

The risks and regulations driving the Turkish insurance market's growth

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Nearly three-quarters of Turkish insurance companies have foreign owners or partners

Penetration is low but government measures could increase it

E-commerce growth and hacking attacks may push demand for cyber cover

Emerging risks as well as new and upcoming regulations are driving the growth of the Turkish insurance market, explain Pelin Paysal and Ilgaz Önder, partner and associate at Gün + Partners.

The Turkish insurance market has witnessed strong underlying growth over the past five years, as reported by JLT in its Turkish insurance market outlook 2016-2017. The non-life segment, which accounted for 88% of the gross written premiums in 2015, has played an important role in this expansion. Although market growth reached up to 9% over the recent years, premium growth was severely restricted as the Turkish lira strongly depreciated against the US dollar.

According to the Insurance Association of Turkey, there are currently 61 active insurance companies incorporated in the country, consisting of 37 non-life insurers, 19 life and pension insurers, four life insurers and one reinsurer. As the market is largely viewed as a profitable one, nearly three-quarters of insurance companies are either foreign-owned or partnered.

This is also true for reinsurance: cover is mostly provided by foreign reinsurers, with Milli Re, the sole local reinsurer, holding a market share of 27% in 2017.

The penetration of non-life insurance in Turkey is lower than in European countries. For most people, insurance is neither a priority nor a necessity, and there is a limited understanding of the benefits of insurance. The Insurance Association of Turkey is trying to raise awareness of this and build trust in the market. Through promotion, it expects the non-life insurance segment, which was around TL15bn (£3bn) in 2012, to reach TL63bn (£12bn) in 2023.

The life insurance segment represents only 12% of the total insurance market and is taken up mostly by the younger population. The Turkish government is encouraging private pension systems and annuity products by providing a contribution to the premiums paid by the policyholders and introducing compulsory pension schemes: employees under 45 years old are now automatically included in the pension system, with the premium being deducted from their wages. However, 50% of those employees opted to abandon the scheme shortly after their automatic inclusion.

Emerging risks, disasters and the economic climate significantly influence the underlying legislation and insurance tools. For instance, after the Soma explosion killed 301 coalminers, compulsory personal accident insurance was introduced for those working in the mining sector.

Cyber risks have come under the radar, especially after a bank admitted in December 2016 it had been targeted by hackers in an attack that may cost it up to \$4m (£3m). Akbank said the the loss it incurred was then remedied as per the lower limit of the Banker's Blanket Bond without seeking any separate insurance coverage particularly concerning cyber risk.

With a fast growing e-commerce market, new legislation and administrative measures are expected in the near future, which could cover cyber attacks as a risk. This could eventually impose additional legal responsibilities on companies, thus increasing the need for appropriate insurance.