the sector

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Abstract: In this study, by handling private insurance sector in Turkey and the problems of the sector as a whole, the last stage that the insurance business in Turkey has reached has been evaluated. Basically, because of the fact that the most of the people had fatalistic understanding, religious leaders approached the concept of insurance negatively and adequate information hadn't been gotten about insurance, the settlement of the idea of insurance in Turkey came true after 150 years later, at the end of 19. Century compared with Europe. As a result of changing conditions, Turkey is in 63rd in accordance with the insurance density on the world countries' rank, and is in 39th rank in accordance with the primary production. In spite of this, when we examine the studies according to per person criteria, it is seen that the premium rate per person in Turkey is fortieth level among developed countries. The top reason of the fact that insurance business in Turkey hasn't risen to the requested level is that there is still fatalistic society understanding; and also, the fact that insurance understanding hasn't been settled, and hitching and late payment on damage payments of insurance firms, and not having an effective promotion and marketing understanding are seen as the primary reasons. Despite of these negative factors, in Turkey being an developing country, the insurance sector has a potential to show at least a threefold improvement from today's position in a short time in case of precautions to be taken by state and applying these precautions by seriousness.

Keywords: Insurance, Insurance in Turkey, insurance sector, the problems of insurance sector, the features of the insurance sectors.

1 The definitions of insurance and historical development

Insurance is one of the best human inventions, because there is reciprocal solidarity desire in substance. For years, the definitions of insurance have been made from different perspectives. According to these introductions, some have defined its elements, some have defined its organization feature, some have defined it by taking its guarantee and security feature as a basis.

The most accepted definition can be rowed as follows:

- (i) Insurance is a solidarity institution aiming to guarantee the person who gives warrant or sells warrant, within the principle of probability, against dangers that may exist.
- (ii) Insurance means, as a rule, the function of decreasing the loses of the group being exposed to risk and consisting a small group on condition that they are allocated to other groups, or, destroying their activity.
- (iii) Insurance is described as a social development based on reciprocal and equal participations in order to reduce partially measurable losses with money or eliminate them completely, with which a big human group and all individuals in the group may expose(Encyclopaedia, 1963).
- (iv) Insurance is an organization formed by combining a specific risk determined by law and contract, and many similar units found under the same degree threat, the damage events that occur randomly, which become possible to be clutched by the possibility account of statistic and be measured by money, on condition that they are met together(Firat, 1982).

Even though definitions show differences, the common phenomenon that all of them signal is safety concept. The explanation of the genesis of the idea of insurance and its existence should be sought. Insurance is the best institution that gives the feeling of safety to people (Büyükkaya, 1975).

The applications similar to insurance dates back to approximately 4000 years. The first applications similar to insurance were met on Babylonians period(Suna, 2005).The application manner of making insurance as Premium started firstly on the shores of Venice, Florence and Genose in 1200s.The first known marine insurance contract was made in the port of Cenova in Italy on 23 October 1374 in order to provide the security of a ship's Cargo. In insurance business, the using of statistical methods and techniques and arranging premiums like this way began to be seen on the second half of 17. Century. After big London Fire having happened in 1666, insurance business spread to Europe rapidly.

In Turkey, the idea of insurance emerged after big damages occurring as a result of fires happening in the second quarter of 19 century. Because of region problems, the Ottoman exhibiting cautious stance to insurance business accelerated the development of insurance as a result of big disasters like fire, flood, and earthquake.

The first Insurance Company was established in 1892 by Tobacco Regie, Ottoman Public Debt Administration, Ottoman Bank and Ottoman Insurance Public Company in compliance with Turkish Legislation(Geç, 2002).Then, private insurance business in Turkey came to its present position by the arrangements made in 1927, 1929, 1950, 1990 and 2007 on insurance legislation. (Apan, 2007).

Insurance, including state insurance and private insurance, is divided into two categories. The matter constituting our subject is private insurance system in Turkey. In private insurance, it is essential to meet the economic consequences of risks that natural and legal persons are exposed. Private insurances are voluntary as a rule, i.e., is made optionally. Premium, in addition to many factors, is designated according to the amount of probable loses and the probability of risk as a main factor (Ceyhun, 2014).

2 The main problems of insurance sector in Turkey

As the first problem, as well as insurance awareness hasn't been developed in Turkey and most of the people are fatalistic, the fact that the people haven't enough information about insurance is one of the main factors inhibiting the growth of the insurance.

As the second problem, according to the studies made, 7 out of every 10 individuals state that they don't need insurance and they trust family and social benefits in the situations like natural disaster (Association of the Insurance, Reinsurance and Retirement Companies of Turkey, 2012) The main factor of low penetration in non-life insurance sector is non-auto (fire, natural disaster, general damages etc.) insurances' quite low penetration level.

As the third problem, because of the delays occurring on the payments of damage, it is evaluated that the insured people's distrust to insurance companies is one of the important problems of the sector.

The forth problem, the level of profitability of insurance marketing in Turkey is low compared with other countries' markets. Besides, falling fiscal revenues and the arrangements like Solvency II that requires more strong capital structure are thought that it is probable to increase the pressure on profitability. The profitability level of non-life insurance sector is lower than developing and developed countries. This situation triggers destructive competition and lower economies of

scale that emerge by limited differentiation and fragmented market structure. One of the important reasons of low profitability is the market size of companies' being low and high operation cost ratio constituting due to intense price-based competition (TSB, 2012).

Profitability is affected from the unprofitableness in the sector negatively. For example, many companies cannot reach at the right customer information on the process of damage(the past damage of driver, accident information etc.) and companies can determine only a part of the fraud rates determined in other countries. When the share of body damages in total traffic insurances is compared with other countries, and considering that it is still low in Turkey, significant increases are expected on the payment of body damages. And this situation is thought that it can affect unprofitability negatively (TSB, 2012).

Limited consumer awareness in life and retirement market (42% awareness rate in retirement, 40% awareness rate in life insurance) and life worth, barriers like cultural and social support network, strong and high familiarity alternative saving products' existence (house, deposit etc.) are seen as the factors that hinder to actuate the potential of the market (TSB, 2012).

Fifthly, the risks not entering within the scope of guarantee in obligatory traffic insurance being included in the scope by judicial decisions, the fact that guarantee content and compensation calculation methods are not standard, that experts or different judicial comments and that there is not a plausible price level on traffic insurance has caused the sector to be affected seriously. With the legal arrangements made on the second quarter of 2016, by leaving obligatory traffic insurance guarantee content to general conditions, these structural problems have been solved partly.

3 The main features of insurance business sector in Turkey

Insurance being one of the main devices of risk management has undertaken a set of functions to provide contribution to economy as an important component of the financial sector today, beyond having got a basic function like compensating the occurred damages as a result of actualising the risk. Especially, due to the feature of insurance business, the premiums, which are the price of insurance, being taken without occurring damage provide insurance companies advantage for fund accumulation on huge amounts. Transferring the funds being accumulated in the sector to financial system by insurance companies named as big institutional investments contributes to both financial deepness and economic growth. (Özbek, 2011). According to Sigma report published by Swiss Re, total insurance premium production in the world in 2014 reached at approximately 4,8 billion dollar. Considering that 57% of total insurance premium in the world has been produced by USA, England, China and French, it is understood that how the worth attributed to insurance sector in developed economies is great.

The insurance business in Turkey began to develop after the second half of 19. Century. Then, in the number of the insurance companies in the sector, there have been increases on premium production volume and profitability and the sector has reached a particular development level by various legislation regulations and controls. On the other hand, insurance sector as of the end of 2014 constitutes only 3 percent of finance sector with its active total.(Turkish Banks Unions, 2015). Besides, compared with other countries, in terms of the per person premium production of the sector and the share of total premium production within GDP(Gross Domestic Product), there is a long way to cover a distance. The events at issue point out that both Turkish financial market and Turkish insurance business sector which is seen having a low share in the world are still in development period. Besides, these rates are an indicators of the growth potential of the sector especially for new investments (Özbek, 2011).

The insurance and individual retirement system in Turkey gives big contribution to the economy of the country and makes the financial system strong. The sector plays an important role on increasing of foreign investors and savings(fund amount over 48 billion TL in saving life and retirement system (TSB, 2012).

The accumulated funds support big infrastructure investments, the growing sector provides job opportunities to many people directly or indirectly and the damage payments invoiced provide opportunities to tax by recording at least 1,5 billion TL each year (TSB, 2012).

Besides, Turkish insurance sector gives support to public as being sharer to the costs of the state on health and retirement field (TSB, 2012).In the same way, with the damage payments that it has made on natural disasters occurred in recent times, it has lightened the financial burden of public. On the other hand, the sector, only in 2015, invested more than 10 billion TL to state bonds and supports the public finance.

One of the important indicators of Turkey is the fact of rapidly aging and poor aging population. This matter will not be solved by only social security policy that is not one-dimensional; however, this also requires the active usage of private insurance system that increases the awareness of people against risks being their side, which don't deny social security system. Because, this matter is closely related with not only social security problem but also with their life expectations. In this frame, being widespread of private health insurances and the works related to giving private health insurance place especially to public hospital chain still continue. When it is looked at the general features of the insurance sector in Turkey, it is seen that there are 59 insurances and retirements' companies, 1 reinsurance company in the sector since 31 December 2015. 36 out of 59 insurance and retirement companies are non-life, 4 out of them is life, and 19 out of them operate in retirement branch. Two out of 36 non-life insurance companies are the branches of the insurance companies established abroad. When looked at foreign capital rate in the sector, it is seen that direct or indirect foreign share is over than 50 percent and that there are 39 companies, the rest 20 companies are domestic companies. When the distribution of the written premium is examined as insurance branches, it is seen that the responsibility branch of land vehicles has 24,2% share, the branches of land vehicles have 17,9% share, the branch of fire and natural disaster have 14,1% share, disease/health branch have 11,1% share, the branch of general damages has 9,6% share, the branch of general responsibility has 2,4% share, credit branch has 0,6% share, other branches has 8% share.

4 Risk factors in insurance sector in Turkey

Turkish Insurance sector coming forward as an area that is integrated with the world and that foreign capitalists invest intensely has been being affected fairly from the risks to financial stability and from economic recession in the world, especially in the European Union. Also, the lack of information in credit and expiation branches' being barrier to making healthy scoring and unexpected losses that may arise due to structural problems such as the increase of paid and outstanding claims postpone bankruptcy in large companies are evaluated as an important risk.

The distribution channels as risk factor for life companies in Turkey takes attention and the banks that companies have used the most dense distribution channel can constitute short-term high risk for companies under adverse scenarios that may happen in general of banking sector.

Aging population being a problem faced a for a long time in developed countries confronts with Turkey being a developing country at a rapid rate. This situation is expected to result in like increasing care and health needs. Except

this, the earthquake risk being another risk that Turkey confronts with is one of the potential risks that can create negative effect in insurance sector.

5 The balance sheets of insurance companies in Turkey and the last two years of basic statistics

| ASSETS | (Million TL) | Share | (Million TL) | share |
|--|--------------|-------|--------------|-------|
| | (31/12/2014) | (%) | (31/12/2015) | (%) |
| I. TOTAL CURRENT ASSETS | 51.518 | 65 | 60.309 | 63 |
| A- Cash and cash equivalent assets | 16.074 | 20 | 19.079 | 20 |
| B- Financial assets and financial investments, risk of which belongs to insured people | 12.992 | 16 | 13.942 | 15 |
| C- Assets from main activities | 19.961 | 25 | 24.508 | 26 |
| D- Assets from related sides | 27 | 0 | 41 | 0 |
| E- Other assets | 220 | 0 | 84 | 0 |
| F- Costs and income accruals belonging to next months | 2.088 | 3 | 2.525 | 3 |
| G- Other current assets | 157 | 0 | 129 | 0 |
| II. NON-CURRENT ASSETS | 27.497 | 35 | 35.470 | 37 |
| A- Assets from main activities | 23.834 | 30 | 30.668 | 32 |
| B- Assets from related sides | 0 | 0 | 0 | 0 |
| C- Other assets | 3 | 0 | 8 | 0 |
| D- Financial assets | 932 | 1 | 1588 | 2 |
| E- Concrete assets | 954 | 1 | 1225 | 1 |
| F- Non-concrete assets | 1.486 | 2 | 1.435 | 2 |
| G- Costs and income accruals belonging g to next years | 40 | 0 | 42 | 0 |
| H- Other non-current assets | 249 | 0 | 504 | 1 |
| ASSETS TOTAL | 79.016 | 100 | 95.779 | 100 |
| LIABILITIES | (Million TL) | Share | (Million TL) | Share |
| | (31/12/2014) | (%) | (31/12/2015) | (%) |
| I. SHORT TERM LIABILITIES | 38.503 | 49 | 48.584 | 51 |
| A- Financial Debts | 351 | 0 | 906 | 1 |
| B- Debts from Main Operating | 16.814 | 21 | 20.704 | 22 |
| C-Debts to related sides | 66 | 0 | 69 | 0 |
| D- Other Debts | 620 | 1 | 889 | 1 |
| E- Insurance business technical provisions | 19.306 | 24 | 24.445 | 26 |
| F- Tax to pay and similar other liabilities and provisions | 375 | 0 | 434 | 0 |
| G- Provisions related to other risks | 347 | 0 | 394 | 0 |
| H- Incomes belonging to next months and assessment of expenditure | 605 | 1 | 725 | 1 |
| J- Other Short Term Liabilities | 19 | 0 | 19 | 0 |
| II. LONG TERM LIABILITIES | 28.079 | 36 | 35.101 | 37 |
| A- Financial Debts | 1 | 0 | 0 | 0 |
| B- Debts from Main Operating | 23.706 | 30 | 30.591 | 32 |
| C- Debts to Related Sides | 6 | 0 | 6 | 0 |
| D- Other Debts | 10 | 0 | 9 | 0 |
| E- Insurance Business Technical Provisions | 4.094 | 5 | 4.208 | 4 |
| F- Other Liabilities and Provisions | 12 | 0 | 12 | 0 |
| G- Provisions Related to Other Risks | 147 | 0 | 172 | 0 |
| H- Incomes Belonging to Next Future and Assessment of Expenditure | 6 | 0 | 5 | 0 |
| I- Other Long Term Liabilities | 96 | 0 | 97 | 0 |
| III. SHAREHOLDER EQUITY | 12.434 | 16 | 12.094 | 13 |
| A- Paid Capital | 8.330 | 11 | 8.738 | 9 |
| B- Capital reserves | 732 | 1 | 607 | 1 |
| C- Profit Reserves | 3.607 | 5 | 4.201 | 4 |
| D- Profits/Losses Belonging to Past Years | -1.623 | -2 | -1.422 | -2 |
| E- Term Net Profit | 1.388 | 2 | -29 | 0 |
| LIABILITY TOTAL | 79.016 | 100 | 95.779 | 100 |

In Turkish insurance sector, total 3.431 insurance experts(2.159 out of them agriculture insurance pool experts) 124 brokers, 127 actuaries registered in registry, 49 independent control companies. Pursuant to 23. Article of 5684

numbered Insurance Law, according to the data gotten from Turkish Union of Chambers and Exchange Commodities as of 31/12/2015, the number of total agents being active as registered in plate is 15.376. In insurance, retirement and reinsurance companies, total 19.355 persons work. The number of authority individual retirement vehicles is 36.000.

As of 31/12/2015, the gross premium productions of insurance companies have actualized as 31.056.321.027 TL / 10,672,275,267 USD by an increase rated 19,49% compared with last year. At the same time, gross premiums showed a 13% increase in comparison with last year by 2003 fixed prices. Life branch gross premium production being 12,11% that is the share in total premium is 3.760.784.504 TL / 1,292,365,808 USD, Non-life gross premium production being 87,89% that is the share in total premium has become 27.295.536.522 TL / 9,379,909,457 USD. Non-life gross premium increase being the most basic element supporting growth in past years came true quite above the inflation rate by 20,18% increase in 2015. Life branch gross premium production actualized a growth above the inflation rate by a 14,67% increase in 2015.

While per person premium was 397 TL by a 18,79% rated increase according to last year, in dollar basis, it dropped from 153 dollars to 146 dollars. The share of total premium in GDP increased from 1,49% to 1,59%.

Total assets became 95.779.897.870 TL by a 21,22% increase in 2015 compared with 2014, total shareholder's equity became 12.094.042.616 TL by a 2,74% decrease, total profit became -29.338.370 TL. When technical profitable is examined in the basis of branch; it was determined that technical loss was recorded in the branches of credit, air vehicles, land vehicles, responsibility, air vehicles responsibility, water vehicles responsibility, redemption. Total damage paid gross became 15.913.746.428 TL / 5,468,641,384 USD by increasing at the rate of 18,68% in comparison with last year.

When it is examined in terms of market concentration, it is seen that the first five companies produced 52,97% of total non-life premium in the production of non-life premium, the first ten companies produced 72,76% of non-life premium. In life premium production, the first five companies produced 55,81% of total life premium, the first 10 companies produced 83,61% of total life premium.

Non-life technical department balance became -694.708.746 TL, life group technical department balance became 634.473.033 TL, retirement technical department balance -65.111.515 TL, general technical department balance became -125.347.228 TL, non-technical department balance became 446.079.866 TL.

As of 31/12/2015, the number of participants of individual Retirement System(IRS) was 6.038.432, the contribution share was 37.119.095.559 TL / 12,755,702,749 USD, fund growth including state contribution was 47.999.056.660 TL / 16,494,521,189 USD.

As of 31/12/2015, the number of current policy in obligatory earthquake insurance was actualized as 7.265.356, the total of fund was actualized as 3.706.311.737 TL / 1,273,646,645 USD. The damage paid by DASK between 2000-2015 years became 162.423.535 TL / 55,815,647 USD, the number of file paying damage became 21.745.

In agriculture insurances supported by state, the number of policies between 1/1/2015-31/12/2015 dates was 1.375.390, the total premium including 50% state contribution was 965.772.197 TL / 331,880,480 USD, paid damage was

692.716.894 TL / 238,047,042 USD.

When it is looked at the investment portfolio of 2015 insurance sector, except insurance companies, total investments increased at the rate of 8% in comparison with last year, and it is seen that it became 13.792.087.917 TL / 4,739,549,112 USD. On the rational distribution of total investments, in comparison with last year, the share of state bonds, Treasury bond, other public debt securities and private sector bonds decreased, it was observed that the share of stocks and fixed assets increased. While state bonds, treasury bonds and other public debt securities constitute 74,2% of total investments, the fixed assets correspond to 11,5% to total investments. The net investment incomes of the sector are 664.635.299 TL / 228,397,009 USD.

6 The comparison of insurance business sector in Turkey with other countries

While looking at the position in the world of insurance business sector in Turkey, pursuant to Sigma Report numbered 4/2015 prepared by Swiss Re, it is seen that total premium production has been 39th in the world row since 31 December 2014. Besides, another matter taking attention, as well as the life insurance has an important contribution in terms of total premium production in the world, the life insurance premium production in Turkish insurance sector stays quite under non-life insurance premium production.

The insurance penetration measured by GDP rate of total premium and insurance density measured by per person premium can be described as the important demonstrators of development levels of insurance sector in economy. The economic importance of national insurance sector is evaluated by gross written premiums to GDP rate. The position of Turkey in the World, within this demonstrator frame, has been shown in the tables placed below since 31 December 2014.

Turkey takes place in 63th row in the world in terms of insurance density. Especially, it is seen that developed countries are on top rows and the per person premium in these countries are 40-50 times than in Turkey. In terms of total premium to GDP rate, Turkey stays at near last rows.

Table 1: Premium production in respect of countries (2014)

| Name of Country | Total Premium Production | | |
|-----------------|--------------------------|-----------|------------|
| | Premiums(Million) | Share (%) | Change (%) |
| 1. USA | 1.280.443 | 26,80 | 2,05 |
| 2. Japan | 479.762 | 10,04 | -3,66 |
| 3. England | 351.266 | 7,35 | 7,86 |
| 4. China | 328.439 | 6,87 | 17,25 |
| 5. French | 270.520 | 5,66 | 5,08 |
| 39. Turkey | 11.595 | 0,24 | -6,94 |
| OECD | 3.850.873 | 80,59 | 2,70 |
| G7 | 2.956.743 | 61,88 | 2,30 |
| NAFTA | 1.433.058 | 29,99 | 0,70 |
| EU | 1.561.96 | 32,67 | 3,70 |
| ASEAN | 88.684 | 1,86 | 7,20 |
| World Total | 4.778.248 | 100 | 4,02 |

Reference: Swiss Re. 2015. world insurance in 2014. Sigma No: 4/2015.

Table 2: Per Person Premium (2014, USA dollar)

| Name of Country | Total | Non-Life | Life |
|-----------------|-------|----------|-------|
| 1. Switzerland | 7.934 | 3.542 | 4.391 |
| 2. Luxemburg | 6.070 | 2.372 | 3.697 |
| 3. Denmark | 5.795 | 1.722 | 4.073 |
| 4. Holland | 5.689 | 4.393 | 1.296 |
| 5. Hong Kong | 5.647 | 575 | 5.071 |
| 63. Turkey | 153 | 40 | 19 |
| OECD | 2.922 | 1.299 | 1.623 |
| G7 | 3.833 | 1.694 | 2.140 |
| NAFTA | 2.997 | 1.757 | 1.240 |
| EU | 2.791 | 1.076 | 1.715 |
| ASEAN | 132 | 44 | 88 |
| World Total | 662 | 294 | 368 |

Reference: Swiss Re. 2015. World Insurance in 2014. Sigma No: 4/2015.

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