



Turkey Insurance Intermediaries Evaluation Report

Summary Declaration

Aim of the Report

As it is stated in the 2023 Turkey Insurance Intermediary Sector Research Report, in Turkey, share of insurance subsidies in GDP was 1.5 percent, and our country was 70th in the world ranking. The situation indicates that Turkey is a lower tier country in terms of insurance penetration among not only developed countries but also developing countries. This percentage is between 7 and 13 for developed countries. There are underlying reasons why this percentage is that much low in Turkey such as low consumer confidence, low awareness level and other factors related to the corporations serving in this sector.

On the other side, insurance penetration's being that low is an indicator of the growth potential for this sector in Turkey. Therefore, it is desired that the efforts of enlarging the market size hand in hand, increasing service quality and consumer satisfaction should take place of competition aimed at the increase of market share in available market. Accordingly, we believe that the current situation of the sector forces the stakeholders in it to cooperate by bringing those sectorial priorities into the forefront.

In the context of these signified aims and the Vision of 2023, keeping pace with advancing world and developing technology, and avoiding restrictor and interdictor legislations are pretty important in terms of revealing the current potential in the sector.

This report is prepared with a customer-oriented approach and aims to;

- ▶ Increase the cooperation among insurance intermediaries by concretizing the job description and scope of them in Turkey,
- ▶ Depending on the trends in the World, gain favor from different sales channels and tools,
- ▶ And last but not the least, reach insurance customer and expand the insurance penetration in Turkey by eliminating the barriers preventing the development of the sector.

1. Structuring of Intermediary Channel

1.1. Observations Regarding Current Situation

The most important elements that lead to rise in the service quality are providing the customer confidence, increasing the consciousness about insurance and establishing the right communication with customer. As it is stated in our 2023 Report, insurance customer demands transparency in communication and wants to comprehend the supplied product. If the right product is not sold to the customer, the confidence is damaged and restoring this reliability grows difficult. Therefore, corporations serving in this sector should have sufficient infrastructure and know-how that enable them to understand the needs of customer and communicate properly.

The insurance intermediaries in Turkey have pretty significant positions and market shares in the sector in terms of figuring out the needs of customers, meeting the demands correctly and establishing the effective communication. In point of being dependent not to insurance company but to customer, capable of offering alternative solutions, and able to develop and sell products, insurance brokers continue their activities by focusing on the customer. On the other side, insurance agents, in the formation of exclusive or multiple insurance company representatives, contribute to the expansion of the sector to the base with establishing close relationship with the customer.

Although insurance brokers and agents differ from each other regarding the side they represent, in Turkey, those two intermediaries converge to each other in terms of their operations. Especially, multiple agents that bear high job professionalism operate as insurance brokers in the sense of operations. This structural difference among insurance agents also reveals itself while looking at their subsidy production.

Agent Distribution Depending on Subsidy Generation:

# of Agents	Gross Written Premium (GWP)	Percentage of Agents	Share in Total Market GWP (forecasted)
92	10 million TRY and more	0.5%	5.4%
243	5-10 million TRY	1.3%	6.6%
3,208	1-5 million TRY	17.5%	33.8%
2,861	0.5-1 million TRY	15.6%	7.8%
2,810	0.25-0.5 million TRY	15.3%	3.3%
4,862	0.25 million TRY and less	26.5%	2.8%
4,258	Non-Productive	23.2%	-
18,334	All Insurance Agents	100.0%	59.7%

(1) Market shares are found by approximating the subsidies of the groups. According to this data, it is assumed that agents generate subsidies in a decreasing order of 15 million, 7 million, 2,7 million, 0,7 million, 0,3 million and 0,15 million TRY.

According to the data provided by Undersecretariat of Treasury, 50 percent of more than 18,000 registered insurance agents do not actually produce service or produces less than 250,000 TRY per year. On the other side, 2 percent of insurance agents in Turkey (nearly 335 agents) -that produces 10-15 percent of current subsidy- operate like a broker in terms of subsidy generation by generating more than 5 million TRY per year. Other intermediate level agents that constitute 48 percent of all generate from 250,000 to 5 million TRY per year.

Positioning of Automotive Agents: Automotive agents that are pretty effective in insurance sector in Turkey have an advantageous placement in the sector in terms of directly reaching to the customer and being able to swiftly sell the product. This situation is beneficial especially for increasing the penetration of motor insurance. However, these agents have competence issues regarding providing consultancy for customers because their main activity area is not insurance sector. There may be situations result in loss of confidence like not paying attention to the customer needs in an emergency case.

It is significant that automotive agents that operate in the form of offering pre-prepared products to the customer and as a multiple agents should work in the frame to be determined and should be monitored closely. This requirement is important not only for providing the tracking for the sold product but also introducing the customer who can recognize insurance sector thanks to motor insurance to the sector.

Positioning of Captive Agents: Even if captive agents do not constitute any legal or commercial issue regarding their operations, being lack of education and technical know-how about sector increases the occurrence likelihood of wrong risk assessment and invalid assurances.

The suitability of automotive and captive agents' position in the sector is beyond question. However, the audit standards should be improved for these agents. It is a requirement of fair competition that the rules and audits applied for insurance brokers should be carried out by automotive and captive agents.

1.2. Suggestions for Improvement

Differently matured agents' working with same rights and under same restrictions, without any differentiation in the activities, leads to a structural difficulties for topics that the customers experience lack of confidence like receiving right information, meeting varying requirements and buying the right product for the right price. While trying to overcome this difficulty, the requirement that the agents should be classified under different groups reveals.

In practical terms and according to the sectorial evaluation criteria, in terms of their roles in the sector and contributions to it, insurance agents should be classified under 3 categories:

Macro-sized Multiple Agents

Information oriented agents that have a corporate structure and operate like brokers by having technical know-how and infrastructure that enable them to meet customer needs correctly.

Suggestion: 335 agents producing 5 million TRY or more per year

Intermediate-sized Agents

Agents that have intermediate performance in terms of writing premium, and are considered to be labeled “exclusive” by insurance companies.

Suggestion: 9,000 agents that produce from 250,000 to 5 million TRY per year

Micro-sized Agents

Agents that have insufficient contribution to the sector in terms of subsidy generation and work like inactive technical staff works on a commission basis.

Suggestion: 9,000 agents that produce less than 250,000 TRY per year

The requirement that differentiated operational features of agents should be taken into consideration and their evaluation under different categories should be brought forward.

2. Existing Individual-Corporate Customer Separation

2.1. Observations Regarding Current Situation

The research results of 2023 Report reveals dissatisfaction about that the insurance policy does not meet the needs of the customer. The first 3 reasons for this dissatisfaction are customers' lack of information, not understanding the product and not being able to find solutions to changing needs respectively. Another result of the same report indicates that the most determinant factors in purchasing decision of a customer are competitive price, success of customer services and reliability of brand respectively. Insurance brokers have an important role in the sector in terms of representing the customer, creating products aimed at solutions to customer needs, providing fair price competition that constitutes the transparent structure and, thanks to all, clearing the dissatisfactions of customers about the sector.

Examples from the World indicate that insurance brokers are pretty effective in the scope mentioned above. For instance, insurance brokers sell 37 percent of non-life insurance products that are sold to individual customers in England where insurance sector and applications are very advanced. However, in Turkey, there is still a growth potential with a forecasted 2 percent broker market share in motor and traffic insurances. On the other hand, individual customers effectively benefit from online sales tools in order to have an idea about products and prices of different companies, and determine the product suitable for them. Therefore, brokers that sell individual products have regulator roles in the market at the same time.

It is foreseen that there will be growth especially in the individual insurance market in Turkey. Constituting restrictions to reach to individual customer and limiting the portfolio distribution lead insurance brokers to leave the individual portfolio that they create by their know-how, experience and investments. This situation results in exposure of insurance brokers mostly working with individual customers to unfair competition. In a macro point of view, in this case, corporate insurance market that is close to market maturity level would cause a constraint for the individual insurance market and decrease the growth rate of the overall market.

Applications and legal regulations should be arranged in a way not to rush up the competition on market share but to contribute to enlarge the size of overall insurance market. Because of interpenetrated work descriptions and applications of insurance brokers and agents, restrictions among insurance intermediaries lead to unfair competition.

2.2. Suggestions for Improvement

As it is in the countries advanced in insurance sector, while reaching to insurance customer, avoiding restrictions and grounding on liberal trade environment are of crucial importance from the point of healthy development of the sector.

3. Clarifying Distant Sales Clauses

3.1. Observations Regarding Current Situation

As it is mentioned in our 2023 Report, recent advancements in technology increased the usage of smartphones and the Internet. Parallel to this increase, insurance corporations' utilization from online sales tools rises up while communicating with the customer. Customers can easily compare insurance products to each other and establish a faster communication with intermediaries in online platforms. It is expected that online tools will be more in use than now in the future in order to do research on products and buy insurance services.

According to the data provided by Information and Communication Technologies Authority in the third quarter of 2014, there is nearly 39.7 million subscribed internet users which have been increasing at a rate of 27% since 2008 and the existing 71.7 million mobile subscribers are significant indicators of rapidly developing internet penetration in Turkey.

In an environment where mobile phone and internet usage level is high and communication technologies are that much attractive, utilization from those channels by insurance companies and intermediaries has great importance in terms of keeping pace with developing world and advancing technology. In this context, online channels and call centers should be perceived as sales instruments and oncoming regulations shall be done depending on it.

There are varying distant sales applications in Turkey. Apart from online sales, confirmation and share of insurance policies are commonly done via e-mail. The critical point in here is to correctly convey the information to the customer and to monitor those distant sales channels.

Within this framework, providing customer information security, recording customer data and managing the past records on a platform allowing audit of 3rd parties, creating standards and minimum conditions for information shared with customer are of crucial importance. Although "*The regulation about the technical infrastructure required to conduct insurance contracts on electronic environment or via call center / Elektronik Ortam ya da Çağrı Merkezi Kanalıyla Sigorta Sözleşmelerinin Akdedilmesi İçin Gerekli Teknik Altyapı Hakkında Genelge – (2014/10)*" aims to standardize the insurance policies contracted via online or call center platforms, it is not detailed enough in terms of scope and content. This unclear standard causes to divergence in execution and generates gaps in the sector regarding the information shared with customer and recorded customer data.

3.2. Suggestions for Improvement

In distant sales, there are steps to be taken in order to provide transparency and preserve the customer rights, and intermediaries utilizing those channels must follow certain standards:

- Customer information privacy and safety must be provided and this has to be monitored. Individual information and credit card data must be encoded.
- Retroactive communication and sales records must be kept.
- A standard regarding the minimum information shared with the customer in online and call center sales should be developed.

Instead of defining the legislative regulations about distant sales inside circular papers, defining it in a separate bylaw involving all shareholders in the sector would be better. Determining minimum capital and system infrastructure requirements and organization conditions for the companies who will work within this model; and giving permission to only those who satisfy these conditions will create a more controllable market. Thus, in this business line in where the need to technology utilization and profession is high, intermediaries that are expert on this field would be revealed. Accordingly,

scope of the bylaw, “*The activities related to insurance, insurance contracts in favour of consumer and the distant insurance sales / Sigortacılık Kapsamında Değerlendirilecek Faaliyetlere, Tüketici Lehine Yapılan Sigorta Sözleşmeleri ile Mesafeli Akdedilen Sigorta Sözleşmelerine İlişkin Yönetmelik*”, dated 25.04.2014, that is, as it stands, defined for only insurance companies and does not have sufficient content in order to provide required regulations, should be broadened.

In order to form a transparent and fair competition environment in the sector, increase the number of tools that enable the customer to obtain insurance product, and lastly, offer products to the customer in a standardized frame, the steps mentioned above should be taken. As such in the countries that are advanced in insurance sector and mentioned in our 2023 Report, creating a frame for distant sales tools is highly important for Turkey where the population has already proved her adaptability towards the distant sales in different sectors like banking and telecommunication.

4. Defining Commission-Based Technical Staff

4.1. Observations Regarding Current Situation

Turkish society's attaching importance to face to face interaction is an issue that has to be overcome especially for reaching to and gaining the trust of the customers in Anatolian cities. New definitions have to be done in this field in order to meet the need to reach the customers in locations where physical access is very difficult. The existence of technical staffs working on commission-basis is required to fill this gap in the sector. Those technical staffs have great potential in the sense of rising up insurance penetration in Turkey.

4.2. Suggestions for Improvement

While defining technical staff, working principles and limitations of those staffs should be determined carefully in a way to prevent loss of customer trust, and protect customer rights. In this context, as it is stated in Section 1.2 of this report, canalizing “micro-sized agents” to this channel, and providing them with the technical infrastructure of insurance brokers and agents, contribute to enlarging the market size as well as improving the sales competence of these staffs.

In order to prevent commission-based technical staffs' doing untaxable works and make their audits easier, following principles should be taken into consideration:

- Working under agents and brokers in a commission-based way and depending on certain rules, and operating with a license that is obtained after certain procedures,
- Completing the cash proceedings and sales operations under supervision of affiliated agent or broker (execution risks can be reduced by utilizing technological infrastructure and operating simultaneously)
- Meeting standardized education level requirements

Commission-based technical staffs with limited authorization serve to establishing a communication between insurance agents and brokers, and contribute to the development of the sector.

5. Reassurance Brokerage Operations

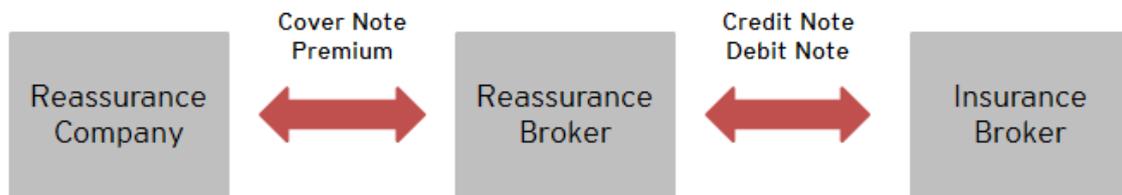
5.1. Observations Regarding Current Situation

Reassurance enables insurance companies to secure themselves by reassuring the undertaken risks. Besides, it contributes to spread of risks, constructing environment of trust in the sector and development of it in terms of offering opportunity to secure risks more than their financial volume. In Turkey, insurance brokers specialized in reassurance contribute to the development of the sector with the help of their international business relationships and experiences.

Due to sector's nature, reassurance brokers cooperate with companies in abroad. However, there are structural gaps regarding taxation of insurance subsidies in Turkey, and this situation leads to unstandardized results in the execution. Reassurance brokers work together with insurance companies by using debit and credit notes whereas utilizing cover note in the operations with reassurance companies. There are again unstandardized relationships regarding cover notes between

insurance companies and brokers. Those unstandardized documents are prepared by brokers without framing normatively and do not carry a legal value.

Reassurance Operations Scheme:



Another issue is the taxation of transactions with those aforementioned documents. Reassurance brokers encounter with the risk of paying extra value-added tax (KDV) because of those documents unrecognized by officers of Revenue Administration.

5.2. Suggestions for Improvement

As it is referred in our 2023 Report, “development of competences and infrastructure for sustainable growth” is highly important for development of the sector. Evaluation and standardization of reinsurance brokering requirements in this context is of crucial importance.

Inferences and Conclusion

This additional report based on our 2023 Report summarizes the current situation in the insurance intermediaries sector and offers suggestions for development.

Within this scope;

- ▶ Clarifying the positions and business scopes of intermediaries under 3 subgroups (macro-sized multiple agents, intermediate-sized agents, micro-sized agents), and understanding that macro-sized multiple agents operate like brokers and micro-sized agents work like commission-based technical staff and directing those groups accordingly are critically important.
- ▶ It is critically important that the individual customer is engaged with expert and information-based companies in order to increase the overall trust in the insurance sector. Therefore, as in advanced countries in insurance sector, the sector is in need of transparency brought into sector by insurance brokers, customer-oriented solutions and fair competition environment. In this context, removing restrictions to stakeholders of the sector, there should not be any limitation to the sales of brokers to individual customers or of the agents to the corporate customers.
- ▶ Other important requirements are to understand the agents and brokers are operating similar and those parties are converged to each other. Therefore, regarding the sectorial regulations' involving all the intermediaries equally, assuring the development of the sector accordingly and not making any concessions from free trade principles are significant requirements.
- ▶ In terms of informing the customer correctly and providing information security and retrospective data audit infrastructure, it is required that distant sales should be regarded as a sales tool within the frame of technological advances, and the scope of its standard should be determined and enlarged.
- ▶ To increase the penetration of insurance sector, commission-based technical staffs that work under supervision of agents and brokers and under certain standards would contribute to the development of the sector.
- ▶ Standardizing the documentation of reinsurance operations between insurance and reinsurance companies would provide conformity in execution to standards and allow the audits to be conducted in an easier manner.

- ▶ Clarifying the positions of automotive and captive agents in the sector and, executing the standards to those agents shall serve the customer getting information correctly and support the fair competition among intermediaries in the sector.

We believe that standardized insurance execution which is taking customer into focus, protecting her and supporting liberal trade environment would support the healthy growth of insurance market in Turkey. From this point of view, we are of the opinion that this report aims to reveal the points open for improvement of the sector that matters to all stakeholders in the sector. We present our report by wishing the development of insurance sector in Turkey, and with this awareness and sensibility.