

A GENERAL APPROACH TO TURKISH INSURANCE  
MARKET AND A RESEARCH  
ABOUT THE ROLE AND MEANING OF LIFE INSURANCE IN  
TURKEY



ŞEBNEM PENBEK İLERİ

JANUARY 2004

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TURKEY

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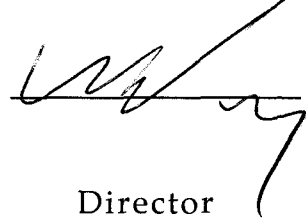
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ŞEBNEM PENBEK İLERİ

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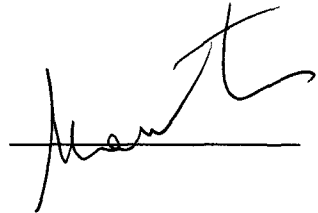
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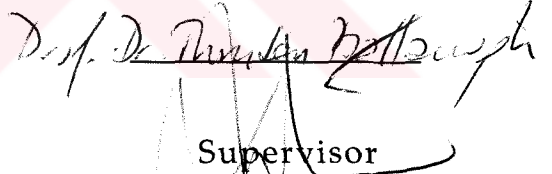
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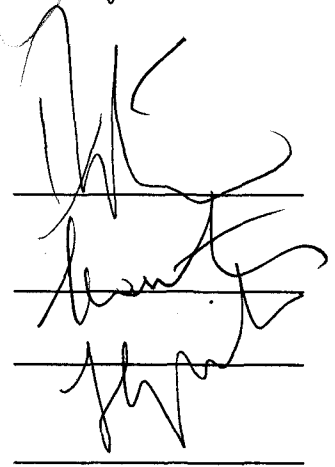
Supervisor

Examining Committee Members

..Prof..Dr...Tuncel...BALTAÇI...  
.....

..Prof..Dr..Alex...KATRİNHİ.....  
.....

..Yrd..Doç..Dr...Gülen...ATABAY...  
.....



## ABSTRACT

A GENERAL APPROACH TO TURKISH INSURANCE  
MARKET AND A RESEARCH  
ABOUT THE ROLE AND MEANING OF LIFE INSURANCE IN  
TURKEY

İLERİ PENBEK, Şebnem

MBA, Department of Business Administration

Supervisor, Prof. Dr. Tunçdan BALTACIOĞLU

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This thesis analysis the insurance market in Turkey and propose a research about the life insurance practices in Turkey. Thesis starts with basic definition of insurance and its major cause risk and continued with the analysis of basic insurance types in Turkey. Development of insurance in Turkey and basic characteristics of Life Insurance Sectors are briefly described and finally the result of research about the life insurance practices in Turkey is reported. Thesis ends with a final chapter including recommendations of how to sell insurance policy in Turkey and finished with a final conclusion page.

Key word: Insurance

**ÖZET**  
**TÜRK SİGORTA PAZARINA GENEL BİR BAKIŞ İLE**  
**TÜRKİYE'DE**  
**HAYAT SİGORTACILIĞININ ANAMI VE YERİ KONULU**  
**ARAŞTIRMA**

İLERİ PENBEK, Şebnem

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Bu çalışma Türkiyede ki sigorta pazarı hakkında detaylı analizlerin ve ülkemizde ki hayat sigortacılığı uygulamaları hakkında yapılmış olan araştırmanın sunumudur. Tez sigortanın ve çoğumuzun onu yaptırma sebebi olan risk kavramının tanımları ile başlamakta ve ülkemizde şu an uygulamada olan belli başlı sigorta türlerinin analizi ile devam etmektedir. Türkiye de sigortacılığın doğuşu ve gelişiminin aktarılmasının ardından araştırma konusu olan hayat sigortacılığı sektörü ile ilgili başlıca konuların ele alındığı yeni bir bölüm ile tez devam etmektedir. Son olarak araştırma sonuçları rapor edilmiş ve ülkemizde genel anlamda sigortacılığın nasıl gelişebileceği konulu bir final bölümü eklenerek tez son sözle bitirilmiştir.

Anahtar Kelime: Sigorta

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## **INTRODUCTION**

*On September 11, 2001, foreign terrorist hijacked four commercial jets. Two jets crashed into the World Trade Center towers; the third jet crashed into the Pentagon in Arlington, Virginia, while the fourth jet crashed in a field in southwestern Pennsylvania. Thousands of people died or are missing as a result of the attack.*

*The shocking terrorist attacks show clearly that we all live in a risky world. Other tragic events occur daily such as drivers die or severely injure in auto accidents. Homeowners lose their homes and personal property because of fires, floods, earthquakes, and other natural disasters. Others incur catastrophic medical bills and the loss of earnings because of heart disease, cancer, AIDS, or other diseases. Still others face financial ruin because they negligently injure someone and cannot pay a liability judgment.*

### **1. THE PURPOSE OF THE STUDY**

Insurance is the natural outcome of the idea of protecting one's selves against the economic results of unexpected losses or/and damages of life. Actually human beings are oppose of various dangers in their daily life like; having their houses burn, their belongings may be stolen, they may get ill or they may faced with some money that will cause them lots of money. Thus against these kinds of unwanted

proceedings people feel the necessity of taking cautions. However; human, who are living in communities, give the privilege to support their daily life such as eating, heating and protecting themselves but as time passes and changes they all start to think about their future. As the civilization improved and the cultural levels of people increased and changed they become much more aware of the dangers that threaten their economic well being and try to find ways to overcome those dangers. The idea of having insurance depends on the educational level, social status, time, place and personality of people.<sup>1</sup>

Insurance was started in coast cities of Italy by XIV century. Insurance was taken as a private business apart from other business branches however some Geneva and Venezian traders were making insurance, too. Birth of the fixed premium insurance policies was started with agreements called "Sea Loan". With those agreements creditors gave credit to the ship-owners, if the ship sunk the creditor did not take back the money but if not the ship owner pay back the credit plus the interest. Foundation of the idea was belonging to Italy however high interest rates hardened the work of the system so they modified the agreement and transformed it into a kind of sales agreement. With this new system before the voyage the ship and the equipments were sold on paper and if the ship would turn back the sales did not occur but if it sunk the owner sold the ship. With this system ship owner paid a fixed amount to the buyer and this amount never been paid back in any case.<sup>2</sup> Turkey first met with insurance in 1872 by the foreign insurance firms. With the

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<sup>1</sup>Rejda, Principles of Risk Management and Insurance, 2000

<sup>2</sup> Kender, Law of Private Insurance in Turkey, 1990

word of Atatürk; Milli Reasürans T.A.Ş<sup>3</sup> was founded and foundation of national insurance companies has been started. Today under the control of Ministry of Treasury there are about 70 companies operating in this sector.

The idea of insurance was born to protect oneself against economical outcome of the probable risks of life. Insurance creates a pool of people who are faced with similar risks and have not been damaged yet. With a very little contribution of these people a probable damage of any of these people will easily be paid out from the money, which was collected in this pool. At this point we can say that insurance is a way of investment and in European countries insurance is among the major investment tools like bond and interest.

Basic aim of an insurance idea is to protect insurer from the possible damages and take necessary precautions. Any damaged will be paid out from the account where the insurance firm collects from other individuals holding similar risk. In short its seen that the insurance firms hold portfolios in their hands which has different levels of risk like some insurer hold more risk than others, for example a flat in the first floor is riskier than a flat in 4<sup>th</sup> floor against thieves. Like this example different risk holders come together and share the risk together under the name insurance. Lets try to answer the idea of why insurance in sum.

- Insurance is the community of people that hold risk of living,
- Insurance is the probability of any future damage,
- Insurance is the similarity of risk that the members of the community have,

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<sup>3</sup> First and leading "National Reinsurance CO." founded in Turkey.

- Insurance is the recovery of any damage that might happen,
- Insurance is the economical treatment of any damage that might happen,

Insurance is a very new concept for Turkey; with the recent trade law; organized in 1957, the government control on insurance is obtained. What has happened in the past 46 years in Turkey will be analyzed during this project in details. In the first chapter readers will be introduced with brief description of insurance and risk. Throughout chapter one the basic descriptions such as risk and insurance, characteristic of insurance, categories of risk and the relation between insurance and risk will be demonstrated. Chapter two will mainly demonstrate the types of insurance all around the world and its applications in Turkey. Chapter three summarizes the development of insurance in Turkey and major problems of the sector. Chapter four will give detail explanations about life insurance sector in Turkey. A research about perception of life insurance in Turkey has been conducted and under chapter 5 the result of this research will be summarized. And this thesis will be finalized with chapter six summarizing the problems and recommended solutions of the sector in Turkey and a final conclusion.

## CHAPTER 1

### DEFINITION OF INSURANCE AND RISK

*Insurance is an ingenious modern game of chance in which the player is permitted to enjoy the comfortable conviction that he is beating the man who keeps the table; says Ambrose Bierce<sup>4</sup>.*

Through chapter 1 definition and basic characteristics of insurance and risk, major risks that cause financial insecurity, insurance and tools and finally managing risk through insurance will be discussed. For most people insurance is the most important technique for handling risk.

#### 1.1 DEFINITION OF INSURANCE

There is no single definition of insurance. Insurance can be defined from the viewpoint of several disciplines, including law, economics, history, actuarial science, risk theory and sociology. But each possible definition will not be examined at this point. Instead it is needed to examine those common elements that are

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<sup>4</sup> An Author and Journalist lived between 1842-1913 for further info. Pls. See [www.biercephile.com](http://www.biercephile.com)



typically present in any insurance plan. However before proceeding, a working definition of insurance-one that captures the essential characteristics of a true insurance plan-must be established.

The base of insurance is to form unity against probable risk that might happen during lifetime. Insurance is a kind of economical system where people; who are under the risk of same kind of danger; pay money to form a support pool to be used by an individual when a damage occurred. So, this system forms a cycle where the damages of some people are paid through sustain of masses of people whom are under the risk of parallel kind of dangers.<sup>5</sup>

Another definition given by American Risk and Insurance Association is as follows: "Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insured for such losses, to provide other financial benefits on their occurrence or to render services connected with the risk." Although this definition may not be acceptable to all insurance scholars, it is useful for analyzing the common elements of a true insurance plan.

Insurance is also defined as the social device for making accumulations to meet uncertain losses of capital, which is carried out through the transfer of the risks of many individuals to one person or group of person.<sup>6</sup>

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<sup>5</sup> Nomer and Yunak, Sigortanın Genel Prensipleri,2000

<sup>6</sup> Todd,Jerry D, Kueber, Micheal A., O'Keefe, Patric,"The Concept and Definition of Insurance: Is it Challenging?","CPU Journal,01622706,Winter 2000,Vol.53,

Insurance may be defined as a social device for reducing risk by combining a sufficient number of exposure units to make the loss predictable. The predictable loss is then shared proportionally by all those in the combination<sup>7</sup>.

Number of these definitions can be increased as each risk management book contains one all of which some how calling each other. However there is no doubt that different groups have wrestled with the need to define insurance and those definitions have depended on their particular viewpoints and their reasons seeking a definition. Thus there are definitions derived by courts, historians, economists, governments, and academicians.

This does not mean that insurance is so vague that it can not be defined; rather it has grown so complex that no simple definition can embrace all its many branches. Certain kinds of loss protection, such as life insurance and fire insurance, are universally accepted as branches of insurance and would have to be included in any definition.<sup>8</sup>

Finally *insurance* is an economic institution that reduces the risk by combining under one management a group of objects so situated that the aggregate accidental losses to which the group's subject become predictable within narrow limits. Insurance is usually effected by and can be said to include, certain legal contracts under which the insurer, for consideration promises to reimburse the insured or

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<sup>7</sup> Mehr, Modern Life Insurance, 1949

<sup>8</sup> Mayerson, Introduction To Insurance, 1962

render services in case of certain described accidental losses suffered during the term of agreement.<sup>9</sup>

Subject of insurance can be anything from a valuable antique to an event that nonoccurrence of it might result as a customary responsibility under the rules of Turkish law. The most popular and understandable example of this description is that the subject of "Fire Insurance" is the home and utilities of the insurer where the subject of a "Life Insurance" is the life of the insurer himself.

## **1.2 BASIC CHARACTERISTICS OF INSURANCE**

An insurance plan or arrangement typically includes the following characteristics;<sup>10</sup>

- a. Pooling of Losses
- b. Payment of Fortuitous Losses
- c. Risk Transfer
- d. Indemnification

### **1.2.1 Pooling of Losses**

Pooling or the sharing of losses is the heart of insurance. Pooling is the spread of losses incurred by the few over the entire group, so that in the entire process, average loss is substituted for actual loss. This is accomplished through the theory of probability. In addition pooling involves the grouping of a large number of exposure units so that the law of large numbers can operate to provide a substantially accurate prediction of future losses. Thus pooling implies:

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<sup>9</sup> Greene, Risk and Insurance, 1968

<sup>10</sup> Rejda, Principles of Risk Management and Insurance, 2002

- Sharing of losses by the entire group,
- Prediction of entire losses with some accuracy based on the law of large numbers,<sup>11</sup>

With respect to the first concept (loss sharing) consider an example to make it more clear: Assume that 100 cherry collectors in Kemalpaşa agree that if any farmer's home is damaged or destroyed by fire, the other members of the group will cover the actual costs of the unlucky farmer who has a loss. Assume that each home is worth 8.000.000.000. -TL, and an average one home burn each year. In the absence of insurance the maximum loss to each farmer is 8.000.000.000. -TL if the home should burn. However by pooling the loss it can be spread over the entire group and if one farmer has a total loss the maximum amount that each farmer must pay is only 800.000.000. -TL. In the effect the pooling technique results in the substitution of an average loss of 800.000.000. -TL for the actual loss of 8.000.000.000. -TL.

From the viewpoint of insurer if the future losses can be predicted objective risk is reduced. Thus another characteristic often found in many lines of insurance is risk reduction based on the law of large numbers.

The *law of large numbers* states that the greater the number of exposures, the more closely will the actual results approach the probable results that are expected from an infinite number of exposures. Consumers usually buy insurance from companies that specialize in selling it. Insurance companies are firms that offer insurance because they know that when they sell a large number of policies they face relatively

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<sup>11</sup> Vaughan, Risk Management, 1977

little risk. So the ability to avoid risk by operating on a large scale is based on the law of large numbers which tells us although single events may be random and largely unpredictable, the average outcome of many similar events can be predicted.

<sup>12</sup>A practical illustration of the law of large numbers is the number of motor vehicle deaths during a “Bayram Holiday” because millions of vehicles are on road.

Estimates of both the average frequency and the average severity of loss must be based on previous loss experience. If there are a large number of exposure units, the actual loss experience of the past may be a good approximation of future losses. The insurer can predict the future with a greater degree of accuracy as the number of exposures increase. This concept is also very important because an insurer must charge an accurate premium for individuals in order to pay future losses of and expenses during the policy period. The lower the degree of objective risk, the more confidence an insurer has that the actual premium charged will be sufficient to pay all claims and expenses and provide a margin for profit.<sup>13</sup>

### **1.2.2 Payment of Fortuitous Losses**

A fortuitous loss is one that is unforeseen and unexpected and occurs as a result of chance. For example, a person may slip on an icy sidewalk and break a leg. The loss would be fortuitous. Insurance policies do not cover intentional losses.<sup>14</sup>

### **1.2.3 Risk Transfer**

Risk transfer means that a pure risk is transferred from the insured to the insurer, who typically is in a stronger financial position to pay the loss than the insured.

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<sup>12</sup> Pindyck and Rubinfeld, Microeconomics, 2000

<sup>13</sup> Rejda, Principles of Risk Management and Insurance, 2000

<sup>14</sup> Rejda, Principles of Risk Management and Insurance, 2000

Simplest aspect of insurance after pooling of losses is transferring or shifting risk from one individual to a group.<sup>15</sup>

#### **1.2.4 Indemnification**

Indemnification for losses means that insured is restored to his or her approximate financial position prior to the occurrence of the loss. It is the direct advantage of insurance for those who suffer unexpected losses.<sup>16</sup> Thus, if you are sued because of the negligent operation of an automobile, your auto liability insurance policy will pay those sums that you are legally obligated to pay.

### **1.3 DEFINITION OF RISK**

*When we take a risk, we are betting on an outcome that will result from a decision we have made, though we do not know for certain what the outcome will be said Peter L. Bernstein in his book of "Against the Gods; The Remarkable Story of Risk"<sup>17</sup>*

There is no single definition of risk. Economist behavioral scientists, risk theorists, statisticians and actuaries each have their own concept of risk. However risk traditionally defined in terms of uncertainty. Based on this concept risk can be defined as uncertainty concerning the occurrence of a loss.<sup>18</sup> For example the risk of being killed in an car accident is present because uncertainty is present. The risk of lung cancer for a smoker is present because uncertainty is present.

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<sup>15</sup> Vaughan, Risk Management, 1977

<sup>16</sup> Williams and Heins, Risk Management and Insurance, 1989

<sup>17</sup> Bernstein, Remarkable Story of Risk, 1996

<sup>18</sup> Rejda, Principles of Risk Management and Insurance, 2000

Risk is also defined as the probability of an event combined with the magnitude of the losses and gains that will entail<sup>19</sup> where the probability is defined as the likelihood that a given outcome will occur.<sup>20</sup>

The word risk is used in an insurance parlance to mean at least three different things. Risk is sometimes used by insurance agent to mean the peril against which he insures, and more often to mean the person the person or property protected.<sup>21</sup> Through this thesis as the study focuses on insurance, risk will mean uncertainty and in some cases peculiar to insurance.

As already stated above although the risk is defined as uncertainty, professionals in the insurance sector often use the term risk to identify the property or life being insured. Thus, in the insurance industry, it's common to hear the phrases such as "that driver has a poor risk" or "that building is an unacceptable risk".

Here it is better to make a clear distinction between an objective and a subjective risk:

**Objective risk** is defined as the relative variation of actual loss from expected loss. Assume that a property insurer has 10,000 houses insured over a very long period, and, on average, 1 percent, or 100 houses, burns each year. However it would be rare that exactly 100 houses are damaged each year. In a year this number can be 90 or 110. This points out a variation of 10 houses from the expected number of 100, or a variation of 10%. This relative variation of actual loss from expected loss is known

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<sup>19</sup> Helene, British Journal of Social Psychology, 2003

<sup>20</sup> Pindyck and Rubinfeld, Microeconomics, 2000

<sup>21</sup> Mayeson, Introduction to Insurance, 1962

as objective risk. Objective risk can be statistically calculated by some measure of dispersion, such as the standard deviation or coefficient of variation. Because objective risk can be measured, it is an extremely useful concept for an insurer or a corporate risk manager. As the number of exposure increases, an insurer can predict its future loss experience more accurately because it can rely on the law of large numbers.<sup>22</sup>

**Subjective risk** is defined as the uncertainty based on a person's mental condition or state of mind. For example, a customer who was drinking heavily in a bar may foolishly attempt to drive. The driver will be uncertain that he will arrive home in safe without being arrested by the police for drunk driving. This mental uncertainty is called subjective risk. The impact of subjective risk varies depending on the individual. Two people in their behavior may alter accordingly. For example, a motorist previously arrested for drunk driving is aware that she has consumed too much alcohol. The driver may then compensate for the uncertainty by getting someone else to drive the car or take a taxi. Another driver in the same situation may perceive the risk of being arrested as slight. This second driver may drive in a more careless and reckless manner; a low subjective risk results in less conservation driving behavior. Different behaviors increase or decrease the chance of loss and directly prove the personal maintain and perception of risk among different individuals. One can adore risk other hates. Haters are the most popular target of insurers!<sup>23</sup>

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<sup>22</sup> Rejda, Principles of Risk Management and Insurance,2000

<sup>23</sup> Rejda, Principles of Risk Management and Insurance,2000



## 1.4 CHANCE OF LOSS

*Chance of loss* is the probability that an event will occur. It's very close to the definition of risk as both hold the concept of probability in; that has the features of subjective and objective futures.

What we meant by objective probability is that probability of an occurrence of an event depends on several observations. A very fundamental example of an objective probability is the chance of head or tail from the toss of a coin is  $\frac{1}{2}$  as a perfectly balanced coin has only two sides.

Lets give another example, which is quite close to our subject. An objective probability can be determined by inductive reasoning rather than deductive. For example the possibility that a person at the age of 21 will die before 26 cannot be logically deducted. However by a careful analysis of past health problems of that individual and mortality experience, life insurers can estimate the probability of death and sell five year term life insurance policy issued at age 21.

Subjective probability is the individual personal estimations. For example a couple who believe in the luck of their wedding day may believe to win lots of money from a lottery ticket bought at that day. Subjective probability may vary depending on lots of reasons such as age, personality, gender, intelligence, education level and even the alcohol consumption.

## 1.5 PERIL AND HAZARD

From the viewpoint of insurance peril and hazard are two basic definitions that have to be done. They are different from the concept of risk discussed earlier in this part.<sup>24</sup>

The words "peril" and "hazard" are often confused in law, in policies and even in some insurance textbooks. Sentence such as "the fire hazard is only one of the perils covered by the insurance policy" appear from time to time.<sup>25</sup>

### 1.5.1 Peril

*Peril* is an event that causes a personal or property of loss. For example if your house is destroyed due to the fire, the peril is the fire. If your car is damaged by another car due to heavy storm the peril is the heavy storm. There are some common perils that may damage our properties and lives such as earthquake, fire, windstorms, theft, sickness and premature death.<sup>26</sup>

### 1.5.2 Hazard

*Hazard* is the condition that creates or increases the chance of loss because of a specified peril<sup>27</sup>. There are 4 basic types of hazards.

- a. *Morale Hazard*: Most insurance authors draw an understated distinction between morale hazard and moral hazard. Morale hazard can be defined as the carelessness or the indifference to a loss because of having an insurance policy. Some persons do not consciously seek to bring about a loss, but the

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<sup>24</sup> Rejda, Principle of Risk Management and Insurance, 2000

<sup>25</sup> Mayeson, Introduction to Insurance, 1962

<sup>26</sup> Mayeson, Introduction to Insurance, 1962

<sup>27</sup> Mayeson, Introduction to Insurance, 1962

fact that they have insurance causes them to take more chances than they would if they had no insurance.<sup>28</sup> Leaving your car in a garage where there is no security and leaving the doors open will automatically increase the chance of loss.

**b. Moral Hazard:** Moral Hazard is dishonesty or character defects in an individual that increase the frequency or severity of loss.<sup>29</sup> Un-sold merchandise of a factory might be burnt to get money. Insurers attempt to control moral hazard by careful underwriting of applications for insurance and by various policy provisions, such as deductibles, waiting periods, exclusions and riders. Opinions differ on the degree to which moral and morale hazards are created by insurance, but all agree that some persons are affected in each way that morale hazards are more common than moral hazards.<sup>30</sup>

**c. Physical Hazard:** Physical conditions that increase the chance of loss such as the age or health of insured person or the location, use and construction of insured property. Heavy rain or icy roads increase the change of car accidents.<sup>31</sup>

**d. Legal Hazard:** Legal hazards refer to characteristics of the legal system regulatory environment that increase the frequency or severity of losses. Lawsuits state that insurers required to include coverage for certain benefits in health insurance plan such as, coverage for alcoholism; and regulatory

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<sup>28</sup> Williams and Heins, Risk Management and Insurance, 1989

<sup>29</sup> Mayerson, Introduction to Insurance, 1962

<sup>30</sup> Williams and Heins, Risk Management and Insurance, 1989

<sup>31</sup> Mayerson, Introduction to Insurance, 1962

actions by, state insurance departments, are taken to restrict the ability of insurers to withdraw from the state because of poor underwriting results.<sup>32</sup>

## **1.6 BASIC CATEGORIES OF RISK**

To understand the need and necessity of insurance we should understand risk in all aspects. Basic categories of risk have two major types as;<sup>33</sup>

### **1.6.1 Pure and Speculative Risk**

*Pure risk* is defined as the situation in which there are only two possibilities loss or no loss. There is no possibility of gain. If an earthquake hits a city the possible outcome is damage or no damage. *Speculative risk* is the situation where there is either favorable or unfavorable. You have \$1000 to invest on new business the result will either gain of profit or loss of the investment. It's very important for the insurers to distinguish between these two risk.<sup>34</sup> Private insurance firms usually invest on pure risk. Law of large numbers can be applied to pure risk rather than speculative risk. The law of large numbers is very important for insurers to predict the future loss due to pure risk. Finally society may benefit from a speculative risk even though a loss occurs but its harmed if a pure risk present and a loss occurs.<sup>35</sup> For example development of new and cheaper computers may let competitors loose money where as the society benefit from buying cheaper computers.

**Pure risk** has 3 major types as:

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<sup>32</sup> Rejda, Principles of Risk Management and Insurance, 2000

<sup>33</sup> Rejda, Principles of Risk Management and Insurance, 2000

<sup>34</sup> Riegel, Insurance Principles and Practices, 1966

<sup>35</sup> Williams and Heins, Risk Management and Insurance, 1989

**a. Personal Risk:** Risk that directly affects the individuals are personal risks. They involve the possibility of the complete loss or reduction of earned income, extra expenses and the depletion of financial assets. Most of the life insurance policies define 4 basic categories of personal risk<sup>36</sup>;

**a.1 Risk of premature death:** The death of household head with unfulfilled financial obligation. The obligation might vary from children to be educated to mortgages to pay. As can be seen here we are talking about the deaths not at early age but at ages starting from the individuals having their economical freedom. In other words we are talking about the deaths that insurance may pay money or support the entire family.

**a.2 Risk of insufficient income during retirement:** Vice versa if you are retired and your money is not enough to lead your life the insurance may again help you of course under some circumstances. In USA it's very popular even a must to make retirement insurance policies to be able to survive after the age of 65. In other words they are aware of the obligations of saving money when they are able to earn; to spend when they are old and unable to earn. However in our country it is still a luxury to save money due to economical conditions.

**a.3 Risk of poor health:** When we are young and healthy the hospitals are very far away from our lives if we do not have serious problems. However once the bad luck catches you, you should start paying catastrophic medical bills and loss of earned income.

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<sup>36</sup>Rejda, Social Insurance and Economic Security, 1999

**a.4 Risk of unemployment:** Regardless of the reason unemployment may cause financial insecurity. First workers lose their earned income and employee benefits. Second the economic conditions may force the worker to work only part time and finally long-term unemployment may cause past savings and unemployment benefits to be exhausted.

**b. Property Risk:** People holding property are under the risk of property, which is the risk of having, the properties damaged or lost. For example if a fire damages a restaurant the owner will have a direct loss of his restaurant and indirect loss of profit because of being not worked for a while.

**c. Liability Risk:** If you did something that results by the injury of someone or property you will *probably* held legally liable to the damage you made. Liability risk have great importance for several reasons such as they do not have any upper limit, a lien may be placed to your assets and legal defense cost can be enormous. Although the cost of damage you give may not have any upper limit; insurers put limits for policies designed for those purposes reminding the definition of insurance which is "sharing the risk" not paying it all in some cases!

As we have told already insurers normally insure pure risk. However not all the pure risk are insurable. Certain requirements must be fulfilled before a pure risk is privately insured. From the viewpoint of an insurer there are 6 major requirements of a pure risk to be insurable.<sup>37</sup>

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<sup>37</sup> Vaughan, Risk Management, 1997

- a. There must be a large number of exposure units that are subject to the same peril or groups of peril.*
- b. The loss must be accidental and unintentional.*
- c. The loss must be determinable and measurable.*
- d. The loss should not be catastrophic.*
- e. The chance of loss must be calculable.*
- f. The premium must be economically feasible.*

### **1.6.2 Fundamental and Particular Risk**

Fundamental risk is a risk that affects large numbers of people or the entire economy. War is the most popular example as it affects large numbers of individuals. Hurricanes, earthquakes, floods, forest fires and terrorism are other examples of it. Many countries have experienced an increase in terrorism in recent years that result with loss of human lives and property damages. Vice versa a particular risk is a risk that affects only individuals and not the entire economy such risk can be bank robberies and car thefts. The distinction is quite important as the government assistance required for the damages due from fundamental risk.<sup>38</sup>

### **1.7 BURDEN OF RISK ON SOCIETY**

The occurrence of risk might result some undesirable social and economic effects. Individuals might think of increasing the amount of emergency fund to pay for unexpected losses. The idea of larger emergency funds also strengthen the idea of having an insurance as it would be very difficult for an household to pay the

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<sup>38</sup> Rejda, Principles of Risk Management and Insurance, 2000

damages of an earthquake to his property if that guy is a middle income wage earner. As a society we are loosing certain goods and services due to legal liability risk. Most companies around the world stop manufacturing of certain products like childhood vaccines, birth control devices asbestos products and others due fear of legal liability. Recent news about the defective meats that cause serious diseases called "Mad Cow" ground the authorities to take precaution steps and burden the import of veal from USA for an indefinite period of time. Finally risk let most of us feel fear and worry sometimes. While sending your work to your coach the risk of dislike make you feel uncomfortable and worried although you believe in the job you did.

" Burden of risk" may sometimes result with well-being and sometimes with bad going. However, whatever the result is risk cannot be eliminated and will be a part of our lives forever, which means we have to learn how to cope with it. All around the world and also in Turkey people buy insurance polices to eliminate various risks or in fact to share the loss of risk with community, such as: theft of belongings, burn of a house, crash of a car, earthquake, terror, war, death and illnesses.

## **1.8 METHODS OF HANDLING RISK**

Risk is a burden not only for individuals but for the society as well. There are five major methods to handle risk that we are faced to during our lives. These are;

- a. *Avoidance*
- b. *Loss Control*
- c. *Retention*



d. *No insurance Transfers*

e. *Insurance*

The name is very clear for some people who prefer to burden risk by **avoiding** actions that may cause a risk in other words they prevent themselves which is the most effective and cheapest way.<sup>39</sup>For example one can avoid the risk of divorce by not marrying, a driver may prefer not to drive under heavy rain and snow to avoid risk of sliding the car. However not all the risk can be avoided, for example you can avoid to be killed in a plane crash by not flying. Another method loss control is a way of **minimizing the loss**. For example companies may hire security teams to minimize the loss due theft. Again a company may reduce the risk of loss after a risk is happened under the risk of fire a sprinkling system may minimize the loss due fire.

Active and passive **retention** is the 3<sup>rd</sup> method for risk handling. An individual or a firm may retain all or part of a given risk. Active retention is done when an individual or a firm is aware of the risk and plans to retain all or part of it. A homeowner may retain a small part of the risk of damage to the home by purchasing a homeowner's policy with a substantial deductible. By deductible insurance for active risk retention insured would save money and risk may be deliberately retained. Certain risk can be unknowingly retained because of ignorance, indifference, or laziness. Passive retention is very dangerous if the risk retained has the potential for destroying your financials. <sup>40</sup> For example many

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<sup>39</sup> Riegel, Insurance Principles and Practices, 1966

<sup>40</sup> Riegel, Insurance Principles and Practices, 1966

workers with earned incomes are not insured against the risk of total and permanent disability under either an individual or group disability income plan. Therefore, people who are not insured against this risk are using the technique of risk retention in a most dangerous and inappropriate manner. A risk can also be transferred to a party rather than an insurance company. These can be done by a contract, hedging price risk and incorporation of a business. Electrical device's service contracts, long term leasing, fixed price contracts, hold-harmless clauses are examples of contracts. Hedging is a technique for transferring the risk of unfavorable price fluctuations to a speculator by purchasing and selling futures contracts on an organized exchange such as NYSE.

And finally for most people, insurance is the most practical method of handling a major risk. It is known that some risk averse people are willing to pay to avoid risk. However if the cost of insurance is equal to the expected loss people who averse risk will probably buy enough insurance to recover fully from any financial losses they might suffer.<sup>41</sup>

However one must not forget that insurance can never prevent loss. What it can do is transfer the risk of economic loss from one less able to bear it to one better able to shoulder it. The uninsured homeowner, a fire in house is a financial catastrophe, to an insurer; the same fire is one claim among many and can be paid for out of premium income. If a loss can be prevented or is small enough to budget, insurance may not be able to wisest course. <sup>42</sup>

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<sup>41</sup> Pindyck and Rubinfeld, Microeconomics, 2000

<sup>42</sup> Mayerson, Introduction to Insurance, 1962

## 1.9 MANAGING RISK THROUGH INSURANCE

The essence of risk management lies in maximizing the areas where we have some control over the outcome and minimizing the areas, where we have absolutely no control over the outcome.

Harry's Hardware is a medium-sized firm that operates several lumberyards and hardware stores in Front Myers, Florida. In recent years the number of workers injured and employee thefts have increased. A management consultant recommended that the company established a "risk management program" to deal with these problems. Risk management is a process that identifies the loss exposure faced by a firm and uses a number of methods, including insurance, to handle those exposures. The following steps are taken under risk management process and a commercial insurance policy is placed in this process:<sup>43</sup>

**Step 1:** Identify potential losses

**Step 2:** Evaluate potential losses

**Step 3:** Select the appropriate techniques for treating loss;

Risk Control<sup>44</sup>

- a. Avoidance
- b. Loss Prevention
- c. Loss reduction

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<sup>43</sup> Rejda, Principles of Risk Management and Finance, 2000

<sup>44</sup> Greene, Risk and Insurance, 1968

## Risk Financing<sup>45</sup>

- a. Retention
- b. Noninsurance Transfer
- c. Commercial insurance

### **Commercial Insurance:**

Commercial insurance is appropriate for loss exposures that have a low probability of loss but for which the severity of loss is high. If the risk manager uses insurance to treat certain loss exposures, five key areas must be emphasized:

1. Selection of insurance coverage: To determine the coverage needed, the risk manager must have specialized knowledge of commercial property and liability insurance contracts. The risk manager must also determine if a deductible is needed and the size of the deductible. A deductible is a provision by which a specified amount is subtracted from the loss payment otherwise payable to the insured. A deductible is used to eliminate small claims and the administrative expense of adjusting these claims. Another approach is to purchase excess insurance a plan in which the insurer does not participate in the loss until the actual loss exceeds the amount a firm has decided to retain.

2. Selection of insurer: Several important factors come into play here, including the financial strength of the insurer, risk management services provided by the insurer, and the cost and terms of protection. The insurer's financial strength is determined by the size of policy owners' surplus, underwriting and investment results,

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<sup>45</sup> Greene, Risk and Insurance, 1968

adequacy of reserves for outstanding liabilities, types of insurance written, and the quality of management.

3. Negotiation of terms: If printed policies, endorsements and forms are used, the risk manager and insurer must agree on the documents that will form the basis of contract. If a specially tailored manuscript policy is written for the firm, the language and the meaning of the contractual provisions must be clear to both parties.

4. Dissemination of information concerning insurance coverage: The firm's employees and managers must be informed about the coverage of insurance, the various records that must be kept, the risk management services that the insurer will provide, and the changes in hazards that could result in a suspension of insurance.

5. Periodic review of the program: This review is especially important when the firm has a change in business operations or is involved in a merger or acquisition of another firm.

### **ADVANTAGES OF INSURANCE**

- a. The firm will continue to operate after a loss occurs and may experience little or no fluctuations in earnings.
- b. Uncertainty is reduced, which permits the firm to lengthen its planning horizon. Worry and fear are reduced for managers and employees, which should improve their performance and productivity.

- c. Insurers can provide valuable risk management services, such as loss control services, exposure analysis to identify loss exposures and claims adjusting.
- d. Insurance premiums are income tax deductible as a business expense.<sup>46</sup>

### DISADVANTAGES OF INSURANCE

- a. The payment of insurance is a major cost.
- b. Considerable time and effort must be spent in negotiating the insurance coverage.
- c. The risk manager may have less incentive to follow a loss control program, because the insurer will pay the claim if a loss occurs.<sup>47</sup>

#### **Step 4: Implement the program**

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<sup>46</sup> Williams, Smith and Young, Risk Management and Insurance, 1998

<sup>47</sup> Rejda, Principles of Risk Management and Insurance, 2000

## **CHAPTER 2**

### **TYPES OF INSURANCE**

Insurance may be divided and subdivided into classifications based on the perils insured against or fundamental nature of particular program. Basically, the primary distinction is between private and social insurance. Private insurance consists largely of voluntary insurance programs available to the individual as a means of protection against the possibility of loss. Social insurance on the other hand, is compulsory insurance, usually operated by government, whose benefits does law determine and whose primary emphasis is on social adequacy.<sup>48</sup>

Insurance can also be classified as either private or governmental insurance. Private insurance can be divided into as “Life and Health” insurance and “Property and Liability” insurance. Governmental insurance also be divided into two as “Social” insurance programs and “All Other Governmental” insurance plans. Thus the major types of insurance both private and public can be classified as:<sup>49</sup>

#### **PRIVATE INSURANCE**

- a. Life and Health Insurance
- b. Property and Liability Insurance

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<sup>48</sup> Vaughan, Risk Management, 1997

<sup>49</sup> Rejda, Principles of Risk Management and Insurance, 2000

## GOVERNMENT INSURANCE

- a. Social Insurance
- b. Other Government Insurance

### 2.1 BASIC TYPES OF INSURANCE IN TURKEY

Insurance policies may also be grouped under different categories as follows;

- a) Policies directly related with the existence of the owner such as life and individual accident insurance,
- b) Policies related with the belongings of the owner such as fire, transportation and marine insurances,
- c) Policies related with the liability of the owners such as employer liability, auto insurance,
- d) Policies related with the rights and financial interest such as credit insurance.
- e) Insurance policies can also be classified as compulsory (Traffic Liability) and optional (life insurance).
- f) Especially in British system insurance types are classified as Life/Non-Life Insurance, and going further Non-Life Insurances are classified as Marine/Non-Marine insurances.
- g) Finally in practice we can also see a system that is classified as personal lines, commercial lines or insurance for private organizations and insurance for other people.<sup>50</sup>

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<sup>50</sup> Nomer and Yunak, General Principles of Insurance, 2000



As can be seen above, insurance can be classified under various subsections according to the needs, understandings, living standards, economical conditions and habits of different nations. In our country insurance is divided into 2 main section like in British system and non life insurances are classified under 3 major sections which are divided into various subsections according to satisfy the needs of dynamic living conditions. The basic divisions of insurance according to the Turkish Trade Law and Turkish Accounting System are classified as:<sup>51,52</sup>

### **1. Life and Health Insurance**

### **2. Property and Liability Insurance**

#### **2.1 Fire Insurance**

- a. Home Fire Insurance
- b. Office Fire Insurance

#### **2.2 Marine Insurance**

- a. Cargo Insurance
- b. Hull Insurance
  - a) Accident Insurance
  - b) Personal Accident Insurance
  - c) Theft/Glass Insurance
  - d) Engineering Insurance
  - e) Own Damaged Insurance
  - f) Agricultural Insurance

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<sup>51</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>52</sup> An insurance company cannot prepare all types of polices under one name which is defined in Turkish Trade Law. Health and Life Insurance can only be prepared with a different company with a different accounting system.

- g) Financial Insurance
- h) Liability Insurance
- i) Aviation Insurance

*Property and Liability* insurers sell those forms of insurance designed to protect against losses resulting from damage to or loss of property and losses arising from legal liability. The term property and liability insurance refers to *fire, marine* and *accident* insurances and those coverage formerly classified as casualty that are concerned with losses to real and personal property. *Life Insurers* sell life insurances, annuities, and sometimes accident and health insurances.<sup>53</sup> In Turkey Life insurance companies can both prepare life and health policies for individuals and groups. The body of this thesis is formed according to the definitions given in this paragraph as the national sources about Turkish Insurance Market and today's insurances practices in Turkey are accomplished due to these very basic classifications and definitions.

## **2.2 TYPES OF INSURANCE IN GENERAL**

Under this section various types of insurance policies are going to be analyzed without making any country or a distinct policy type differentiation. The following insurance types are going to be deeply analyzed in the following order;<sup>54</sup>

- a. Fire Insurances,
- b. Marine Insurances,

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<sup>53</sup> Vaughan, Risk Management, 1997

<sup>54</sup> Nomer and Yunak, The General Principles of Insurance, 2000

- c. Accident Insurances,
- d. Life Insurances

### **2.2.1 Fire Insurances**

Today fire insurance has a great operation area, which covers both the risk of a small homeowner and belongings of huge industrial organizations that cost billions of dollars<sup>55</sup>. In fire insurances the insured can either be the owner or the renter, mortgage debtor and others.

Fire insurance covers the loss or damage to real estate and personal property because of fire, lightening or removal from the premises. Other perils can be added such as windstorm, hail, and vandalism. Most of the policies covers payment of damaged given to the real estate during the extinguish of the fire. Indirect losses can also be covered, including the loss of profits and rents and the expenses incurred as a result of a loss from interruption of business.<sup>56</sup> Owing the need of guaranteeing some other risks, which are not named in the classical fire policy, insurers include special covers under the name of “ Additional Risks” to give indemnities for those risks beside the basic risks written down a fire policy. These risks cannot be insured individually instead purchase of a basic fire insurance policy is a must for the insurability of those kinds of risks.

These additional risks are numerous but the most accepted and insured ones are as follows;<sup>57</sup>

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<sup>55</sup> General Principles of Insurance Lawsuits, May 1995

<sup>56</sup> Nomer and Yunak, The General Principles of Insurance, 2000

<sup>57</sup> General Principles of Insurance Lawsuits, May 1995

- a) Earthquake and Volcanic Eruptions
- b) Flood
- c) Storm
- d) Landslide
- e) Strike, Lockout, Riot, Civil Commotions, Terror
- f) Inner Flood
- g) Land, Water and Air Vehicle
- h) Self-heating and Spontaneous Combustion

**The following types are included under fire insurance policies that hold the major clauses of a fire insurance policy but take special risks under indemnity that emerged as a result of various livelihood of humans and organizational needs of firms;**

#### **1. Stock Policies:**

Firms that do business with stocks need to protect their stocks against various risks. However it's not as easy as other policies to determine the amount of property that are going to be protected. Because of the turnover within a year the stocks amount are not always the same. There are several recommendations against this; an insurer can make the policy over the stocks at maximum thus the maximum premium is paid whatever the amount of stocks are, to avoid any missing if a damaged occurs. Second he can take the year average and make the policy and finally a new system, which seem to be the best is started to be operated called " Declaration Policies". With this practice the premium is calculated over the maximum stocks and the insured paid the determined amount to the insurer that is 45% to 75% of the

premium varied from one insurance firm to another. The firm declares the stock to the insurer by intervals (every 3 months) and an average stock are calculated for the year. At the end of policy period the exact premium is calculated due to the average stocks. However the insurance guarantee himself by putting a line to the policy saying that the actual policy can not be a determined percentage less than the premium calculated at the beginning. Another practice used is "Maximum Value Insurance" with this method the insured agree to pay for maximum stocks and against this the insurer made a discount for the customer. The system usually fits the textile industry.<sup>58</sup>

## **2. Reinstatement Policies:**

Payment made for machinery and equipment damaged during a fire accident is calculated after deducting the "worn out and damaged portion". However after the First World War the speedy increase in the cost of machinery and equipment make the policies that consider worn out portion become inadequate. To overcome this unwanted situation "Reinstatement Policies" are prepared that let the payers of these policies to get a new machine in case of a damage due the risk defined in the policy index. The insurance firms may pay new for old by receiving higher premiums for a fire policy. These policies hold two basic "must" in it;<sup>59</sup>

- a. The physical change of old with new must be made before the payment done,

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<sup>58</sup> Nomer and Yunak, *The General Principles of Insurance*, 2000

<sup>59</sup> Nomer and Yunak, *The General Principles of Insurance*, 2000

b. The amount of payment is determined according to the cost during the renewal but not ignoring the correspondence of the machine in the insurance policy.

Thus if the policy maker determines a lower amount for a machine the insurance companies calculate the percentage of this mistake and deduct the same amount from the payment, in the insurance terminology this is called the " Defective Insurance Practice" and usually calculated by the surveyor who signs the damage.<sup>60</sup> The following example is given to acquire a deeper understanding,

Beginning of a Policy: 2006/2008		
End of Policy: 2006/2004		
Damage Day: 2012/2008		
<u>The Survey Of The Policy</u>		
The Price of Prof. Fax in The Policy .....	500.000.000 TL	
The Inflationary Effect .....	525.000.000 TL	→ The price due to the policy maker as of the damage day!
The actual price received from "Libra Office Superstore" .....		700.000.000 TL
The Missing % .....		25%
<b>The amount of payment that will made to customer .....</b>		<b>525.000.000 TL</b>

\*Obtained from the claim reports of İleri Sigorta Etkerliği Ltd.Şti., 2003.

Figure 2.1 Illustrates a defective insurance practice

<sup>60</sup> Menkü, University of Istanbul Social Sciences Institute, 2003

As can be seen the survey did not pay the new price, as there was a defective insurance in the policy. Either the competition among different insurance firms or the inability of making a perfect search before preparing a policy force the agencies to apply "Defective Insurance" to decrease the premium to be paid. One must not forget that the "The Defective Insurance Practice" can be applied to all kind of policies that is insuring a property like a flat, building, car, machinery and equipment.

### **3. Variable Insurances:**

If it is not possible to distinguish among various properties that subject to different types of insurance but they all belong to a same customer all the objects subject to the insurance can be included under one policy. So the customer does not have to follow the beginning and ending of various policies such as for machinery, building and stocks. However this policy require a very detailed documentation of the objects subject to insurance and if any damage occurs the "defective insurance practice " is applied for each individual group but not for the whole policy.<sup>61</sup>

### **4. Agreed Value Insurances:**

The aim of this practice is to avoid the disagreement between the insurance and insurer in case of the damage. Before the policy prepared the insurance firm called a surveyor to make a survey and write a report about the value of the items that subject to insurance. Then both sides agree on the report and the policy is prepared and the premium is calculated over the values determine in the report. In case of

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<sup>61</sup> Davis, Insurance Non Marine, An Introduction, 1997

damage none of the sides have the right of objection and the amount written in the agreed value policy is paid to the insured customer.<sup>62</sup>

#### **5. Rent Loss Insurance:**

The aim of the policy is to protect the homeowners against any rent loss in case of any claim occurs. If the house is burn completely until the house is prepared the insurance firm pay rent to the homeowners. However if the contract between the renter and the owner includes a bullet stressing "rent must be paid every month till the expire date of contract" the insurance firm does not pay anything to the owner instead payment is made to the renter even if they moved to another house.<sup>63</sup>

#### **6. Householders' or House owners' and Shop Insurances:**

The householders and shop insurance policies are further accepted in the recent years as these policies control the risk of rent loss, fire, theft and liability beneath solitary policy. So different types of risk are gathered together with a single policy aiming to ease the practice and supply the need of the insures.

**All Risk** policies are also a subject of this group. With this policy apart from the expectancies written in the policy all kind of risks are taken under guarantee. The policy is not only a part of fire insurances but also a type in marine and accident insurances too<sup>64</sup>. All risk policies count all risks as a whole, not a single item, as these kinds of policies become more popular and the number of insures increases the cost of insurance polices will decrease. However one must not forget that

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<sup>62</sup> Nomer and Yunak, The General Principles of Insurance, 2000

<sup>63</sup> General Principles of Insurance Lawsuits, May 2002

<sup>64</sup> Davis, Insurance Non Marine, An Introduction, 1997



contents of risk defined in these policies varies including abnormal risk that are seem impossible to occur.

Another subtype of fire insurances is **Profit Loss Policies**. With this policy, any damage( on any fixed or variable values of any entertainment) and loss occur due to the perils indemnified with fire insurance policy and so the profit loss owing the termination of activities of the organization, is paid to the insured organization according to the clauses stated in the policy.<sup>65</sup> The modern profit loss policies got its final shape in 1939. The subject of the policy is the insured company and the aim is to secure the profit loss and stable cost due fire with a predetermined portion.

Income due sales and services given is obtained through the following steps for an organization;<sup>66</sup>

- a) Fixed cost (rent, electricity, telephone...etc.)
- b) Variable costs (cost of raw material)
- c) Net profit after deducting the 1 and 2 step.

When the operations of an organization are terminated due to a risk like fire the termination of fixed cost is not possible. As the net income plus fixed and variable costs are the definition of gross profit to keep the gross profit constant or at least to balance the ratio of fixed cost in gross profit the management prefers to sign a profit loss policy. However before the policy is prepared the following bullets must be cleared out;

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<sup>65</sup> General Principles of Insurance Lawsuits, May 1995

<sup>66</sup> Nomer and Yunak, The General Principles of Insurance,2000

- a. The insured must have a policy that guarantee the payment of any claim due fire. This is because the loss of profit policy has a direct relation with fire policies the insurer did not made any payment unless the liability of insured is determined by a fire policy.<sup>67</sup>
- b. The insured must be very careful while determining the fixed cost to be insured. Thus the organization must be careful about distinguishing between when the employee wages become variable cost and when they are fixed which is a real difficult situation to cope with. After a fire which terminates the operations of an organization for months the management team must decide whether its better to quit the jobs of all the employees or will it be difficult to hire back the same qualified group back when the operation time came back.<sup>68</sup>
- c. The insured must decide the time of indemnity due to the properties and conditions of the production. The time of indemnity defines the period during which the insurer will support the organization because of the claim. For example for a textile company that imports its machinery and equipment indemnity time of a year can be very short however for a seasonal motel in Çeşme 6 weeks may be too long! If the time is shorter than the required, company may loose money vice versa if the time is too long this time the insured may be forced to pay higher premiums than needed. The premiums are calculated as the 75% of fire policy premium for a 3-month, 110% for 6-month and 150% for a 12-month profit loss.<sup>69</sup>

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<sup>67</sup> General Principles of Insurance Lawsuits, May 1995

<sup>68</sup> Nomer and Yunak, The General Principles of Insurance,2000

<sup>69</sup> Nomer and Yunak, The General Principles of Insurance,2000

## **2.2.2 Marine Insurance**

Marine insurance basically covers the trade and especially over the sea trade. The need of risk indemnity among the precious banks especially during international businesses or/and payment of mortgages given against valuable ships make the marine insurance policies a financial must. Like fire insurances, they are designed to protect against financial loss resulting from damage to owned property, except that here the perils are primarily those associated with transportation.<sup>70</sup>

The close relation between international business and marine insurance embrace an international respect, duty and responsibility to this insurance type. According to this; special clauses written and accepted by *Institute of London Underwriters* are used as guide among most nations, in preparing their own special conditions that will be written on marine insurance policies.

**Marine insurance practices in Turkey on the whole divided into two sections as cargo insurance and hull insurance.<sup>71</sup>**

**2.2.2.1 Cargo Insurance:** Under this section the risk of goods that are transferred from one destination to another by, air, sea, land and rail are taken under indemnity. Some goods that are named valuable goods such as jewelry, documents, cash and antiques may also be insured under this policy type.

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<sup>70</sup> Vaughan, Risk Management, 1997

<sup>71</sup> Nomer and Yunak, General Principles of Insurance, 2000

**2.2.2.2 Hull Insurance:** Under this section various sea vehicles are taken under indemnity against different risks. These vehicles can be any one from the cargo ships to individual yacht even at construction level or harbor devices like carrier.

The cost of carrying goods, which is called freight also insured under this section. It is very obvious that occurrence of any claim will not only damage the goods but also effects the freight. In both cases whether the deal is done according to CIF or FOB freight is subject of the insurance policy for a period of time or a special transportation.

A very basic marine insurance policy supplies an indemnity for the risks of sea and transportation. However if needed, demanded or required the contents of the policy may be widen by adding some special clauses among which the followings are the most usable ones;

- a. War,
- b. Terrorism,
- c. Strike,
- d. Lockout,

**Beside the indemnity given with marine insurance policies, additional clauses are prepared to cover the following claims totally or partially:<sup>72</sup>**

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<sup>72</sup> Nomer and Yunak, General Principles of Insurance, 2000

**a) Total Loss:**

Total loss described as the loss of the whole material, which is subject to insurance.

In practice its covers two basic losses as

*“Actual Total Loss”* , applied when the subject of insurance is totally become unusable, loose basic characteristics, get out of the control of insured for an unknown period and insured loose communication with the cargo ship for a reasonable period of time. *“ Contractual Total Loss”* is applied when it is certain that claim of the subject of insurance is an actual total loss or/and the salvage charge, re-transportation of goods, repairing of goods is more than the real value of goods that subject to insurance.

**b) Average Loss**

Term average refers to the unexpected claims and expenses during the voyage of goods. There are two types of averages;

- a. General Average Loss; if the described expenses and claims are known and its is recommended that the risk is divided among the ship, goods carried and some other interest is called *“General Average”*
- b. Particular Average Loss; means the claims and expenses other than general average loss

**c) Salvage Charges:**

When the risk described in the insurance policy occurs, all the cost made by third parties to rescue the subject of insurance is called salvage charges.

**d) Sue and label Charges:**

The expenses made by insured person or his representatives to eliminate or minimize the claim described in the policy.

**e) Collision Liability:**

A classical hull insurance policy do not only cover the indemnity of the risk that may happen to the hull written in the policy but also covers the claims given to another ship in case of any collide in the sea.

**There are 5 basic policy types made under marine insurance, which are described as;<sup>73</sup>**

**1. Voyage or Time Policy:**

An insurance policy may insure a ship either for a voyage or for a period of time that is usually a year. Time policy is more preferable in among hull insurers.

**2. Fleet Policy**

Policy which indemnity the risk of several ships which belong to one owner.

**3. Construction Policy**

The construction and repairing of ships are insured with this policy

**4. Floating Policy**

Agreed on insurance of a specific amount of cargo and until the voyage of this amount is finished the policy is due.

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<sup>73</sup> Nomer and Yunak, General Principles of Insurance, 2000

## **5. Declaration Policy:**

An automatic policy, which insure various cargo types in a specific period. While the system let the insured a general indemnity for various voyages without declaring the cargo at each voyage, it also ensures stability between the agency and the customer.

### **2.2.3 Accident Insurance**

Accident Insurance policies covers the types of risk other than contents of fire, marine and health insurance policies. For the reason that the types of risk whose qualities are entirely poles apart from each other are included under this insurance category.<sup>74</sup>

*Below basic insurance types are listed that included under accident insurance policies;*

#### **1. Personal Accident Insurance**

The aim of the policy type is to pay compensation to the insured relatives' or directly to the insured in case of the death or injury due to an accident. The quality of the policy makes it more close to the life and health insurance policies. The policy pay an amount for once under the situation of permanent disability and made continues payment for 104 weeks if the injury cause a long-term disability. Personal accident insurance policies can be prepared either to pay only the accident or any or all diseases beside the accident. However the policy made compensation payment only if the death occurs as a result of that diseases describe in the policy.<sup>75</sup>

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<sup>74</sup> Rejda, Principles of Risk Management and Insurance, 2000

<sup>75</sup> General Principles of Insurance Lawsuits, May 1995

In recent years parallel to the attractiveness of international tourism, personal accident policies for one trip insuring the insured and his luggage named Trip Policies are becoming popular.

Personal accident policies are not only under the responsibility of individuals but also can be bought by companies for their own employees. These kinds of group policies offer a constant compensation for a group of people under one policy, which also decrease the premium and increase the power of management on the eye of employees and community.<sup>76</sup>

## **2. Theft/Glass Insurance**

The taken of a personal belonging illegally and damages given during the theft is the subject of this policy<sup>77</sup>. As the Householders Policy include the risk of theft in it; it's becoming less and less usable in recent years.

**Glass** insurance is including the payment of broken glasses mirrors and the shop windows. The most attractive part of the indemnity is that majority of the insurance firms change the broken glass of insured person in less than a day and the firm does payment.

## **3. Engineering Insurance**

In the very beginning the content of the policy was covering only the steam machines but the changing years increase the coverage to cranes, elevators, various machines and foundations and even computers. The given indemnity includes the

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<sup>76</sup> Üçsel, University of Istanbul Social Sciences Institute, 2003

<sup>77</sup> Vaughan, Risk Management, 1997



covering of damage, even all legal responsibilities and third party liability, given to the environment because of the claim in the subject of the insurance. Companies arranging engineering policies do not only guarantee the compensation after claim but also give inspection services to avoid any claim.<sup>78</sup>

Construction all risks and engineering all risks are also included under this category. All the claims apart from the exception defined in the policy are paid to the insured with these policies.

#### **4. Own Damaged Insurance**

With a better-known name in society “ Auto Insurance” is the most popular practice area of accident insurances that clearly divided into to sub-branches called; *Own Damage Insurance*; compensate directly the claims of motor vehicles that are crash, theft and burn of the car and *Traffic Liability*; basically pays the damages given to the other cars or/and individuals. A full policy insures all these risk while partial policies pay only the claims of theft and burn.<sup>79</sup>

#### **5. Liability Insurance**

With this policy personal injury and financial damages given to the third parties are taken under indemnity. Liability against third parties is covered in most of the policies including engineering, marine, fire and air. However if required, policies covering only the liability to third parties can also be prepared. The following policies can be counted under liability insurance policies;<sup>80</sup>

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<sup>78</sup> Menkü, University of Istanbul Social Sciences Institute, 2003

<sup>79</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>80</sup> Üçsel, University of Istanbul Social Sciences Institute, 2003

- a. Employers liability insurance
- b. Professional liability insurance
- c. Individual liability insurance
- d. Product liability insurance
- e. Organization liability insurance

In most countries including Turkey having the liability policy for cars is a legal must and the lack of the policy is subject to penalty. The aim of this legal obligation is to minimize the excessive of individuals who are not having the financial power to pay for a special own damage policy. The “Green card” system is lay an international point of view to the obligation.<sup>81</sup>

In practice there is a “ Comprehensive Policy” which put together the features of both own damage and liability polices covering the personal accident, medical expenses and personal belongings.

## **6. Animal Life/Agricultural Insurance**

The unexpected or due illness deaths of poultry, racehorses, farm animals and pets are covered in animal life insurance.<sup>82</sup>

## **7. Financial Insurance:**

There are usually two very basic example of this type written in books one of which is “Fidelity Guarantee Cover”. With this policy it is aimed to cover the financial loss of employer due to fault and/or wrong behaviors of employees.<sup>83</sup>

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<sup>81</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>82</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>83</sup> Davis, Insurance Non Marine, An Introduction, 1997

The policy can be prepared to cover either some positions such as cashiers, stockholders or it can be general. For this type of insurance policies special periods applied which also covers the 24 months after the end of actual period. This is because in some cases understanding the effect of the events for the organization may take time.

Another type of financial insurances is "Credit Insurance" policies. Here the loss of retailer, if the consumers experience any payment disabilities, is guaranteed. Against a reasonable insurance premium retailers can eliminate the payment uncertainties and strengthen their positions in the sector with this policy. Like other policies this type can also be prepared for a single customer of the retailer or for the whole portfolio.<sup>84</sup>

#### **8. Aviation Insurance:**

Aviation insurances are inspired from the marine insurances in all aspects starting from the historical development to contents. In most countries it's included under marine insurance but here in Turkey it is operated under accident insurance coverage.<sup>85</sup>

Policy covers the liability;

- a. Against customers when an accident happens as a result of negligence of the hosts, pilots or the airport facilities,
- b. If any damage is given to the belongings of the clients,
- c. If any customer gets sick because of the foods served on board.

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<sup>84</sup> Davis, Insurance Non Marine, An Introduction, 1997

<sup>85</sup> Yurdakul, University of Istanbul Social Sciences Institute, 2003

#### **2.2.4 Life and Health Insurance**

The human life value, expressed in dollars, should be carefully appraised for life and health insurance purposes said S.S. Huebner, the Economist of Life Insurance. In our country person who hold any types of life and health insurance policies' is only 2% of the whole population. Unenthusiastically this percentage is 60 in USA, 38 in Mexico, 59 in England and 30 in Chili indicating that there is a great gap in the sector that must be supplied<sup>86</sup>. Seeing this, a further research and detail examination will be done about life and health insurance branch through out this thesis starting from chapter 4.



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<sup>86</sup> Sabah Group, A Happier Future with Individual Retirement Plan, 2003

## CHAPTER 3

### THE DEVELOPMENT OF INSURANCE IN TURKEY

*Like most of the business and populist sectors, the development of insurance is directly related with the political, regional and social-economic events in Turkey. During the years of Ottoman Territory due to religious regulations insurance was forbidden all around the country till the announcement of "Tanzimat Fermanı" in 1839.<sup>87</sup>*

The big burning happened in 1870 caused the death of hundreds and almost 3000 home and offices; named "The Great İstanbul Fire" in history, let the empire to understand the importance of insurance. With the word of Sultan Abdülaziz the first fire department of İstanbul was established and the following year British insurance establishments named Sun, Northern and North British start business in country. In 1878 the first French firm "La Fonciere" and in 1890 agencies of other countries has started doing business in İstanbul and their numbers reached to 15. However although these establishments were serving a need and filling a big gap in Ottoman Empire they were all out of legal control. There were neither unity nor any partnership among those agencies. They were all preparing policies in their own languages, doing business due to the rules of their head offices abroad and any

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<sup>87</sup> Nomer and Yunak, General Principles of Insurance, 2000

disagreement was charged due their national laws in their courts. By 1900 this wrong application going was stopped and the first fire insurance policy was prepared with the guide of " Fire Office Committee of London" and this was the first time insurance was defined in Turkey.<sup>88</sup>

### **3.1 MAJOR DEVELOPMENTS IN THE SECTOR BETWEEN 1900 TO YEARS 2000s**

The chronological development of insurance sector in Turkey is given below starting with years 1900 to years 2000.<sup>89</sup>

**1900...** Insurers came together to form a union and started to operate due to the legal arrangements made by government. The union was called " Union of Fire Insurance Companies". The board also declared the first instructions for a fire insurance policy that suits the rules of "Fire Office Committee of London".

**1906...** Although the first reference of insurance in the legal history appeared in the commercial code of 1860, definition of insurance, types of insurance contracts and rules governing their conditions were only incorporated within the 1906 "Commercial Code".

**1912...** Including the firms operating apart from the union, the number of insurance companies in Turkey reached to 50. The name of the union was changed to " The

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<sup>88</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>89</sup>The chronological development of Turkish Insurance market is obtained from <http://www.millire.com>

Committee of Insurance Firms Operating in Turkey". (This committee was closed in 1924 and "insurers club" has opened)

1914...A new legal pact was made for foreign investors that bring the obligation of having assurance and official registration to operate in Turkey.

1916. First National Insurance Company was established during the Ottoman Empire and followed by the others after the republic was declared.

1918... " National Ottoman Insurance Company" was founded.

1923... " Şark Insurance" was founded.

1925... After the establishment of Turkish Republic, like in most areas, insurance sector also faced with rapid development and improvement attacks one of which was the foundation of " Anadolu Insurance" by İş Bank.

1927...Legislation regulating the activities of all foreign and national insurance companies as well as protecting the policyholders' rights was issued in 1927 together with the Reinsurance Monopoly Laws 1149 and 1173.

1924...Turkish turned out to be the commerce and legal language of all organizations operating in Turkey.

1927...Obligation of keeping the premiums under the control of Turkish Government instead of transferring to international reinsurance firms, when technically possible, became legal with the law numbered 1160.

**1929...**The most important step in the history of Turkish insurance sector was taken with the establishment of " Milli Reasürans TAŞ."

**1935...**"Güven Insurance" was founded.

**1936...**"Ankara Insurance" was founded.

**1938...**Income of life insurance companies were taken under governmental control with the law numbered 3392. The aim of the law was to execute a proper use for the returns.

**1942...**The first private establishment named "Doğan Sigorta" was formed followed by the others chronologically,

Halk Sigorta 1944

Destek Sigorta 1945

General Sigorta 1949

İnan Sigorta 1950

Şeker Sigorta 1955

Güneş Sigorta 1957

Ray Sigorta 1958

Cihan Sigorta 1959

Başak Sigorta 1960

Aksigorta 1961

**1953...**Having a "Traffic Insurance Policy" became compulsory. "Group of Turkish Insurance and Reinsurance Union " was founded.



1959...The legal form of insurance and its operation and the auditing procedures were thus established. Turkish insurance industry was yet governed by Insurance Supervision Act No.7397 certain articles of which were amended from time to time to keep up with the changing needs and demands and is already waiting for its modern legislation to be legalized which harmonizes with the E.U. norms and brings an independent supervision system.

1987..." Law of Insurance Audit" was accepted as compulsory with the laws 3379 and 1106.

1990...The practice of Free Tariffs was accepted all in accidental, fire and marine insurance areas. Beside, the conscientiousness of making provision in the sector was transferred to Ministry of Treasury and Foreign Trade from Ministry of Industry and Trade.

Ultimate enhancements in Turkish insurance sector are as follows,

- Number of insurance companies reached to 66 by 2000. Formulation of the sector is given in Table 3.1.

**Table 3.1 Represents the formulation of the sector as of 2000.**

<b>FORMULATION OF THE SECTOR AS OF 2000</b>	
Total Number of Companies in the sector	66
Insurance Companies	62
Reinsurance Companies	4
<b>NUMBER OF COMPANIES DUE TO THEIR ESTABLISHMENTS</b>	
Publicly Owned	6
Private	48
Foreign Investment	8

\*Source: Active Line, Survey about the major problems of the Turkish Insurance Sector, June 2003

- Life and non- life insurances are approved to be managed by different organizations.
- Balance of contribution among different types in the premium pool has changed. While the portion of fire and marine insurance was decreasing there was a reasonable increase in the portion of life, health and accident insurances.
- As the social responsiveness against insurance increase, the compulsory insurance policies have become more and more popular like Compulsory Earthquake Insurance (DASK) and Gasoline Compulsory Liability Insurance.

- To obtain stability among the financial tables of various insurance companies the application of “ Uniform Chart of Accounts” was brought to practice.
- During these years the legal measures laws 510 and 539 regarding the sector was turned out to be a real chouse after rejected by constitution court and still waiting in TBMM to be declared.<sup>90</sup>

Turkish insurance sector was a regularized market up to 1990 during which the tariffs of main non-life branches were abolished except “Motor Obligatory Third Party Liability Insurance” following the liberalization of the Turkish Economy. Life insurances were already deregularized in 1982. However, individual obligatory insurances for certain risks such as the liabilities of the bus owners towards their passengers (1989), the liabilities accruing from handling dangerous explosive materials (1991), the liabilities emanating from handling the LPGs (1991) and the earthquake insurance for the dwellings (2000) were implemented. It is under the authorization of the Council of Ministers to establish obligatory insurance in case it is deemed necessary for the public interest.<sup>91</sup>

As Turkey is exposed to earthquake risk, an obligatory Earthquake and Volcanic Eruption Tariff including various coinsurance and deductible percentages is in force in the cases where earthquake cover is given in addition to the fire insurance. Also, the tariff of strike, riots, malicious damage, civil commotion and terrorism with

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<sup>90</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>91</sup> Obtained from <http://www.millire.com>

certain coinsurance and deductible percentages is valid; application of them is not obligatory.

Also since 1993 the Turkish insurance and reinsurance companies have to reserve their net retentions in respect of fire and engineering branches, for fifteen years, together with their yields as contingency funds.

In the year 2000 the "Turkish Catastrophe Insurance Pool" (the TCIP) is established to carry out the obligatory earthquake insurance for the dwellings which was issued following the 1999 earthquake disasters and the management of TCIP was entrusted for a period of five years to Millî Reasürans T.A.Ş. which is a company with full experience in this field.

There was a compulsory reinsurance cession system in Turkey basing on the Law No.1160 dated 23rd June 1927 up to the end of 2001, which was handled by Millî Reasürans T.A.Ş. (the history and the existing system is widely explained under section 3.2.).<sup>92</sup>

All insurance and reinsurance companies operating in Turkey have to be a member of the "Association of the Insurance and Reinsurance Companies of Turkey" which acts as a connecting link between the government and the insurance industry in securing the development of insurance and the solidarity among companies. The government body to which the Turkish insurance industry is tied to is the under secretariat for the "Treasury of the State Ministry" under the Prime Minister.

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<sup>92</sup>Obtained from <http://www.millire.com>

Insurance in Turkey is supervised by the "Insurance Supervisory Office (Sigorta Denetleme Kurulu)" which is part of the State Ministry under the Prime Minister ship, in order to protect the public interest. This supervision is exercised as per the articles of 1959 Insurance Supervision Act. There is an insurance department under secretariat for the Treasury represented at directorship level.

The insurance and reinsurance companies in the sector are under the obligation of keeping and arranging quarterly balance sheets, profit and loss accounts, together with their solvency margin tables under a uniform accounting plan , format and send the them to the Treasury at the end of each three months.

In 2002, the insurance industry, consisting of 58 insurance companies produced a premium of. 3.661 trillion, a 46% increase over the previous year and stay above the inflation rate of 29.7%, which in terms of US Dollars is 2.229 million, recording a real increase of 28% over 2001.<sup>93</sup>

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<sup>93</sup> The figures are taken from the Report of the Association of the Insurance and Reinsurance Companies of Turkey, 2002.

Table 3.2 represents the branch wise premium production for the year 2002 is shown here below:

Branch	2002 in billions of TL.	Increase Percentage over 2001
Fire	652.700	48%
Marine	159.679	49%
Accident	1.553.239	42%
Engineering	183.433	52%
Agriculture	15.338	79%
Health	409.796	51%
Life	686.769	49%
Total	3.660.954	46%

Source: The figures are taken from the Report of the Association of the Insurance and Reinsurance Companies of Turkey, 2002.

Minimum capital requirement is 8 trillion Turkish Liras as of July 2002, which is increased periodically by the Treasury taking the existing inflation into consideration.

### **3.2 THE DEVELOPMENT AND POSITION OF MİLLÎ REASURANS TAŞ IN TURKISH INSURANCE SECTOR**

It was by the Act No. 1160 that the compulsory cession in Turkey was introduced on the 23<sup>rd</sup> June, 1927 to reduce the outflow of foreign currency as well as to provide revenue for the Treasury. It took two years of research and preparation for the government to decide in March 1929 to entrust the privilege of operating the compulsory cessions to a company to be formed by the Türkiye İş Bankası A.Ş.

Thus, Millî Reasürans T.A.Ş. which was the first and only private company in the world to operate the required cessions in all branches, was established on the 19<sup>th</sup> July, 1929 with a capital of one million Turkish Liras to function on the basis of compulsory quota share cessions from each and every insurance company operating in Turkey, percentages of quota share being altered from time to time. Milli Reasürans T.A.Ş is not the only reinsurance company in Turkey however company is directing the sector, holds the right of preparing various certification programs (like Training of Surveyors), managing both international and national insurance pools and implements social activities like exhibitions. With all these duties and more Milli Reasürans T.A.Ş became crucial part of Turkish Insurance Market and entail a further analysis.

As of the 1<sup>st</sup> January, 1982 the quota share basis of the compulsory sessions was replaced by surplus after retentions of the ceding companies, for all branches except life, which was left out of the compulsory sessions, and motor business where the quota share system was maintained.

With effect from 1<sup>st</sup> January 1992 “the system increasing the local retention and the reinsurance capacity in the insurance sector” came into force for a period of ten years.

As at 31<sup>st</sup> December 2001 the first period of this system, the compulsory cession, which organized the percentages of reinsurances to be ceded to the Millî Reasürans, has come to an end after 72 years of operation. The second period which involved a

proportion of each reinsurance contract of the insurance companies to be reinsured with the Millî Reasürans, is maintained for a further period of five years.

Thus, as of 1<sup>st</sup> January 2002 Millî Reasürans continues to handle the management of this second section that is called the “Decree Pool” and was formed as at the 1<sup>st</sup> January, 1970 to fulfill the local reinsurance capacity before approaching international markets. The business thus pooled, is retrocede back to the Turkish insurance companies, which are willing to accept a share, remaining part being retained by the Millî Reasürans. The premium of the pool since inception has reached to 481 million dollars by year-end of 2001.

Apart from the Decree Pool, Millî Reasürans is continuing to accept business from the local market on voluntary basis that started as of the 1<sup>st</sup> January, 1991.

After the abolishment of the compulsory cessions, the Millî Reasürans increased its acceptances from the local treaties and started to write facultative business to fill the raised need of capacity in the market due to this abolishment.

Gone 72 years of management of the compulsory cessions in the Turkish insurance industry, it is observed that the foreseen targets have been successfully realized by the Milli Reasürans,

The Turkish insurance market is nationalized;

- Moderate but steady revenue for the Treasury is provided;
- The outflow of foreign currency by way of reinsurance from the country is considerably reduced;



- The education of insurance is successfully carried out;
- Very good international business relations have been established;
- The retentions of the companies have increased.

In the meantime, by the ten years' application of the "system increasing the local retention and the reinsurance capacity in the insurance sector", it can be observed that the target of strengthening the financial structures of Turkish insurance companies has to a great extent been materialized and the retentions of insurance companies have increased more in comparison to a decade ago.

Also, Turkish insurance industry has gained a financially strong national reinsurance company which is the world's top reinsures and cooperative for the Turkish insurance industry in finding the appropriate reinsurance protections with the most suitable underwriting conditions and providing financial support the companies need in respect of major losses.

Millî Reasürans T.A.Ş. is the manager of the Reinsurance Pool since 1974 and the Turkish Catastrophe Insurance Pool, since September 2000 and for certain years was the manager for E.C.O (Economical Cooperation Organization)<sup>94</sup> Pool and the Turkish Reinsurance Pool.

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<sup>94</sup> Economical Cooperation Organization signed among Turkey, Iran and Pakistan in 1964. Mili Reasürans TAŞ representing Turkish delegation in the field of insurance as per the agreement signed.

### **3.3 AN OVERALL LOOK TO THE POSITION OF INSURANCE AROUND THE WORLD AND TURKEY**

Today providing guarantees is not the only responsibility of the insurance firm. In Europe most investors consider insurance as an investment tool. Turkey who's crucial aspires, is to be a member of EU, must analyze and understand this change and find a way of practicing it.<sup>95</sup>

Recent economical developments around the world can be summarized with 3 concepts that are liberalization, globalization and convenience. Most of the European countries manage to follow these changes with new laws, constructions, renewals and developments however our legal, political and economical system that is moving slowly can not be able to cope with those changes. In our economy there are lots of firms whose financial strength are not adequate enough to deal with neither domestic nor international competition. However the governmental support hold them in and so slow down the sector.<sup>96</sup>

Today banking and insurance are coupled sectors that cannot be thinking separately. Insurance is a must and counted among major needs around the world. The recent technological, natural and individual perils can be happened anytime and the costs of these claims are too big to be paid individually by governments and/or social entities. Insurance has been emerged to find solutions to those kinds of global risks. Companies all around the world sell their policies to each other in other

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<sup>95</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

<sup>96</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

words they share the risk with each other. by means of this they share the probable peril with the world. Thus in a reinsurance firm in USA a Turkish insurance firm has a portion and in payment of claims they pay an amount corresponds to their portions.<sup>97</sup>

When you walk down the trade centers of European countries it's noticed that most buildings are owned by insurance firms and they have their banks to direct their own funds. Vice versa in Turkey majority of the trade centers are owned by holdings of businessmen and they have banks and insurance companies.

Insurance sector in Turkey has experience in valuable developments in recent years. However our majority of citizens still do not know the meaning and importance of insurance. The most probable reason for this is the cultural values that make Turkish consumers stay far from insurance companies that insurance companies settled in Turkey still got much to do to develop the sector and to build up insurance comprehend in the market.

Today job discrimination among corresponding companies minimized in most countries especially in finance sector and a big financial supermarket formed. In today's business world it is not a very surprising action for an insurance firm to give credit or for a bank to prepare policies. As a result of this proximity a new concept has emerged to ease the adoption called " financial supermarkets". Financial supermarkets are companies operating in various financial fields from insurance to portfolio management whom are basically assembled as holdings'. Around the

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<sup>97</sup>Rejda, Principles of Risk Management and Insurance, 2000

world people today are not wondering how to make more money but they are experiencing the comfort of receiving satisfactory results wherever they invest the money in their pocket.<sup>98</sup>

After September the 11<sup>th</sup> the insurance and reinsurance market experience an enormous financial flow to the sector because of the very basic theory of economy as the demand increases the supply follow it. After the theorist attack lots of insurance and reinsurance firms went bankruptcy as they were not able to pay the claim. Beside this the fear made lots of uninsured people rushed to insurance firms for a policy. New comers filled the gap of companies who left the sector on the other hand the sector who has recently paid a very serious claim increased the cost of policies to generate money so their profitability and the earnings per share increase.

As a result it was counted that around 20 billion dollar was flow in to the sector during October and November. 12 billion of these amounts were shared among the six reinsurance firms that were established after September the 11<sup>th</sup> and the rest 8 billion was the increase in the common equity of existing insurance and reinsurance companies.<sup>99</sup>

Change in Europe is a bit different than change in America. A new concept called “New Europe” has now changing the idea of “wherever I put my flag there I am” to “wherever I get profit there I am or else just run away!” Beside this in the financial markets the portion of bank accounts has fallen to 33% from 44% where

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<sup>98</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

<sup>99</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

else the portfolio management increase by 4%, individual retirement by 3% and life insurance by 4% from 1990 to 1997. Around European countries because of the taxable reasons individual retirement policies, life insurances and portfolios become more popular by the end of 90's. Europe holds the 1/3 of the whole insurance market and in the list of best companies in Europe 11 of them are financial firms 7 of which are insurance companies. Its very similar in Turkey in the list of "Best Tax Payment of 2001" 11 firms among 55 are insurance companies.<sup>100</sup>

However experts said that sector would acquire its bit from tough competition and by the end of 2000s' around 1000 life and 600 non-life policy makers will close its doors. So future seems to an increase in market shares of companies who will manage to survive.<sup>101</sup>

In Europe investors hold all insurance companies whom are traded in stock exchange market, that is the result of liberal open economy. However in Turkey, because the equity is not publicly held, various sectors such as bank, one single investor holds insurance and industry. Today in Europe with the entrance of valuable insurance firms to the market smaller ones direct their operations through banks. In French 65% of policies made are done by banks. Thus this shows that in Europe insurance companies open banks but in our country banks have insurance companies.<sup>102</sup>

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<sup>100</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

<sup>101</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

<sup>102</sup> Obtained from the article written by Erdoğan Sergici named "Our Crisis and Insurance" <http://www.sigortadunyasi.com.tr/483/ayinmakalesi>

Another handicap in Turkey is cost of insurance policies. As the number of insured people is very below the Europe average, the cost of insurance sold is very high. This outcome depends on a very basic equation as the pool of insured people widened than the money received will increase and so the premiums will decrease. Second alternative cost reduction lies beneath very basic operational ratios, which are readable among European companies but still a chouse in Turkey. Operational ratio is the sum of claim ratio, expense ratio and condition ratio. If the final solution is below the 100% then the profitability increase, its was calculated as 135% in Europe by the end of 2001 however when the calculations redone by rejecting the payment for World Trade Centers the ratio dropped to 112%. Cemal Ererdi the CEO of GESİAD<sup>103</sup> said that the profitability in insurance might increase if the managers can be able to answer the following questions;<sup>104</sup>

- a) How can I calculate the claim ratio?
- b) How can I find my market share?
- c) Which operational tariffs should I use?
- d) How to segment my market share?
- e) What will be the ratio of agencies (for reinsurance companies)?

New marketing models are developed in Europe. Selling through telephone in 90s' leave its place to direct sales in 2000s'. As the elder population increase selling of life and health insurance policies started to increase which needs direct marketing.

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<sup>103</sup> Young Industrialist Businessmen and Executives Association of Turkey

<sup>104</sup> Obtained from the published summary of meetings prepared by GESİAD at March 26, 2001, <http://www.sigortadunyasi.com.tr/495/haberler2.htm>

### 3.4 MAJOR PROBLEMS OF INSURANCE MARKET IN TURKEY

Since the beginning of 2001 Turkey is coping with a series of economical problems. The name of the disaster was called "Crisis of 2001". There is no doubt that this was not the first time but majority of us are hoping it to be the last.

Like most of the sectors insurance also take its piece from this crisis. Although not all the problems of the insurance sector are started after the devaluation crisis, there is a reasonable effect on the bad going.

With the diminishing income level insurance become a luxury good rather than a need. Because the population in Turkey does not have insurance knowledge they do not also demand for insurance. So another problem is about the lack insurance demand. This is not totally related with the education. Although it can be said that education increase the perception of need for insurance, most educated people do not have any insurance policy apart from auto insurance. The statistics indicates that among educated population the percentage of having any other policy like life, fire and health is very low. For example although having a traffic policy is a legal obligation only 60% of the cars in traffic have a policy. Beside this today only 25% of houses are insured. Dramatically the percentages dropped to 10 in life and health insurance branches. Although this is not a very hopeful view it can also be said that there are huge gaps in the market, which did not, considered.<sup>105</sup>

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<sup>105</sup> [www.senturk.com/html/body-dunyada-ve-turkiyede-sigortacilik-html](http://www.senturk.com/html/body-dunyada-ve-turkiyede-sigortacilik-html)

After the devaluation foreign currency based premiums payments became very expensive, this also decreased the sales.

Small firms decrease the premiums to increase the demand. However this does not work as planned. Instead of creating new demand they steal the policies of big companies so the existing demand exchange in the market. As the policies with low premiums skip several indemnity, in case of claim, most insurers could not be paid back so the trust against insurance damaged. For the same house for example the cost of premium can be differ up to 60%, which is quite abnormal and impossible. Thus these two policies cannot insure the same indemnities. This slender and create vicious circle in the sector. After the crisis and this bad reputation existing portfolio decreased and as a result decreasing demand increase the costs.<sup>106</sup>

Foreign reinsurance companies are leaving the Turkish market one after another. The reasons lying behind this run off are; diminishing premiums bring unjust competition and make it very difficult to do business in Turkey. Second reason is the high moral hazard and third is the law of large numbers never works in Turkey. Finally but the most dramatic reason of all is the lack of risk management knowledge among companies. Nearly none of the companies have adequate data to prepare an insurance policy in Turkey. Assume that they have to make a Firm Fire Policy, which is established near Kızılırmak. They should now the last 30-year meteorological data of the river like when and how many times a year it floods, did it ever give damage to surroundings and so. Knowing these data are very important

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<sup>106</sup> Egeli Acente, One day Sector in Turkey will Developed, July 2003



in determining the premium of the policy. However foreign investments like Koç Allianz and Axa Oyak give great importance to the risk management.<sup>107</sup>

In developing countries like Turkey sector is also developing comparatively with the governmental developments. However in Turkey it is not happening so. Insurance has a 1% portion in GNP in Turkey. Average premium paid for a citizen is around 30\$ however in developed countries this amount is around 1200\$. As a country Turkey's target must be to increase the portion of the sector to 2-3% in GNP and premium payments to 300\$.<sup>108</sup>

Lack of technological knowledge in the sector slow downs the operations that generally affect the life and health branch. Most of the companies do not know how to use internet efficiently and this result with loss policies, late claim payments, slow job follow and lots of paper work shifting in the sector. Problems due governmental and legal structure are the vital problem in the sector except life and health branch. Organizational and managerial troubles are also spelled among the problems of the sector.<sup>109</sup>

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<sup>107</sup>Obtained from the published interview with the CEO of Münih Re Klaus Karius, Evaluation of Insurance Sector from a Viewpoint of a Reinsurance Company, 08 January 2001, <http://www.sigortam.net>

<sup>108</sup>Obtained from the published interview with CEO of TEB Insurance Fahri, Insurance is a Need, February 2001, [http://www.activefinans.com/activeline/sayi11/teb\\_sigorta.html](http://www.activefinans.com/activeline/sayi11/teb_sigorta.html)

<sup>109</sup> <http://www.sigortadunyasi.com.tr/504/subat-mart2003/htm>

## **CHAPTER 4**

### **LIFE AND HEALTH INSURANCE**

Human is the most valuable and delicate assets of the organizations, nations and families. An organization needs his employees to operate, nations need citizens to survive in the world, and families need each other to cope with various difficulties of life and to survive.

At the very beginning life insurance indemnity was included in the marine insurance policies to protect the life of traders that go overseas with their own ships. In old Greek and Roma literature it was oblique that there were arrangements made to support the cost of funeral expenses. However the first life insurance with all means were arranged in 1583 and it was written that if the individual who was subject to the policy was died in 12 months the cost of insurance will be paid to his/her relatives. Sector has experienced great developments in 16 and 17 century. The statistics were made by Edmund Halley in 1693 showing the average death age of different countries (mortality tables) and premiums started to be calculated due to the multiples driven out these statistics. In 1755 these tables were enhanced by James Dodson and since then, a constant premium is calculated for insured individual for the entire period of policy,

The first company founded in the sector was “ Westminster” and established in 1792. In 1870 to bring a union to the sector and create common operational duties among companies a new act called “ Life Assurance Companies Act” was declared.<sup>110</sup>

When we turn our face to Turkey we saw that the development of “Life and Health” (L&H) insurance was speeded up by 1980s and still enduring its development. The CEO of Turkish Actuary Association told in one of his speech “L&H insurance policies are perfect instruments for financial lives of countries as they supply the economy with long-term financial funds, increase the national savings of countries and supply additional social guarantee to individuals”. Since 21st century the basic competitor of the sector was itself however today a new concept is trying to be espoused called “ Individual Retirement Plans” and this will probably increase both the competition and the quality within the market.

#### **4.1 FUNDAMENTALS OF LIFE INSURANCE**

A life insurance can easily alleviate the financial consequences of any premature death. Premature death can be defined as the death of a family head with outstanding unfulfilled financial obligations such as dependents to support, children to educate and a mortgage to pay off.<sup>111</sup> Although the problem of premature death has declined over time due to significant medical improvements but it’s still a problem in developing countries like Turkey. Large numbers of people

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<sup>110</sup> Nomer and Yunak, General Principles of Insurance, 2000

<sup>111</sup> Rejda, Principles of Risk Management and Insurance, 2000

around the world died each year from three major causes of death-heart diseases, cancer and strokes.

It is known that death is unwanted unplanned and eventually unexpected way of leaving our loved ones alone. Beside the sadness it brings, as soon as the relatives calm down, the financial disabilities starts if the family member died was the breadwinner. The purchase of a life insurance may minimize the financial disability of the death of the breadwinner in the family. The basic aim of the life insurance is to minimize the future anxiety of the dependents<sup>112</sup>.

The purchase of a policy is economically justified if the insured earns an income, and others are dependent on that earning capacity for at least part of their financial support. If the breadwinner dies prematurely, life insurance can be used to restore the family's share of decreased breadwinner's earnings. It should also be noted that a life insurance policy is a valued policy that pays a stated sum to a named beneficiary and is not a contract of indemnity. The insured event is the uncertainty of the time of death. We must all die but the time of death is uncertain.

#### **4.1.1 Financial Impact of Premature Death on Different Types of Families**

*Single People*, although traditional Turkish families do not let their children live alone, the number of single people has increased in recent years. Other than needing

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<sup>112</sup> Silver Lake Editors, Life Insurance, 2001

a modest amount of life insurance for burial purposes and uninsured medical bills, this group does not need large number of life insurance.

*Single Parent* the number of single parent families with children under age 18 has increased sharply in recent years because of large number of born outside of marriage, divorce, legal separations, and death. Any premature death may cause great financial insecurity for the surviving children. The need for large amounts of life insurance on the family head is great.

*Two-income winner* families where both spouses work outside the home is increasing day by day due to economical problems of our country. The number of mothers with children in the labor force has increased dramatically over time. In two income families with children, the death of one income winner can cause considerable financial insecurity for the surviving family members because both incomes are normally needed maintain the family's standard of living. However in contrast in case of married working couples with no children the need for a life insurance will not be as dependable as the couples with children.

*Traditional families* are still great portion of Turkish society with a breadwinner whom is usually the father. Any premature death may cause great financial insecurity in families with children in which only one parent works.

Here is also a need for substantial amounts of life insurance on the unemployed spouse who is earning for dependent children at home. The cost of hiring childcare service can be heavy financial burden to the surviving working spouse if the unemployed spouse should die.

*Blended families* are ones in which divorce or widow spouse with children remarries and the new spouse also has children. Both spouses may be in labor force at the time of remarriage and the death of one spouse may result in a reduction in the family's standard of living since the family's share of that income is lost.

*Sandwich families* are families in which a son or daughter with children is also supporting one or both parents. Thus the son or daughter is sandwich between the younger and older generation. Premature death can result in the loss of a financial support to both to surviving children and aged parents. These families need to be protected by life insurance to replace the loss of income to surviving family members.<sup>113</sup>

#### **4.1.2 Amount of Life Insurance to Own**

Lets assume that you decided to purchase a life insurance policy, next step you should consider to determine the correct amount of life insurance to own. The correct amount of life insurance to own, however, is an individual matter, because family needs and financial goals vary widely. In the past, some life insurers and financial planners have proposed certain arbitrary rules for determining the amount of life insurance to own, such as six to ten times of annual earnings. These rules are meaningless, however, because they do not take into account that family size, income, financial goals, and needs vary from family to family.

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<sup>113</sup> Rejda, Principles of Risk Management and Insurance, 2000

Three approaches can be used to estimate the amount of life insurance to own:

- Human Life Value Approach
- Needs Approach
- Capital Retention Approach

*Human life value* (HLV) can be defined as the present value of the family's share of decreased breadwinner's future earnings. HLV can be calculated by estimating the average annual earnings over his or her productive lifetime after deducting the federal and state income taxes, social security taxes, life and health insurance premiums and cost of self-maintenance. Second step is determination of the number of years from the person's present age to the contemplated age of retirement. And finally using a reasonable discount rate, determine the present value of the family's share of earnings for the period already determined.<sup>114</sup>

The second method for estimating the amount of life insurance to own is the *needs approach*. Under this method the various family needs that must be met if the family head should die are analyzed, and the amount of money needed to meet these needs are determined. The amount of existing life insurance and financial assets is then subtracted from the total amount needed. The difference, if any, is the amount of life insurance that should be purchased.<sup>115</sup>

*The capital retention approach* also called capital need analysis is the third method for estimating the amount of life insurance to own. Unlike the needs approach,

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<sup>114</sup> Belth, Joseph M., Life Insurance A Consumers Handbook, 1985

<sup>115</sup> Silver Lake Editors, Life Insurance, 2001

which assumes liquidation of the life insurance proceeds, the capital retention approach preserves the capital needed to provide income to the family. The income-producing assets are then available for distribution later to heirs.<sup>116</sup> The amount of life insurance needed based on the capital retention approach can be determined by the following steps:

- Prepare a personal budget,
- Determine the amount of income-producing capital,
- Determine the amount of additional capital needed,

#### **4.1.3 Methods for Providing Life Insurance Protection**

Yearly renewable term insurance provides life insurance protection for only one year. The insured is permitted to renew the policy for successive one-year periods with no evidence of insurability. That is evidence of good health or physical examinations not required when the policy is renewed. The pure premium for yearly renewable term insurance is determined by the death rate at each attained age.

Under the level premium method, premiums do not increase from year to year but remain level through out the premium-paying period and the insured has lifetime protection to age 100. Under this method premiums paid during the early years of the policy are higher than is necessary to pay current death, claims, while those paid in the later years are inadequate for paying death claims. The redundant or the excess premiums paid during the early years are invested at compound interest and

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<sup>116</sup> Rejda, Principles of Risk Management and Insurance,200



the accumulated funds are then used to supplement inadequate premiums paid during the later years of the policy.<sup>117</sup>

## **4.2 TYPES OF LIFE INSURANCE POLICIES**

Life insurance policies are policies whose subject are individuals and risks that individuals can be faced in a lifetime.<sup>118</sup> So there are various types in this branch. Although these types are named differently among different insurance companies majority of them give similar indemnities.

The aim of the life insurance policies is to assess the savings of individuals under the name premium and to support the families of the individuals in case of any accident.<sup>119</sup>

Life insurance policies cannot be compared with bank deposits. However in our country bank operations are more popular than insurance and because of this life insurance policies are continuously and unfortunately incorrectly compared with bank deposits. The difference can be explained with a small example; assume that a man died living a bank account the surviving family can only receive the cash in bank however if the guy in our sample has made a life insurance policies and pay the premiums the family get more money than recorded in the policy.

To calculate the premiums in life insurance policies mortality tables of different age groups are used. The indemnities in tariffs and possibilities in those tables are

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<sup>117</sup> Black, Kenneth and Harold, Life Insurance, 2000

<sup>118</sup> Nomer and Yunak, The General Principles of Insurance, 2000

<sup>119</sup> Limra International, The Financial Impact of Death, 1999

matched together and various formulations drawn out. The help of these formulas calculates the premiums of policies. Another important point in calculation is the time period of life insurance policies. To reflect the time value of money in premiums an interest rate must be used in premium calculations. Assuming that life policies are long lasting policies like 20-30 years these interest rates must be minimized. In developed countries where the inflation is low the rate is between 2.5-3% however in our country high inflation rate cause the interest rate to climb to 9%. At that point it can easily be seen that when the interest rates are compared in Turkey the difference between a bank deposit and a life policy become clearer.<sup>120</sup>

Because in our country no one can predict the effects of inflation so the inflation rate for future the interest rate allowed in life insurance sector stay very below the yearly interest in money market. To close the saving gap between two investment tools the insurance companies formulate a solution called "Profit Sharing". However opposite to believed, the profit shared in this solution is not the profit of companies but the profit of investment, which means each year life insurance companies share the profit they receive from investing the premiums they have collected and not paid as claims.

Risk Precaution is a must in Turkish insurance law system and very single company should include an amount corresponds in their balance sheets. Precaution differs

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<sup>120</sup> <http://www.basarisigorta.com.tr/urunler/hayat/index.asp>

but predetermined according to the tariffs of various types of life policies. These amounts must be declared to the treasury till May of each fiscal year. <sup>121</sup>

When the life insurance literature and references examined in detail it's drawn out that around the world and Turkey life insurance policies are divided into 2 basic groups. However like in European countries and in USA every single insurance company in Turkey gives an original name and add very small details to indemnities of these types and produce various numbers of "policy types" which are similar to each other.

From a very generic viewpoint life insurance policies can be classified as either **term insurance** or **cash value** life insurance. Term insurance provides temporary protection while cash value life insurance has a savings component and builds cash values. Numerous variations and combinations of these two types of life insurance are available today. <sup>122</sup>

#### **4.2.1 Term Life Insurance**

Term Life insurance that essentially provides a death benefit. The benefit is paid only if the insured dies before the end of the specified term. If the insured person lives beyond the end of the term coverage the policy simply expires.<sup>123</sup> It's usually the least expensive form of life insurance. It may be used as an inexpensive tool to satisfy a variety of temporary insurance needs, such as mortgage obligations or need to protect insurability until an insured can afford permanent protection.

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<sup>121</sup> <http://www.treasury.gov.tr/mevzuat/hayat-yon.htm>

<sup>122</sup> Rejda, *The Principles of Risk Management and Insurance*, 2000

<sup>123</sup> Silver Lake Editors, *Life Insurance*, 2001

Term insurance has several basic characteristics. First, the period of protection is temporary such as 1 to 20 years. Unless the policy is renewed the policy expires at the end of the period.

Majority of term insurance policies are renewable, thus without the evidence of insurability the policy can be renewed for additional periods. The premium is increased at each renewal and is based on the insured's attained age. The purpose of the renewal provision is to protect the insurability of the insured. However the renewal provision results in adverse selection against the insurer. As the premiums increase by age, insured in good health tend to drop their policy, while those in poor health will continue to renew, regardless of the premium increase. To minimize adverse selection most insurers have an age limitation beyond which renewal is not allowed, such as age 70 or 80.<sup>124</sup>

Most term insurance policies are also convertible, which means that without the evidence of insurability the policy can be changed to cash value policy. There are two methods for converting a term policy. Under the *attained age method* the premium is calculated due to the attained age of the insured at the time of conversion. Under the *original age method* the term of premium is based on the original age of the insured when the term insurance was first purchased. With the original age method policy owner must also pay the difference between the premiums paid on the term policy and those that would have been paid on the new policy. The purpose of this financial adjustment is to place the insurer in the same

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<sup>124</sup> Rejda, The Principles of Risk Management and Insurance, 2000

financial position it would have achieved if the policy had been issued at the original age.<sup>125</sup>

Finally term insurance policies have no cash value or savings element. Although some long-term policies develop a small reserve, it's used up by the contract expiration date.<sup>126</sup>

A wide variety of term insurance products are sold today. Among these variations mostly sold policies are;

### **1. Yearly Renewable Term**

Policies insured for one year and at each renew time the premium increases. The owners are allowed to renew without the evidence of insurability and can convert policies into cash.<sup>127</sup>

### **2. 5, 10, 15, -20 year term**

Longer period policies during which leveled premiums are paid but increased at the end of periods.<sup>128</sup>

### **3. Term to age 65**

Policies provide protection to age 65. At which time the policy expires the policy can be converted into a permanent plan of insurance but the decision of conversion must be exercised before the expire date.<sup>129</sup>

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<sup>125</sup> Black, Kenneth and Harold, Life Insurance, 2000

<sup>126</sup> Silver Lake Editors, Life Insurance, 2001

<sup>127</sup> Silver Lake Editors, Life Insurance, 2001

<sup>128</sup> Black, Kenneth and Harold, Life Insurance, 2000

#### 4. Decreasing Term

Policies where the face value of policies declines gradually each year. Although the face value declines the premium is level throughout the period. For example a 20 year decreasing term policy may require premium payments for 17 years. This method avoids paying relatively high premiums for only a small amount of insurance near the end of the term period.<sup>130</sup>

#### 5. Reentry Term

Under this type the policy owner allowed to pay lower premiums based on lower mortality rates at renewal day if the insured can periodically demonstrate acceptable evidence of insurability.<sup>131</sup>

Term insurance policies are appropriate for individuals whose,

- a) The amount of income that can be spent on life insurance is limited. Because of mortality improvements and keen price competition, term insurance rates declined sharply in recent years.
- b) Term insurance is appropriate if the need for protection is temporary. For example decreasing term insurance can be effectively used to pay off mortgages if the family head dies prematurely.
- c) Finally, term insurance can be used to guarantee future insurability. A person may desire large amounts of permanent insurance, but may be financially unable to purchase the needed protection today. Inexpensive

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<sup>129</sup> Rejda, The Principles of Risk Management and Insurance, 2000

<sup>130</sup> Nomer and Yunak, The General Principles of Insurance, 2000

<sup>131</sup> Rejda, The Principles of Risk Management and Insurance, 2000

term insurance can be purchased which can be converted later into a permanent insurance policy without the evidence of insurability.<sup>132</sup>

A term insurance has two basic limitations. First term insurance premiums increase with age and eventually excessive levels. Thus term insurance is not suitable for individuals who need large amounts of life insurance beyond age 65 and 70. Second term insurance is inappropriate if you wish to save money for a specific need. Term insurance policies do not accumulate cash values. Thus if you wish to save money for a child's college education or accumulate a fund for retirement, term insurance is inappropriate unless it is supplemented with an investment plan. Decreasing term insurance also has several disadvantages and should not be used to meet all of insurance needs. If you become uninsurable you must convert the remaining insurance to a permanent plan to freeze the insurance at its present level. If the policy is not converted the protection continues to decline even though you are uninsurable.<sup>133</sup>

In summary, term insurance can provide a substantial amount of protection for relatively low premiums, especially at younger ages. Because of the terrorist attack on September 11, 2001 consumer's start to interest term life insurance has increased substantially.

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<sup>132</sup> Rejda, The Principles of Risk Management and Insurance, 2000

<sup>133</sup> Silver Lake Editors, Life Insurance, 2001

## 4.2.2 Cash Value Life Insurance

In contrast to term insurance, which provides short-term protection, a **whole life insurance** is cash value insurance provides lifetime protection. Whole life insurance has a cash value or the sum that grows over the years with taxes deferred. If you cancelled the policy, you receive a lump sum equal to this amount (and you pay taxes only if the cash value plus any dividends exceeds the sum of premiums paid).<sup>134</sup> From a historical or traditional perspective the following whole life insurance merit some discussion,

### 1. Ordinary Life Insurance

Also called straight life and continuous premium whole life provides lifetime protection to age 100, and death claim is certainty. If the insured is still alive at age 100, the face value of the insurance policy is paid to the policy owner.<sup>135</sup>

In addition premiums do not increase from year to year but stay level throughout the premium-paying period. The policy owner is overcharged for the insurance protection during the early years and undercharged at later years when the premiums are inadequate to pay the death claim. The excess premiums reflected in a liability account for insurers known as legal reserves. The legal reserve makes it possible to provide lifetime protection. Ordinary life insurance(OLI) also has an investment or saving element called a cash surrender value. The cash values are due to overpayment of insurance premiums during the early years. So the policy owner

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<sup>134</sup> Silver Lake Editors, Life Insurance, 2001

<sup>135</sup> Rejda, The Principles of Risk Management and Insurance,2000



builds cash equity in the policy. The policy may be surrendered for its cash value, or the cash value may be borrowed under a loan provision. The cash value is relatively small at early years but increase in later years.<sup>136</sup>

When lifetime protection or/and additional savings are desired OLI becomes very appropriate. Most financial planners said that an average person does not need life insurance beyond age 65, because the need for life insurance declines with age. However this view is quite oversimplification of a complex issue and can be misleading. Some people may need substantial amount of life insurance beyond age 65. A divorce settlement for example may require a purchase of OLI and maintenance of a life insurance policy on a divorced spouse regardless of age; and a policy owner may wish to leave a sizable bequest to a surviving spouse, children or charity regardless of death occurs. Because an OLI policy can provide lifetime protection, these objectives can be realized even though the insured dies at a higher age. Some insured wish to meet their protection and savings needs buy an ordinary life policy.<sup>137</sup>

Because of savings features some persons voluntarily or else be persuaded to purchase an ordinary life insurance policy. Assume that you are at age 30 and want to buy a life insurance and can spend maximum \$500 annually. You are married and have no children. There seems its better for you to buy a term policy and left may be \$500.000 to your wife in the claim of a premature death. However this premium can only purchase about \$56.000 OLI. At that point policy seeker must identify his/her

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<sup>136</sup> Black, Kenneth and Harold, Life Insurance, 2000

<sup>137</sup> Rejda, The Principles of Risk Management and Insurance,2000

own needs and expectations from a policy in details and learn the details of two types of life policy. Here we can clearly see the limitation of the idea of an OLI and may cause some persons be still underinsured after the policy is purchased.

## **2. Limited Payment Life Insurance**

The insurance is permanent and the insured has -time protection. The premiums are leveled but they are paid only for a certain period.<sup>138</sup> For example, Aylin, age 35, may purchase a 20 year limit payment policy (LPI) for \$25,000. After 20 years the policy is completely paid up, no additional payment is required from the owner. A paid up policy should not be missed with a matured policy. A policy is matured when the face value is paid out as a death claim or as an endowment. A policy is paid up on the other hand when no additional payments are required. The most common limited payment policies are 10, 20, 25 or 30 years. A policy paid up at age 65 or 70 is another form of LPI.

An extreme form of LPI is a single premium whole life insurance, which provides lifetime protection for a single premium. Because the premiums of LPI are higher than those paid under an OLI, the cash values are also higher. A LPI is extremely difficult for a person with a modest income to insure his or her life adequately with a LPI. Because of the relatively high premiums, the amount of permanent life insurance that can be purchased is substantially lower than if an ordinary life insurance was purchased. If permanent life insurance is desired, most persons will

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<sup>138</sup> Graves and Edwards, Life Insurance, 2002

find that their need for permanent protection can better met by an ordinary life policy.<sup>139</sup>

Although the whole life insurance are among the most common forms of life insurance sold, most individuals do not plan on paying premiums until age 100. More commonly, whole life insurance is used as a form of level protection during the income producing years. At retirement, many people then begin to use accumulated cash value to supplement their retirement income.<sup>140</sup>

This type of life insurance plays an important role in financial planning for many families. In addition to death benefit or eventual return of cash value, the policy has some other significant features. During a financial emergency, policy loans may be taken, and the full policy values may later be restored.

### **3. Universal Life Insurance**

Universal life insurance is a protection under which a policyholder may pay premiums at any time, in virtually any amount, subject to minimums. The amount of cash value reflects the interest earned and premiums paid, minus the cost of the insurance and expense charges.<sup>141</sup>

### **4. Variable Universal Life Insurance**

Provides death benefit and cash values that vary according to the investment returns of stock and bond funds managed by the life insurance companies. These

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<sup>139</sup> Rejda, The Principles of Risk Management and Insurance,2000

<sup>140</sup> Black, Kenneth and Harold, Life Insurance, 2000

<sup>141</sup> Rejda, The Principles of Risk Management and Insurance,2000

policies also allow the policyholder significant discretion in the premiums paid each year. These policies allow the policyholder discretion to choose how funds are invested.<sup>142</sup>

### **4.3 VARIATIONS OF LIFE INSURANCE IN TURKEY**

There are more than 20 variation of life insurance applied under different names among insurance companies operated in Turkey. The following list is made after all the variations in the portfolio of leading Life Insurance Companies operating in Turkey are examined and similar policies are grouped under a most common name as follows;

#### **1.Individual Savings Policies**

Policy owner is free to pay premium in TL, \$ or Euro and the premiums paid are invested in a predetermined saving funds. However death claim is not a certainty rather excluded in this type. This type is cash value policy and at the day of maturity the owner choose to get the whole savings at once or by three months interval for the rest of your life. There are no age limitations in this policy type however the periods of policy to be owned can not be less than 10 more than 30 years. For this policy type if you pay additional premium for death indemnity some insurance companies also protect your family against your death.

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<sup>142</sup> Silver Lake Editors, Life Insurance,2001

## **2. Yearly Life Insurance Policies:**

Policy owners are free to pay premiums in TL, \$ or Euro and the premiums paid are invested in a predetermined saving funds to protect the surroundings of the policy owners in case of death. Everybody who are insurable and between age 18-65 can buy this policy. This is a term insurance policy thus you have the right to quit the policy at the end of first year. Death claim is certainty. At the end of one year if the policy owner still alive no payment is made and a new policy has to be prepared for the coming years. In case of death of policy owner payment written in the policy is made to the parties determined in the policy. For reasonable death claim no medical check is required. The premiums are depend on the age and the value of death of claim you demand, assume that you are at age 35 want a 10.000.000.000 TL death payment life policy than you have to pay an average premium of 30.000.000.TL. Most insurance companies supply the policy owners with International Emergency Support and Assistance and with additional premiums include the indemnities of “ Disability due Accident and Illness”.

## **3. Long Lasting Life Insurance Policies:**

Policy owners are free to pay premiums in TL, \$ or Euro and the premiums paid are invested in a predetermined saving funds to protect the surroundings of the policy owners in case of death. Everybody who are insurable and between age 18-68(upper limit can be 65) can buy this policy. No payment is made if the policy owner is still alive when the policy matures. The period cannot be less than 2, more than 30 years. The amount of death payment is dependable and can be anything. Assume that you

are at age 30 and want your son to be paid 10.000 USD if you died in 15 years. If you choose to pay premium in cash than you will pay an average of 400\$ or 40\$ each year.

#### **4. Multiple Life Policies:**

Under this policy type the policy owner is supply with high savings and death payment at the end of policy period. The premiums paid as foreign currencies or TL during the policy duration is invested in various investment tools. At the maturity date if you are still alive than you can either get your whole investment at once or agree on interval payments like salary. The duration of multiple life insurance policies are cannot be less than 10 more than 30 years and death claim can be determined as 60,100,150,200,250,300,350 or 400 times of monthly premium payments. In case of death the determined amount of last premium paid and lump sum of profitable savings accumulated until the death day is paid. Policy owner determines the premium payment and do not have any upper limit. However if death indemnity is more than an upper limit a medical care report analyzing your health conditions is demanded.

#### **5. Family Life Policies:**

A very special type of life insurance designed for couples. The aim is to pay the accumulated profitable lump sum to the female insured at maturity day and support the living party with death indemnity if any of the couple is died during the policy period. Beside the death indemnity this policy also offer the indemnity of continuous disability within the policy periods. All couples that do not have any

disadvantage of insurability between ages 18-54 can buy this policy for minimum 11 maximum 30 years.

#### **6.Continuous Education Policies:**

A type of life insurance policies, which guarantees the continuous education of the children under your responsibilities. All parents between 18-62 or others who are responsible from the education of a child can buy the policy for not less than 3 and more than 15 years. The sum of insured age and the period of policy cannot exceed 65! If the insured person died before the child under his/her responsibility finish education than the remaining education year is multiply by yearly indemnity written in the policy and the result is paid to the child.<sup>143</sup>

As can be seen below the life insurance operations are following the same procedures and apply the similar types like all around the world. There are two basic types as term and cash value insurance polices both of which include death indemnity. The policy owners determine the premiums to be paid and the final savings that will be received at maturity. Policy owner and the life insurance professional must make long discussion to determine the appropriate premium payments for desired outcome according to the needs, expectations and most importantly current income of policy demander. A policy hunter should write down

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<sup>143</sup> The variations of "Life Insurance in Turkey" are widely obtained from the following web pages:

<http://www.basarisigorta.com.tr/urunler/hayat/index.asp>

<http://www.anadoluhayat.com.tr>

<http://www.akhayat.com>

<http://www.yapikredihayat.com.tr>

in detail what he wants from a policy and the seller should analyze the needs to propose the proper policy to the policy hunter.

As the premiums paid and policy type required for a specific desired outcome is quite similar to each other among various life insurance companies today in Turkey most consumer make their decision due to the reputation, allowably and reference of old insured.

#### **4.4 LIFE INSURANCE REGULATIONS IN TURKEY**

Each country around the world has its own rules for Life insurance policies. Turkish laws and regulations regarding the system have been prepared by 1996 and still in use.

The aim of the regulations is to arrange the life insurance sector, to protect the rights of the insurers and insured parties, to audit the life insurance actions, to determine the technical properties of life insurance tariffs, way of calculating premiums and finally to draw the lines of advertising and marketing life insurance in Turkey.

This regulation depends on the 12<sup>th</sup>, 25<sup>th</sup> and 26<sup>th</sup> parts and additions of 2<sup>nd</sup> of the Insurance Law of 7397 and contains the followings,

- a) The basics of tariffs given by insurance companies depending on death, life and/or both and additional tariffs for individual accident, disability due to illness,
- b) The preparation and operation of these basics,



- c) The storage of data gained,
- d) The pursue of the contract made,
- e) Preparation of financial tables and statistics,

Tariffs of life insurance policies prepared in Turkey are summarized as,

**a. Premiums:** All the premiums are calculated due to the statistics done by actuaries.

However each insurance company add an additional percentage of premiums to cover its expenses. These portions of profit vary among companies however it's around 5 to 10%. These statistics are generally covers the average death age of Turkish people (men and women), major illness that our country suffers, WHOLESale PRICE INDEX and CONSUMER PRICE INDEX, regional risks.

**b. Risk Premiums:** This premium is calculated due to the actual age of the insured individual for the life insurances which gives the indemnity of death, live or both, individual accident, disability due illness and dangerous illness,

**c. Saving Premiums:** The premium paid apart from the premium paid against risk for saving purposes.

**d. Tariffs Premiums:** The premium calculated by insurance companies against the risk hold by those companies by insuring individuals. These premiums are calculated by, adding risk premium, commissions, and expenses and saving premiums if existing. These tariffs are collected by yearly or 3 or 6 months intervals.

Companies also calculate interest for non-cash payments.

**e. Expense Portion:** the cost of preparation of tariffs, policies, collection of premiums, personal and other expenses are called expense portion.

**f. Commission:** The commission is paid to the middlemen who sell the policies in the name of the companies whom are called agencies. For policies who are more than one year, the commission is 45% of the policy premium for the first year, 20% for the second year, and 15% for the 3<sup>rd</sup> year. The whole commission paid for a policy cannot exceed the 80% of the premium and can be distributed to the following 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> years depending on the internal rules of the companies. For other policies like individual accident and yearly life policies the commission cannot exceed 20% of the premium.

**g. Technical Interest:** Used for life insurance policies and represent the minimum amount of interest that the insurer company guarantees. The interest is chosen according to the technical profitability of the investment tool chosen for future savings, economic conditions of the parent company and country.

**h. Death and Insurance Tables:** The premiums of life insurance policies determined according to various tables prepared by actuaries.

Actuaries prepare mortality tables, which shows the death rate of a group of people who are under observation at different age. These tables says that at each age interval how many people will die and how many of them will live for another one year. Discounted death level tables are obtained by transferring the % in mortality tables to single value and multiply by technical interest.

Morbidity tables represent the illness, casualty and disability level of a group of population and people at various ages.

The tables used the determination of the risk premium in life insurance policies are declared by the ministry of treasury each year according to the statistics of DIE or the results of the portfolios of the insurance companies. At the end of each fiscal year treasury may demand the tables and results of a year from the insurance companies. However these numbers must be controlled and approved by the Union. The union consolidates these tables and the tables including the statistic of the last 10 years are sent to the treasury.

**j. Tariffs of Life Insurance:** Tariffs of life insurance includes the foundations of technical inputs like; premiums and discounts and the mathematical corresponds of these data with the risk, saved premiums, expense portion and commission that are used in calculations.

**k. Period of Insurance:** In life insurance policies various periods are applied depending on the companies own policies. However in general for saved premium policies the period is not allowed to be less than 10 years. However if the age of the insurer does not match the 10-year criteria new arrangements are done for payments and the period can be shorten. If an insurer chooses a saved premium policy he/she could not demand any money form the company until 2 years.

**l. Technical Basics:** These are essentials that companies must pay great attention in operations. For risk premiums the mortality and morbidity tables must be used and premiums are calculated over the real age of insurers. Only in-group life insurance

policies average age can be used. Insurance indemnities can be changed or modified according to the economical conditions and demand of the policy owner. To protect the policy owner against the inflation; an inflation multiplier representing the increase in WHOLESale PRICE INDEX must be used in calculating the premium. The name, subject and the indemnities given must be clearly stated. For group insurance the group cannot be less than 10. The responsible actuaries must approve the tables regarding tariffs and technical foundations.

**m. Exchange of Insured:** If both insurer and insured company made a deal than the insurer can be changed.

**n. First Premium of Life Insurance:** After the proposal regarding a life insurance policy is sent to the company it becomes official in 30 working days if not refused by the company. And the owner of the policy is obliged to pay the first payment in 30 days. If no payment is done than the company has the right to cancelled the policy.

Companies who are responsible for preparing life insurance polices should hold a reasonable amount of cash in hand for any requirement regarding policies. The mathematical corresponding of the amount to hold is calculated due to the tables prepared by actuaries. They found the difference between future cash requirements of companies and present value of future premium payments and the difference is announced, as the cash must be hold in hand today. These cash can be hold as TL, foreign currency, bond, bank deposit and any other investment tool.

All the insurance firms operating in Turkey should sent statistical tables including, total sales, life insurance portfolio, technical percentages, profit, cancelled policies,

commissions, expenses and other related items to the treasury. All these tables must be prepared in the guide of actuaries working for companies. All companies operating in life insurance branch should employed one or more actuaries relating to their operational volume.

Principles of a good advertisement and marketing strategy are underlined in the regulations regarding the operations of life insurance companies in Turkey. Its is said that campaigns should prepare TV and newspaper adds that encourage insurance however these adds must not include phrases that are untrue or/and optional.<sup>144</sup>

#### **4.5 FUNDAMENTALS AND TYPES OF HEALTH INSURANCE**

Today in Turkey the total health care system is increasing substantially. There can be listed several reasons for that one of which is the rising hospital cots. The main reason for this increase is the rapid changes and improvements in technology. Second reason is the recent increase in the price of drugs. New medical technology, improved in recent years for the treatment of conditions that were considered untreatable is the third factor of this increase. And finally recent crisis experienced in Turkey increase the responsibilities of government both as a financer and

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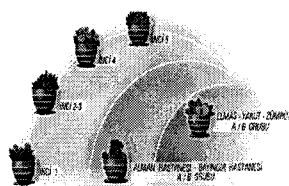
<sup>144</sup> Life Insurance Regulations in Turkey obtained from the web page; <http://www.treasury.gov.tr/mevzuat/hayat-yon.htm>

governor and because of this the budget regarding health decreased to support gaps in other areas.<sup>145</sup>

In this situation as always said waiting all kind of service from government is old fashioned. Citizens should find ways to protect themselves and loved ones and to survive. At that point Health Insurance Policies of life companies support the system. These policies fill the gap between the health support government can give and citizens can pay for a specific medical care. With a yearly paid premiums policy owners can choose among various types health policies that best suit them.

Health insurance sells a wide variety of individual health insurance coverage all around the world according to the medical system of the host country. Like all around the world in Turkey some plans provide broad and comprehensive protection, while others are limited with numerous exclusions. There are two major types of health insurance sold in Turkey with quality of coverage varies widely as;

1. Individual Health Insurance
  - a. Dangerous Illness Insurance
  - b. Travel Insurance
  
2. Group(Association) Health Insurance



The picture is taken from one of the Life Insurance Company's Internet page. The Logo is representing the

<sup>145</sup> Obtained from the article written by Erdoğan Sergici named "Our Crisis and Insurance" <http://www.sigortadunyasi.com.tr/483/ayinmakalesi>

various types of health plan that they sell.<sup>146</sup> Nearly all the companies in Turkey apply the same exclusions and give the same indemnities under various names and sell at very close prices. Appendix B is representing the coverage applied in Turkey and in Appendix C and D examples of health plans of various companies are also given.

#### **4.6 PROBLEMS REGARDING THE SECTOR**

Actuary of Insurance Audit Comity Ergün Soytürk said that it is inevitable that lack of legal arrangements regarding insurance sector hits Life Insurance market, too. All operators in the sector believe that the whole sector must reach to a legal and governmental arrangement as soon as possible. Despite of the decrease in the number of insures in recent years, financial capacity of the sector has been increased by 100%. However by year 2000, insurers must take corrections steps against the increase in late due payments. Agencies who are responsible of preparing life policies do not have proper knowledge about the sector and the contents of the policies. Lack of knowledge makes them to prepare wrong portfolio tables that mislead the heads companies so the whole statistical data regarding the market.

Majority of the managers in the sector told that since April 2001 WHOLESAL PRICE INDEX is greater then CONSUMER PRICE INDEX and this create financial inability as the net profit of companies are below the announced WHOLESAL PRICE INDEX prices. Again managers decide on a common solution that foreign investment tools must be allowed to use in Turkish market. Recent arrangements

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<sup>146</sup> Obtained from <http://www.anadoluhayat.com.tr>

make negative effects on companies, that value government bonds and stocks due to market value. However like in previous year if the valuation is done according to the interest on these bonds the loss of companies can be minimized. This is because in insurance market companies do not make financial investments by “ buy and sell” option rather they all hold the investments in hand till due date and then make a sell. If the calculation is done by the value in the market in the year-end the investors who buy with higher prices may experience profit losses and the sector may force into financial problems.<sup>147</sup>

Another problem in the sector is lack of well-educated and trained actuaries. Beside this, the positions of the existing actuaries in insurance companies cause a dilemma with in the sector. Actuaries should improve themselves in their own specifications and even the ones in the companies should start to work separately just to help and guide the companies with domestic and international statistics, analysis and data. At this point we should clearly understand that each country make its own market according to the national; demographic, economic, political and social cultural belongings. And actuaries are professionals who determine these belongings in the existing markets.<sup>148</sup> Here everybody in the sector must understand that insurance and packages in the sector are both a kind of service, which must fit the needs of the customers. Like in majority of the service industry if the goods you sell answers the

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<sup>147</sup> Obtained from the summary of panel prepared by Comity of Actuaries “ Evaluation of Today’s Life Insurance Sector in Turkey” which was published in [www.sigortadunyasi.com.tr/489/haberler/htm](http://www.sigortadunyasi.com.tr/489/haberler/htm)

<sup>148</sup> Obtained from the summary of panel prepared by Comity of Actuaries “ Evaluation of Today’s Life Insurance Sector in Turkey” which was published in [www.sigortadunyasi.com.tr/489/haberler/htm](http://www.sigortadunyasi.com.tr/489/haberler/htm)



needs of the individuals, customer satisfaction will increase, increased customer satisfaction will increase the premium payments and the sector improved. This balance can only be shaped by appropriate data that are collected and analyzed by responsible actuaries. All these enlarge the professional area of actuaries beside their responsibilities against governments, companies and customers.

Till now it is been presented the problems of he sector basically from the companies point of view. The following chapter 5 will bring a new position to this discussion by adding the problems of the sector from the consumer's point of view and a final conclusion and recommendation is demonstrated under chapter 5.



## **CHAPTER 5**

### **RESEARCH ABOUT LIFE INSURANCE PRACTICES IN TURKEY**

As soon as I decided to write a thesis about insurance practices and its development in Turkey the second step was to make a detailed research about one single branch. The branch I have chosen was “Life Insurance” which I believe is quite an unknown ground of insurance in Turkey. The researches, I have conducted during this writing stage, proves me that Turkey stays very beyond the world life insurance practices in all aspects. Although the policies prepared and sold are very similar to the ones all around the world, the amount of insurance sold is very below the world averages. Here at that point I started to ask the question of “why?” to myself. To find the answer I have decided to conduct a research about life insurance practices in Turkey.

I have prepared a questionnaire including 10 very basic question one of which is an open ended one. The Turkish and English version of questionnaire is submitted in the Appendices E and F. Following Chapter will present the research methodology, findings, conclusions and recommendations about the research conducted.

## **5.1 RESEARCH METHODOLOGY**

**5.1.1 Research Problem:** Research problems state out why an inquiry is conducted (major area of concern) and asks to what degree or how tow or more phenomena are related to each other. The problems of “Life insurance Practices” in Turkey which are evaluated during this research is stated as:

1. What kinds of insurance policies do Turkish consumers have?
2. What do Turkish consumers think they hold, when they bought a life insurance policy?
3. Does the income level of consumers affect the number of life policies sold?
4. Is Holding a life insurance policy vary according to the education level of consumers?
5. How do Turkish consumers categorized; the presentation, knowledge, evaluation of consumer needs, value of premiums and advertising; among various life insurance companies.
6. Does lack of trust against life insurance companies affect the sales?
7. Does poor economical conditions affects the sale of life insurance polices?
8. Why Turkish consumers do not prefer to buy a life insurance policy?

**5.1.2 Variables of Research:** After the questions of research are stated following step is labeling the variables, which are used in the research. Here the aim of the research is to explain relationship between the “low sales of life insurance polices” and various reasons such as, income level, education level, trust and others here its

very important to state out the variables of this research and **think in terms of variables for the rest of this chapter.**

1. Dependent Variables: Why do life insurance practices (sales) in Turkey is below the world's averages?
2. Independent Variable: Poor economical conditions, lack of trust against insurance system in Turkey, lack of life insurance knowledge, quality and efficiency of life insurance companies in Turkey and age.

**5.1.3 Research Question:** The research conducted for "Life Insurance Practices in Turkey" was established by using a sample rather than the whole population .The aim of the research was to find out whether or not ;

" Do Turkish consumers believe in the insurance system especially life insurance companies in Turkey?."

The way the questionnaire organized, transforms our aim into several question that we are looking for an answer. Beside, during the preparation of the questionnaire new questions, about the concern of the research, were emerged like;

"Why Turkish consumers do not believe in the insurance system especially life insurance companies"

"Does economical conditions affect the sale of life insurance policies in Turkey?"

"Do Turkish consumers have adequate knowledge about life insurance?"

"Does educational level of consumers affect the life insurance sales?"

"Does age of consumers affect the life insurance sales?"

The research was conducted to find the answer of the questions stated above and findings are presented under the coming sections.

**5.1.4 Population:** The population of this study defined as “ Turkish consumers living in İzmir who are elder than 20 years old ”. In daily life as an insurance agency I am dealing with consumers around İzmir including, Çeşme and Kuşadası and apart from what is written on newspapers, business magazines and literature their problems guide me in preparing this thesis and the research. So knowing that İzmir is the 3<sup>rd</sup> biggest city and business center of Turkey any sample randomly selected from İzmir will best serve for our purpose and can draw out perfect generalization for the whole existing and potential insurance consumers. Second reason why it has been insist on İzmir is the educational portfolio of the city. It is known that İzmir is among the cities of Turkey where the education level is very high and to reflect this its preferred the respondents older than 20 years old whom are at least a graduate of lycee or has already been an university student. However as the sample is randomly selected any educational level is accepted.

The ideas' of educated people are very important for the research as the findings can guide the future activities of companies and the future says that the face of consumers are changing from low educated consumers to higher educated consumers who knows what they want. Beside the high competition direct the consumers and present them extensive selection of products among which they can choose the best one for themselves that fits them in all aspects including price, service quality and accessibility.

**5.1.5 Sampling Unit and Method:** Sampling unit of our research is the consumers in İzmir and 100 respondents selected due to the simple random sampling are used in our research. It is known that ones you determine the population from which the sample will be collected one of the best ways of doing this is the random sampling. As the aim of the research is to obtain a general idea of what Turkish consumers seek from a life insurance policy and how do they evaluate the companies in their own world it was the best way to choose our sample randomly. Thus anyone who is older than 20 years old can be a respondent in our research. The result of the research will not serve for any group like consumers from banks, doctors, students else the whole consumers including the ones who do not have any job at the time the research conducted.

The demographic distribution of the sampling unit is given in the table 5.1 as:

**Table 5.1 The Demographic Distribution of Sampling Unit**

*Age Distribution of Respondents*

<b>Grand Total</b>	<b>N</b>	<b>99</b>	
Age > 30		54,5% of N	
Age < 30		43,4% of N	
			1 missing value

*Gender and Marital Distribution of Respondents*

<b>Gender of Respondents</b>		<b>Marital Status of Respondents</b>	
<b>Grand Total</b>	<b>N</b>	<b>100</b>	<b>Grand Total</b>
			<b>N</b>
			<b>100</b>
Males		48,0% of N	Married
			39,0% of N
Females		52,0% of N	Unmarried
			61,0% of N
			No missing Values

*Education Level of Respondents*

	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Elementary School	3	3,0	3,0	3,0
Lycee	25	25,0	25,0	28,0
Higher Education	14	14,0	14,0	42,0
University	43	43,0	43,0	85,0
Master	11	11,0	11,0	96,0
Doctorial	4	4,0	4,0	100,0
<b>Total</b>				No missing

Table 5.1 Continued...

*Income Distribution of Respondents*

	Frequency	Percent%	Valid Percent%	Cumulative Percent%
Low	5	5,0	5,0	5,0
Medium	79	79,0	79,0	84,0
High	16	16,0	16,0	100,0
<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	<b>No missing Values</b>

*Occupation Distribution of Respondents*

	Frequency	Percent%	Valid Percent%	Cumulative Percent%
Trader	4	4,0	4,0	4,0
Own Profession	10	10,0	10,0	14,0
Banking	3	3,0	3,0	17,0
Insurance	6	6,0	6,0	23,0
Accounting	11	11,0	11,0	34,0
Sales Representative	9	9,0	9,0	43,0
Import and Export	9	9,0	9,0	52,0
Doctor/Pharmacy	4	4,0	4,0	56,0
Retired	5	5,0	5,0	61,0
<b>Unemployed</b>	<b>2</b>	<b>2,0</b>	<b>2,0</b>	<b>63,0</b>
Student	3	3,0	3,0	66,0
Housewife	3	3,0	3,0	69,0
Human Resources	2	2,0	2,0	71,0
Engineer	7	7,0	7,0	78,0
Teacher	2	2,0	2,0	80,0
Secretary	3	3,0	3,0	83,0
Academician	6	6,0	6,0	89,0
Employee	7	7,0	7,0	96,0
Tourism	4	4,0	4,0	100,0
<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	<b>No missing Values</b>



The age distribution may be both place consuming and may cause confusion if the frequency of each age was presented. Instead age of respondents are grouped as less than 30 and greater than 30. As can be seen a very equal distribution of age with 55% more than 30 and 44% less than 30 was captured with one respondent only who did not write down his/her age.

Instead of setting an open ended question or a multiple choice with intervals or income levels of our sample it was preferred as "low, medium and high" and left to the own perceptions of respondents. Table says that 5% of our respondents are low, 79% medium and the rest 16% is high income earner with no empty answer.

The portion of males to females is very equal representing the objectivity of the research. The 2% difference is the result of worldwide increase in the female population. Corresponds to this the amount of unmarried respondents is higher than married ones. Which can again be explained by the new living trends along young population, hard economical conditions and lift in the age of marriage in Turkey.

As stated before İzmir is among most well educated cities of Turkey and our respondents also proves that. Thus 72% (total number of respondents minus the number of elementary school and lycee graduates) of the respondents are higher educated included master and doctorial degrees, 25% are graduates of lycee and only 3% are elementary school graduate. There are again no missing values thus all the respondents fill the question regarding the education level.

Despite the economical crisis and high unemployment rate only 2% of our respondents are unemployed and 3% are housewives and the rest already works for either themselves or for an enterprise.

*In general* the summary of demographic distribution of our sample above are summarized to clear and make an understanding about the sample of our research. A simple random selection seems to work excellent in that research with nearly 50% of male to females. When we look to the ratio of married to unmarried we saw that the 61 % of sample is unmarried however this is quite normal where the 44% of the sample is under the age 30 representing the young population of Turkey. Another point is quite gratified that 43% of sample is a university graduate and 14% is higher educated people. This is a pleasing point because the sample is randomly selected that any person walking down the road, selling a blouse in a store, a doctor or a ticket seller in a cinema were a potential samples for that research (and they are!), this design is confirmed with that there is not any heaped at any occupation rather a great dispersion is analyzed. Knowing that income has a great direct correlation with the perception of individuals it has been hesitated to put intervals pointing out amounts on monthly income rather three groups presenting lower, higher and middle income earners are included in the questionnaire. Surprisingly despite the bad economical conditions that Turkey has been strewing for years majority of our respondents evaluate themselves as middle-income earner. A pessimistic reader may say that there is a decrease in the higher income earners due to crisis. However as perception is our guide at that point and a middle-income earner can have the

adequate money to lead his life the outcome of that question can be quite gratified for the future of Turkey from an optimistic point of view.

**5.1.6 Data Collection Method:** Instrument administration through questionnaire is done for data collection. The questionnaire is used as an instrument to measure the variables and administered by face-to-face situation to all respondents in our sample. Interviewing was not preferred as it was a very time consuming method. Beside this as the researcher has knowledge about the sector and during interviews there was a possibility that interviewer can influence the respondents and this might have effect the results of the research. On the other hand questionnaire is an organized method and the evaluation of results through computer is much easier and reliable as the tables presented reflects the answers of respondents without any comment. It seems to me best ways of asking the research questions to respondent's through a questionnaire in an organized sheet and keep the paperwork for further researches to widening if required. With a questionnaire you can reach to lots of people even the ones walking down the street. Finally through an interview all the questions will be open ended and respondents might have refused to answer the questions by words but in questionnaire they can easily marked the answer that most close to their own evaluation. Collected data are summarized and statistical tests are done using a computer program called SPSS 11.5 for Windows.

**5.1.7 Problems Experienced During the Research:** The major problem of making a research in Turkey is time of respondents. When you asked an individual to fill a questionnaire, they first said that they don't have time even if they have!

This may be because they found it useless or they do not believe in the subject of the research or simply they just don't want to help you. So here best of coping with this is writing a very brief explanation of why you make the research and if respondents are too introverted to read the introduction you should explain it to them. This makes you waste time. Some of the respondents skip questions or may give wrong answer. So I highly recommend the future researchers that check the answered questioners before you leave the respondents and make sure that all the questions are answered properly. Do not influence any respondents in anyway, a word you said during they fill the questionnaire may affect your results. Make them understand their meaning for you and your research, as soon as they feel important they will be more careful in their answers. To make this, you can talk about the aim of the research and where you are going to use it, make them feel like a member of a team that will highlight a dark point in the field of research. In fact these are all the truths that are not spoken during a research and skipped within the mass of hypotheses, techniques, variables and statistics. I stated out that Turkish respondents are emotional and be very helpful if they understand the importance of the research for you. I discovered that you should let them alone with questionnaire but on the other hand keep your one eye on them! This is not easy but once you manage the result of the research will exactly match the required criteria.

And finally a prize! I gave chocolates to 20 of respondents who answer the questionnaire and they told me that they are looking forward for my next research and the prize. They did not know the prize at the beginning but the whole 20 fill the forms exactly so they devoted that. The point is not the value of the prize it is a way

of thanking to your respondents, sometimes a long discussion about the sector to take them into your subject, listening their problems and maybe writing instead of them can work on different groups. Time limits of your research will probably determine the way of thanking them.

## **5.2 PRESENTATION OF FINDINGS AND SUMMARY OF STATISTICS**

As already stated under the methodology of research, 100 respondents whom are randomly selected from İzmir regardless of their occupation, income and educational level and marital status did the questionnaires. The only determinant critter was age, which was demanded to be more than 20. However among randomly selected 100 respondents only 2 were below 20 and these two respondents did not refuse to fill the form but their questionnaires did not included in analysis instead two more respondents selected randomly.

**Presentation and Summary 1:**

**Table 5.2 Do Turkish consumers know the meaning of a life insurance policy?**

<b>INVESTMENT TOOL</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
<b>Valid</b>	YES	28	28,0	28,0	28,0
	NO	72	72,0	72,0	100,0
	<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	

<b>ADDITIONAL INCOME DURING RETIREMENT</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
<b>Valid</b>	YES	38	38,0	38,0	38,0
	NO	62	62,0	62,0	100,0
	<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	

<b>FUTURE GURANTEE OF THE ONES I MUST SUPPORT</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
<b>Valid</b>	YES	68	68,0	68,0	68,0
	NO	32	32,0	32,0	100,0
	<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	

<b>HEALTH EXPENSE PAYER</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
<b>Valid</b>	YES	14	14,0	14,0	14,0
	NO	86	86,0	86,0	100,0
	<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	

Table 5.2 summaries the answers of respondents for the definition of a life policy.

Unfortunately a life insurance policy is not an investment tool in all senses. Thus its

is true that you invest your money on a policy and you suppose to receive an

additional earning at the end of specified period or in case of death but the increase will not exactly match with the inflation rate and earnings from other investment tools. For individuals life insurance policy can only be a future guarantee for both owners and their families. The answers to the first question show only 28% of our sample think that a bank account and a life policy is equal to each other. The most proper definition of the life insurance policy was given in the 3<sup>rd</sup> statement but surprisingly 32% of our respondents do not agree on that issue. And the 4<sup>th</sup> definition was completely wrong which defines the health policy and 14 respondents think that a life insurance policy make periodical payments. So finally does our sample know the meaning of a life insurance policy? Its very pleased that 72% of our sample do not see the life insurance policy as an investment tool and again 62% think that 4<sup>th</sup> definition is true so we can surely say that our sample have an idea about the meaning of the life insurance policy.

### **Presentation and Summary 2**

Analysis 1 proves that majority research sample know the meaning of a life insurance policy so why only 19% of them holds one? With analysis 3 the answer to this question will be clarify.

**Main Research Question** “ Why Turkish consumers do not believe in the insurance system especially life insurance companies in Turkey?” To search this it has been included one open ended and one evaluation question in the questionnaire numbered 9 and 10<sup>149</sup>. The answer given to the open-ended questions are grouped

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<sup>149</sup> Please see the questions in Appendices E and F.

under common names and numbered with SPSS program and summarized shown under table 5.3. and table 5.4 summarizes the evaluation question.

**Table 5.3 why do (don't) you want to buy a life insurance policy?**

		Frequency	Percent %	Valid Percent %	Cumulative Percent%
Valid	I am too old	5	5,0	5,0	5,0
	I already have one	19	19,0	19,0	24,0
	I don't have an idea and knowledge	12	12,0	12,0	36,0
	Poor economical conditions	11	11,0	11,0	47,0
	Lack of trust against companies	18	18,0	18,0	65,0
	I can save better	4	4,0	4,0	69,0
	I want to buy	9	9,0	9,0	78,0
	No one to support	1	1,0	1,0	79,0
	I do not believe in its efficiency	6	6,0	6,0	85,0
	I am too young...	6	6,0	6,0	91,0
	I am regretful because of having one...	1	1,0	1,0	92,0
	I do not believe in Turkish economical conditions...	2	2,0	2,0	94,0
	I have governmental insurance, I don't need...	6	6,0	6,0	100,0
	<b>Total</b>	<b>100</b>	<b>100,0</b>	<b>100,0</b>	

Table 5.3 says that reasons diverse and do not heaped under a basic reason. Only 18% of respondents says that they don't feel trust against life insurance companies. The rest of the respondents state out some other reasons like poor economical conditions, lack of knowledge and a bit surprisingly it has been seen that 19% of our sample already have a life policy. It has been driven out that the hypothesis that let me conduct this research is one of the



major reasons of people who do not want to buy a life policy but not the primary. Now the coming point is that the research somehow lists the reasons of not buying a life insurance policy and state out that there is a group who wants to buy and 6% of our respondents trust in the governmental insurances.



**5.4 Please Evaluate the Life Insurance Companies in Turkey due to the given criteria in the question.**

**How do life companies introduce contents of policies?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	36	36,0	36,0	36,0
	Moderate	51	51,0	51,0	87,0
	Good	13	13,0	13,0	100,0
	Total	100	100,0	100,0	

**What is the knowledge level of sales representatives of life companies?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	25	25,0	25,0	25,0
	Moderate	52	52,0	52,0	77,0
	Good	23	23,0	23,0	100,0
	Total	100	100,0	100,0	

**The suitability of the demanded premiums to Turkish economical conditions**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	29	29,0	29,0	29,0
	Moderate	53	53,0	53,0	82,0
	Good	18	18,0	18,0	100,0
	Total	100	100,0	100,0	

**Evaluation of customer needs and wants**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	45	45,0	45,0	45,0
	Moderate	42	42,0	42,0	87,0
	Good	13	13,0	13,0	100,0
	Total	100	100,0	100,0	

**The consistency of advertisements to reality**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	51	51,0	51,0	51,0
	Moderate	40	40,0	40,0	91,0
	Good	9	9,0	9,0	100,0
	Total	100	100,0	100,0	

Although only 18% of our sample feel dishonesty against companies majority of them evaluate their basic activates either poor or moderate but not good. Especially the consistency of advertisement to reality and evaluation of customer needs and wants are evaluated as poor and moderate with equal portions. However introducing the contents of life polices and knowledge level of employees introducing these contents, also found poor and moderate.

Here at that point the answer of why they do not want to buy although they know the meaning of a life insurance policy become more clear. Even only 18% of our sample feels lack of trust against companies who sell life polices, majority believes that they do not do their jobs properly!

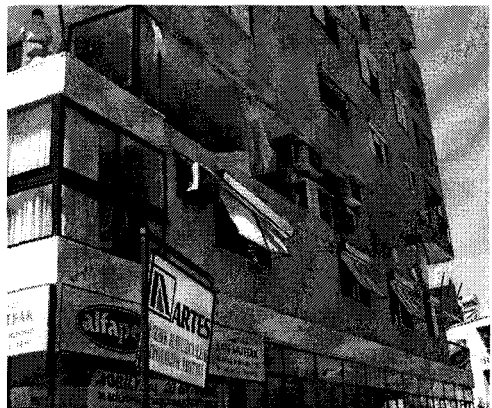
## CHAPTER 6

# A GENERAL APPROACH TO INSURANCE MARKET IN TURKEY



*...Are we waiting the death of millions, a friend of ours to loose his car and millions in an accident, a new İstanbul Fire , an earthquake hit or an irruption like the one happened in the 8<sup>th</sup> of September 2003 in İzmir which results with 4 injuries one of which is very serious and required the special care of parched department of GATA,Ankara.*

When the surveyors reached to the accident the view was terrible! Surrounding was like a battle area, there were window glasses, air conditions, tubes and even sofas, chairs and clothes were spread over the street. Not only



the flats were damaged but also 24 cars parked around the apartment were all in mass half of which were become useless. More important than all

this homeowner's couple and their 2 children were under control and father was sent to GATA, Ankara for further medical care and was still in special care department while the appendix was written 2 weeks after the event. Who will pay the cost of this unbelievable portrait? Insurance firms, homeowners or Mr. and Mrs. X who cause the event because of negligence? The answer is all of them. If the flats in the apartment are already made their fire insurance and car parked have own damage insurance policies they will get the money from their insurance firm. What if they do not have? The answer is again easy but a bit costly that the flat and car owner will have to pay his own damages. On the other hand whoever pay the bill either the insurance companies or the individuals they have the right to go court and take money from Mr. X through legal means. All the expenses of Mr. X will be paid by his insurance firm and to a predetermined amount the damaged given to third parties will also be paid under liability content of the policy. But the excess cost of accident will have to be paid again by him. So if Mr. x do not have any insurance policy the cost of an accident like this might cause a bankruptcy to an ordinary or even a wealthy individual as the cost of the accident was spelled as half trillion because the cars become useless were all high quality ones among which there were 2 BMWs and a brand new jeep. At this point if a car or a house is become completely useless the insurance firms do not pay the actual corresponding of the damaged goods they calculate depreciation if the vice versa is not written on policy.

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<sup>150</sup> The claim happened in 08.09.2003 in İzmir. Photos are obtained from original claim reports of İleri Sigorta Eksperliği names are not given for privacy policies.

## **6.1 CONCLUSIONS AND RECOMENDATIONS REGARDING THE RESEARCH ABOUT LIFE INSURANCE MARKET**

### **6.1.1 CONCLUSION**

The research conducted on 100 people around İzmir describes the margins of customer portfolio of life insurance companies. It was an question that lead the research but the results show that only 18% of the respondents proves the doubt in our minds and the rest state out various reasons that make them to hesitate to buy a life policy. The listed causes presented are not only sector base weaknesses rather some external threats such as economical conditions, personal barriers like being too young or living alone also has an affect on low sales.

Appendix E and F summarizes the reasons according to the income and education levels of respondents. The results show that the percentage of having a life insurance policy among each income level is very close to each other. (18% for moderate, 20% for low and 25 % for high-income earners). Oppose to expected "poor economical conditions" is written as a reason by medium income earners rather lowers'. It is acceptable as 79% of the sample marked their income as medium but beside it is unacceptable, as none of the poor income earners write statement as a reason. 79% of medium income earners simply defines a very basic truth of Turkey that people living in Turkey can hardly find money for basic needs like, food, accommodation, education and very basic health expenses thus they can just survive however they are poor to buy secondary needs that may ease their lives. Adjacent to this people who are under the limit of poorness believes that they are

medium income earner as they compare themselves with the ones who live down the street or most probably with the ones who are unemployed and this 79% also includes a group whom are in fact in good economical conditions than others but compare themselves with very high income earner like Koç or Sabancı.

So from my point of view in a country like ours where its very difficult to categorize the real income of population not only insurance sector all the entire sectors that directly deals with individuals in other words whole "service industry" face with similar difficulties. It is true that insurance sector especially life insurance companies can not be able to experience the wanted improvements since their establishment however the other sectors of service industry also suffers from the same problem. The economical drawbacks affects the whole economy, decreasing purchasing power, push the consumers to their homes and behind close doors where they can hardly survive with the money they earn. Very popular restaurants, boutiques and entertainment centers close their doors. Sales, campaigns follow one another regardless of the season and time. And finally today we can say that the inflation is going down! Is it so? We always says that with the young population Turkey is a great market for life insurance companies if they can manage to direct the demand in Turkey there are millions who can buy a life policy. Is it so?

No doubt that Turkey was experiencing a great recession period for more than 20 years. Like most goods, countries and more further people economies also born, grown up, live a maturity stage experience a recession and if lucky enough recover from this recession for a new period if not they just gone and become history. Turkey seems a bit lucky at least as citizens we all hope so. However it is quite early

to say that, the decrease in inflation must be reflected as increase in purchasing power of consumers. Shopping bags of Turkish people must be filled with luxury goods other than consumption goods again, big supermarkets must announced profits and our money should again become strong against currencies of other economies especially against European Community. Money must flow to the economy thus the investors may find funds for new investments and future developments. This chain can not be formed in a year or two we need time however this recovery period has to be perfectly evaluated by life and other insurance companies and they have to recover simultaneously with Turkey if they step behind they may again loose their market.

The distribution of reasons of why people do not want to buy a life policy among education level devote a final conclusion. As the education level of consumer improve lack of trust against companies decrease. A university or and further educational diplomas make people think, examine, search, read and evaluate more. During this research majority of the university graduates talked about the life insurance applications around the world and said the differences. They said that salespeople do not give extra knowledge than written on magazines, they make perfect picture and skip some vital details that may affect their purchasing idea. This wrong marketing strategy finalized with disappointment and regretfulness of buying or promise of never buying a life policy.



### 6.1.2 RECOMMENDATION

In the last part of previous chapter problems and some recommended solutions regarding the sector have been presented which can be summarized as;

- Lack of legal arrangements,
- Lack of proper knowledge about the sector and the contents of policies among agencies.
- Decrease in net profit of life insurance companies,
- Lack of well-educated and trained actuaries cause inappropriate data collection and analysis about the potential Turkish Market,

Next to, this chapter position some reasons for low sales and evaluate companies from customer point of view and finally search whether the Turkish consumers know the meaning of a life insurance policy and the following solutions are obtained;

- 86% of the respondents know what a life insurance policy is,
- Premiums demanded for policies found moderate,
- Knowledge level of sales representatives, evaluation of consumer needs, and reliability of advertisements are found “moderate and poor” with equal portions by our 100 respondents but unfortunately not good,
- Beside the lack of trust against companies, economical conditions, lack of knowledge and idea, lack of belief in its efficiency were listed among reasons of not buying a life insurance policy.
- 19% of respondents already have a policy and only 9% of them want to buy one in future when reasons are eliminated.

Between two list one similarity flashes out " LACK OF KNOWLEDGE". Both sellers and buyers think that agencies that are responsible of selling and marketing these polices have knowledge problems.

In Turkey you have to pass trough several examinations to become an university student, a manager in a bank even an intern in any insurance company but you just need some money and an office to become a life insurance agency. In the sector only claim adjusters pass trough a series of examination, tutorial of three months and work as an intern with an experienced claim adjuster for a year before they receive their own certificate if they are successful. Today nobody can say that close all agencies it has to be found and demonstrate a new system for agencies. They should start by training existing agencies long lasting programs should be prepared and knowledgeable experts in the sector should help companies in developing their work power. Today 80% of sales are done by life insurance agencies not companies themselves so they are the mirrors of the head companies in the market and has to reflect every detail of their heads like their financial power, knowledge and experience in the sector, marketing abilities and trust. The following points must be a must in the sector;

- A four-year university degree of managerial sciences, economics, business or engineering has to be a must.
- Each agency must complete a training period wit an acceptable degree and during these trainings basic economical problems of Turkey, customer portfolio, problems of insurance sector, insurance as a risk management,

history and development of insurance all around the world with all types must be taught to the candidates.

- SWOT analysis of the sector must be evaluated by the candidates and existing agencies and with periodic meetings these details, improvements or deterioration has to be discussed.
- A list for “how to be good agency” must be prepared and agencies has to be evaluated and marked according to listed criteria and the ones who could not passed has to be warned and if further improvements are not seen their agency certificate can be taken back.
- Companies should work with professional research firms and made researches to evaluate the needs and wants of existing and potential consumers. At that point I would like to give an example: every six months a research company calls me to evaluate the work done by Renault where I took my car for periodical check ups. And I saw that today they clean my car better than first time, they are more serious about the appointments and if anything is wrong with my car they first call me before they fixed it even if it is a vital piece to be changed.

All sectors in our country experiencing the same economical crisis, a decrease in their net profits and all sectors holds the professions who knows their jobs and who don't. All these and lack of legal arrangements cannot be an excuse for giving inadequate service to consumers. Internal training can deal with knowledge problem and even going further today leading universities are adding “Insurance and Risk” to their education programs, higher education programs for insurance that last for two years already exists. With the new work force sales can be

increased. Turkey is trying to do its best to recover from that economical crisis. And government is working on new lawsuits for insurance. So everybody seems doing his or her best companies should do so.

Today life insurance companies should take the organized development of individual retirement plan sellers as a guide. They are publishing great advertising campaigns, start a new TV program to make public conscious about retirement plans, they cope with government for legal arrangements and finally they are on the road. They experience a long preparation period all companies who wants to be in the sector were ready when the government say all right. They had already decide on the investment tools and their marketing team, when the start bullet fired they were all start running and not surprisingly in the first three months they exceed their target. This is probably because they were all aware of the eager competition that they will face. However the fear of competition let them to make a perfect idea as being a union. They act like one company until the beginning of the plan and try to their best to give maximum knowledge to the public but today they are competitors who work for the sake and future of the sector.

My highly recommendation is that life insurance companies should do the same. Death is the beginning point of a policy but not the must. Various types and contents of life policies must be announced to the community. The differences between a health, life and retirement polices must be underlined. The importance of a life policy with all aspects including its advantages and disadvantages against other policies has to be distinguished. Consumers must be served with a perfect broacher pointing out two side of a coin, till the final decision agencies and

companies should stay with the consumer hesitate to bore them and help them in making the final decision.

Companies and agencies should make us feel that they are not seeking for money but for our goodness's and we all will benefit from this trade off whatever the final decision is.

## 6.2 A FINAL APPROACH TO INSURANCE IN TURKEY

In Europe insurance is the basic determinants of the development of the country and persistence of the financial life. In European countries financial sector is consist 4 major parts including banks, insurance, leasing and factoring. The chairman of ESAD<sup>151</sup> has said in one of his feature report that “ If in any country service industry is developing so insurance must follow this development, too<sup>152</sup>. This is an enduring effect flowing as,

Citizens of developed countries,



Seek for new needs



Service Industry answers those new needs.

Developed needs and wants required developed and well organized service industry, which is able to satisfy the demand. Years ago ships were used rarely in

<sup>151</sup> Community of insurance agencies of Aegean.(EGELİ SİGORTA ACENTELELERİ DERNEĞİ.)

<sup>152</sup> Gökçeer, Levent, *Egeli Acente*, pgs. 6-13. July 2003

holidays but mostly in sea transportation and marine insurance might be adequate. However today people live their lives in those boats in Manhattan, so today boat may equal to a flat, which means that the concept of marine insurance must be changed to adopt this new living style. In 70s summer houses in our country was not that much popular but today especially in sea cities summer houses are trendy places most homeowners own and live at least 3 or 4 months a year. This new life opportunity must affect the fire policies like adding emptiness premiums to policies or increasing the premiums torrent. So the world is changing rapidly, and this rapid movement followed by changes in consumers' needs and wants.

To follow this change insurance companies of both life and elementary branches should developed new marketing strategies. It is known that in Turkey majority of banks have insurance companies so why not marketing trough this channel. Banks can introduce a new marketing strategy called "Vacation facility" which was planned by one of the European banks. With this method employees will present and sell policies wish to sell insurance products to the customers of the bank on an incentive basis.

The move is expected to serve two purposes: one, it will help the bank get over the problem of not being able to provide financial incentives to individual employees and two, it divert employees as computerization and core banking would free up some back-office jobs. Although public sector banks have the distribution network, the top sellers of insurance in the banking sector are the foreign banks. This is because of their traditional focus on marketing financial products and also the fact that most of them provide performance based incentives. The bank may also

consider using such employees to sell its other products like credit cards. Most of the banks that have achieved volumes in card sales have succeeded because of incentive-based selling through direct marketing agents. If each employee in a bank manage to sell one insurance a month than a bank of 200 employees means a 200 policies of increase in the number of product sold. No doubt that to be able serve like this employees must be trained to learn details of policy types with a minimum training cost maximum increases may be achieved.

Another application can be keeping some policies obligatory when some basic bank products are purchased. Assume that you buy a mortgage for your house, for case of your death; banks may put the purchase of a life policy obligatory.

An elementary insurance policy for houses or cars does not pay every claim. However through advertisement, companies force that idea and skip basic details like there are some exceptions for roofs and outdoors of apartments, for electronically claims and so on. There is no doubt that an advertisement campaign can not underline this items but it also should not give wrong knowledge to the consumers. A marketing company should know every detail of the product that they will present to avoid any misunderstanding. As soon as a policyholder watches the ads on TV they directly calls the insurance companies for fixing various claims and questions and when the answer they received is negative they loose their trust against an insurance policy. An agency has hundreds of customers for example how can they be with their every individual customer in case of any claim assuming that there happens at least 2 claims a day? These are some points that I examined in the ads and must be modified. Finally all insurance companies except life branches need

new advertisement campaigns because life companies are targeting on any basic sentence in their ads rather they try to make consumers understand why they should guarantee their future. Other branches should do the same, you buy an office policy because you want to protect your office against loss of profit in case of any claim, save time by using assistance service of some companies in case of small events like a broken glass or damaged tab!

Service quality must be improved through a series of training programs including every aspect of selling a policy starting with the contents of the policies and ending with human relations. During marketing of a policy advantages and disadvantages of various alternatives should be presented to the buyer with different price options. Consumer must be free to buy any of them but should be aware of his own responsibility choosing the cheap against the expensive. At that point it is very important to distinguish among various consumer needs because each consumer do not demand the same need from a policy.

International partnership among domestic and foreign insurance companies must be established. Recently Turkey experience one this marriage and today we are following their successes from media. Table 6.1 shows the tremendous improvement in gross sales of Oyak after they merged with international, insurance company Axa and become Axaoyak. It works better because foreign investors are more experienced than Turkish investors as they came from global European countries where insurance is the most developed sectors of finance industry. Turkish partners help them to adopt their policy types according to Turkish market and they share their experience in marketing and selling a policy and knowledge of



insurance with their domestic partner. Again in the same table there is a line of other domestic companies and for those who produces little premiums domestic merge can perfectly work. Among those companies there are some who are in good financial position but have small customer and product portfolio and others who has a strong product portfolio but weak financial position the marriage of those companies will help both of them for future competition with leaders in the sector.

**Table 6.1 Total Premium produced by other than life insurance companies**

TOTAL PREMIUM PRODUCED BY OTHER THAN LIFE INSURANCE COMPANIES					
( Billion TL.)					
Company	2003	2002	Vol.	Market Share% 2003	Market Share% 2002
AXA OYAK	305.277	206.874	47,6%	11,9%	10,6%
ANADOLU	287.511	187.178	53,6%	11,2%	9,6%
AKSIGORTA	261.218	195.997	33,3%	10,2%	0,1%
YAPI KREDI	224.568	179.727	24,9%	8,8%	9,2%
KOC ALLIANZ	224.334	195.355	14,8%	8,7%	10,0%
GUNES	215.036	151.851	41,6%	8,4%	7,8%
ISVICRE	165.209	113.513	45,5%	6,4%	5,8%
BASAK	158.502	115.654	37,0%	6,2%	5,9%
RAY	105.250	90.044	16,9%	4,1%	4,6%
Others	80.479	58.355	37,9%	3,1%	3,0%
<b>Total</b>	<b>2.027.385</b>	<b>1.494.548</b>	<b>35,7%</b>	<b>79,0%</b>	<b>76,8%</b>
<b>Market</b>	<b>2.566.491</b>	<b>1.946.152</b>	<b>31,9%</b>		

\*\*Source: www.treasuy.gov.tr

Other than their two-sided support for each other this will enlarge the market. Thus instead of sharing one small piece of a cake with 4 they will hold all the benefits of this piece under one name and can direct their activities to enlarge this piece. These marriages can bring keen competition to the sector and to win one consumer in this race all the sides of this competition will do their best and as a result the sector will start to run instead of walking.



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## APPENDIX A

### INDIVIDUAL RETIREMENT PLANS FOR A HAPPIER FUTURE

Finally the waited approval of treasury is made and the hang around of "individual retirement" for 1 and a half-year is confirmed with a success. Eleven insurance companies already prepared and well organized, have taken its places around the court, feeling the strong support of huge holdings and groups. While these firms are preparing their weapons for a keen competition on the other side of the medallion they form a strong union and locked to the target. Most of these firms are branches of big holdings or multinationals those giving them progressing flexibility within the market. While the firms are trying to find their places in the consumer market with strong advertising campaigns, they also are representing a strong solidarity for the new good.

For years Turkish citizens were afraid of getting retired and saw nightmares of those hard days with a very undersized income. However today there is a brand new system called " Individual Retirement Plans" which can turn days of retirement to piece. With a short cut the aim of the project is " Happy Age's". For more than a year insurance companies were preparing for this buying funds, getting required license, training employees and so. Ok but why this new system is that much important? Is it really worth so? The answer is YES without a doubt knowing that all around the world nearly 12 -15 trillion dollars is saved in individual retirement funds. Again because of these funds most developed countries do not experience

economical crisis periodically in 2 years and their citizens can take a world trip during retirement.

Today there is a second chance for Turkish People for retirement. "Individual Retirement Plans" in Turkey is a complete volunteer action and no one is forced to make any payment if he does not want so. However in today's Turkey its obvious to live a happy retires is a dream knowing that lots of people died in the queues while trying to receive their retirement payments. At that point to catch up this second chance an individual can save only 10-15% of his gross salary and guaranteed an additional income during his retirement. This system requires a ten-year continuous premium payment and a minimum retiree age of 56. Lets assume that you get bored of these payments and you want to quit than with a 5-10% discount taken under the name of stoppage you can get all your payments plus savings in 5 years without any question. During 10 years you can easily follow u your money and even direct your advisor for investment tools and a the end of 10 year you will not experience any surprise as you have already followed every action. At that point a small reminder is necessary, nobody must not forget that the system is not the alternative of governmental retirement plans like SSK, Emekli Sandığı and Bağkur but the system is supporting of these other systems.

There are seven musts of the system;

- Retirement Companies: A company, which is established and licensed due to the laws of Individual retirement savings and investment system.
- Respondents: The side in the contract that sign for his/her own sake.



- Individual Retirement Agency: agencies who have the right to market and prepare the policies under the name of the retirement company.
- Individual Retirement Contract: Contract where all the payments and income earned from these payments are followed under the name of the respondent.
- Retirement Investment Funds: Investment tools for premium payments, which are approved by the law and directed by the portfolio management companies.
- Portfolio Manager: individuals who are certificated by SPK to direct portfolios.
- Keeper: The establishment that keeps the funds portfolio who is approved by SPK.

Everything seems perfect till now the system is organized and formed, companies prepared themselves but will there be any cues by November in front of the companies? The answer is probably "No" and every company knows that and makes their plans according to this answer. Individual retirement companies forecast 300 to 400 thousand respondents for the first year a hoped to reach 2.5 million respondents in the first 10 years with 15 billion dollars of funds in total. Today in Turkey the total money saved in life insurance policies is around 2 billion dollars that makes 7-8 dollars of savings per person where the world average is about 250 dollars. These numbers shows that Turkey has a long and very though road to go!

The major benefit of the individual retirement system to Turkey is the formulation of long-term funds in financial market. While this advantage will make the markets more complex and wide it will also allow both the private and public sector to take long-term debts. Long-term debiting will bring fresh project and investments that create new job opportunities and governmental investment will stop the ups and downs in the markets. All these also help the continuous development of our economy and so our country. Turkish financial market has experienced a tremendous decline and bottleneck with the economic crisis. During these days while some investors loose their savings others prefer to take their savings out of he system. At that point individual retirement funds will be a refreshing door to those markets that are trying to plan their future. However the other but more important benefit will be; the respondents will benefit. The most useful investment that you can make with the first portion of your taxed income, is to have an individual retirement plan. But we all know that the amount of this first portion is changed from one individual to another.

Till now we have been talking about individual retirement funds but what are those funds? These funds are combination of various investment tools like bonds, A or B typed liquid funds and others to assess the premiums paid by the respondent. The respondents will determine the amount of premiums and the investment instruments. The well being during retirement years depends on the amount of premiums paid and correctness of the investment tools chosen.

Individual retirement funds are alternatives of social security plan in most countries around the world. Increasing population and aged populations make it very hard for social security system to renew their selves. The following chart shows the place of retirement funds among world financial markets;

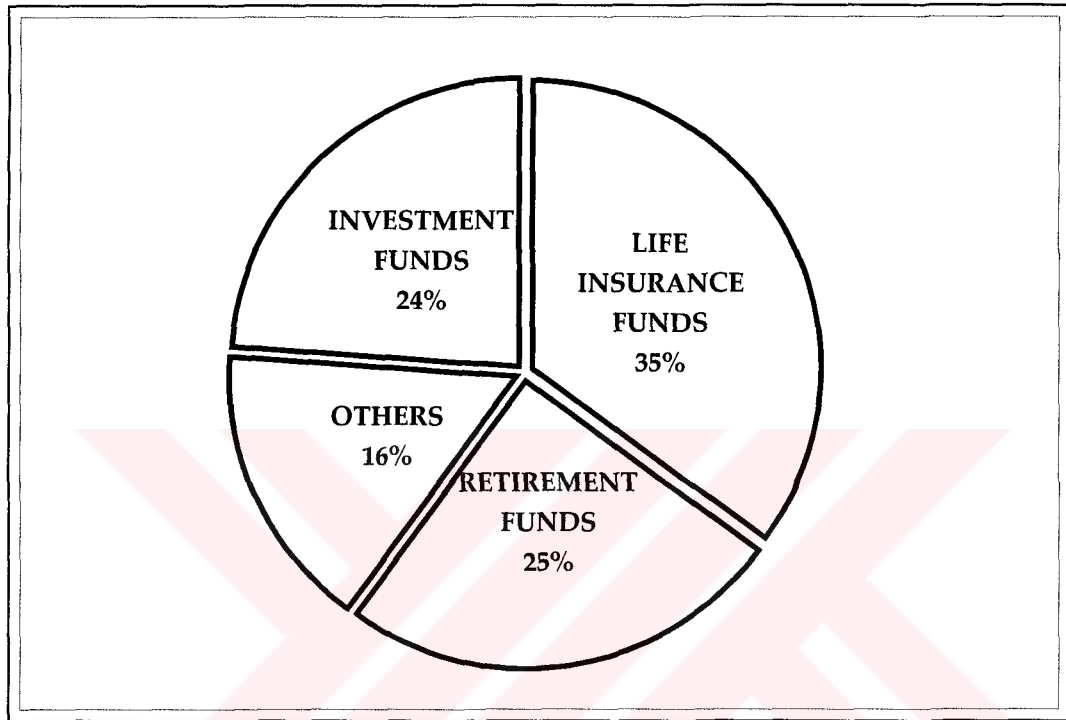


Figure A.1<sup>153</sup> Position of world financial markets

When we turn our face to Turkey where can we place our sector? The specialist recommended two-stepped solution for Turkey. At first stage the SSK<sup>154</sup>, Bağkur<sup>155</sup> and Emekli Sandığı<sup>156</sup> will be revised and keep still. And at second stage obligatory deductions will be made on the salaries of both employees and employers and a

<sup>153</sup> Figure is taken from "Bireysel Emeklilikle Mutlu Gelecek"( A Happier Future with Individual Retirement Plan), *Sabah Newspaper, Addition*

<sup>154</sup> Organization, which controls the right, obligations and insurance of employees in Turkey since 1946.

<sup>155</sup> Organization that provides social security to traders, artists and other free income earner citizens since 1972

<sup>156</sup>Organization which provides social security to employees and their supporting families working under governmental bodies.

fund will be formed from those deductions. Infarct all governmental social security institutions can be organized under one name, but this idea does not find many supporters within the society. Instead of this a uniform rules and regulations system for those institutions are highly recommended.<sup>157</sup>



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<sup>157</sup> All figures and statistics are taken from the insurance magazine published by sabah group on 17<sup>th</sup> October 2003 "Bireysel Emeklilikle Mutlu Gelecek"( A Happier Future with Individual Retirement Plan),

## APPENDIX B

### BASIC APPLICATIONS OF HEALTH INSURANCE IN TURKEY

**Stays in Hospitals:** A medical care expense that requires a stay in a hospital is covered under this policy.

**Stand-Up Cares:** A medical care expense that requires spot intrusion, which do not require long term stay is covered under this policy.

**Stays and Stand Ups:** Both hospital stay and small intrusions like doctor checks are included in this policy.

**Teeth and Eye Indemnity:** Majority of the health polices prepared in Turkey exclude the cure of teeth and eye. However high competition between health companies change this rule and with an extra premium paid these two indemnities are included in the policies made.

**Small or Critical Surgery:** Small or critical surgeries are also included with extra premiums and have special exclusions. One of the exclusion is the chronicle illness that came from the past of patient, which mean before the beginning of policy. Esthetic surgeries are also excluded in polices. Pregnancy expenses in the first 18 months following the beginning of policy are also excluded and under this and some other situations no payment is made for medical care.

A health policy is made for one-year terms and can be renewed at the end of each year without any medical check. Some special discounts are made for continuous polices and individuals who did not receive any payment for one year.

Another common point for health policies is medical care payments. Health companies made payment with various limits due to the premiums paid like they can pay either 80%, 100% or put upper limits.

Policies can be a combination of different limits like one policy can pay 80% of doctor checks and 100% of hospital cures.

As can be seen having a health policy is somehow complicated and need long discussions and detailed examination of policy clauses. One who decided to buy a policy must not forget all these and should make a real analysis of her/his own need and expectations from a health policy. <sup>158</sup>

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<sup>158</sup> The summary is made after the evaluation of various price proposals taken from health insurance companies one of which is declared in Appendix C

# APPENDIX C

## A HEALTH INSURANCE PLAN

08/12/2003

### CAN SAĞLIĞI SİGORTASI MULTİ PLAN

**FİYAT VE TEMİNAT TABLOSU(\*) / İzmir**  
SAYIN ŞEBNEM İLERİ(JK.1977); ve AİLESİ İÇİN HAZIRLANMIŞTIR.  
GÖKHAN İLERİ(E.1975)

TEMİNATLAR	TEMİNAT (%)	TEMİNAT LİMİTİ	
<b>YATARAK TEDAVİLER</b>			
Yurt İçi Hastane Hizmetleri Teminatı	100	Limitsiz	
Yurt Dışı Hastane Hizmetleri Teminatı(Yıllık)(**)	80	10.000 USD	
Aile Planlaması Teminatı (Yıllık)	100	1.000.000.000 TL	
<b>AYAKTA TEDAVİLER</b>			
Doktor Muayene Teminatı (6 Kez, Muayene Başına)-(İki Dönem)	100	1. Dönem 70.000.000 TL	2. Dönem 80.000.000 TL
İlaç Teminatı (Yıllık)	80	700.000.000 TL	
Tefhis Yöntemleri Teminatı (Yıllık)	80	750.000.000 TL	
Fizik Tedavi (Yıllık)	80	500.000.000 TL	
<b>Tamamlayıcı Limitsiz Ayakta Tedavi Teminatı</b>	<b>100</b>	<b>7,5 Milyar TL Üzeri Limitsiz</b>	

(\*) Uygulama detayları ve teminat altına alınan harcamalar Can Sağlığı Sigortası Kitapçığında yer almaktadır.

(\*\*) Türkiye'de tedavinin mümkün olmadığı durumda limit 300.000 USD'dir.

**PEŞİN PRİM TUTARI**

: 1.448.542.992 TL

**ÖDENE PLANI**

ÖDEME TARİHİ	ÖDEME TUTARI	ÖDEME TARİHİ	ÖDEME TUTARI
08/12/2003	388.256.663	08/03/2004	291.192.499
08/01/2004	291.192.499	08/04/2004	291.192.499
08/02/2004	291.192.499		

**VADELİ PRİM TUTARI**

: 1.553.026.661 (1+4) TL

#### AÇIKLAMALAR

- 1) Prim tutarları hesaplanırken bireylerin yaşamını sağlığı oldukları varsayılmıştır.
- 2) Vadeli prim tutarının %25'i peşin, kalanı takip eden aydan itibaren 4 eşit taksit halinde dir.
- 3) Yurt İçi Hastane Hizmetleri Teminatı kapsamında karşılanan "ameliyat veya yoğun bakım gerektiren tedaviyi takiben iki ay içerisinde başlayan fizik tedavi giderleri" yıllık 2,5 Milyar TL limit ile teminat altındadır.
- 4) Yurt İçi Hastane Hizmetleri Teminatı, anlaşmalı sağlık kurumlarında ve bu kurumlarca kadrolu hekimler tarafından gerçekleştirilen yatarak tedaviler için limitsizdir. Diğer durumlarda uygulanan limitler Can Sağlığı Sigortası kitapçığında yer almaktadır.
- 5) Bu bakiye, hazırlandığı tarihten itibaren 10 gün süre ile geçerlidir.

Saygılarımızla,

**MİSON SİGORTA ARA.HİZ.LTD.ŞTİ.**

**GÖNSEL YEŞİLOKUR**

**SATIŞ YÖNETMENİ**

**Tel No : 0 232 489 88 75**

**Faks No : 0 232 489 95 11**

APPENDIX D

INCOME LEVEL OF RESPONDENTS VERSUS GIVEN ANSWERS TO THE OPEN ENDED QUESTION "10"

	I am too old	I already have one	I don't have idea and knowledge	Poor economical conditions	Lack of trust against companies	I can save better	I want to buy	I have governmental insurance, I don't need
Income level of respondents	0	1	0	0	1	0	2	0
Low	3	14	10	11	14	2	5	6
Medium	2	4	2	0	3	2	2	0
High	5	19	12	11	18	4	9	6
Total								

	No one to support	I do not believe in its efficiency	I am too young	I am regretful because of having one	I do not believe in Turkish economical conditions	Total
Income level of respondents	0	0	1	0	0	5
Low	1	6	5	1	1	79
Medium	0	0	0	0	1	16
High	1	6	6	1	2	100
Total						



APPENDIX E

EDUCATION LEVELS OF RESPONDENTS VERSUS GIVEN ANSWERS TO THE OPEN ENDED QUESTION "10"

Education level of respondents	I am too old	I already have one	I don't have idea and knowledge	Poor economical conditions	Lack of trust against companies	I can save better	I want to buy	I have governmenta insurance I don't need
Elementary School	0	0	0	2	1	0	0	0
Lyce <small>lycee</small>	2	4	6	4	5	0	2	0
Higher Education	0	5	1	1	2	0	3	2
University	2	6	3	3	8	4	4	4
Master	1	3	1	1	1	0	0	0
Doctorial	0	1	1	0	1	0	0	0
<b>Total</b>	<b>5</b>	<b>19</b>	<b>12</b>	<b>11</b>	<b>18</b>	<b>4</b>	<b>9</b>	<b>6</b>

Education level of respondents	No one to support	I do not believe in its efficiency	I am too young	I am regretful because of having one	I do not believe in Turkish economical conditions	Total
Elementary School	0	0	0	0	0	3
Lyce <small>lycee</small>	0	1	1	0	0	25
Higher Education	0	0	0	0	0	14
University	1	3	3	1	1	43
Master	0	1	2	0	1	11
Doctorial	0	1	0	0	0	4
<b>Total</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>100</b>

## APPENDIX F

### TÜRK TOPLUMUNDA HAYAT SİGORTACILIĞININ ANLAMI VE YERİ

Sayın Katılımcılar;

Sadece birkaç dakikanızı alacak bu anketi "Hayat Sigortaları Hakkında" fikirlerinizi ve düşüncelerinizi öğrenmek amacıyla doldurmanızı rica ediyorum. Amacım türk toplumunun bir parçası olan ve her an farklı risklerle donatılmış dünyamızda yaşayan sizlerin, düşüncelerinde hayat sigortacılığına verdiği önemi anlamaya çalışmak. Bu anketi hemen doldurarak bana teslim etmeniz sadece bir kaç dakikanızı alacaktır; ancak etki altında kalmadan ve çekinmeden yazacağınız fikirleriniz tezimin son bölümü olan araştırma konusunda oldukça önemlidir. Anketi doldururken kesinlikle isim vermek zorunda değilsiniz ve her bir anket sonucu tamamen gizli tutulacak ve sadece sonuçlar tezimde açıklancaktır.

Sizin değerli katılımlarınız ve işbirliğiniz tezimin sonuçlanması için büyük önem taşımaktadır. Lütfen bir kaç dakikanızı ayırarak bu anket formunu doldurup ankotöre geri veriniz.

Saygılarımla  
Şebnem Penbek İLERİ  
İzmir Ekonomi Üniversitesi  
İşletme Bölümü  
Yüksek Lisans Öğrencisi  
Aralık,2003

**Yaşınız:** \_\_\_\_\_

**Cinsiyetiniz:**      Bay      Bayan

**Medeni Durumunuz:**

Evli                       Bekar

**Eğitim Durumunuz:**

İlköğretim       Lise                       Yüksek Okul               Üniversite  
 Yüksek Lisans       Doktora                       Diğer(Lütfen Belirtiniz)

**Mesleğiniz:(Lütfen Belirtiniz):** \_\_\_\_\_

**Kendinizi aşağıdaki gelir guruplarından hangisi içinde tanımlarsınız?**

- Düşük
- Orta
- Yüksek

**Aşağıdaki Sigorta türlerinden hangisine(lerine) sahipsiniz?**

Not: Lütfen satın almış olduğunuz her sigortayı işaretleyiniz.

- Konut
- İşyeri
- Kasko
- Trafik
- Hayat
- Sağlık
- Diğer (Lütfen Belirtiniz)\_\_\_\_\_
- Hiçbiri

**Sizce hayat Sigortası satın almakla aşağıdakilerden hangisine(lerine) sahip olmuş oluyorsunuz?**

- Hayat Sigortası aylık birikimlerimin değerlendirildiği bir yatırım aracıdır.
- Hayat Sigortası emekliliğim boyunca elde edeceğim bir ek gelirdir.
- Sağlığım veya hayatımı kaybetmem halinde bakmakla yükümlü olduğum kişilerin gelecek güvencesidir
- Sağlık giderlerini karşılayan bir sigorta türüdür.

**Şu anda ülkemizde hayat sigortası satan şirketleri lütfen aşağıdaki kriterlere göre değerlendiriniz;**

	Zayıf	Orta	İyi
Ürünleri yeterince iyi tanıtabilmeleri	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Satış elemanlarının konuyla ilgili bilgi düzeyi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Müşteri isteklerini doğru değerlendirme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Talep edilen primlerin ekonomik koşullara uygunluğu	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reklamların gerçeğe uygunluğu	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Hayat Sigortası poliçesi satın almak istemiyorum çünkü;** (Lütfen cümleyi size en uygun şekilde tamamlayınız.Eğer satın almak isterseniz burada lütfen belirtiniz).....

**Anketimize gösterdiğiniz ilgiye çok teşekkür ederim. İyi Günler.....!**

## APPENDIX G

### THE ROLE AND MEANING OF LIFE INSURANCE IN TURKEY

Dear Respondent;

I request you to fill this public survey which will take a couple of minutes to learn your ideas and thoughts about life insurance. My aim is to know the importance that you gave to life insurance. To give this survey back to me will take a few minutes but your ideas will be a conclusion for my thesis. You do not have to identify your names and all of the surveys will be kept confidential and just the results will be reported in my thesis.

Your valuable cooperation and respond is very important for the finalization of my thesis. Please spend a few minutes to fill this survey and give back to the surveyor.

Sincerely  
Şebnem Penbek İLERİ  
The İzmir University of Economics  
Social School of Science  
MBA student  
December,2003

Age \_\_\_\_\_

Gender:       Male       Female

**Marital Status:**

Married       Single

**Education Level:**

Elementary       Lycee       Higher Education       University  
 Master       Doctorial       Others(Please state)

Occupation: \_\_\_\_\_

In which income level you categorize yourself?

- Ⓒ Low
- Ⓒ Medium
- Ⓒ High

**Which one(ones) of the insurance policies you have?**

P.S.: Please mark all the insurance types you have.

- Ⓒ House
- Ⓒ Office
- Ⓒ Own Damage
- Ⓒ Traffic Liability
- Ⓒ Life
- Ⓒ Health
- Ⓒ Others ( Please State)\_\_\_\_\_
- Ⓒ None

**What do you believe you get by buying a life insurance policy?**

- Ⓒ It is an investment tool.
- Ⓒ It is an additional income during retirement..
- Ⓒ It is the future guarantee of the ones under my responsibility aif I loose my life or health
- Ⓒ It covers my health expenses.

**Please evaluate the life insurance companies according to the criteria listed below**

	Poor	Moderate	Good
Well presentation of products.	Ⓒ	Ⓒ	Ⓒ
Technical Knowledge of sales teams.	Ⓒ	Ⓒ	Ⓒ
Evaluation of customer needs.	Ⓒ	Ⓒ	Ⓒ
Appropriateness f the premiums to economical conditions.	Ⓒ	Ⓒ	Ⓒ
Consistency of the ads to reality.	Ⓒ	Ⓒ	Ⓒ

Would (not) like to buy a life policy because (pls. fill the sentence)  
 .....

**Thank you for filling our questionnaire. Have a nice day...!**