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A STUDY ON THE TURKISH INSURANCE SECTOR
WITH A SPECIAL EMPHASIS ON RECENT DEREGULATIONS
AND ITS PROTRACTED IMPACT ON THE GROWTH OF THE TURKISH ECONOMY

by

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A STUDY ON THE INSURANCE SECTOR WITH A SPECIAL EMPHASIS ON RECENT DEREGULATIONS AND ITS PROTRACTED IMPACT ON THE GROWTH OF THE TURKISH ECONOMY.

In this thesis, the role of the insurance sector in the financial system in Turkey and the changing aspect of the sector through the new deregulations have been investigated.

Financial analysis of the sector and comparison with world standards is part of the study.

Main characteristics and problems associated with the sector backed up by relevant historical data are surfaced.

Analysis of new foreign and local entrants to the sector as a consequence of recent deregulations is also included in the study.

The research is exploratory in nature and extensive preliminary work has been done on the subject.

SIGORTACILIK SEKTORU, YENI DUZENLEMELER VE BUNLARIN TURK

EKONOMISINE UZUN DONEMDE ETKILERI

Bu tezde sigortacilik sektorunun Turkiyedeki finans sektoru icindeki yeri ve yeni duzenlemelerin sektore kazandirdigi boyutlar arastirilmistir.

Sektorun finansal analizine ve dunya standartlari ile karsilastirilmesine calisma icinde yer verilmistir.

Sektorun ana ozellikleri ve sorunlari tarihsel veriler isiginda ele alinmistir.

Yeni duzenlemelerle sisteme katilan yerli ve yabanci sirketler de incelenmistir.

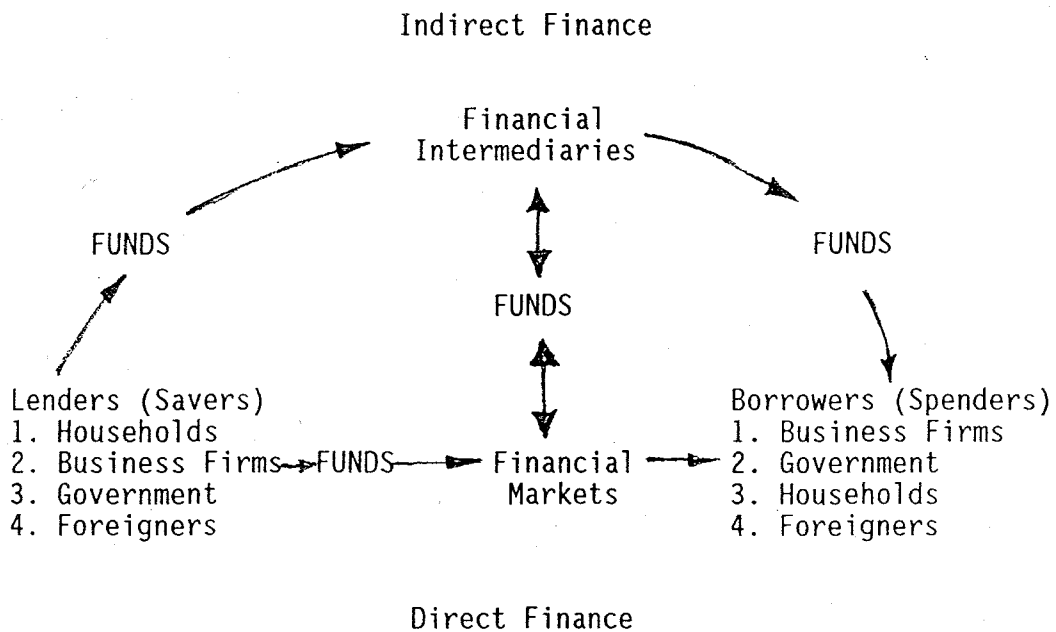
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0. INTRODUCTION

Financial markets perform the essential economic function of channeling funds from those who have saved surplus funds because they spend less than their income to those who have a shortage of funds because they wish to spend more than their income.



Financial markets allow funds to move from those without productive investment opportunities to those who have such opportunities. By doing so, financial markets contribute to higher production and efficiency in the overall economy.

Well functioning financial markets and financial intermediaries are needed to improve our economic well-being and are crucial to our economic health.

Funds can move from lenders to borrowers by a second route, called indirect finance, because it involves a middleman: a financial intermediary that stands between the lenders-savers and the borrowers-spenders and helps transfer funds from one to the other.

The principal financial intermediaries can be divided into three categories:

1. Depository Institutions
Commercial Banks; Savings & Loan Associations; Mutual Savings Banks; Credit Unions;
2. Contractual Savings Institutions
Life Insurance Companies; Pension Funds; Casualty Insurance Companies
3. Investment Intermediaries
Mutual Funds; Money Market Mutual Funds; Finance Companies;

Apart from the above intermediaries the government is also involved in financial intermediation through several of its government agencies.

In January 1980, the Government started a structural reform program which aimed at liberalizing and stabilizing the Turkish economy. The role of the government in the economy has been redefined, government intervention in economic activities has gradually been reduced and new fiscal and monetary policies have been introduced.

The movement began in the banking sector, and since 1980 more than 20 foreign and 5 domestic banks entered the market challenging the existing ones to a more competitive environment.

In the later part of the 1980's, the same trend is observed in the insurance and leasing sectors and eventually they started to replace the government's role in creating long-term funds to the financial system.

Insurance companies are in the financial intermediation business of transforming one type of asset into another for the public. Insurance companies used the premiums paid on policies to invest in assets such as bonds, stocks, and mortgages; the earnings from these assets are used to pay out the claims on the policies. In effect insurance companies transform assets such as bonds and stocks into insurance policies that provide a set of services.

Insurance companies can predict reasonably accurately how much they will have to pay out in benefits in the coming years. As result, the liquidity of assets is not as important a consideration for them as it is for other financial intermediaries and they tend to invest their funds primarily in long term securities.

This paper aims to study the Turkish insurance sector with a special emphasis on recent deregulations and its protracted impact on the growth of the economy.

I. THEORETICAL BACKGROUND OF THE STUDY

Modern insurance practice in Turkey started in late 19th century (with the permission of the Ottoman Sultan in 1872) via local agents and representatives of the European companies. The first companies to establish were three British companies, namely "Sun", "Northern" and "North British". A French company, "La Fonciere" followed suit in 1878. The activities of these companies were mainly limited to servicing the needs of the maritime trade, generally in the form of marine cargo insurance of imports.

With the modern Turkish Republic, in early 1920's, Turkish insurance companies emerged as subsidiaries of national banks, state economic enterprises, commercial banks and holding companies.

Ever since their formation, most of these insurance companies have operated as a natural extension of their parents, servicing the needs of the latter, rather than as separate undertakings for an independent economic proposition. This historical aspect may be identified as an important cause of the underdevelopment of this sector, relative not only to its counterparts in other countries but also to the most other sectors of the present Turkish economy.

As a result, most of the companies have not been set up and managed as independent profit centers, but their purpose was rather to protect the credit risks of banks and other creditor institutions by insuring collateralized assets.

In order to protect the young and inexperienced sector, premium tariffs were introduced in most of the insurance branches. In cases where tariff rates were not applicable, premium rates were obtained from abroad which were always subject to approval of the authorities.

Furthermore, in the second five year state economic plan (1966), it was stipulated that the formation of new companies was to be prohibited until the existing ones could reach a comfortable size and strength. This continued until late 1980s and only recently new companies were allowed to establish.

It is argued that although necessary in earlier days, the continued practice of tariff regime ended up being detrimental for the introduction of new coverage types, the innovation or adaptation of new rating techniques and most importantly prevented price and product competition. Furthermore, a quick look at the composition of premiums shows that a very significant portion of the premiums (appr. 90 %) are derived from the commercial/industrial sectors, where due to the nature and size of risk, tariff rates are not used, but the premium rates are generally obtained from abroad and approved by the authorities. The prohibition of new entrants, on the other hand, furthered the stagnation.

The coverages provided are mainly classical fire, transportation, accident and machine & equipment covers where life insurance is still in its infant stage. Moreover, since the main purpose of the insurance is to protect the credit institution, the limits of cover are usually set according to the outstanding credit rather than the value of the subject or interest insured. Naturally and fortunately, there are many healthy exceptions to the generalization where the insured persons or institutions are themselves aware of their needs beyond and above the strict credit or business requirements.

As a summary, the complementary nature of the insurance companies, the tariff regime and to some extent the socio-economic and bureaucratic constraints have historically hindered the growth of the sector to its full potential in its economic setting.

During the last three years, however, the government was in a continuous efforts to give new blood to the sector.

The changes started by assigning "The Undersecretariat of Treasury and Foreign Trade" as a regulatory body. Previously, "The Ministry of Industry and Commerce" was responsible for the activities of the sector. The insurance sector is considered as part of the financial sector next to banking that showed remarkable development during the last decade. Secondly, insurance companies are compelled to strengthen their financial

structure through new regulations. Timely collection of premiums was an old and important problem faced by companies for many years. Under new regulations, total collection time is limited to overcome this hurdle that weakens companies financially. Finally the most important regulatory change came into picture in 1990 and tariff regime that is attributed as a major factor for the underdevelopment of the sector has been lifted significantly in two steps. Market forces were no longer subject to intervention and price and product competition started rising efficiency in existing companies, new products such as various kinds of health insurances, package policies that include more than one coverages are introduced in the market. Several other new products are being tested and wait on the pipeline. Aside from new products that help expanding the total market volume, foreign investment is encouraged and consequently branches of the foreign companies and joint ventures with local companies are seen as new and aggressive players in the market.

Recent changes in the regulations bode well for the future and are interpreted by the authorities as the start of a new era in the sector.

II. REGULATORY ENVIRONMENT

i) Related Law and regulations :

The insurance sector in Turkey is governed by the Decree # 3379 (Insurance Supervisory Law) which was published on June 6, 1987

as an amendment to the existing decree (#7397, dated December 21, 1959). All insurance companies, brokers, agencies, reinsurance companies and reinsurance brokers as well as insurance experts and appraisers will be regulated under this decree. In June 1988, a new set of regulations have been published in the Official Gazette regarding the establishment and activities of the insurance and reinsurance companies. On December 10, 1988, new regulations on the activities of insurance agencies and brokers have been published. Finally, in 1990 radical changes in regulations are viewed and a highly regulated insurance sector has been liberalized to a great extent.

The first step of deregulation took place on May 1st, 1990, and the tariff regime in transportation accident, machinery assembly, livestock and hail coverages has been removed. This followed a new set of deregulation on September 1990 and all the coverages except compulsory and life insurances became free of the existing tariff regime.

Also, on July 1st, 1990, premium rates in compulsory drivers liability insurance premiums increased from TL 15 M to TL 80 M, hospital expenses paid by insurance firms rose four times while dead indemnities and other indemnities twofold and twenty times respectively. Needless to say that the increase in the premium rate of this compulsory "drivers liability insurance" will bring about a jump in transportation premiums collected during the year.

The following are key points of the new decree and the above mentioned regulations :

- The Undersecretariat of Treasury and Foreign Trade (UTFT) is responsible for overseeing the activities of the insurance sector and regulating it.
- The sector is audited by the "Insurance Supervisory Board" which is a governmental body reporting directly to the Prime Ministry. The Board is located in Istanbul and consists of 5 executive members and about 25 auditors.
- UTFT has the right to assign an observer to Board meetings of insurance companies.
- Insurance companies must be established as public limited companies with a minimum paid-in-capital of TL 25 billion. Permission of the UTFT is required to establish an insurance company.
- Reporting and bookkeeping activities of the life insurance branches must be separated from those of the other branches.
- Insurance premiums due from the customers and agencies must be collected as 40 % cash and the balance must be paid-up within 6 months.
- Insurance companies must provide the following reserves for their overdue receivables from their customers and agencies :

at the end of the	6th month	25 %
	9th month	50 %
	12th month	75 %
	18th month	100 %

- Investments into securities of subsidiaries and affiliates may not exceed 25 % of the total securities portfolio.

- Investments into fixed assets and subsidiaries may not exceed total equity (including reserves) of the company.

- Investment into real estate is not allowed unless property will be used for business purposes. Property purchased for non-business purposes must be sold within three years of the purchase date.

- (Total Equity - (Fixed Assets + Investments in Subsidiaries)) figure must be larger than 8 % of the Total Assets. (This clause makes the upper one redundant.)

- The maximum commission rate for agencies is determined as 30 % of the net premium except for life insurance where the commission rate is determined freely by the insurance company.

- Reserves against activities are calculated using two methods :

i - Premium basis :

The first TL 10 bn portion of the premium income is multiplied by 0.18 while the remainder is multiplied by 0.16. The total is then multiplied with the ratio of the company's share of losses to total losses (minimum 0.50 - i.e. if the figure is below 0.50, the multiplier will be 0.50).

ii - Loss basis :

Last three years' losses plus loss reserves of the third year less loss reserves of the second year are multiplied by 1/3. The first TL 7 bn of the result will be multiplied by 26 % and the rest with 23 %. The total will again be multiplied with the ratio of the company's share of losses to total losses (minimum 0.50 - i.e. if the figure is below 0.50, the multiplier will be 0.50).

The above figures are called "Liability Meeting Requirement" and the larger of (i) or (ii) will be taken as basis. 1/3 of this amount should be kept as reserves and Total Equity of the company must be larger than this figure.

ii) Existing Tariff :

Before recent deregulations, the insurance tariff regulated the prices in the sector. However, for large risks premium rates were usually obtained from abroad which are then approved by the Insurance Supervisory Body (ISB). Thus, the tariff only regulated prices of smaller insurance policies.

In 1990, the tariff has been removed mostly with the two amendments on the existing decree (# 7397). The deregulations aim at increasing efficiency in the industry through stimulating price and product competition, to boost the utilization of insurance in the country and to streamline the usage of funds gathered in the sector.

Today only "drivers' liability" and "bus travellers" insurances are compulsory and subject to tariff. The rationale behind this is to protect insurers until a fully competitive environment is developed in the sector.

III. MAIN CHARACTERISTICS

- GENERAL

As mentioned earlier, the Turkish insurance sector is still considered in its infant stage. Compared to other countries, Turkey is way behind in total premiums as the 1988 data on the following table depicts :

Country	Premium in USD (MM)	Per Capita Premium (USD)
USA	431,399	1,751.3
Japan	284,570	2,320.9
Switzerland	15,126	2,323.5
Spain	14,698	376.4
Egypt	806	15.5
Zimbabwe	274	30.9
Turkey	315	6.0

As can be seen, Egypt and Spain with similar populations, surpassed Turkey's premiums significantly. Between 1985 and 1988, the insurance sector in the world grew by 85 % in USD terms while the industry growth in Turkey during the same period remained at 40 % and the growth in premium per capita has been only 30 %. Turkish insurance premium revenues represented only 0.03 % of the world revenues.

Also, as a percent of the Gross National Product, Turkish insurance premiums are far behind other countries. The Premium Income / GNP ratios of several countries are listed below :

Country	Premium Income / GNP (%)
Ireland	9.3
USA	7.5
Switzerland	7.0
Japan	6.9
Brazil	6.9
Egypt	1.1
Turkey	0.6

In the absence of accurate statistics, it is estimated that only 20 % of the medium- and small-sized businesses are insured while just about 5 % of the residences in Istanbul (which is the most educated market for the insurance sector) are covered by insurance. Besides, only 3 % of the total population owns a life insurance policy.

Today, the government encourages the utilization of life insurance by granting tax advantage for the full amount of life insurance policies.

Healthy development of the insurance sector brings additional benefits to the economy. The funds created by the sector flows to industrial investments via capital markets.

It is noteworthy that considering Tourism, Industrial, Agricultural, and Financial sectors, the biggest investor in the capital markets has been the Financial Sector and mainly Insurance firms.

However, if we take a look at the following tables, even though the share of the insurance sector in the capital market is small, the percentage of capital market instruments is the highest among other assets.

INVESTMENT OF THE TURKISH INSURANCE SECTOR

ASSETS	Billion TL 1989	%
Cash & Banks	141	8
Stocks & Bonds	563	32
Fixed Assets	282	16
Others	774	44
Total	1760	100

INVESTMENTS BY MONEY and CAPITAL MARKETS

	Billion TL 1989	%
Money Market	55.436	73
Capital Markets	20.674	27
Total	76.110	100

2% of total funds created in the sector is invested in the capital markets. In Western economies, this ratio averages between 6-9% which stays well above the Turkish figure. But, in this respect, it should also be kept in mind the relative sizes of Western and Turkish capital markets.

- MARKET CHARACTERISTICS

The growth in premium income in terms of TL during 1984 - 1989 are displayed below :

	% Growth in TL -----
1984 - 85	98.7
1985 - 86	47.5
1986 - 87	62.9
1987 - 88	83.4
1988 - 89	84.0

The 83.4 % jump in the premium revenues during 1988 is noteworthy. This mainly stems from the fact that the basic traffic insurance became compulsory in 1988. The number of these policies increased 3.6 times during the year. The remaining branches did not show any significant increases in the number of policies.

Even though there is significant growth in TL terms, in real terms the sector has grown around 10 %. Accurate data does not exist in terms of written policies, but it is known that the number has not grown significantly except for the jump in basic traffic insurance policies. Besides, premiums from industrial and commercial risks increased relatively less than civil (or private) risks. The breakdown of premium revenues of the fire branch by risks are as follows :

	1988 =====	1989 =====	% Growth =====	% in Total =====
Civil	5.83	12.61	116.33%	8.70%
Industrial & Commercial	51.93	86.25	66.09%	59.52%
Special Risks	25.53	46.06	80.40%	31.78%
	=====	=====	=====	=====
	83.29	144.92	73.99%	100.00%

Strong company loyalty exists in the market and customers do not change their insurance companies easily. Except for very large insurance business, tenders are not opened and expiring policies are mostly renewed with the existing insurance company. Under existing circumstances obtaining a sizeable market share might take a few years for a newly established company unless there is referral business from shareholders or affiliated institutions. However with the deregulation of the insurance sector in the 1990, the market characteristics were subject to significant changes as competition intensified. Since the tariff regime does no longer exist, the Turkish market will not remain price insensitive and company loyalty is not expected to continue as an important barrier for new entrants in the market.

- MARKETING & INTERMEDIARY INSTITUTIONS

Most of the Turkish insurance companies were established for financial diversification of banks or by major groups to handle their own existing insurance business. Thus, for a very long time insurance companies were acting as processing centers of their shareholders. As a result of this, companies became more operations-oriented rather than product- or marketing-oriented. In line with deregulations, however, we see a major change in the sector in this aspect. Especially with the entrance of marketing-oriented foreign and domestic companies in recent years and with the expectation of a growing market, insurance companies realized the need of well-defined marketing strategies to at

least protect their existing market shares. Companies started establishing marketing departments, determining target markets * and chasing targets through aggressive sales forces. Some companies assigned relationship managers on an account basis and introduced the concept of "risk management" to their clients through lectures and presentations. Besides active marketing, companies also realized the need of quality service and product

innovation and started reorganizing themselves along those lines. It has been observed that privately-owned companies have acted earlier and more effectively in this regard compared to the state-owned ones.)

The number of agencies as of December 31, 1988 were 8,439. Even though an accurate statistics lack in this respect, this number is estimated as 10,000 in 1990. Agencies are subject to a regulation which was published on Official Gazette # 19906 on August 21, 1988. The regulation dictates minimum requirements to become an agency as well as maximum commission limits and premium collection terms.)

It is observed that most of the agencies represent more than one insurance company, and in most cases company loyalty does not exist. Agencies tend to direct business to those companies which offer more flexible payment terms than others. As of December 31, 1988, foreign insurance companies had 888 agencies compared to 7,551 agencies of domestic companies. Among domestic

companies, Basak Sigorta and Ak Sigorta lead the sector in the number of agencies with 2,059 and 631, respectively. A significant portion of these agencies are branches of Ziraat Bankasi and Akbank, leading retail banks of Turkey which hold majority shares in these companies.

- PERSONNEL & PERSONNEL QUALITY

As of December 31, 1989, breakdown of the insurance industry personnel was as follows :

By sex :

	Male	Female	Total
	=====	=====	=====
Domestic Companies	1,624	1,180	2,804
Foreign Companies	123	174	297
Reinsurance Companies	188	108	296
	-----	-----	-----
Total	1,935	1,462	3,397
Percent	57%	43%	100%

By education level :

	P	S	H	C	Total
	=	=	=	=	=====
Domestic Companies	369	345	1,252	838	2,804
Foreign Companies	45	34	164	54	297
Reinsurance Companies	66	31	96	103	296
Total	480	410	1,512	995	3,397
Percent	14%	12%	45%	29%	100%

P - Primary School
 S - Secondary School
 H - High School
 C - College

Personnel quality in the sector is generally low as in the past companies hired mostly less educated personnel and did not invest into training. Bilinguals and computer literates are very limited but in recent years parallel to deregulation, there has been a tendency among college graduates to work in the insurance sector.

For a newly establishing company, one of the major problems will be recruiting experienced top- and mid-level personnel. Similar to the banking industry in the 1980's, upper level managers are limited, and the existing ones change companies only for large transfer payments and higher-than-average salaries.

IV. INSURANCE SECTOR FINANCIAL ANALYSIS

As of December 31, 1989 there were 42 companies acting in the sector, 18 of which are foreign companies (5 French, 4 German, 3 Swiss, 3 American, 2 Italian, 1 English) along with 4 domestic reinsurance companies.

By law, insurance companies are required to prepare quarterly reports in March, June, September and December and submit them to Treasury (UTFT). The following analysis is based on 1989 figures and does not take into account those companies which were established during 1990.

i) Assets

The Total Assets of the insurance sector increased by more than 9 times during the period of 1985 - 1989 as seen on the following table :

	Total Assets (TL bn)				
	1985	1986	1987	1988	1989
Domestic Co's	138	208	396	719	1299
Foreign Co's	8	13	22	41	151
Reinsurance Co's	49	76	118	189	310
Total	195	297	536	949	1760
Annual Growth (%)	52	80	77	85	

In real terms, the sector assets grew by 7 % and 13 % in 1988 and 1989, respectively, as the Wholesale Price Index growth became 70 % and 72 % during these years.

Until 1988, the assets of the domestic insurance companies grew slightly faster than those of foreign companies while their share in total assets increased from 71 % in 1985 to 76 % in 1988. However, it is indicated a reverse trend in 1989, the total assets of the foreign insurance companies grew by 3.7 times in 1989 compared to the previous year while the growth of the domestic insurance companies was only 81 % during the same period. This remarkable growth may be ascribed to the new foreign

companies that entered in the market after recent regulatory changes and the growth of the existing ones in response to increasing competition.

The breakdown of major asset items in 1989 is as follows :

	TL bn	% in Total
	-----	-----
Liquid Assets	681	38
Blocked Securities	66	4
Receivables	653	37
Fixed Assets	313	18
Other Assets	47	3
	-----	---
Total	1760	100

60 % of the liquid assets and blocked securities are in the form of government securities. Similar to Turkish banks, insurance companies prefer investing in risk-free, tax-exempt government securities rather than private commercial paper and high-risk private stocks (except some insurance companies with significant holdings of parent company stocks). The remaining 40 % is invested in stocks of other insurance and reinsurance companies, banks and parent companies. The reserves against the activities of insurance companies are blocked and kept in custody by the Ministry of Industry and Commerce.

The receivables, which make up 37 % of the total assets are funds due from customers, agencies, intermediaries and reinsurance companies. It must also be noted that, if the reinsurance companies are excluded from total figures, the Receivables/ Total Assets ratio becomes 28 %. The breakdown of the receivables of the insurance companies is as follows (excluding reinsurance companies) :

	%
From Customers	15.6
From Agencies	69.3
Other	15.1

As seen, most of the receivables are due from agencies while other receivables are those from insurance and reinsurance companies. The Receivables / Total Premium Income figure in 1989 is 62 %, implying an average collection period of 223 days. 1986 and 1987 figures yielded approximately the same results, thus an average collection period of 7 months. In certain extreme cases the collection period goes even beyond 18 months. Since premiums were regulated at that time by tariffs, the length of the collection period was an important factor in competition which caused a liquidity problem for insurance companies. According to the new law, agencies must remit 40 % of the collected premiums to the insurance company promptly while the remainder must be paid off in 6 months. This is expected to reduce the share of receivables in total assets and the average collection period to some extent in the future.

By law, insurance companies are not allowed to invest into real estate unless the property obtained will be used for business purposes. The law dictates that if property is purchased for other than business purposes, it must be sold within three years of the purchase date.

The Turkish law allows the revaluation of the fixed assets at year-end using the Wholesale Price Index increase rate announced by the State Institute of Statistics. For 1989, the figure was 70.4 %. This increases the value of the asset and its depreciation expense for the following year and increases the total equity figure on the liabilities side.

The largest 5 insurance and reinsurance companies in terms of assets are ranked below :

	TL bn.

Anadolu Sigorta	287
Milli Reasurans	245 (A reinsurance comp.)
Ak Sigorta	140
Genel Sigorta	120
Halk Sigorta	111

ii) Liabilities :

The breakdown of major liability items in 1989 are as follows :

	TL bn	% in Total
	-----	-----
Payables	343.8	19
Technical Reserves	520.3	30
Paid-up Capital	329.6	19
Profit and Reserves	399.5	23
Other Liabilities	166.8	9
Total	1760.0	100

Payables are funds due to insurance and reinsurance companies as well as reinsurer's deposits with the insurance companies. By law, a reserve must be established against non-collected balances (See above - Regulatory Environment).

Technical reserves consist of the so-called the Premium Reserves and Reserves for Possible Losses. Premium reserves are 25 % of total premiums for transportation branch and 33.3 % for all other branches. Reserves for Possible Losses are for claims which have not been settled as of year-end date.

The sector is observed to be well capitalized as the paid-up capital, reserves and revaluation fund makes up 35 % of the total liabilities yielding approximately a leverage ratio of 2 times. Capital, reserves and revaluation fund of the foreign insurance companies make up only 23.4 % of the total capitalization in this sector while the reinsurance companies account for 20 %.

According to December 1988 results capital reserves and revaluation fund accounted for 33 % of the total liabilities and capital, reserves and revaluation fund of the foreign insurance companies made up only 2.5 % of the total capitalization. This remarkable growth in capitalization of the foreign insurance companies in 1989 stems mainly from the new foreign players that entered in the market in response to encouragement of foreign investment and from regulations aiming to strenghten the capital structure of the sector.

Top 4 companies with highest paid-in-capital are :

	TL bn

1. Genel Sigorta	75.0
2. Ak Sigorta	36.0
3. Emek Sigorta	20.0
4. Anadolu Sigorta	20.0

iii) Earnings / Products :

The number of companies operating in each insurance branch in the Turkish insurance sector is as follows (1989 figures) :

	Domestic	Foreign
	-----	-----
Fire	24	14
Transport	23	13
Accident	22	15
Engineering	22	10
Agriculture	20	5
Life	11	0

The premium income per insurance branch and percentage increase in 1989 are listed below :

	Premium Income (TL bn)			Increase(%)	
	1987	1988	1989	87/88	88/89
	-----	-----	-----	-----	-----
Fire	83.3	144.9	260.3	74	80
Transportation	65.6	105.3	162.9	61	55
Accident	116.2	236.9	411.3	104	74
Engineering	20.7	28.9	49.5	40	71
Agriculture	2.9	6.4	11.1	120	73
Life	23.3	49.7	151.9	113	206
	-----	-----	-----	-----	-----
TOTAL	312.0	572.1	1047.0	83	83

As seen on the above table, the accident insurance premium income accounted for 39 % of total premium income and showed the second biggest increase in 1989. Fire and transportation insurances came in second and third in premium income share accounting for 24.8 % and 15.6 % of total premium increase. Also life insurance, which accounted for only 1.33 % of total premium income in 1984 increased its share to 8.6 % in 1988 and 14.5 % in 1989. The trend is expected to continue in coming years. The boom in this subsegment is a result of a new regulation that allows individuals to deduct life insurance premiums from their taxable income. Also, the establishment of new life insurance companies boosted the jump in life insurance premiums.

The following table gives the breakdown of insurance premiums as a percent of the total premiums collected :

<u>Insurance Branches</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Fire	27.58	26.42	27.01	26.70	25.42	24.86
Transportation	38.96	37.49	24.64	21.02	18.48	15.56
Accident	27.06	30.03	35.78	37.24	41.54	39.28
Engineering	4.25	3.33	6.32	6.63	5.08	4.72
Agriculture	0.82	0.70	0.75	0.93	1.12	1.06
Life	1.33	2.03	5.50	7.48	8.36	14.50

In TL terms, the premium income grew by 941 % during 1984-1989, which, in USD terms, represents a 81 % increase over the period.

In 1989, the share of domestic companies' premium revenues was 90.1 % of total premium revenues, compared to the 9.9 % of the foreign companies. During 1989, the percentage of direct premium income for the same year as to the GNP rose to 6.2 % from a 5.7 % in 1988. Also, the per capita direct premium income increased from TL 6 MM in 1987 to TL 11 MM in 1988 and to TL 19 MM in 1989, representing a growth of 83.3 % and 72.7 % respectively.

Top 3 companies with highest premium income are :

	TL bn	Market Share (%)
	-----	-----
1. Anadolu Sigorta	186.7	18
2. Sark Sigorta	106.7	10
3. Halk Sigorta	104.4	9

Technical Profitability of Insurance Branches in 1989 is as follows :

TL bn	Technical Profit	Premium Income	TP/PI
	=====	=====	=====
Fire	61.9	260.3	23.78%
Transportation	40.1	162.9	24.61%
Accident	58.9	411.3	14.32%
Engineering	8.2	49.5	16.56%
Agriculture	1.3	11.1	11.81%
Life	14.3	151.9	9.41%
	=====	=====	=====
Total	184.7	1047.0	17.64%

The loss ratios of direct business taking into account premiums reserves and outstanding loss reserves in all the branches for the last five years are listed below :

Direct Loss Ratios of Insurance Companies (%)

	1984 =====	1985 =====	1986 =====	1987 =====	1988 =====	1989 =====	6-YearAvg. =====
Fire	31	31	29	34	34	24	30.5
Transportation	52	53	45	60	74	40	54.0
Accident	48	54	63	67	67	49	58.0
Engineering	35	42	40	57	102	28	50.6
Hailstorm	17	60	84	63	82	84	65.0
Livestock	62	57	35	93	26	32	50.8

As seen on the above tables, the market enjoys generally low loss ratios and relatively high technical profitability . It has been observed that domestic and foreign insurance companies achieve comparable loss ratios. Fire and Engineering branches turned out to be the most profitable branches for insurance companies, while Hailstorm and Livestock loss ratios increased during 1989.

During 1989, profits of the insurance companies totaled TL 133.9 bn In TL terms, the profits increased by 48 % compared to 1988. Mostly due to tax-exempt Government securities' income, insurance companies' corporate tax payments represented an effective tax rate of 20 % compared to the 48.3 % actual corporate tax rate.

Overall, the foreign companies in the insurance sector enjoyed a high return on equity. The return on equity (including reserves) averaged 42.5 % for the industry while the foreign companies achieved a 104 % return on their equity while the USD-DM basket devaluation became 30 % during the year.

V. NEW ENTRANTS IN THE INSURANCE SECTOR

During 1989, eight new foreign insurance companies were established branches or joint ventures in Turkey as seen on the following table :

Company	Investor	Country	(TL MM) Capital	(Percent) Foreign Share
AGF Garanti	AGF Inter.	Switzerland	10,000	50.00
ALICO A.S.	American Life	USA	2,000	100.00
American Home	American Home	USA	1,000	100.00
Generali A.S.	Assur. Generali	Italy	1,000	94.97
Magdeburger A.S.	Magdeburger	Germany	2,750	100.00
P.F.A. A.S.	PFA Tiard Ass.	France	2,500	79.60
Unyon Hayat	Union des Ass.	France	1,000	99.92
Unyon YKDR	Union des Ass.	France	1,000	99.92

AGF formed a 50 - 50 joint venture with Garanti Bankasi which is a domestic retail bank with 294 branches. The majority of the Bank's shares are owned by the Dogus Group which is among the top companies in the Turkish construction sector.

The other companies preferred to maintain 100 % ownership and enter the market from stracth. Among these, Generali which had been functioning as an agency for almost a century finally formed a company to conduct general insurance business.

Another big name in insurance, ALICO came in after two years of initial research and preparations. They invested TL 2 bn, increased the capital to TL 5 bn, but state that they still need more capital to operate. They are training their own sales people -45 people has been trained so far- planning to enter the market with the the upper income bracket. They think it will take two years before they become profitable, however they see big potential in this area.

Two other foreign insurance companies, namely Gotheard of West Germany and Baltize of Denmark reportedly obtained permission from the Treasury in Fall 1989. Gotheard started operations in early 1990, while Baltize entered into a joint venture with Egebank, a medium-sized Turkish retail bank and started operations in the second half of 1990.

Domestic insurance companies established in 1988 - 89 were :

Company	Shareholder (s)	(TL MM) Capital
Merkez Sigorta A.S.	Turkpetrol 40 % Guris Holding 40 % Alaattin Buyukkaya 10 %	5,000
Bizim Sigorta A.S.	Several agencies & brokers	5,000

Several domestic institutions applied for a license to establish insurance companies and are waiting for the approval of the UTFT.

VI. CONCLUSION

The scene is dramatically changing in all aspects of life in Turkey and the insurance sector is being forced by the market to adapt to the growing and changing needs of a more demanding and modern society.

Since 1980 Turkey has redefined the role of the Government and the private sector in the economy. The role of Government is being limited to matters such as defence, health, education and infrastructure.

Other sectors have been opened to foreign capital and market forces and the Foreign Investment Directorate created as a "one stop" authority for all foreign investments except oil exploration.

A necessary activity was to privatise many of the Government owned and controlled companies. The privatization programme is being carried out by the Public Participation Fund Administration who take over the shares and manage state owned companies prior to privatization.

The current Turkish Government has :

- Removed price controls
- Liberalized exchange controls
- Simplified investment procedures
- Implemented realistic adjustable exchange rates
- Opened the country to international banks.

As a result the economy has taken off. Since 1983 exports have increased by 104 % in dollar terms, average GNP growth has been 6 % p.a., and the Balance of Payments registered a surplus of USD 1.5 billion in 1989.

In April 1989, the government introduced the Sixth Five Year Development Plan which will cover 1990 through 1994. The plan, which is considered too optimistic by the opposition, sets ambitious targets, such as a growth rate of 8.3 % and an inflation rate of 12 % by the end of the period. The Plan's Rapid Development Strategies contain domestic and foreign increase in demand.

The Turkish Government started a reform program in the financial sector which brought about regulatory changes and provided new incentives in the insurance industry. The role of the government in creating long term funds to the financial system shifts to the insurance sector. The government aims to enhance this sector via new regulations such as increased minimum capital base, moving towards perfect competition by removing premium limits and encouraging life insurance.

The government looks warmly to foreign insurance companies to invest in Turkey as they will bring their know-how along. Foreign insurance companies are granted permits easier than domestic entrants into the market.

At the beginning of 1990, the State Minister in charge of the economy and the financial institutions, Mr. Gunes Taner, has announced that the government will impose compulsory health and transportation insurances which are expected to increase the premium revenues quite significantly. The first application of the compulsory insurance has been the "bus travellers" where transportation companies have to insure each seat every year. The premium is determined as TL 25,000.--. In case of death of the insured a payment of TL 10 Million will be made. It has been estimated that there are approximately 32,000 buses that will have to make this insurance creating a premium volume of approximately TL 30 bn. Compulsory insurances for restaurants, hotels, etc. will follow. Also, Product Liability insurance is expected to become compulsory in 1991.

The insurance business of the State Economic Enterprises has been previously handled only by government-owned insurance companies by law. This started to change in 1990 as privately owned domestic and foreign insurance companies are allowed to get a share of this market.

The insurance sector which traditionally has a long response time to economic changes and cycles, had started adapting itself to the new economic system during the second half of the 1980's. In line with the above changes, realizing the increasing competition due to the start of deregulation of the sector by the government and entrance of more foreign companies, the Turkish insurance sector initiated a reform program whereby :

i) Companies went through reorganizations and became independent profit centers rather than only serving the groups they belong to.

ii) They have become more marketing oriented and established departments and workforces in this respect.

iii) Product differentiation and innovation became a major issue and companies realized the importance of market niches and concentrated their marketing efforts along these lines.

iv) Insurance company-agency-customer relations were improved while more attention is being given to customer's needs. Companies are observed to become more and more selective in

choosing agencies than they were in the past.

v) Need for qualified personnel has been realized by the insurance companies and they started hiring of bilingual college graduates. Also, training programs both in-house and outside are being arranged to improve personnel quality.

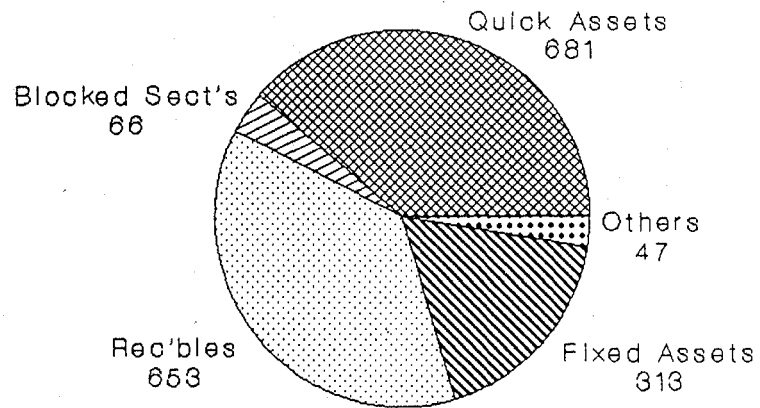
vi) Insurance companies became more cost-conscious and realized the need of lowering overhead costs by moving into automation and reducing the number of personnel.

vii) Especially in the State-owned insurance companies, decision making has traditionally been very centralized. With increasing competition and as a result of improving personnel quality, decision making is slowly becoming decentralized and more efficient systems are being developed.

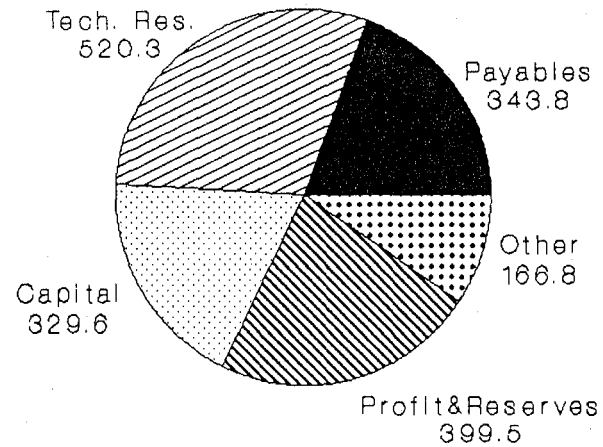
Most of the insurance companies are aware of the fact that with the above mentioned changes, a severe, throat-cutting competition has started, and the sector is not likely to enjoy its existing profitability. The "granted" premiums and market shares will diminish to unknown extents especially with the entrance of new companies.

APPENDIX

Turkish Insurance Sector Breakdown of B/S Items

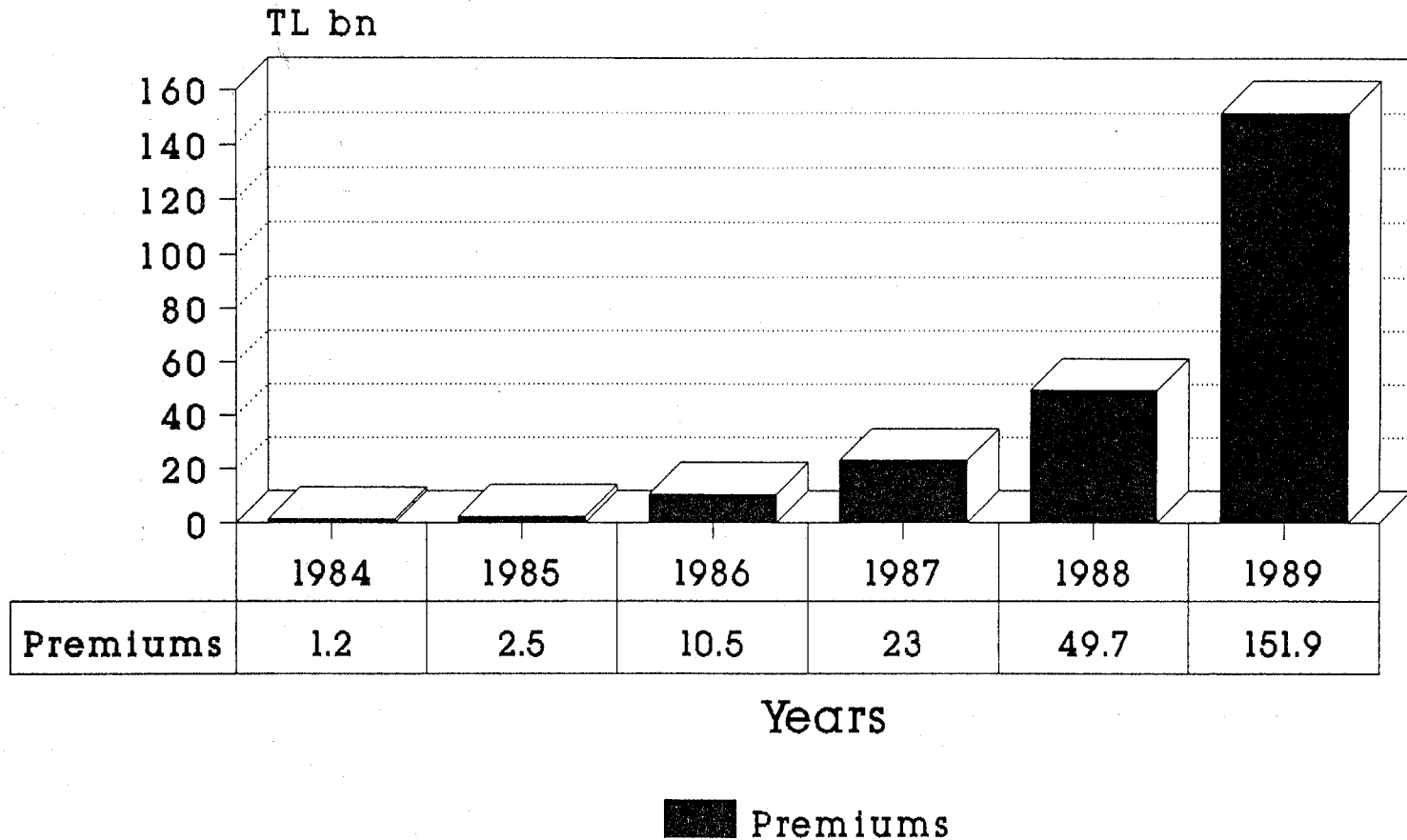


Assets

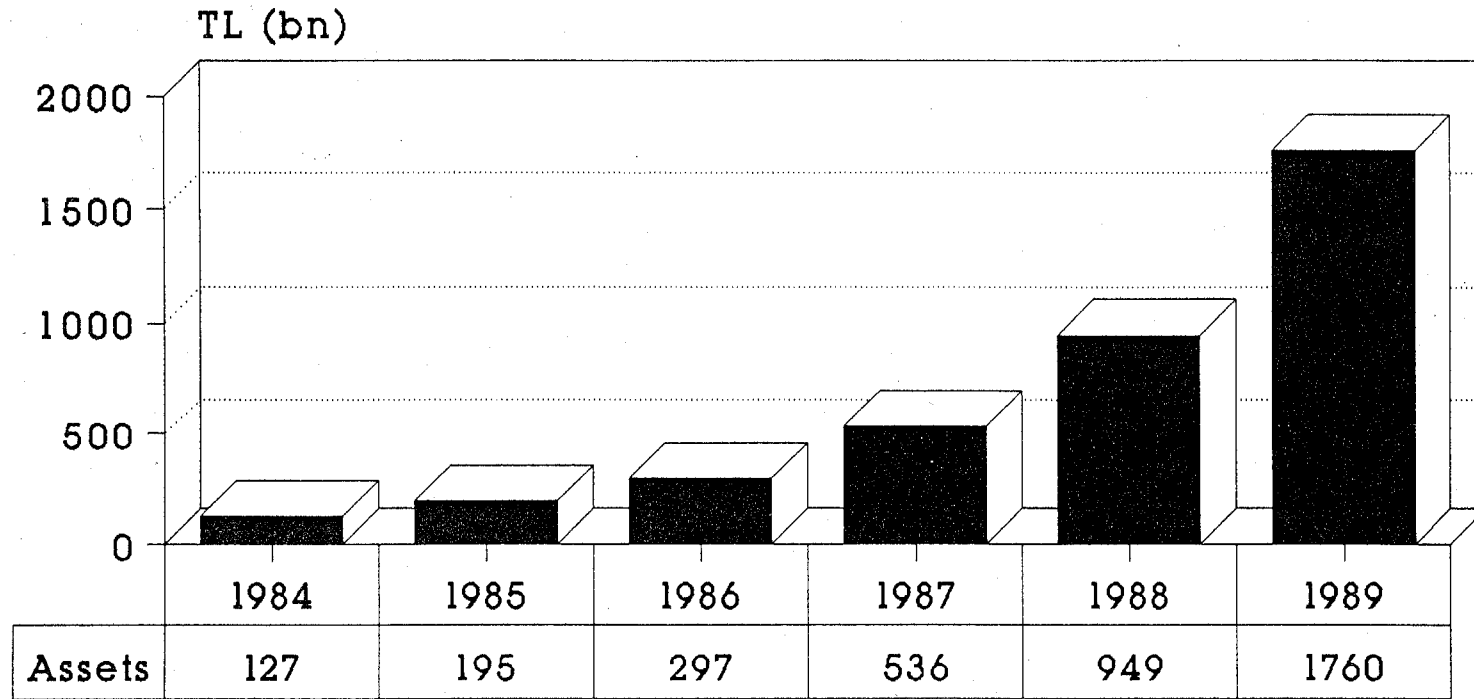


Liabilities

Life Insurance Premium Collections



Turkish Insurance Sector Assets

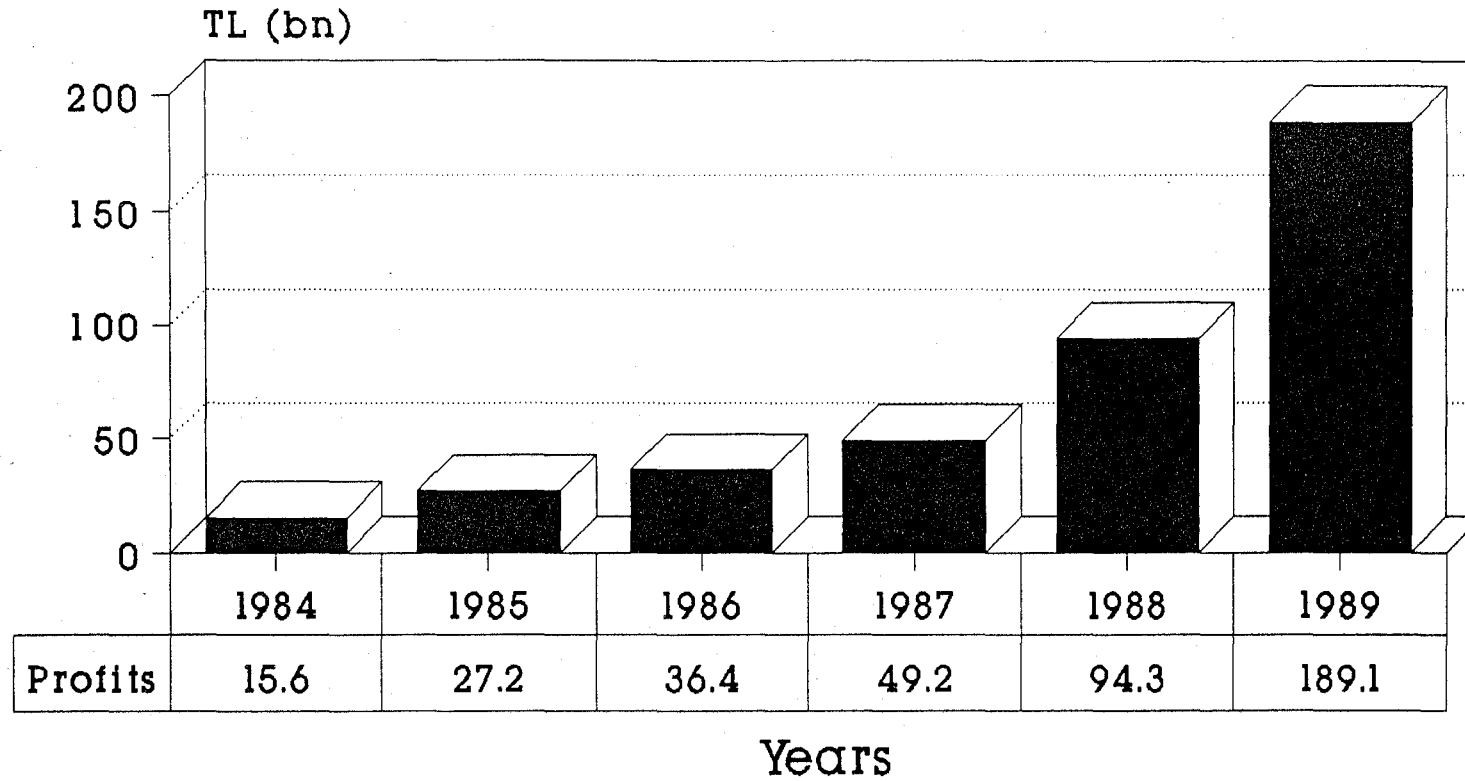


Years

■ Assets

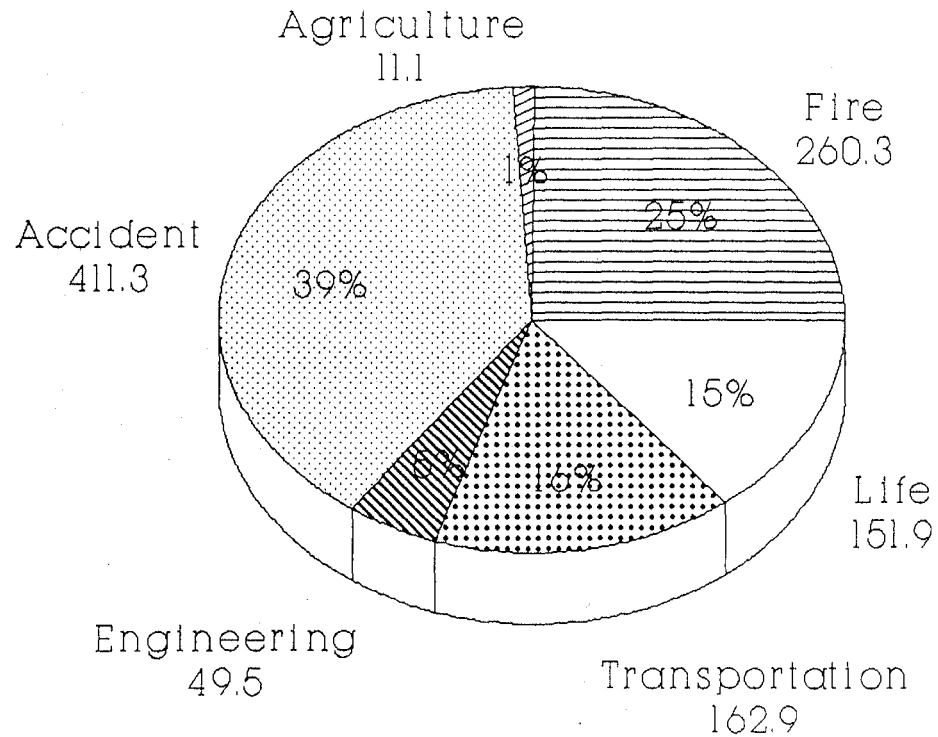
Turkish Insurance Sector

Net Profits

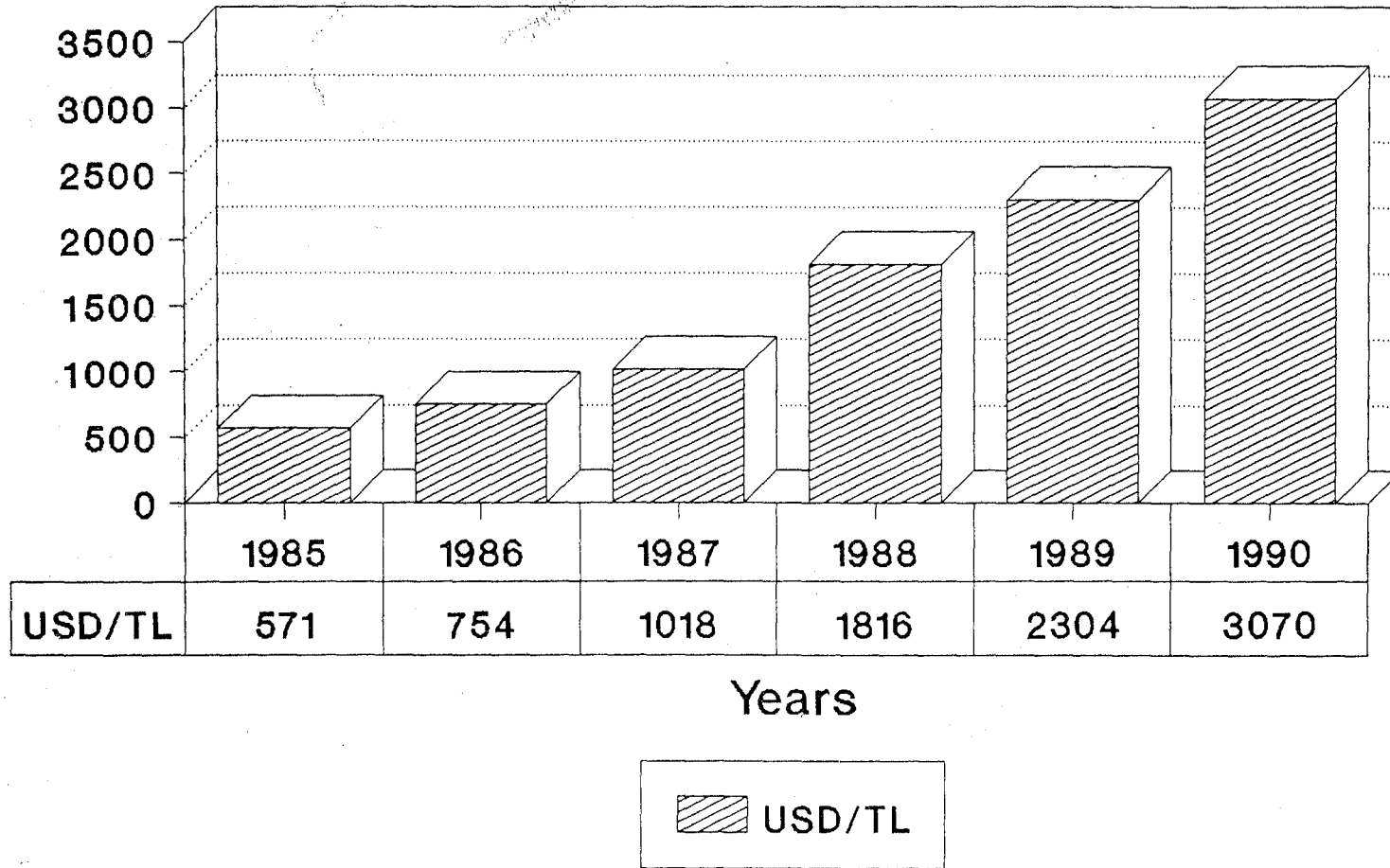


■ Profits

Premium Distribution Per Branch - TL bn



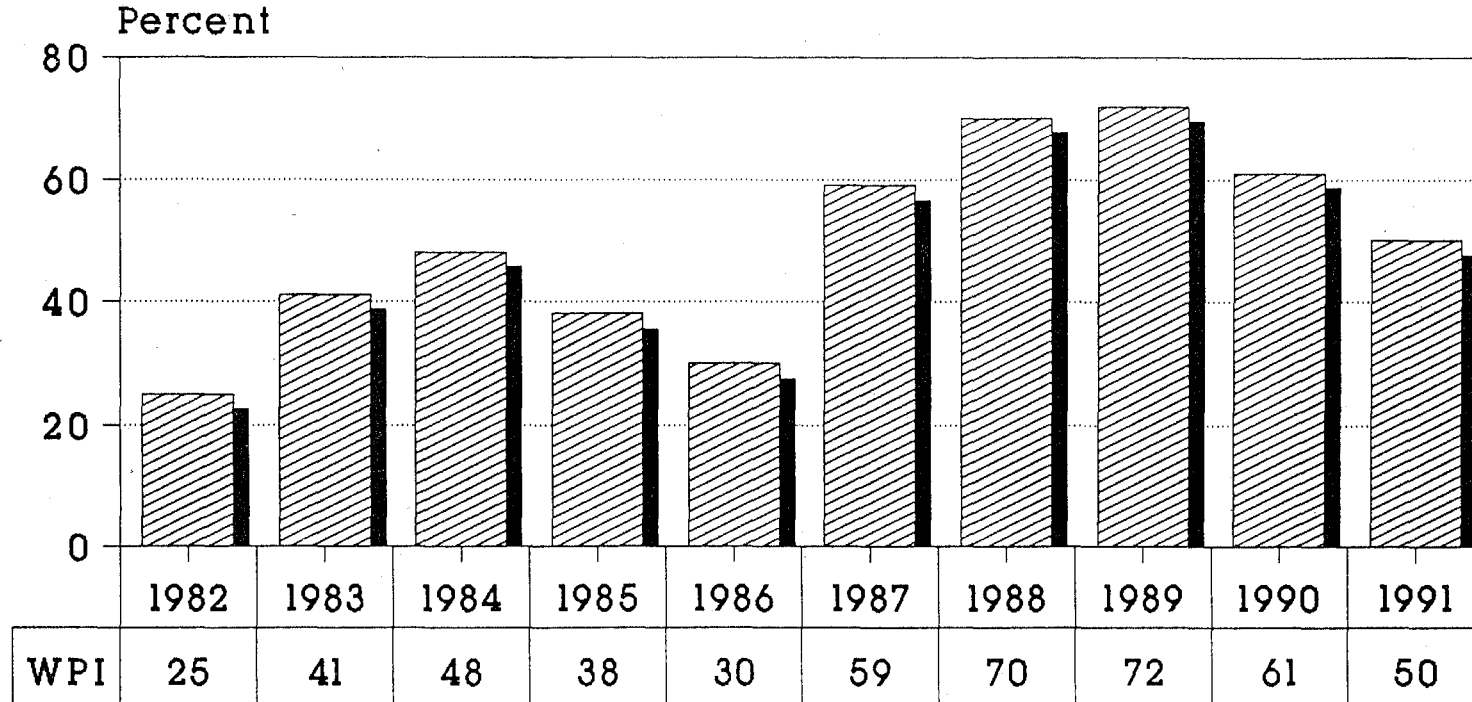
US \$ / TL Rates 1985 -1990



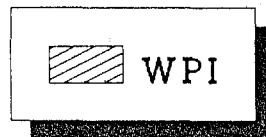
Central Bank of Turkey buying rates

Wholesale Price Index Change

1982 - 1991 Figures



Years



1991 estimated