

Turkey Insurance Report 2013

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Abstracts

Key Insights And Key Risks

Virtually all the positive trends that we identified in Turkey's insurance sector in the Annual Report last year remain intact. Inflation that is still high by the standards of most countries (if not Turkey) is boosting non-life premiums, but they are still almost achieving double-digit growth in real terms. This is thanks in part to the general improvement in the economy and the use of non-life insurance by first time customers. Non-life penetration remains in a steady uptrend. The life sector is developing quite rapidly from a low base, thanks in part to reforms which should boost the appeal of Turkey's private pension products.

Nevertheless, there are challenges. In the life insurance sector, the relatively low coverage of traditional products and pension plans suggests that, for now, a large number of people are unaware of the benefits. Responding to volatile financial markets, many non-life and life insurers have kept (very) large portions of their investment portfolios in cash. Perhaps to a greater extent than their counterparts in other countries, in the non-life segment, the problem is more fundamental. Growth in premiums for many has been accompanied by profits for few. Not only has return on equity been falling over recent years for the non-life segment as a whole, it remained in negative territory in 2011.

We think that the lack of profitability – across many lines in the non-life segment – reflect the fragmented nature of the market. None of the leading local players would really rate as a large non-life company in most national markets that are surveyed by BMI. Some of the leaders have forged useful relationships with foreign groups that ensure that they have (easier) access to capital and world-class know-how: the alliance between the Sabanci group and Belgium's Ageas, the strategic shareholders in Aksigorta is a case in point. However, none of the leading local non-life groups have

really been able to leverage well developed brands and relationships with affiliated banks in such a way that they have control over prices/rates and profits. In the meantime, AXA has emerged as one of only two non-life groups with a double-digit market share in the non-life segment (the other being Isbank group's Anadolu Sigorta).

Turkey, like several other large emerging markets, is clearly a country to which AXA is committed. We are not sure that this is true of the other foreign groups that are present in Turkey. Too many of the foreigners face the same problems as the larger/local groups, but with very small market shares. We expect that some kind of rationalisation will take place.

In the life segment, by contrast, it appears that bancassurance relationships have been crucial to business development. Although several foreign groups appear among the top ten players, it is the local groups that have established what looks to be a fairly unassailable position, albeit in a segment that is still underdeveloped by many measures. Anadolu Hayat Emeklilik (AHE) and Ziraat Hayat ve Emeklilik occupy leadership positions in spite of their apparent preparedness to cede market share through H112 in order to boost profitability.

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AIG

Aksigorta

Allianz

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Anadolu Sigorta

AXA

BNP Paribas Cardif

ERGO

Groupama

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