

# 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.

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.

### LIFE AND PENSION SECTOR

In recent years, the world as a whole has faced numerous challenges that have presented significant risks and led to dramatic shifts in economic systems, as well as social and cultural spheres. During this period, there has been a growing discussion surrounding the detrimental effects of cyber-attacks, alongside the competitive advantages offered by advancing technology. Additionally, the escalating frequency and cost of natural disasters, attributed to climate change, have reached unprecedented levels, impacting national economies and insurance balance sheets. Furthermore, there has been ongoing discourse regarding the potential impact of rapidly changing global demographic patterns on the sustainability of social security systems and macroeconomic developments, raising concerns about the possibility of a global recession.

The presence of numerous uncertainties has prompted individuals to enhance their future preparedness, resulting in increased demand for life and private pension products.

Based on the year-end data released by the Association of Insurance, Reinsurance and Pension Companies of Türkiye, the Türkiye insurance sector witnessed a significant increase in total premium production in 2022. The sector's total premium production reached TL 235 billion, reflecting a nominal growth of 123.2% and a recorded real growth of 35.9%. The premium production of non-life branches experienced a significant increase, with its share in total production rising from 83.2% to 86.9%. In nominal terms, the premium production reached TL 204.2 billion, reflecting an increase of 133.1% in nominal terms and 41.9% in real terms.

In the year 2022, a total of 21 life insurance and pension companies in our country generated premiums specifically related to life insurance. The top 10 companies accounted for 93.3% of the total premiums generated. The premium production of the life branch, which experienced a decrease in its share from 16.8% to 13.1% of the total production, witnessed a significant increase of 74.1% amounting to TL 30.9 billion. The real growth rate of the branch has been stated to be 6%.

### Türkiye Life and Non-Life Insurance Industry Comparative Premium Table

TL	2022	Share (%)	2021	Share (%)	Increase (%)
Life Premium	30,858,314,007	13	17,726,737,287	17	74
Non-Life Premium	204,153,485,703	87	87,580,270,796	83	133
<b>Total Premium</b>	<b>235,011,799,710</b>	<b>100</b>	<b>105,307,008,083</b>	<b>100</b>	<b>123</b>

Source: Insurance Association of Türkiye data published as of 24.01.2023 was used.

## Economic and Sectoral Developments in 2022

The period of the pandemic has resulted in a shift in individuals' perception of risk, specifically leading to a rise in the demand for health insurance. The increasing impact of risk awareness and the importance of securing future financial sustainability have become more apparent in terms of life insurance, particularly in relation to collateral and savings offerings. The growth of consumer and commercial loans, which experienced a notable increase in the first half of the year, experienced a deceleration in the third quarter due to the implementation of macroprudential measures. Additionally, a decrease in loan demand resulted in a limited production of credit-linked life insurance premiums.

Savings life insurance, which provides coverage against risks such as death and disability and can also be offered with foreign currency indexation, demonstrated strong performance in the

year 2022, while the premium production of this branch and its share in total premium production continued to grow.

Despite being impacted by macroeconomic turmoil and adverse circumstances, the private pension system, which is one of the first instruments that comes to mind when it comes to long-term savings with its traceability and reliability and attractive return rates, continues to exhibit steady growth.

Based on the data provided by the Pension Monitoring Center, as of 30 December 2022, the total fund size within the Voluntary PPS, inclusive of the state contribution, has reached a total of TL 400.1 billion. Furthermore, the number of participants has surpassed 7.8 million individuals. The total number of active contracts has risen to 9.5 million, reflecting a growth of 10.7% in comparison to the previous year.

As of the same date, the Automatic Enrollment System (AES) reported a fund size of TL 33.3 billion, with a corresponding number of participants totaling 8.3 million. The total number of certificates has reached 9.5 million. As of the end of 2022, the total number of employers within AES has been 249,697.

The inclusion of individuals below the age of 18 in the PPS remains a significant factor in driving the performance of the voluntary PPS, as it expands the participant base. As of the end of 2022, the fund size attained within the participant group below the age of 18 amounted to TL 3 billion, with a total count of 594,164 participants.

As of the end of 2022, the total fund size of the voluntary PPS and automatic participation reached TL 433.4 billion, with a total count of 16.1 million participants.

### Türkiye Pension Sector Comparative Fund Size

TL	2022	Share (%)	2021	Share (%)	Increase (%)
PPS Fund Size	400,074,133,024	92	227,911,476,603	93	76
AES Fund Size	33,330,158,482	8	16,475,737,760	7	102
<b>Total Fund Size</b>	<b>433,404,291,506</b>	<b>100</b>	<b>244,387,214,363</b>	<b>100</b>	<b>77</b>

Source: Pension Monitoring Center data on fund size including state contribution was used.

The public authority provides significant support to the pension and life insurance sectors. In 2022, regulatory measures were implemented to promote engagement and retention within the system. These measures included raising the state contribution rate from 25% to 30%, providing state contributions for

amounts exceeding the annual state contribution limit in subsequent years, and granting employees aged 45 and above the option to participate in AES upon request.

According to the Medium-Term Plan for the period of 2023 - 2025, there are proposed measures that support the

increase in product diversity that will be implemented in order to facilitate the development and expansion of the insurance and pension sectors, and it is planned to transform the automatic enrollment into a Supplementary Pension System.

## **INSURANCE INDUSTRY LEGISLATIVE DEVELOPMENTS AND AMENDMENTS IN 2022**

### **The Law Amending the Law on the Private Pension Savings and Investment System and Certain Laws and Decree Law No. 375**

In accordance with the “Law Amending the Law on the Private Pension Savings and Investment System and Certain Laws and Decree Law No. 375” published in the Official Gazette on 22 January 2022, partial payment right, the right of assignment, the increase in the state contribution from 25% to 30%, the right of citizens over 45 to be included in the automatic participation system, and the advantages of granting state contribution to participants who make collective contribution payments over the years are provided to the participants.

The implementation of related applications commenced in our Company in 2022.

### **Regulation Amending the Regulation on the Implementation of the Turkish Citizenship Law**

In accordance with the “Regulation Amending the Regulation on the Implementation of the Turkish Citizenship Law,” as published in the Official Gazette on 13 May 2022, under number 31834, individuals of foreign nationality who make a minimum investment of USD 500,000 or its equivalent in foreign currency in the Private Pension System (PPS), subject to the requirement of maintaining their contribution in funds designated by the Insurance and Private Pension Regulation and Supervision Agency (SEDDK), and remaining in the system for a period of three years, are eligible to obtain Turkish citizenship under exceptional basis.

Our Company has initiated developments on the subject matter.

### **Opportunity to Gift PPS Products**

The implementation of the PPS Gift Certificate was initiated with the issuance of circular numbered 2022/17 on 31 May 2022.

### **Exceptional Acquisition of Turkish Citizenship by Foreigners through the Private Pension System**

In accordance with the regulation that was enacted in May 2022 and the subsequent regulation on the PPS implementation, foreign participants, who can be included in the PPS, are allowed to acquire Turkish citizenship on exceptional basis, provided that they keep their contribution above a certain limit in the funds designated by the SEDDK and remain in the system for a period of three years, and the implementation of this provision was completed and put into practice in November 2022.

### **Participation Company Portfolio Transfer**

As of 31 December 2022, the entire life portfolio in the Türkiye Hayat Emeklilik inventory was transferred to the newly established Türkiye Katılım Sigorta company, in accordance with the regulations outlined in the Regulation on Insurance and Private Pension Activities within the Framework of Participation Principles, which was published in the official gazette on 19 December 2020.