

ENGINEERING INSURANCES

How the Local Market works - Turkey

IMIA Annual Conference, September 2009, Istanbul

Agenda

1. The Market

2. The People

3. Main Lines of Business

4. Wordings

5. Business Generation

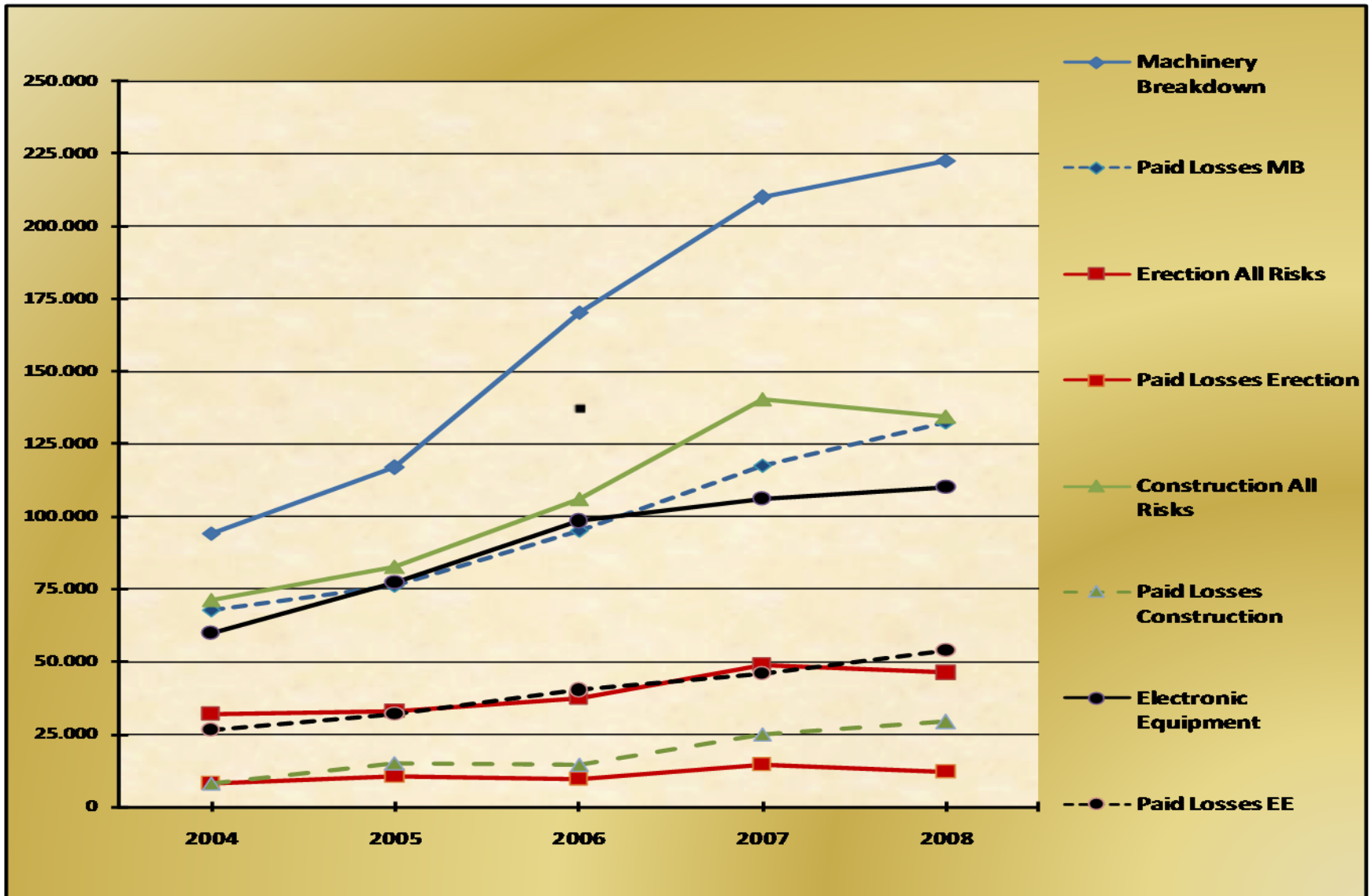
6. Reinsurance

7. Problem Areas

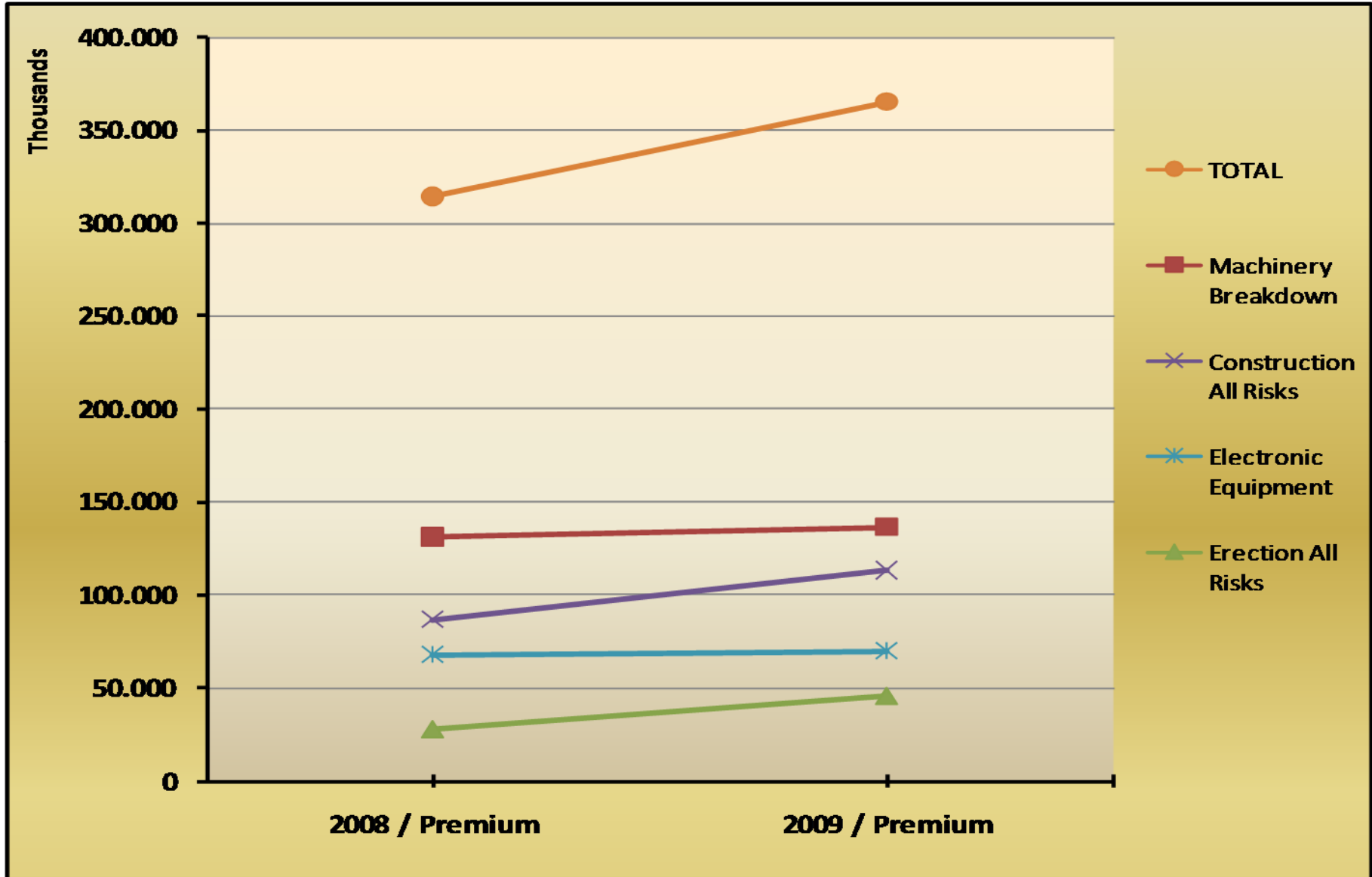
Engineering versus Non-Life (in .000 TL)



More in Detail, Engineering Figures of Last 5 Years (in .000 TL)



2008 & 2009 First 7 Months Comparison (in .000 TL)



The Construction Market - Worldwide

- Construction business got its peak growth in 2006 with 7,2%
- The top 3 regions are South America, Eastern Europe and Middle East & Africa regions where Turkish contractors are active in the latter two
- Crucial year was 2007 due to the credit crunch in U.S. financial sector.
- All of the construction business throughout the world was influenced from the crises and all regions suffered a negative growth rate except Asia.

Construction Market - Turkey

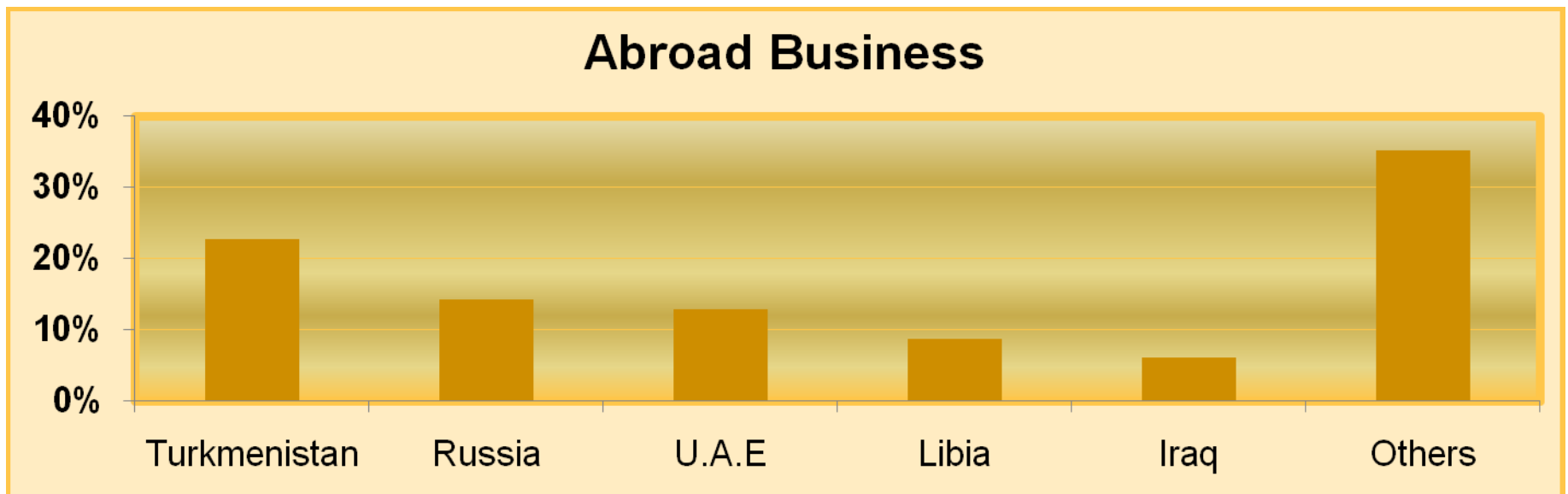
- Construction industry is one of the leading industries in Turkey.
- It employs huge number of people and supports various sub-sectors like production of building materials. It has a fluctuating growth rate because of the booms and contractions in demand of residential buildings.
- The growth rate in 2007 has been the minimum among the previous 5 years. In 2008 & 09, construction business was influenced from the global crises and reached a negative growth rate.
- In the I. quarter of 2009, state construction investments were increased by 24,4% whereas the private sector investments has decreased by 28,8%.

Construction Services in Turkey 2/3



Construction Market – Abroad

- Turkey's construction companies have a success story abroad in the last 7 years.
- They operate around 70 countries and completed around 5000 projects all over the world.
- The companies mostly focus in Eastern countries
- The cumulative total volume of the business reaches 130 billion dollars.



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The People

- Managers with engineering background (civil/mechanical) are quite common in the underwriting departments even in brokers
- Obviously same applies for risk engineering departments who provide information for underwriting to property and engineering departments
- The level of education is quite high as illustrated in the next table.

The People

Type of Company	LEVEL of EDUCATION as of 2008					
	Primary	Secondary	High School	University	Higher Education	Total
Non-Life Total	105	76	1.478	5.082	514	7.255
Life Insurance Total	12	14	201	465	54	746
Life / Pension Total	46	31	371	1.717	187	2.352
Pension Comp. Total	2	3	17	85	7	114
Reinsurance Total	32	2	44	109	16	203
TOTAL	197	126	2.111	7.458	778	10.670

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Basics: Main Lines of Business

➤ Four Main Lines of Business

Construction / Erection All Risks

Machinery Breakdown / Electronic Equipment Insurance

➤ Additional but rare

MLoP, ALoP

Data covers

Deterioration of Stocks

➤ Non or almost non-existing

Performance, Bid, Surety Bonds

Decennial

Engineering Figures of 2009 (in TL)

First 7 Months - 01.01 / 31.07

Engineering Premium	2008	2009	Change %
Machinery Breakdown	130.815.755	136.025.926	4%
Erection All Risks	28.480.818	45.836.803	61%
Construction All Risks	86.881.491	112.853.757	30%
Electronic Equipment	67.990.822	70.132.054	3%
TOTAL	314.168.886	364.848.541	16%

# of Engineering Policies	2008	2009	Change %
Machinery Breakdown	145.745	62.700	-57%
Erection All Risks	312.326	267.712	-14%
Construction All Risks	8.970	9.133	2%
Electronic Equipment	158.008	299.726	90%
TOTAL	625.049	639.271	2%

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Basics: Policy Wordings

- General Conditions for each line of business are approved by the Turkish Treasury and are same for all insurance companies/insureds
- All four wordings are on “all risks” basis – but with a good list of exclusions from uw point of view
- Especially in CAR business, Mre Wording and respective clauses are commonly applicable

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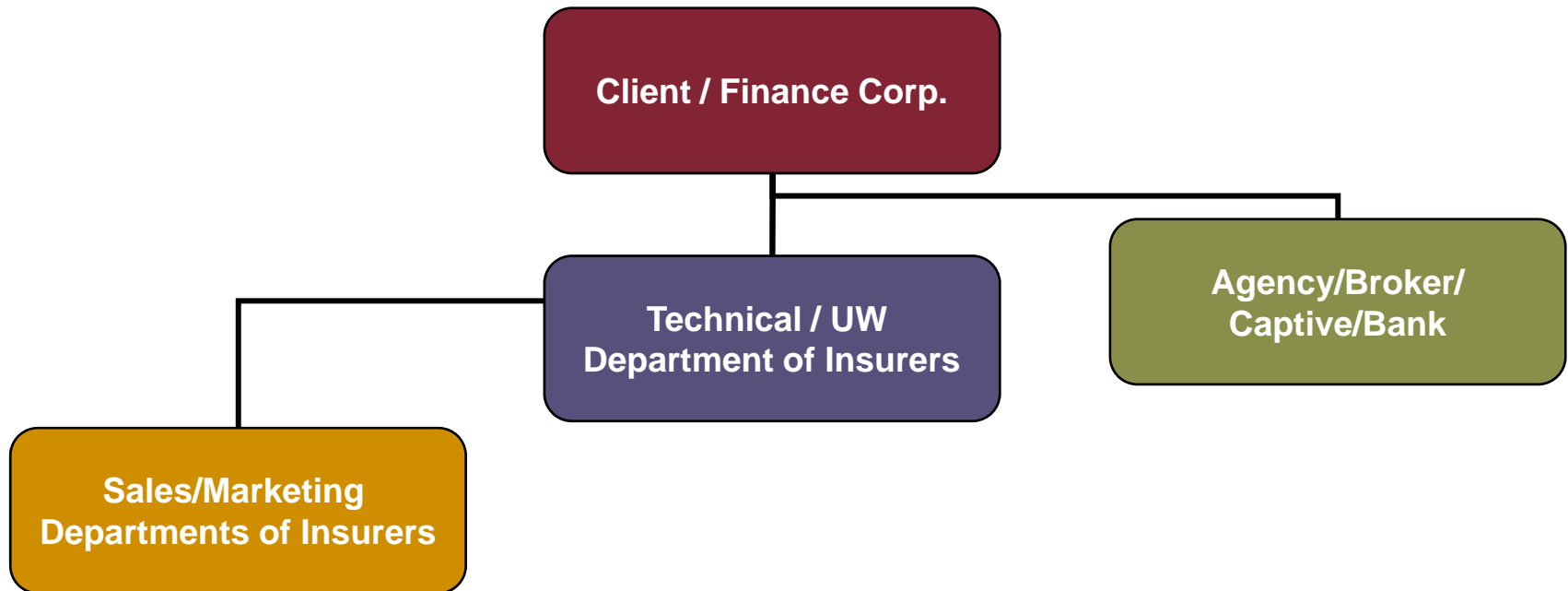
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Business Generation

- As advised earlier State became a substantial Principal in the last couple of years both domestically and abroad.
- Depending on size of business one can observe a blend of intermediaries for various projects.
- Small to midsize business is usually generated through agencies.
- Packages for mb/eei for small gadgets and the like are successfully distributed by banks acting as insurance agencies.
- For large projects usually the banks, the inhouse agencies and brokers are jointly involved.

Client Facing for Large Projects

➤ What is observed usually:



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Reinsurance - Worldwide

➤ Activity in 2009

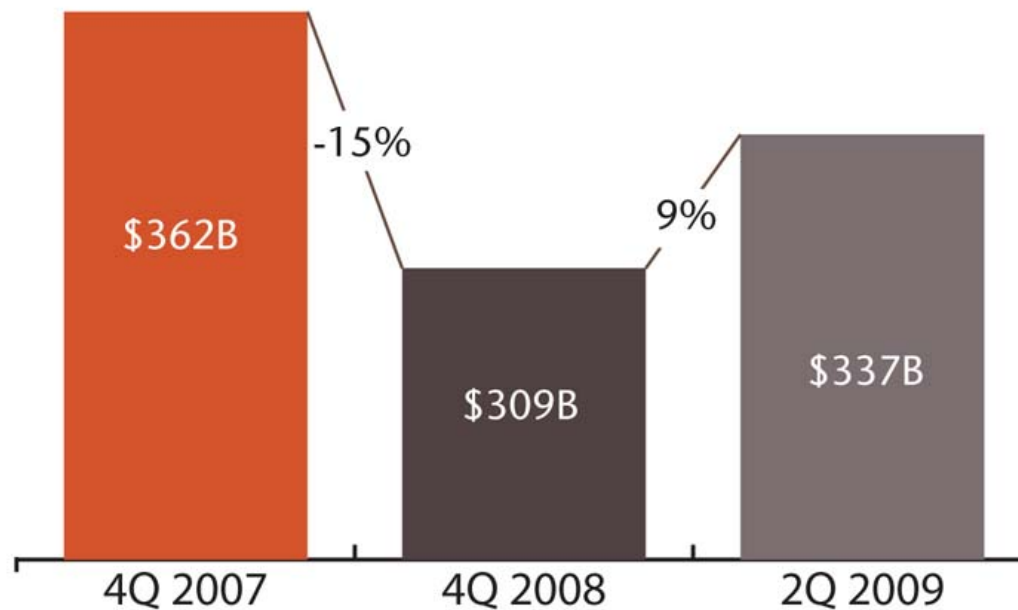
- Partner Re acquisition of Paris Re July 2009
- Validus acquisition of IPC Re expected to close Sept 2009

➤ Key benefits to future consolidations

- Improved access for recapitalization, generally a lower cost of capital for larger entities
- Greater cedent acceptance as buyers deal with larger, better capitalized counterparts
- Less rating agency pressure through diversification of the business plan
- Potentially easier exit for existing private equity shareholders through larger listed entities

Change in Reinsurer Capital

- Reinsurer capital has rebounded by 9% in H1 2009 after decreasing by 15% in 2008
- Increased reinsurer capital should lead towards a healthy reinsurance market for insurers renewing programs and those looking for additional capacity in 2010



Source: Individual Company Reports; Aon Benfield Analytics

Reinsurance - Turkey

- Turkish insurance companies have still sizeable capacities for engineering projects with some by way of excess of loss
- Inward acceptance – covered coinsurance in local market terminology – is widely used. Almost each large player acts as a reinsurer in practice
- Needless to say rates are extremely competitive for treaty absorbed business

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Basics: Special Concerns

➤ For MB

Construction Equipment on a stand alone basis
Gas Turbines
Plastic Injection Machinery

➤ CAR

- + Infrastructure, flood risks
- + Covered Coinsurance from the perspectives of
 - uncontrolled accumulation for reinsurers
 - issues with competition authority
 - portfolio concerns