

SECTOR OUTLOOK

3% growth in 2021

Swiss Re estimated a 4.5% contraction in the global life insurance branch in 2020, and forecasts a 3% growth for 2021.

The World Life Insurance Sector

The COVID-19 pandemic, which broke into our lives in 2020, brought many branches of the economy to a standstill. During this period, insurance companies have encountered serious operational interruptions, increased indemnity payments due to the pandemic, and liquidity problems and increasing pressures on profits.

In addition to the shock effect experienced especially in the first period of the pandemic, a decrease in demand for life insurance and exits were observed in parallel with the negative effects of interruptions in economic activity on the purchasing power of individuals. Despite the weakening in purchasing power and rising unemployment rates, it is foreseen that the awareness-raising effect of this process in terms of the importance of security against future uncertainties and increasing the tendency to save, shall be reflected increasingly on the insured demand, expanding from short to long term.

Swiss Re estimated a 4.5% contraction in the global life insurance branch in 2020, and forecasts a 3% growth for 2021.

While the pandemic confronted the insurance industry with some problems, it also accelerated the digital transformation process. The successful realization of this process also requires radical improvements in efficiency in all links of the value chain. As stated in McKinsey's "Insurance productivity 2030: Reimagining the insurer for the future" report, insurers will also keep perfecting the customer experience on their focus while reviewing their business models to increase efficiency and reduce operational expenses in the coming period.

Accelerating digital transformation converges technology companies and insurance companies. Under these newly emerging conditions, insurance companies are required to increase their digital competencies and create customer-focused smart applications, flexible products and an ecosystem that is open to development with the use of big data in order to maintain their competitiveness. As customers demand not only digital self-service services, but also receive advice during face-to-face communication, the omnichannel (multi-channel) trend has accelerated during the pandemic period, and the development of insurance companies in this direction will also gain momentum in the coming period. Another important competitive axis of digitalizing insurance companies will be the transfer of pricing and writing policy issues to digital platforms.

The Turkish Life Insurance and Pension Sector

The sector's response to the pandemic

During the pandemic, the insurance sector acted with an awareness of the responsibility that falls upon it, and in accordance with the regulations of the Ministry of Treasury and Finance and the recommendations of the Insurance Association of Turkey (TSB).

TSB-member companies extended support worth TL 7 million to the solidarity campaign launched by the President Recep Tayyip Erdoğan for fighting the pandemic.

Insurance and pension companies prioritized the health and safety of their employees, and continuity of the services furnished to our fellow citizens. In this framework, insurance and pension companies switched to the work-from-home model in keeping with the decisions of the Scientific Advisory Board, taking into consideration the health and safety of their employees, business partners, and customers.

In keeping with this sense of responsibility, almost all insurance companies made available discounts, increased number of installments, extended coverage terms and online solutions (such as remote surveys) enabling fast claims processes in case of a loss for the policyholders.

In a bid to contribute to the spirit of solidarity, the sector included COVID-19 treatment within the scope of coverage in Private Health Insurance and Complementary Health Insurance policies, although it was excluded and although no premiums were charged for this specific risk.

In addition, having a wide-reaching agency network, the insurance industry introduced the necessary arrangements to let distribution channels sustain their services, launched and tangible or intangible support packages targeted at agencies. Production continued uninterrupted, including that by the agencies.

Through digital channels, companies acquired the capability to be reached any time and to issue policies anywhere via their agencies, surveyors and assistance services.

Developments and changes in legislation concerning the sector in 2020

• TFRS 17 Insurance Contracts Standard

Intended to reduce the diversity of recognition of insurance contracts in line with the international accounting customs, TFRS 17 is the first comprehensive and truly International Accounting Standard that presents a fair and true view of these contracts and seeks to increase transparency.

TFRS 17 Insurance Contracts has been published in the Official Gazette issue 30688 dated 16 February 2019 by the Public Oversight, Accounting and Auditing Standards Authority in order to win the standard published by the International Accounting Standards Board for the national legislation. The date for the transition to this standard and for commencement of its implementation was postponed from 2021 to 1 January 2023, thus allowing insurance companies time for preparing for the implications of the standard on resources, training, regulation and tax legislation that are beyond their control.

Türkiye Hayat Emeklilik initiated the systemic infrastructure and operational preparations necessary for IFRS 17 in 2019, with the involvement of all related units in the process.

COVID-19 coverage

In a bid to contribute to the spirit of solidarity, the sector included COVID-19 treatment within the scope of coverage in private health insurance and complementary health insurance policies, although it was excluded and although no premiums were charged for this specific risk.



SECTOR OUTLOOK

SEDDK

The image of, and the confidence in, the sector will be affected positively by the increased supervision and control of the insurance industry, which is an important component of the financial sector.

- **New Era in Participation Insurance**

“Regulation on Insurance and Private Pension Activities within the Framework of Participation Principles”, which sets out the principles and procedures for carrying out insurance and private pension activities within the frame of participation principles, was enforced upon its publication on 19 December 2020.

Participation-based private pension activities, which were not regulated in the Regulation published in 2017, was regulated in this Regulation. In addition, the Regulation set 31 December 2021 as the deadline for permissible period of operations by companies pursuing activities employing the window system (provision of participation insurance products along with conventional insurance products). The window companies are obliged to establish fully participation companies or transfer their portfolios until the said date.

- **Potential contributions of the establishment of the Insurance and Private Pension Regulation and Supervision Agency to the sector**

Trust is an undeniably crucial factor in the finance sector. When we consider the positive impacts that the Capital Markets Board of Turkey (CMB) established for ensuring operation of the capital market with trust, openness and determination and for protecting the rights and benefits of savers on one hand, and the Banking Regulation and Supervision Agency (BRSA) creating and controlling the safe operating environment of the banking sector on the other hand have upon the industry; the establishment of the Insurance and Private Pension Regulation and Supervision Agency (SEDDK) that has been long awaited by the insurance industry is an extremely important development.

In the insurance industry characterized by a very busy regulatory and supervisory agenda, establishment of an authority exclusively focused on insurance and separately from the Ministry of Treasury and Finance is anticipated to offer major advantages for the sector. Decisions and regulations concerning the industry's expectations and needs will presumably be realized faster once the SEDDK becomes operational. Additionally, SEDDK will also play an active role in the industry's expansion at an increasing pace as the industry's existing potential is made better use of and financially inadequate companies will be put on closer watch. In addition to all of those, the image of, and the confidence in, the sector will be affected positively by the increased supervision and control of the insurance industry, which is an important component of the financial sector. Moreover, SEEDK's having its headquarter in Istanbul is strategically important for building close relationships with the sector.

- **Information in insurance contracts**

“Regulation on Information in Insurance Contracts” was enforced upon its publication on 14 February 2020, which sets out the duties and obligations of the insurer to make sure that individuals wishing to enter into a specific insurance relationship, who do not have all the information about the subject matter, coverage and other features of the contract either before and during the execution of the contract, be provided with the lacking information, and that the related parties are kept informed about the changes and developments that may arise during the continuation of the agreement and that might affect the insurance customers, insured or the beneficiary.

Growth continued in the life branch.

In the Life Insurance branch, premium production in 2020 increased by 27% compared to the previous year and reached TL 14.4 billion. Its share in the total sector increased to 17.48%. Additionally with the effect of supportive monetary policy during the pandemic period, the use of consumer loans increased and the production of connected lending life insurance premiums increased by 26.5% compared to the previous year. On the other hand, premium production for life insurances with cumulative and life coverage increased by 55% and accrued as TL 2.6 billion.

PPS outperformed the previous year in 2020.

According to the data announced by the Pension Monitoring Center as of December 31, 2020, while the number of participants in the voluntary-based Private Pension System was 6,871,131 at the end of 2019, it reached 6,900,564 as of the end of 2020.

At the end of 2019, the total fund amount of the participants increased from TL 101.9 billion to TL 137.1 billion with an increase of 34.6% as of the end of 2020, and the state contribution fund amount was TL 21.3 billion with an increase of 23.1%. The total fund size, including the state contribution, increased by 32.9% and reached TL 158.3 billion.

While there were 6,003,414 employees in the Auto Enrolment System (AES) at the end of 2019, the number of employees in 2020 increased by 10.5% and reached 6,635,692 employees. The fund amount of the participants increased from TL 8.2 billion to TL 11.3 billion with an increase of 37.9%. The total AES fund size reached TL 11.8 billion with the state contribution of TL 483.3 million.

The fund size of the entire Private Pension System increased by 33.6% in total, exceeding TL 170 billion.

In addition to the qualified increase in the number of participants and fund size in the Private Pension System in 2020, the average return of PPS funds of 22.99% supports the fact that the Private Pension System is the most appropriate investment tool.

Turkey has breeding grounds

In the "Global Pension Index 2020" report published in October 2020, it is stated that the pressure on pension systems has increased with COVID-19, and the pension systems of 39 countries are evaluated within the framework of more than 50 indicators. According to the data in the report; The Netherlands has the highest index value with 82.6%, while Thailand has the lowest value with 40.8%. Turkey ranked 37th with its rapidly developing pension system.

The Private Pension System (PPS) in our country, which continues to grow, shall advance in the forthcoming period getting stronger by means of the activation of potentials such as PPS for under 18 years old and foreign currency PPS as well.

TL 14.4 billion premium production

In the Life Insurance branch, premium production in 2020 increased by 27% compared to the previous year and reached TL 14.4 billion. Its share in the total sector increased to 17.48%

SECTOR OUTLOOK

Leader in Auto Enrolment

The company is the leader in Auto Enrolment with 34.5% and 56% market shares in the number of employees and fund size, respectively.

Position of Türkiye Hayat Emeklilik in the Sector

As of December 31, 2020, Türkiye Hayat Emeklilik became the sector leader with its Voluntary Private Pension System (PPS 3.0) and Automatic Enrolment (AES) with a total number of 4.2 million participants-employees and a total fund size of TL 36.5 billion (including state contribution). In addition, 28.2% of the total number of participants in PPS 3.0, 34.5% of the total number of employees in AES and 21.4% in the total fund size were obtained. TL 10.1 billion of the fund size of BES 3.0, TL 4.8 billion of the fund size of AES consists of interest-free funds, and their market shares are 47% and 68%, respectively.

Türkiye Hayat Emeklilik had a fund size of TL 25.3 billion (excluding state contribution) with 1.95 million participants and 37.5% increase in PPS 3.0; It was the sector leader with 28.2% market share and second place with 18.5% market share in the number of participants and fund size, respectively. The company increased its market share by 0.05% with a contribution amount of TL 15.9 billion and became the leader with a market share of 19.3%.

On the other hand, the company has 2.3 million employees and a fund size of TL 6.3 billion (excluding state contribution) with an increase of 36.7% and it is the leader in the number of employees and fund size with 34.5% and 56% market shares, respectively.

Fund Size and Premium Generation

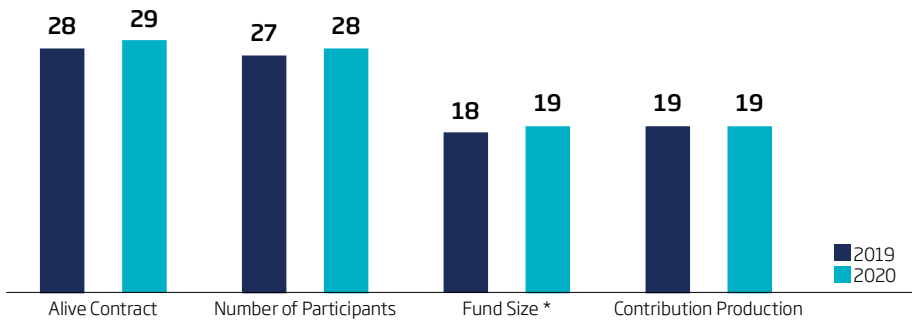
PPS 3.0 (TL)	2019	2020	Increase
Live Contract	2,260,867	2,362,431	4%
The Number of Participants	1,849,830	1,946,709	5%
Fund Size *	18,410,614,621	25,315,692,123	38%
State Contribution	3,521,544,467	4,522,055,857	28%
Total Fund Size	21,932,159,088	29,837,747,980	36%
Contribution	12,772,822,305	15,940,973,132	25%

AES (TL)	2019	2020	Increase
Live Contract	2,453,084	2,674,301	9%
Number of Employees	2,283,484	2,290,093	0,3%
Fund Size *	4,634,542,353	6,334,198,375	37%
Contribution	3,557,181,213	4,901,048,635	38%

Branch (TL)	2019	2020	Increase
Non-Life Premium Production	260,394,544	195,497,268	-25%
Life Premium Production	3,567,197,587	3,993,334,567	12%
Total	3,827,592,131	4,188,831,835	9%

* State contribution not included.

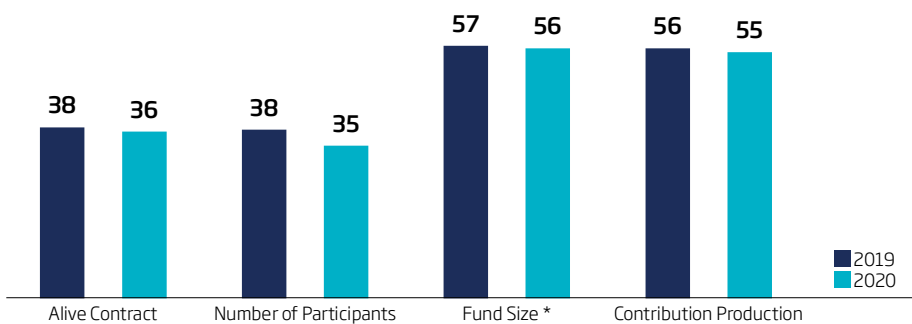
Türkiye Hayat Emeklilik's PPS 3.0 Market Shares (%)



TL 69.4 million

According to the Participation Insurance data; total premium production of Türkiye Hayat Emeklilik accrued as TL 69.4 million thus it recorded such a high real increase of 373% compared to the previous year.

Türkiye Hayat Emeklilik's AES Market Shares (%)



Türkiye Hayat Emeklilik reached TL 4 billion in 2020 Life Insurance premium production with an increase of 11.9% thereby it achieved a market share of 27.7% and maintained its leadership.

The total of non-life insurance premium production, including TL 194.9 million Personal Accident and TL 591 thousand Health premium production, amounted to TL 195.5 million by a decrease of 24.9%. Upon this production amount, Türkiye Hayat Emeklilik ranks second among

life companies with a market share of 27.8%. Achieving a market share of 8.7% in Personal Accident production thereby the Company has ranked 3rd in the insurance sector.

According to December 2020 Turkish Insurance Association (TSB) Participation Insurance data; total premium production of Türkiye Hayat Emeklilik accrued as TL 69.4 million thus it recorded such a high real increase of 373% compared to the previous year.

* State contribution not included.

Sector leader

Life Branch

Premium Production

TL **4**
billion

Market Share
27.7 %

PPS 3.0

Fund Size (state contribution included)

TL **9.8**
billion

Market Share
18.8 %

AES

Fund Size (state contribution included)

TL **6.6**
billion

Market Share
56.3 %

PPS 3.0

Interest Free Fund Size

TL **10.1**
billion

Market Share
47.0 %

AES

Interest Free Fund Size

TL **4.8**
billion

Market Share
68.0 %

PPS 3.0

The number of Participants

1.9
million

Market Share
28.2 %

AES

The number of Employees

2.3
million

Market Share
34.5 %