

Economic and Sectoral Developments in 2022

In 2022, the total premium production of Türkiye's insurance industry reached TL 235 billion, with a nominal increase of 123.2%.



ECONOMIC OUTLOOK

The year 2022, which started with optimistic prospects of a recovery period following the pandemic, was a challenging year in which the global economy's agenda was driven by high inflation and the energy crisis. The war between Russia and Ukraine, which broke out in the first days of the year, upended all optimistic projections for the new year, and in 2021, price increases due to the supply-demand imbalance caused by pandemic restrictions entered a much higher frequency trend as an outcome of the war.

With the outbreak of the war, the region's production and logistics operations, which has a significant share of the global market for natural gas, oil, and industrial raw materials, ceased, and then economic sanctions imposed on Russia, the scope of which has been continuously expanded, caused a swift and sharp increase in energy and commodity prices, particularly in the European market due to its energy dependence on Russia, and then spreading at a dramatic rate, in the global markets. Thus, inflation, which showed its first signs in the post-pandemic period, has become a major global issue.

The fight against inflation started with the rapid cut of monetary expansion and asset purchases, especially by the central banks of developed countries, and continued with tighter policy practices and sharp interest rate hikes. The Federal

Reserve of the United States (Fed) raised interest rates by 425 basis points in 2022, bringing the policy rate to the range of 4.25%-4.50%, the highest level since 2007. The European Central Bank (ECB) hiked the policy rate to 2.50% in 2022, with the increase beginning in the second half of the year. The Bank of England also raised interest rates by 325 basis points in 2022, bringing the policy rate to 3.50%, the highest level in 14 years.

While disinflationary policies suppressed global economic growth, the ongoing supply shortages due to China's "Zero-Covid" policy also had adverse effects on the growth.

In its World Economic Outlook Report dated January 2023, the IMF updated its world economy growth forecast of 3.4% in 2022, and announced that the growth rate would be 2.9% in 2023, with the expectation that the current risks would continue. The IMF stated that the effect of the measures taken on a global scale will begin to be seen in 2024 and announced its growth forecast for 2024 as 3.1%.

With the contribution of robust domestic demand and net foreign demand in the first three quarters of the year, the Turkish economy grew by 7.5%, 7.7%, and 3.9% respectively, on a year-on-year basis. The increase over the past nine months was calculated to be 6.2%.

The IMF estimates that our country has achieved a growth rate of 5.5% in 2022, which is well above the world average.



TÜRKİYE SİGORTA

CPI inflation, which followed an upward trend throughout 2022 with the reflection of the global supply-demand imbalance and soaring energy and food costs, declined to 64.27% as of the end of the year due to the high base and liraization, after reaching its peak in October. The annual D-PPI was also at its lowest level since January 2022 with 97.72%.

The CBRT kept the policy rate constant at 14% in the first two quarters, and in its monetary policy meeting held in August, it started the policy rate cut process, considering that financial conditions should be supportive to preserve the growth momentum in industrial production and the positive trend in employment. It gradually reduced the policy rate to 9%.

In 2022, Türkiye's exports ascended by 12.9% to a record high of USD 254.2 billion, while imports increased by 34% to USD 363.7 billion. The foreign trade deficit remained high with the effect of fluctuations in commodity prices, particularly in energy, and gold imports, and was realized as USD 109.5 billion. During the same period, the current account balance had a deficit of USD 48.8 billion, while the current account balance excluding gold and energy had a surplus of USD 50.8 billion.

INSURANCE INDUSTRY

The deteriorating economic balances caused by the continuation of the Covid-19 pandemic, the problems encountered in the global supply chain, and the increase in energy and commodity prices as a result of the Russia-Ukraine war caused high inflation and economic slowdown in the economies and put pressure on the insurance industry. The semiconductor crisis, in particular, caused a shift toward the market for second-hand motor vehicles, while the construction industry witnessed a significant increase in costs. These situations have increased the damage costs of motor vehicles, motor vehicles liability and general liability.

According to the Swiss Re Institute's SIGMA Report dated July 2022, it is expected that in 2022, total premiums (non-life and life) will exceed the USD 7 trillion mark for the first time, with a strong nominal growth of 6.1%. However, this growth in real terms translates into near flat growth of 0.4% compared to the previous year.

It is estimated that the premium increase in the emerging markets will be 3.0% in 2022 and 4.2% in 2023, and these increases are expected to be above the premium productions in developed countries.

In 2022, the total premium production in the insurance industry of Türkiye reached TL 235 billion, with a nominal increase of 123.2%. Premium production in non-life branches, which had a share of 86.9% in total production, grew by 133.1% and was recorded as TL 204.2 billion. Premium production of the life branch, which has a share of 13.1% in total premium production, grew by 74.1% and reached TL 30.9 billion. The "Motor Vehicles Liability" main branch took the largest share in total production with 28.21%.

Prior to re-opening in the summer of 2021, mobility and damage frequencies remained relatively low with the restrictions due to the pandemic with positive repercussions in terms of technical profitability, though causing a high base effect for the first half of 2022. With the normalization in the second half of 2021, it was observed that the damage rates increased significantly in the industry in the following period as a result of the rise in damage frequency, the return of postponed health expenditures, the increase in spare parts costs due to the fluctuations in exchange rates, high inflation and labor costs. In 2022, damage frequency and costs continued to increase, especially in the vehicle branch, putting pressure on the technical profitability of the industry.

Economic and Sectoral Developments in 2022

BRANCHES	2022	SHARE (%)	2021	SHARE (%)	CHANGE (%)
ACCIDENT	4,711,981,091	2.31	2,443,378,083	2.79	92.85
HEALTH	30,061,294,054	14.72	13,078,386,991	14.93	129.85
MOTOR VEHICLES	44,514,428,282	21.80	14,291,889,908	16.32	211.47
RAIL VEHICLES	-	-	30,962	-	n.m.
AIRCRAFT	635,247,668	0.31	469,039,408	0.54	35.44
WATERCRAFT	2,188,365,682	1.07	1,058,942,244	1.21	106.66
MARINE	3,827,153,009	1.87	1,844,392,319	2.11	107.50
FIRE AND NATURAL DISASTERS	27,342,082,776	13.39	14,046,572,235	16.04	94.65
GENERAL LOSSES	21,954,729,978	10.75	11,038,240,939	12.60	98.90
MOTOR VEHICLES LIABILITY	57,584,634,954	28.21	23,308,761,216	26.61	147.05
AIRCRAFT LIABILITY	904,666,282	0.44	488,973,998	0.56	85.01
WATERCRAFT LIABILITY	237,847,913	0.12	88,526,945	0.10	168.67
GENERAL LIABILITY	5,957,537,232	2.92	3,213,054,072	3.67	85.42
CREDIT	962,384,048	0.47	528,327,801	0.60	82.16
SURETY BOND	349,187,372	0.17	221,493,082	0.25	57.65
FINANCIAL LOSSES	1,761,229,781	0.86	1,154,007,399	1.32	52.62
LEGAL PROTECTION	720,780,185	0.35	300,224,816	0.34	140.08
SUPPORT	439,935,396	0.22	6,028,376	0.01	7197.74
NON-LIFE TOTAL	204,153,485,703	86.87	87,580,270,796	83.17	133.10
LIFE	30,858,314,007	13.13	17,726,737,287	16.83	74.08
GRAND TOTAL	235,011,799,710	100.00	105,307,008,083	100.00	123.17

Source: Insurance Association of Türkiye

INSURANCE INDUSTRY LEGISLATIVE DEVELOPMENTS AND AMENDMENTS IN 2022

The Circular (2021/6) on the Amendment to the Circular No. 2020/8 on the Implementation of Premium/Equity Coefficient and Maximum Premium Increase Rates in the Compulsory Liability Insurance of Highways Motor Vehicles has been published.

With this Circular, according to the new regulation to be effective as of 1 January 2022, it has been stipulated that the sum of the Highways Motor Vehicles Compulsory Liability Insurance premiums produced by insurance companies in a calendar year cannot exceed four times their shareholders' equity at the end of the previous year. This Circular came into effect on 1 January 2022.

Circular on Amendments in Coefficients Used in Calculation of Capital and Adequacy

On the Regulation on the Measurement and Assessment of Capital Adequacy of Insurance, Reinsurance and Pension Companies dated 23 August 2015 and numbered 29454, which was amended by the 1st article of the Communiqué on 5 August 2016 and No. 2016/29 on Making Amendments in the Coefficients Used for Writing Risk in Capital Adequacy Calculation, the coefficients in subparagraphs c and h of the sixth paragraph of Article 8, titled "Required equity according to the second method", have been changed as 0.15 and 0.21 for Motor Vehicles and Motor Vehicles Liability Insurances, respectively. This Circular came into effect on 1 January 2022.

The Circular (2022/22) Amending the Communiqué No. 2016/22 on the Discounting Net Cash Flows Arising from Outstanding Claims Reserve has been published. With this Circular, the discount rate used in discounting the cash flows arising from outstanding claims has been increased from 14% to 22%.

In the amendment made in the 7th article of the Circular on the Amendment of the Circular on the Discounting of Net Cash Flows Arising from Outstanding Claims Reserve, it is stated that net cash flows are discounted to cash value by considering the rate of 22% as of the financial reporting period. This Circular came into effect as of 30 June 2022.

Türkiye Sigorta reflected the discount rates specified in the relevant Circular to the financials by using it in the calculations of the discount amounts for the second quarter of 2022 and the accounting periods thereafter.

The Circular No. 2020/8 on the Amendment on the Circular on the Implementation of Premium/Equity Coefficient and Maximum Premium Increase Rates in Highways Motor Vehicles Compulsory Property Liability Insurance (2022/24) has been published.

With this Circular, according to the new regulation to effective as of 1 January 2022, it has been stipulated that the sum of the Highways Motor Vehicles Compulsory Liability Insurance premiums produced by the insurance companies in a calendar year cannot exceed 5 times the previous year-end equity capital. This Circular came into effect on 4 August 2022 on the date of its publication.

Regulation Amending the Regulation on Tariff Implementation Principles in Highways Motor Vehicles Compulsory Liability Insurance has been published in the Official Gazette on 31 August 2022 and came into effect.

As specified in this Regulation:

ARTICLE 1 - The following paragraph has been added to Article 15 of the Regulation on Tariff Implementation Principles in Highways Motor Vehicles Compulsory Liability Insurance published in the Official Gazette dated 14 July 2007 and numbered 26582.

“(4) The authority to issue and renew policies in insurance branches determined by the Institution or in all insurance branches of insurance companies identified to have avoided issuing policies may be temporarily suspended for a period of not less than 3 days and not more than 30 days. If the avoidance persists, these periods of time can be doubled and/or further actions can be imposed based on the Board’s decisions. The Institution may announce insurance companies that are found to have avoided issuing policies, and the injunction decision taken pursuant to this paragraph, on the official website with a Board decision, based on the eighth paragraph of Article 8 of the Presidential Decree No. 47.”

ARTICLE 2 - To come after the phrase “1.5% per month (over the maximum premium amounts of the previous month) as of February 2022” in the temporary article 11 of the same Regulation, the phrase “As of September 2022, 4.75% per month (over the maximum premium amounts of the previous month)” has been added.

“12) The maximum premiums to be applied as of 1 September 2022 are calculated by adding 10% for taxi, minibus (10-17 seats including driver), bus (18-30 seats including driver), bus (31 and more seats including driver), truck and towing vehicle groups, and 20% for other vehicle groups implemented to the 4th level maximum premiums on the basis of vehicle group applied in August 2022.”

ARTICLE 3- Annex-2 of the same Regulation has been amended as in the attachment, Annex-3/A has been added to the same Regulation to come after Annex-3, and the phrase “three” in the first paragraph of Article 4 of Annex-4 in the same Regulation has been changed to “five”.

Circular No. 2022/27 On Reserve for Unexpired Risks Has Been Issued.

As specified in this Circular:

i. The gross damage premium rate can be calculated on the basis of the accident year, over the sum of the last four three-month periods including the current period, incorporating indirect works. In case of significant fluctuations in the damage premium rate corresponding to the accident years due to unanticipated changes in inflation, exchange rate, minimum wage increase and similar issues, it is possible to make adjustments by taking into account the best estimation principles by the company actuary, reflecting the results of each quarter within itself, in order to eliminate the misleading effect of the fluctuation, provided that there is an actuarial basis.

ii. As an alternative to the method explained, the gross damage premium rate by insurance companies can be calculated based on the underwriting (business) year over the sum of the last four quarters including the current period, covering indirect works. In calculating

the amount of claims incurred by the company actuary, the immaturity of the claim development process for the underwriting (business) year for the policies written in the last year is also considered within the framework of the best estimation principles.

iii. In case a separate calculation is made for the works where 100% of the direct production is transferred to the pools established in Türkiye, the gross damage premium rate of 105% is used as 100%, and the gross damage premium rate of 90% used for other works is used as 85%.

iv. In case a separate calculation is not made for the works where 100% of the direct production is transferred to the pools established in Türkiye, the 90% rate of gross damage premium used is used as 85%.

v. The positive difference that may arise due to the change in the calculation method and the adjustments made by the company actuary in order to eliminate the misleading effect of the unanticipated fluctuations in the loss premium ratio, cannot be used in profit distribution for one year following the year in which the change is made, without the approval of the institution, and is not taken into account in the calculation of the capital adequacy ratio to be considered for profit distribution.

Companies that have not prepared their financial statements dated 30 September 2022 on the publish date of this Circular may implement the provisions of this Communiqué as of 30 September 2022. Circular No. 2019/5 on Reserve for Unexpired Risks has been repealed.

In addition to these, the Company has undertaken all necessary arrangements and implementations in accordance with the requirements of the Personal Data Protection Law.

In order to build financial models and processes, internal reporting, as well as system architecture, in compliance with IFRS 17 standards, the IFRS 17 Standards Compliance Project continued throughout 2022. It is scheduled to be concluded in the first quarter of 2023.