TURKISH ENGINEERING INSURANCE MARKET IN 2017

A. Premium Development

In 2017, total premium production of non-life branches has increased to TRY 39,28 billion with 11,75%. Non-life premiums consisted 85,16% of total premium production, which is higher than of previous year's result

In terms of market concentration; which is similar to previous years' results, 69,07% of total non-life premiums are produced by the top ten non-life companies, however the total market share of the non top 10 companies have increased by 4%.

The reason for limited increase on most of the big insurance companies are because of a limitation cap decided by the Treasury for the MTPL rates. MTPL is a major line of business (almost 50% of whole) which has a deteriorating effect on the overall productions of the large companies. This had a severe effect on the profitability of the companies which also led to more severe competition on other lines of businesses rather than MTPL.

For **Engineering Insurance lines**, total premium production has increased by 26,86% to TL 1.918.515.872.

Similarly to last years, Machinery Breakdown Insurance had the first ranking with 45,39% share of total premium production of engineering insurance lines in 2017. The share of CAR premium was 25,95% of the total Engineering lines with TL 497.887.421 and with 36,92% increase compared to 2016. This increase is largely bonded to the exchange rate increase at 3rd and 4th Quarters of 2017.

Table 6: The change and the share of lines in total Engineering Insurance in 2017

	Change (%)	Share (%)
MB	**19,21**	**39,38**
EAR	**50,49**	**14,02**
CAR	**36,92**	**31,05**
EEI	**29,80**	**15,54**
TOTAL	**27,27**	

B. CLAIMS DEVELOPMENT

Claim amounts of each Engineering line is given below. As can be seen MB has the highest loss amount in the total.

Total paid and reserved losses in Machinery Breakdown line took the first place in 2017 with the amount of TL 859.981.953 which is 39,38% of the total engineering insurance lines. The Contractors All Risks Insurance's loss figures show an amount as TL 678.113.080 with 31,05% share

C. Underwriting Profitability

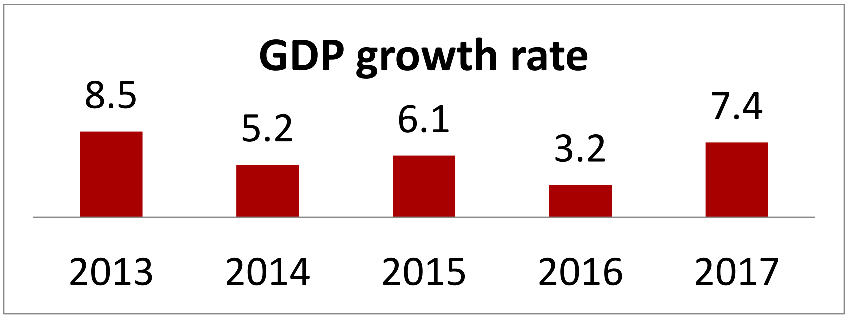
Technical Profit generated by the whole non-life insurance market is TRY 2.090.030.315 in 2017. For the engineering lines; technical profit has increased by 47,84% to a total of TL 162.766.289.

Gross Loss Ratio at 2017 has increased by 25,6% and reached 80,40%. The reason is some peak losses as well as frequency increasing.

D. Business Outlook

In 2017, Turkish economy grew by 7,4%.

Table 8: Annual Economic Growth Rates, 2013 - 2017-1



Since 2013 GDP has decreased from 950 B USD to 850 B USD in 2017. GDP per Capita for 2017 is 10.512 USD with a decrease of 2,80%.

In 2017, unemployment rate was 11,4% whereas it is aimed to be decreased in following years.

Inflation rate has increased to 11,9%

For **Insurance Business** in 2017 total premiums in the Turkish insurance market grew by 11,42% year-on year. Turkey's non life insurance sector's profit was 5,45%. Total premium income of the sector was 38.241.868.615,78. TL in 2017. The total number of policies issued was 62,6 million. Similar to previous years, losses are occurred especially in best-producing fields such as automobile, motor 3rd party liability and health insurance last year.

E. Major Indicators for 2017 and 2018 for Engineering Insurances Lines:

Strenghts:

- Continuation of mega substructure projects:
  Construction is an important political tool for the current government referring to the extreme makeover of infrastructure projects in Turkey for the last 15 years. Therefore Turkish CAR business is still an active area in respect of mega projects such as metro, tunneling, high speed railway or highways. However, the infrastructure projects are mostly focused at big metropolitans like Istanbul which also results in increase of cost for nat cat protections.

- Leader in Construction Industry:
  Turkish construction companies are taking over large scope projects not only in Turkey but also around the geographical area including but not limited to Middle East, Central Asia, and Eastern Europe etc. According to ENR's 2017 Top 250 International Contractors, there are 10 Turkish Construction companies in top 100 worldwide.

- Legal Development at Compulsory Motor 3rd Party Liability:
  As of 12.04.2017, the application of maximum cap for the Compulsory Motor 3rd Party Liability line has put insurance companies to a difficult situation in respect of profitability. Therefore, Turkish insurance companies have started to focus on profitable non motor lines such as Fire, Liability and Engineering.

- Opportunity to Develop:
  Turkish market possess a great opportunity to grow since there are still a large portion at both individual and corporate risk(especially for small and medium enterprises) which are not insured.

- Energy:
  Renewable energy is a rapidly developing industry also with economic exhortation from the government. The progress in Solar Power is especially critical since Turkey is a very productive company in that regard and the target for 2023 is total capacity 5.000 MW for Solar Plants.

Vulnerabilities:

- Snap Election

  With the snap election decision, first 2 quarters of 2018 can be named as a "dead quarters" especially for CAR insurances since most of the government project has been put on hold until the elections at the end of June.

- Iraq situation:

  Politic struggles at Iraq has led to the elimination of an important market for Turkish Contractors. Accordingly, Large Turkish contractors are leaned to new geographical areas and new markets especially in Africa.

- Increase of competition at medium/large risks:

  With the inclusion of the captive agencies and brokers the terms and conditions of such CAR policies has been changed against the insurers dramatically.

  Average Tunneling Project Rates 2012: 4,80‰
  Average Tunneling Project Rates 2017: 2,80‰

  Average Superstructure Rates 2012: ‰1,20
  Average Superstructure Rates 2017: ‰0,50

- EQ Tariff application:

  Compulsory Earthquake Tariff creates an industry driven by the tariff especially in small and medium scope businesses.

- Deceleration of Foreign and Domestic Capital:

  Even though it is still a largely prolific and fast moving economy, Turkish economy is experiencing a recession and the GDP has decreased by 10% during the last 5 years. The main reason can be stated as the decrease of the foreign investment due to political and economic reasons.

  Due to the economic suspense and relative increase at interest rates, domestic investment has also decreased within the last 5 years.

  For the insurance market, this results as insufficient prospects at the market especially for industrial risks.

- Extremely flowing Exchange Rates

  Exchange Rates increase created an artificial growth for the Turkish Insurance market.

  Increase of exchange rate for USD from 2017 to 2018: 65%

  Increase of exchange rate for EUR from 2017 to 2018: 77%

  Growth of the market: 6,7%

  Due to the extreme increase at the rates, claim files has higher indemnity limits thus it effects the profitability of the industry. It also results as underinsurance at TL policies.