Market access and trade barriers faced by European insurers and reinsurers in foreign jurisdictions (March 2018)

TURKEY

The Turkish regulatory framework for motor third-party liability insurance saw significant changes over the past year. Together, the new elements are highly concerning for European (re)insurers operating in the Turkish insurance market as they prevent (re) insurers (including those from Europe) from placing business on an economic basis and in line with appropriate business and risk management practices. The measures, while applied to all market participants, undermine past achievements in bringing trade between the EU and Turkey closer and they endanger the sustainability of the sector.

Motor third-party liability (MTPL) premium caps

Since April 2017, the Treasury has imposed premium caps for MTPL insurance for all types of vehicles. The caps take into account the bonus-malus system and vary by vehicle-type and city of registration. The caps are set below economic costs and — together with the other measures listed below — have led to significant losses for European players in the market.

Mandatory offering of MTPL policies

Provision of MTPL insurance is compulsory for all entities who have a licence. The Competition Authority started a preliminary investigation on the suspicion that some insurers (including European insurers) had stopped offering MTPL policies since the introduction of the premium cap. The procedural period to move from the preliminary phase of the investigation to a formal phase lapsed and Insurance Europe understands that the Competition Authority decided to not investigate the issue further.

MTPL pooling system

The pooling system for MTPL policies, introduced by the Treasury in July 2017, covers slightly below 10% of the market and about a quarter of the overall premiums underwritten in the market. These policies are pooled and the burden is redistributed to all market players. Half of the pooled risk is redistributed equally to all market participants. The other half is assigned based on the individual market shares of licensed entities. The underlying calculations for the redistribution are applicable retrospectively from April 2017 (when the premium cap was introduced). No risk is maintained by the Treasury, so the pooling mechanism acts as a means of redistributing risk across the market. With this system, the Treasury prevents any of the limited competition that it claimed still occurred after the introduction of the price cap.

Other planned measures

In June 2017, the Treasury issued a further new draft for MTPL general conditions which, if applied as it stands, would cause a significant increase in claims costs, and hence exacerbate the losses and difficulties the market is already facing due to the price caps. Further discussions between the Treasury and the industry on the draft are pending. It is in European insurers' interest that the finalised general conditions are in line with the Traffic Law from 2016 and are based on sound business practices in order to support the standardisation of claims calculations.

Background and implications

The Turkish Treasury has taken the above-mentioned measures with the clear objective of imposing lower than economically-justified prices for motor MTPL insurance. Overall, this led to a significant decrease in premiums in real terms (more than 30%). Additionally, the cost of claims has been soaring (by around 25%) following the decision of the Turkish authorities to increase the minimum wage by 30% on 1 January 2016. The regulatory approach of actively lowering prices goes directly against the standard in other OECD countries, where the solvency of (re)insurers forms the foundation of regulation and where adequate pricing and capital are considered key priorities.

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