THE EFFECTS OF 2008 CRISIS ON TURKISH INSURANCE INDUSTRY

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Abstract

Ever so the global crisis occurred as mortgage crisis at first; it turned out to be a liquidity crisis during the following period. The contractions of finance, insurance and construction sectors also retarded the growth speed of general economy. What the impact of the crisis is on Turkish Insurance Industry constitutes the subject of this research. Primarily, the plausible relation between the crisis and the insurance industry has been tackled. While the impact of the crisis on premium generation and growth rate in the world insurance industry were observed, in the scope of the Turkish Insurance Industry the impact of the crisis on the life insurance and non-life insurance branches has been analysed through examination of the data pertinent to 2008 and 2009. There is no process of insuring securities in Turkey; however, the insurance companies in Turkey have also been affected by the crisis due to the shrinkage in the market. In the life insurance branch in spite of the crisis in 2008 growth has persisted in real terms and nominally a value which was over the inflation experienced. In the non-life branches, in contradiction to life insurance branch, negative values were experienced in premium increase rates. At the accident, marine, agriculture and credit branches, there occurred a decrease at the rate between 9% and 11% in the first six months of 2009 in comparison with the same duration of year 2008.

Keywords: *Crisis, Insurance Industry, Risk Management , Turkey*

JEL codes: *G01, G22*

1. Introduction

Informatics and communication technologies improved in 1990's in the world. Financial markets were integrated; the rates of openness to the public increased and the small investors became widespread. In the sense of these improvements, the importance of international standards increased a result of growth in investors' resources. The developing countries including Turkey tried to arrange their infrastructure elements such as institutional structure, regulations and accounting principles of financial markets in accordance with the internationally accepted principles.

Capital tends to private sector in developing countries via money and capital markets. The improvements in technological infrastructure, the increase in education level of human power and developments in relationships with foreign financial institutions are important acquisitions worldwide.

The developments in the world economy and Turkey show that the strength and health of national economies and markets are very important for economic stability in country and the world. A strong financial system requires the existence of strong financial institutions. Therefore, the reclamation and revision of banks, insurance companies and other financial institutions are more crucial.

The most important part of the 2008 crisis, in parallel with the improvements in risky credits, was the model formed by the investment banks in order to supply more credits. These banks govern this plenty of liquidity in opportunity. The banks sold their credits in financial markets of some countries and created new resources. “The volume of hedge funds which were 500 billion dollar in 2000, were risen to 2 trillion dollar in 2007. The trading volume of derivative products that were 20 trillion dollar in 2000 reached to 120 trillion dollar in 2007[3].”

With the decrease in demand for house in 2006, the house prices started to decline. In this case, the consumers who realized that their house value is under the mortgage started not to pay their mortgage credits. Not only mortgage credits but also consumer credits are risky rumors started to get round. The companies capital stocks values started to decrease and companies couldn’t collect their claim. When the banks couldn't find the resource and they couldn't award a loan, liquidity crises formed. Finance, insurance and construction industries get narrowed and general economy's growth speed was slow-downed. Mortgage credits structure was fallen off and interest was disharmonious. The balloon accretions in house price created a problem in fund to the securities. Credit derivative markets enlarged and the problems in process of grading of credit were caused to enlarging and growing the financial crises in the USA.

“The first victim of the crisis was Indymac which is centered in California and devolved to the fund on the 11th of August. It is observed that while some financial companies in the USA or Germany devolved to the fund or nationalized, it is announced that Lehman Brother Company came to grief on the 16th of September. The institutionalism of AIG which is the largest insurance company of the USA increased the anxiety about the contagion of the crisis to insurance companies [6].”

The increase of individuals’ unemployment fear and future anxiety, the inflation due to the increase of exchange rates and the expectation of increase in the purchasing power of individuals affected the decrease of insurance industry in real terms. It is not possible that the insurance companies in the financial system are not affected by the crisis.

The effects of crisis that started in the USA and spread all over the world on Turkish Insurance Industry composes the subject of this study. Primarily, the plausible relation between the crisis and the insurance industry has been tackled. While the impact of the crisis on premium generation and growth rate in the world insurance industry were observed, in the scope of the Turkish Insurance Industry the impact of the crisis on the life insurance and non-life insurance branches has been analysed through examination of the data pertinent to 2008 and 2009.

2. Crisis and Insurance Industry

The crisis encountered could create different effects on insurance sector. During the crisis period, the insurance companies might be affected more by the current assets and high damage costs [22]. “Especially inflation and the number of claims may increase and the ascendant claim costs can redouble the insurers’ provisions. At the same time, assets lose value because of the rise in interest rates, the higher company risks and government disregards and breakdown in stocks markets [1].” Rapid decreases could be seen in the companies where asset-liability and trust to currency unit are not matched [20]. Also, ascendant insurance holders can ask their repay of life insurance savings [1]. Accordingly, it can be said that incomes of the insurance companies can decrease by the effect of crisis [21]. The commitments of insurance companies span over years and decrease in income shall be balanced in medium term, so these are positive expectations [15]. In this scope it is very important that the insurance companies’ capital structures are strong. During the periods of crisis there might be problems for the insurance companies in evaluation of the assets and liabilities.

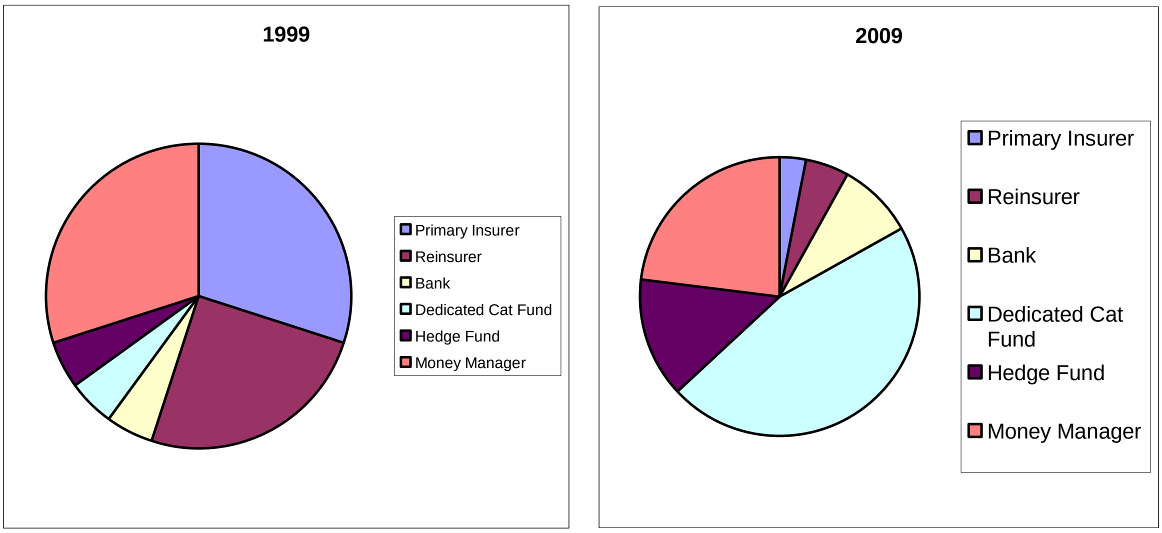
Companies could take more cautions to be more effective and to be more sensitive in the job selection and pricing. In addition to this, the reduction of economy could increase pressure in growing sector and money received [15]. On the other hand, because of the high interest politics, companies’ investment income will be increased. This factor could balance this reduction influences [15][16]. The decreasing in world's capacity and decline of capitals cause negative effects. For an insurance company, acceptance of a risk depends on the company's capital and capital surplus [17]. According to this, if there is much capital in sector, the holding risk ability of sector will increase and if there is excessive capital supply, insurance premiums will decrease tendency.

In case of the credit recalls of banks and the liquidity narrowing, also the insurance industry could be influenced by these events. When compared with inflation, it shall be often observed that the real growth rate is zero. The narrowing in real sector results also in the decrease of insurance capacity and the policy renew rates are influenced negatively[14].

"The real sector that causes the slowdown in economic growth in the USA was negatively affected from mortgage crisis. After a fast globalization period, the impacts of encountered financial crisis were very heavy. The real production speed decreased very fast in the last quarter of 2008. As a result of the economic integration, the countries lead to a stalemate to each other in the decrease of real production [26]." Whereas the change in interest rates influenced the credit market in contractionary manner and the credit market provided increase at the rate of 13.2% in 2006, this rate changed to 4.8% in 2007[1]. The demands of investors about gaining money without risks caused excess debts of customers and unbounded credit enlargement. This conditions raised the fragility of system and the crisis that is triggered with the insolvency clause of high risk credit debtors was enlarged with these fragilities [1],[12].

Especially with the increase in Insurance Linked Securities (ILS) (Catastrophe Fund, Cat Fund [7]), new instruments are emerged in capital markets. These securities' value rose in time and were triggered the crisis. The changes in these operations in 1999 and 2009 are shown in Figure 1.

Figure: 1 Investor base in 1999 and 2009



Source: Swissre.sigma.4/2009

Primary Insurer	*30%*	*Primary Insurer*	*3%*
Reinsurer	*25%*	*Reinsurer*	*5%*
Bank	*5%*	*Bank*	*9%*
Dedicated Cat Fund	*5%*	*Dedicated Cat Fund*	*46%*
Hedge Fund	*5%*	*Hedge Fund*	*14%*
Money Manager	*30%*	*Money Manager*	*23%*

"As shown in Figure 1, both the investor and issuer bases have expanded substantially since ILS (Insurance Linked Securities) were issued. Whereas in the initial stages, insurers and reinsurers absorbed more than half of the ILS capacity issued, they now play a very minor role as investor (less than 10%). Instead, capital market investor now dominates the ILS investor base. Fund dedicated to this sector and money managers now account for 46% and 23% of ILS investment respectively. Bank has also increased their share. Multi-strategy hedge fund participation is currently lower than previous years' (down to 14% from 31% in 2007) as many of these institutions have come under pressure during the credit crisis. Issuers have grown to include not only more primary insurers, but also corporations [24]."

Insurance companies gained importance especially in accordance with the size of pension funds. "During the crisis, not only due to the decrease in the value of securities, but also due to the decreasing interest rates, they lost value [25]." "Also, the high claims become current issues. The insurance industry undoubtedly effected by the crisis but the failure due to the crisis at banking industry wasn't seen an insurance industry. There's not a credit crisis, for instance, in the insurance industry. If you have a claim that needs to be paid, it'll be paid. If you need a policy renewed, it'll be renewed. If you need a new policy written, it'll be written. As fort he banks, the manifests still continue [5]."

“Why were insurance companies generally less affected than banks? One reason in the insurers, base on their fundamental business model, are not affected in the same way by liquidity risks as other financial institutions –at least as long as they abstain from conduction that sort of financial business that resulted in such dire problems elsewhere. They are prefunded by a relatively stable flow of premiums. They generally do not rely on short-term market funding and, therefore, are not subjected to the kind of liquidity risk affecting banks. A second reason is that, following the equity market downturn earlier this decade, the insurance industry has rediscovered the crucial role of asset- liability management and the necessity to maintain a strong focus on well diversified investment portfolios [27].”

At the time of crisis 2008, it has been seen that the crisis is divided into two as “the insurance companies that insure the financial instruments” and “the insurance companies in traditional meaning [1].” It has been observed that the insurance companies that concentrate on the first division have been affected by the crisis in a shorter time and substantially. In this context, the effects of the crisis on insurance industry can be summarized as follows;

- The exposure of some securities to risks occurring during crisis,
- Decrease of some insured securities values and effect of this on insurance companies,
- The contraction of insurance market in time of crisis [1][25]

First of all, the fields of activity of insurance companies and the contraction of insurance market determined the effect rates of companies from crisis.

3. The Effects of 2008 Crisis on World Insurance Industry

As of the end of 2008, due to the economic crisis, total premium production in the World decreased by 2% in real terms and amounted to USD 4.26 trillion. 3.75 trillion dollars of the total Premium production has written in developed countries, whereas this amount has remained at 512 billion dollars in developing countries where insurance awareness has not fully developed. However, while premium decreased by 3.4% in developed countries when compared to the previous year, the rate of increase reached 11% in developing countries(Table:1)[24].

Table: 1 Global Insurance Industry 2008

	Share of world market (%)	*(%) Year on year change*
America	33.98	-2.4
Europa	41.06	-6.2
Asia	21.86	6.6
Australia	1.82	8.6
Africa	1.28	4.9
World	100	-2.0
Industrialized Countries	87.99	-3.4
Developing Countries	12.01	11.1

Source:Swiss Re, Sigma No: 4/2009

As seen in Table 1; with 44% in the global insurance industry the greatest share belongs to Europe. And American and Asian markets follow Europe. In the European insurance industry a loss of 6.2% in premium generation has been observed. Whereas in the industrialized countries there has been a significant decrease in generation with 3.4. Industrialized countries has biggest share in global premium volume with 88%. Emerging markets increased their share by one point to 12% in 2008.

Table 2 summarizes the real growth in the life and non-life fields in industrialized and developing countries in 2008[23].

Table: 2 Real Premium Growths (%), 2008

	Life	**Non-life**	**Total**
Industrialized Countries	-5.3	-1.9	-3.4
Developing Countries	14.6	7.1	11.1
Total	**-3.5**	**-0.8**	**-2.0**

Source: Sigma, World Insurance in 2008, No:3/2009

When the Table 2 is examined, it can be seen that a real premium contraction both in the life and non-life fields in industrialized countries in 2008. There is an increase in insurance rates of financial products belonging to the insurance companies in these countries and as a result of this it can be said that they effected from crisis in a shorter time. The share of traditional insurance transactions being more in the insurance companies operating in developing countries caused them to have been affected less by the crisis. Besides in 2008 in developing countries there has been premium increase in life insurance and non-life insurance branches. While a decrease of premium at a level of 2% was being enjoyed in the global insurance market, in the industrialized countries there has been a total of 3.4% decrease with 5.3% decrease being in the life branch and 1.9% decrease in the other branches of insurance. Although the crisis broke out in the last quarter of 2008 these downfalls were experienced. A more sustained crisis may be causing greater downfalls.

EU(European Union) compared; “The average premium production per capita was USD 3.061 in the EU 27 in 2008, whereas it was USD 3.726 in the EU 15. Among the EU member countries, the premium production per capita in the UK amounted to USD 6.858, whereas it was USD 6.850 in the Netherlands, USD 4.131 in France, USD 643 in Poland and USD 502 in Hungary[3][24]. In the EU, the ratio of insurance industry to Gross Domestic Product (GDP) decreased to 8,3% in 2008 [3][24].”

The real premium growth rates of European Union Insurance Industry for 2008 compared to 2007 are shown in Table 3.

Table: 3 European Union Insurance Industries (2008)

	% Year on Year Change
England	-13.00
France	-9.33
Germany	-1.26
Holland	-0.24
Poland	30.49
Hungary	-9.69
EU 25	-6.70
Turkey	-2.24

Source: SwissRe, Sigma, No:4/2009, www.tsrsb.org.tr

As shown in Table 3, while there was a drop of 13% in the premium generation in the England in 2008 this rate was 9% in France and Hungary. The decrease observed in premium generation in the England calls attention. Whereas the general of European Union lived a decrease at the rate of 6.70%, this rate is confirmed as 2.24% for Turkey. The basic insurance activity problems of our country are not at the similar rates. The Turkish Insurance Industry having a developing structure and some of the insurance branches being less common in respect of other countries are among the reasons of this.

“Financial crisis results in the liquidity problems decrease in consumer trust and contractions in the USA and thereby all over the world. In order to reinforce the declining capitals; more profitability pressure, sensitivity on job selection and increasing prices are seen. At first, it raised that higher rate of investment to derivative products policy in the USA centered companies. In these circumstances, the USA originated crisis effected the insurance companies’ investments in the sense of their secure, income and liquidity – like Lehman Brothers-. Moreover, it is observed that the insurance companies that insure credits also effected by the risks of investment markets in the USA[25].”

“The first effects of the crisis on insurance market were on life insurance instruments. Because these instruments (Cat Fund …) are related to capital markets. The second wave occurred for motor vehicle insurance with the less production of new vehicles. After the fourth quarter of 2008, the institutional insurances like marine were affected in related with the industry production [23].” If it is recalled that the greatest share in life insurance branch is owned by the European countries in the global insurance market, the high proportional downfalls in Europe-wide and in the England may be elucidated.

“The year 2008 is accepted as the most costly year in terms of catastrophic damages (Atlantic Hurricane season) Nevertheless, the current status of reinsurance markets were conserved as insurance companies kept most of their capital and liquidity levels. The important agent to decrease the negative effects of developments in 2008 is the profitable results obtained between the years 2006 and 2007. In addition to this, both about the risk and capital management subjects, more provident approaches were shown in contrast with the other finance institutions [11].”

Moreover, according to the year-end forecasts, 15%-20% contractions occurred in the total reinsurance capital[11]. “Generally, investment losses caused by the losts from credits or bonds of financial institutions and change in the interest rate of fixed-income securities. Some reassurers incurred loss due to the bonds indexed to mortgage market and due to the instruments such as non-market credit default trades. In addition to this, one other group with other European companies effected from the decreases in stock exchange due to the equity of their portfolio[11][25].”

“Generally, it can be said that most of the reinsurance companies were not directly affected from this complication. However, it is estimated that the sub-effects of the crisis will be felt more clearly in 2009. It is now very hard and costly to provide capital. The reactions of reassurers to these events are that they limited their risks to have the highest income and increased their risk premiums[11].” In the branches that the reinsurance prices showed increase, the insurance companies preferred to increase their conservations instead of reinsurance.

“The other development about reinsurance capacity is that the insurance companies reevaluated their credit risks and made some changes on reassurer selections. The insurance companies are existing in these atmospheres in which there are lots of doubts about the reliability of credit graduations. Under these circumstances, the insurance companies resorted to diversification by adding some new reassurers to their portfolio when their insured persons couldn’t do their responsibilities [11].”

“With the retrocession renewals which start late, capacity decreases and price increases were observed. The decrease in retrocession capacity started with the negative effect of financial crisis to companies' balance sheets and with the contraction of bond markets connected to insurance. The total amount of catastrophic bonds and sidecars of 2008 was 3 billion USA dollars. This amount was recorded as 9,4 billion USA dollar in 2007. In the retrocession markets, there occur more increase in prices [11]."

The bottleneck experienced in markets in 2008 caused many companies to face the risk of lowering credit ratings. This pressure increases even further when considering the predictions that the grading companies will make the evaluation criteria even harder about the liquidity and capital increase [11].

The negative happenings experienced in World Insurance Industry during the crisis make think that new organizational creations might come out. The following expectations for the insurance industry and insurance companies in the future are as follow;

- Re-organization such that it will cover the developing markets,
- Developing new products and increase the requests by means of these markets[2],
- To make regulations in order to resolve the insufficient reporting standards that might cause sector-wide problems,
- Increase in merges and acquisitions,
- To pass new regulations including the those about taxes[8]

In addition to these expectations, there is the possibility that some obligations about the liquidity and capital -that are more comprehensive compared to Solvency II and applied by the authorized organizations to banks and other financial organizations- could be applied to insurance and reinsurance companies[11][10]. According to the surveys conducted in August 2009, it has been observed that positive expectations for world insurance sector started to come out [18].

4. The Effects of 2008 Crisis on Turkish Insurance Industry

Banking sector constitutes 78.2% (excluding Central Bank of The Republic of Turkey (CBRT)) of the financial industry assets as at December 2008 in Turkey [18]. The proportion of insurance industry is 3%. The structure of Turkish financial industry is predominantly banking followed by insurance industry and mutual funds, respectively [19].

"Turkish insurance industry took 36th place within 88 countries with a share of 0.21% in global premium production. According to the ratio of premium volume to GDP and premium volume per capita, Turkish insurance market has been 76th and 65st, respectively. Turkey has a rank of 34 over total of 35 European Countries in premium volume per capita.

As premium per capita, distribution of premiums to non-life and life branches and ratio of premiums to GDP are compared with EU countries, it is observed that non–life insurance is more operative than life insurance in Turkey and Turkish insurance industry tends to grow fast, though it has still a small share in GDP [19].”

Table 4 shows GDP, CPI (Consumer Price Index) and the rates of increase in premiums in insurance sector in Turkey of the period 1999-2008.

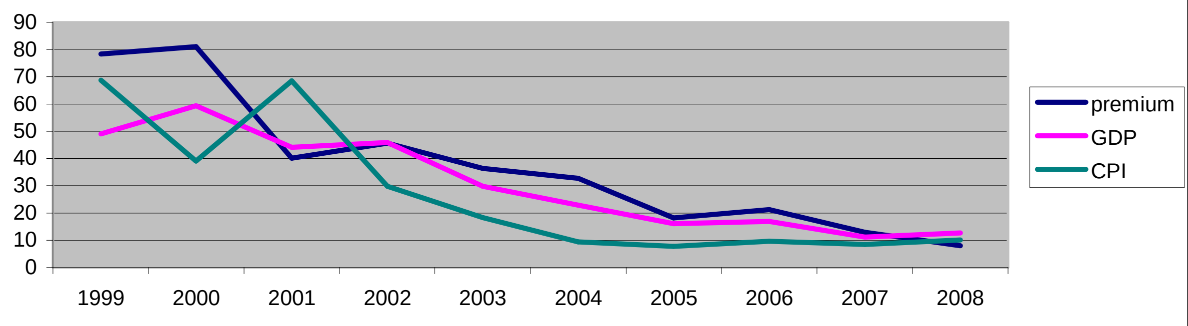
Table: 4 GDP, CPI and the Rate of Increase of Premium

	1999	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Premium	78.42	81.14	40.08	45.70	36.35	32.73	18.18	21.21	12.95	8.02
GDP	48.99	59.34	44.14	45.90	29.76	22.92	16.08	16.87	11.18	12.69
CPI	68.79	39.03	68.53	29.75	18.36	9.35	7.72	9.65	8.39	10.06

Source: Insurance &Pension Annual Report-2008.pp.7, www.treasury.gov.tr

In the view of Table 4, while a very high growth rate (78%, 81%) in premium generation is observed in 1999 and 2000, in 2001 a half-and-half decrease in the growth rate is underscored. In 2001 there has been a crisis in Turkey which affected primarily the banking industry, the other industries and as well the general economy. Importance of the capital structures of financial institutions appeared and a restructuring was required for them. New legal responsibilities for the financial institutions were defined and within the scope of strengthening the capital structures a restructuring was made, primarily in the field of banking. In this context, a similar process started for the insurance companies and studies were conducted in the framework of both legal regulations and EU harmonization legislation.

Figure: 2 GDP, CPI and the Rate of Increase of Premium



As seen in Figure 2; in the years 1999, 2000 and 2001 in all three variables (GDP, CPI and Premium) there have been movements in different directions. As of 2002 a more similar process has started in the growth rates and an increase has been underscored in the variables at a degressive rate. Even the premium increasing rates in the Turkish Insurance Industry are in a downward trend, growth rates are above the inflation until 2008. And it has accomplished 2008 with a growth rate under the inflation rate. The increase observed in the inflation rate (10.06%) in the mentioned year is another reason for this.

"The real recession in premiums in Turkish insurance sector during the first 9 months of 2008 is a result of the slowdown of Turkish economy rather than the effects of the global crisis. Accordingly, the industrial production in September recessed 5,5 percent compared to the same month of the last year, while the manufacturing industry usage rate reduced 6.4 points in October compared to the value of same month in 2007[13]." As for the shrinkage in automotive market due to the slowdown in economic activities has negatively affected that "accident" branch which has a weight of 33.3 percent in total premium production. The premium production in the mentioned branch had a increase of only 1.33 percent in the first 9 months of the year 2008[4][19]. The increase of individuals' unemployment fear and future anxiety, the inflation due to the increase of exchange rates and the expectation of increase in the purchasing power of individuals affected the decrease of insurance industry in real terms.

Non-life insurance is more active than life insurance in terms of premium volume in Turkey as compared to industrial countries. 87% of total premium volume belonged to non–life insurance business in 2008 and this ratio was 88% in previous (2007) year[3].

The growth rates of direct premium volume as nominal and real for the last ten years in terms of life and non–life branches are shown in the Table:5 below[19][3].

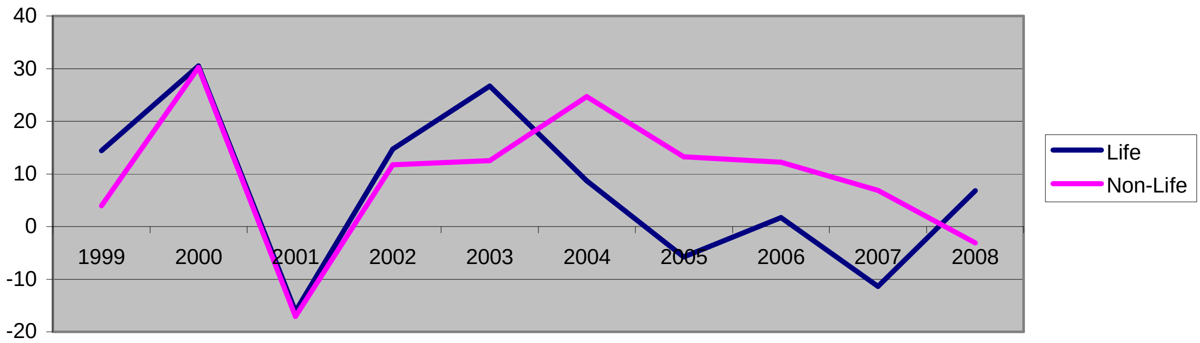
Table:5 Growth Rates of Premium

	1999	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***
Life(Nominal)	93.07	81.42	41.43	48.86	49.96	18.84	1.48	11.49	-3.90	17.56
Non-Life(Nominal)	75.46	81.07	39.78	44.98	33.20	36.35	21.97	23.05	15.83	6.67
Life (Real)	14.39	30.49	-16.08	14.73	26.71	8.67	-5.79	1.68	-11.34	6.81
Non-Life (Real)	3.95	30.24	-17.06	11.74	12.54	24.69	13.23	12.22	6.86	-3.08

Source:Insurance &Pension Annual Report-2008.pp.9,www.treasury.gov.tr

In addition, real growth rates in premiums for life and non-life branch in Figure: 3 are located.

Figure: 3 Real Growth Rates of Premium



As summary of the Table 5 and Figure 3;

In the life Insurance Branch; While increasing rates were enjoyed both nominally and in real terms in the years 1999 and 2000, in 2001 serious falldowns in real terms were observed. As it is sen in Figure 3 growth rates in real terms dropped off to negative values. Increases in the inflation rates in 2001 and devaluation of Turkish Lira speeded up this process. As of 2002 in the life insurance branch positive growth values were achieved again and the level in 1999 was reached. In 2003 increase in real terms persisted however as of 2004 increase in premium rates started declining. In 2005 in the life insurance branch once again there were negative values in real terms. Reason for this is neither a new crisis nor a negation in the industry. The reason is that as of 2003 retirement funds have been put into effect and in progressive years there have been transitions from life insurances to retirement funds. While there were negative values in 2007, as of 2008 positive values started to be experienced. In spite of the crisis in 2008 growth has persisted in real terms and nominally a value which was over the inflation (17.56%) experienced.

In the Non-life Insurance Branches; Firstly in 1999 there has not been an increase in the premiums as in the life insurance branch . The reason for that is the decrease in the premiums particularly in the field of industry due to the Marmara Earthquake. The industry has started recovering in 2000 and attained the real terms growth rate in the life insurance branch. And in 2001 there are striking negative values due to the crisis. As of 2002 positive values started to be seen in the premiums obtained in the other branches and as of 2005 a more gradual course of growth was monitored. Having seen similar rates in the inflation as of 2005 supported this. In 2007 increase in the premium rates has been half-and-half and the signals of the crises were received. And in 2008 in contradiction to life insurance branch, negative values were experienced in premium increase rates of the other branches. The possible problems in premium collections in the other branches of insurance and particularly increase in closed down businesses is the first reason coming to mind.

Number of policies for non-life insurance increased by 15 % and number of policies for life business also increased by 13 % in 2008. However; according to groups, there is not much change in premium volume concentration of non-life insurance companies in terms of first five and ten companies. It is seen that the concentration decreases in life insurance companies in 2008[3.

Table:6 Percentile Change in Premium Rates Based on the Branches

BRANCHES	***2009-6 (%)***	***2008-6 (%)***	***(2009-6) (2008-6) Change (%)***	***(2009-7) (2008-7) Change (%)***	***(2009-8) (2008-8) Change (%)***
Fire	16.48	15.44	7.64	6.84	6.05
TCIP	3.43	2.73	26.74	25.79	23.93
Marine	3.61	4.10	**-11.34**	**-12.36**	**-12.62**
Accident	29.60	32.67	**-8.66**	**-8.18**	**-8.34**
Motor Vehicle TPL	19.84	19.11	4.69	5.48	6.34
Engineering	5.79	5.08	14.91	16.13	14.21
Agriculture	2.09	2.39	**-11.86**	5.34	17.55
Healthy	14.02	13.51	4.62	4.99	5.14
Law Protection	0.32	0.30	8.23	10.49	10.43
Accident(Individual)	4.46	4.24	6.00	7.28	6.20
Credit	0.35	0.42	**-17.19**	**-21.14**	**-21.87**
Non-Life Total			0.82	**1.48**	1.43
Life	15.20	13.53	15.41	**15.49**	12.82
Total			**2.78**	**3.37**	**3.00**

Source: 6/2009, 7/2009, 8/2009 Statistics,www.tsrsb.org.tr

Table 6 has been developed in order to see the effects of the crisis on life insurance and other branches separately. Table 6 summarizes that percentile changes in premium proportions based on the branches.

The recession got slower in the period of 6 months in the branch of accident which got smaller almost 9 percent in the first months of 2009. The increase in production of accident insurances became -0.65 by the end of 6 months, the production of traffic insurances got smaller by 8 percent compared to the previous year. The production increase based on the branches became as follows; 7 percent in fire, 26 in the Turkish Catastrophe Insurance Pool (TCIP), -11 in transportation, 6 in personal accident, 15 in engineering insurances, -12 in agriculture, and 4 in health in 2009 the first 6 months and in the same period in 2008. Because of being a branch that is directly affected by the crisis, the credit insurances had recession at very high rates, however, the fact that the share of credit insurances in general total value is below 1 percent causes the effects -on the industry- of negative developments in this branch to be reduced greatly.

As it is seen in Table 6, the premium production of the first 6 months of 2009 increased 2.78 percent compared to the same period of the last year. The growth was 1 percent in the elementary branches in the first 6 months, while the production of life insurances increased 15 percent. The yearly inflation came out as CPI (Consumer Price Index): 5.73, PPI (Producer Price Index): -1.86. Although the increase in premium production was at the back of the inflation, the growth of industry in numbers showed that it was quite resistive against the crisis, considering the fact that Turkish economy got smaller 13.8 percent in the first quarter. The process in the first 6 months continued in 7th and 8th months of 2009. By August 2009, there is a growth of 3 percent in Turkish Insurance Industry. It was seen that the negative growth rates observed in marine, accident and credit branches have continued and the growth in life branch was at a lower level than that of June 2008.

“The crisis which have affected the financial markets in the beginning have negatively affected the locomotive industries of Turkey such as textile and automotive. For instance, in July 2008, the number of established businesses with trade title reduced 0.8 % compared to the same month of 2008 and it got down to 4050 from 4081. And the number of closed-down businesses with trade title increased % 18.1 and became 3602 from 3050 of the last year [13].” Turkey got into this crisis with some advantages which it had gained through the lessons learned from the 2001 crisis, however, the possibility of a sudden increase in exchange rates and recession of opportunities of capital and credit arrival from abroad continues to create potential risks for real industry [6].

“Contrary to the insurance market, the individual pension system coming into force in 2003 continued to grow without its losing enthusiasm of the first years. In 2008, the number of the participants and the total amount of contributions in the system increased by 18% and 39%, respectively. Despite the global financial crisis felt its effects strongly in the second half of the year, the results indicate the confidence in the system as well as the potential of the system [3].”

“The high potential for insurability in Turkey and the rapid improvement of insurance and pension industry pointed Turkish insurance market to foreign investors. Since insurability rate has reached saturation point in their countries, foreign investors tended to make investments in developing countries and briskness in Turkish insurance industry that started in 2006 continued to grow in 2007, and 2008, too. Foreign capital share in paid in capital has increased from 12% to 51% for non-life group companies and from 23% to 52% for life/pension companies in for last five years. Foreign capital share in total premium volume, parallel to the increase in paid in capital, has increased from 19% to 53% [3].” The Geneva Association Manager Patrick M. Liedtke' [15] summarized the reasons of foreign capital to come to Turkey as follows;

- European insurance companies would rather come to Turkey than going to other countries,
- Turkish insurance industry is a stable market in the long run,
- It offers growth opportunities ,
- The fact that Turkey is one of those countries that have the highest rate of productivity,
- Turkey has regulations which are close to those of the European Union,
- Turkey has a big advantage due to its geographical location,

The effect of all these foreign capital movements on Turkish insurance market is seen on the reinsurance side. The main objective of the foreign companies is to evaluate the catastrophic reinsurance protections of the companies they purchased, within themselves. The foreign companies that invested in Turkish insurance market follow two ways. First way, they arrange a separate program for Turkish portfolio and they either keep the whole on themselves or they keep a bulky percentage on themselves and reassure a small portion. As for the second way, Turkish portfolios are included in global programs which also cover the responsibilities in other regions [11].

Under these conditions, it will not be possible to calculate the catastrophic guaranties that the companies in Turkish insurance market obtain as well as the amounts of premiums that they would have to pay in return for these guaranties, especially when it comes to companies which are included in the global programs. Contrary to what is estimated, 2008 crisis caused no problems in Turkish insurance market regarding capacity lack or renewal of agreements in the process of 2009 renewals of both proportional reinsurance and non-proportional reinsurance agreements. Nor did it cause any increase in prices. This result played an important role in the fact that no important damage came out in Turkish insurance market in 2008 in terms of both risk and catastrophic aspects [11].

5. Conclusion

All industries in particular the financial industries are affected by the global crisis that started in 2008 in the whole world. The insurance companies as part of the financial system have also been affected based on their field of activity and investment portfolios. The effect of the crisis on Turkish insurance industry was limited. The most important reason for this is that there is no process of insuring securities in Turkey; however, the insurance companies of Turkey have also been affected by the crisis due to the shrinkage in the market. It was observed that the crisis may negatively affect the productions especially those in financial and credit insurances. The fact that there are not so many of products in Turkey towards insuring these types of risks may be interpreted such that the negative effect would be less for our country. In the industry, premium generation increase was ensured under the inflation rate due to the crisis which is more effective on production.

In developed countries, there is a real recession in 2008 in both life and non-life branches. It may be concluded that the insurance companies in these countries had more proportions of insuring the financial products and they were accordingly affected by the crisis sooner.

Although the increase in premium production was at the back of the inflation in the first six months of 2009, the growth of industry in numbers showed that it was quite resistive against the crisis, considering the fact that Turkish economy got smaller 13.8 percent in the first quarter.

In the years 1999,2000 and 2001 movements in different directions were experienced in GDP, CPI and in the premium increase rates in the Turkish Insurance Industry. As of 2002 a more similar process has started in the growth rates and an increase has been underscored in the variables at a degressive rate. Even the premium increasing rates in the Turkish Insurance Industry are in a downward trend, growth rates have been above the inflation until 2008. And it has accomplished 2008 with a growth rate under the inflation rate. The increase observed in the inflation rate in the mentioned year is another reason for this.

In the life insurance branch in spite of the crisis in 2008 growth has persisted in real terms and nominally a value which was over the inflation experienced. In the non-life branches, in contradiction to life insurance branch, negative values were experienced in premium increase rates.

In 2008 total number of policies in the non-life branches have increased at a rate of 15% and in the life insurance branch has increased at a rate of 13%. However in the branches of accident, marine, agriculture and credits there has been a shrinking in the range of 9-11% in the first six months of 2009 compared to the same period in 2008. Within this context in the Turkish Insurance Industry as of the end 2009 growth rate is either expected to be under the inflation rate or equals to it.

In parallel to the very-low rates of insuring movable assets in Turkish Insurance Industry, most of the problems in world insurance are not true for Turkey. Turkish Insurance Industry is very well protected as in the case of banking, and the regulations as well as the laws put the insurance industry into a mechanism which operates seriously in a disciplined way. Besides, it was observed that the insurance industry did not act greedily and was not involved in some unsuitable works. The main risks faced by the Turkish insurance industry originated –to a great extent- from the effects of global crisis on foreign countries and on Turkey.

It is now aimed that the insurance companies will resist the financial crisis due to suitable active-passive management. Further preventive restrictions are the management of policy clauses and requests of serious damage which allows for short-term premium arrangements. In this framework, for instance, life insurance products might be considered where the insure share the investment risk and where sufficient reinsurance coverage is provided. Because the main source of the crisis is financial, the negative effects will be felt less in the companies with strong financial structure and those companies which have managed their investments correctly. It may be evaluated that reinsurance companies with a strong financial structure and with risk analysis as their main expertise area, therefore, will be less affected by the crisis compared to the other companies in the industry.

The uncertainty about how long the crisis will last and whether or not the rock bottom was hit may sometimes cause another dimension of the crisis to come out and that it may also cause some hesitations about how to get position. Some organization structural changes may come out in the world insurance market after the crisis, in particular such as insurance companies get out of share investments, companies merge and stronger capital companies come out, etc. It may be evaluated that companies that work in accordance with underwriting principles and are based on risk management principles may not be affected - to a great extent- by the events in the economy.

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