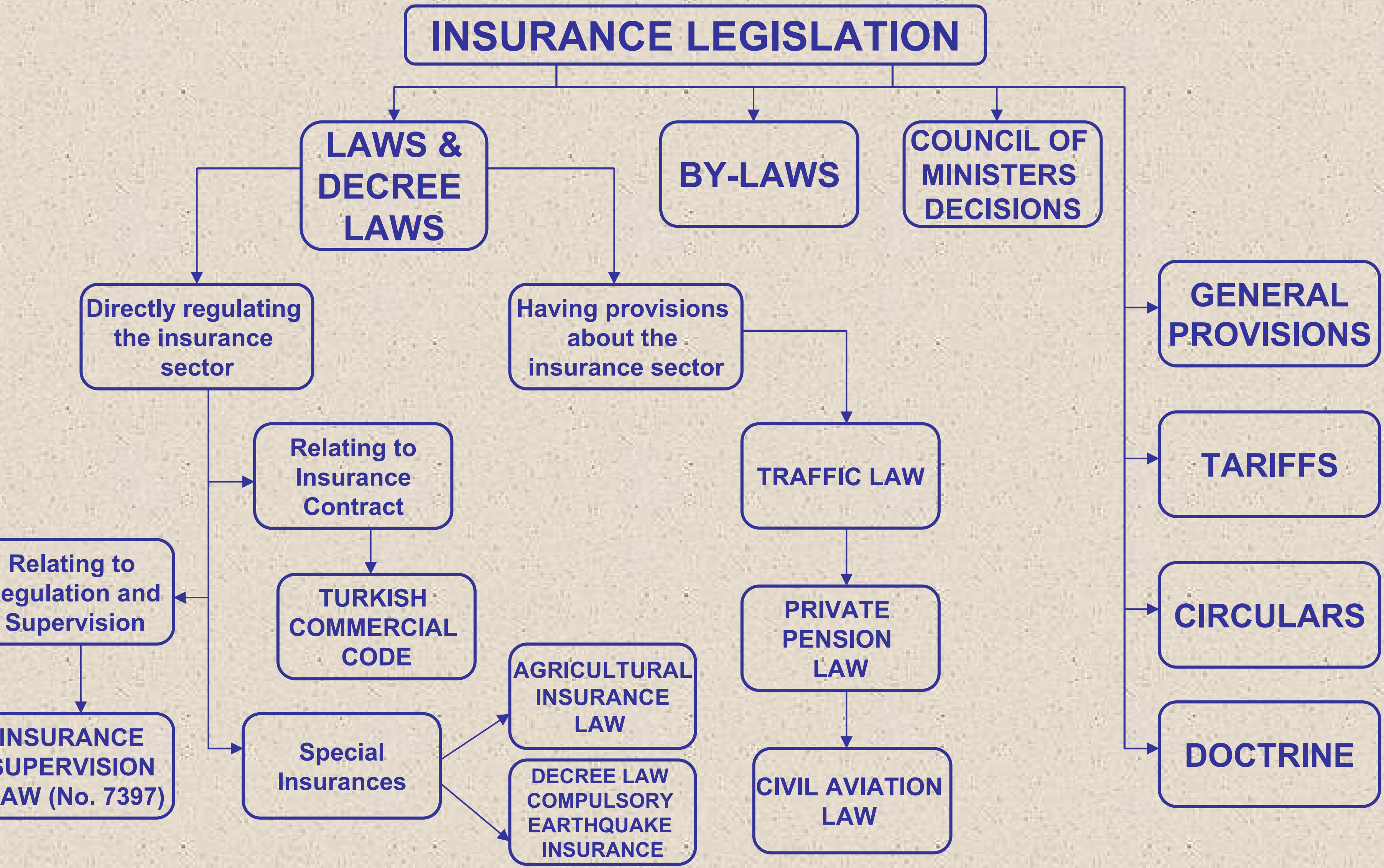
SCREENING CHAPTER 09
FINANCIAL SERVICES

AGENDA ITEM II: INSURANCE AND OCCUPATIONAL PENSIONS

Country Session: The Republic of TURKEY
2-3 May 2006

LIFE AND NON-LIFE INSURANCE


INSURANCE LEGISLATION
LAWS & DECREE LAWS
BY-LAWS
COUNCIL OF MINISTERS DECISIONS
GENERAL PROVISIONS
TARIFFS
CIRCULARS
DOCTRINE
Directly regulating the insurance sector
Having provisions about the insurance sector
Relating to Insurance Contract
TURKISH COMMERCIAL CODE
Relating to egulation and Supervision
INSURANCE SUPERVISION AW (No. 7397)
Special Insurances
AGRICULTURAL INSURANCE LAW
DECREE LAW COMPULSORY EARTHQUAKE INSURANCE
TRAFFIC LAW
PRIVATE PENSION LAW
CIVIL AVIATION LAW

INSURANCE LEGISLATION (cont.)

- Law No. 6762 on Turkish Commercial Code (Official Gazette (OG) No. 9353, dated 09.07.1956)
- Law No. 7397 on Insurance Supervision (OG No. 10394, dated 30.12.1959)
- Law No. 5363 on Agricultural Insurance (OG No. 25852, dated 21.06.2005)
- Decree Law No. 587 on Compulsory Earthquake Insurance (OG No. 23919 *(bis)*, dated 27.12.1999)

INSURANCE LEGISLATION (cont.)

- Law No. 2918 on Traffic (OG No. 18195, dated 18.10.1983)
- Law No. 4632 on Individual Pension Savings And Investment System (OG No. 18195, dated 18.10.1983)
- Law No. 2920 on Civil Aviation (OG No. 25997, dated 19.10.1983)
- Law No. 2004 on Execution and Bankruptcy (OG No. 2128, dated 19.06.1932)

INSURANCE LEGISLATION (cont.)

- **By-law on the Establishment and Operational Principles of Insurance and Reinsurance Companies (OG No. 22153, dated 26.12.1994)**
- **By-law on Measuring and Evaluating the Capital Requirements of Insurance, Reinsurance & Pension Companies (OG No. 26117, dated 23.03.2006)**
- **By-law on Insurance Accounting System (OG No. 25687 *(bis)*, dated 31.12.2004)**

INSURANCE LEGISLATION (cont.)

- By-law on Insurance and Reinsurance Brokers (OG No. 24217, dated 01.11.2000)

- By-law on Insurance Producers (OG No. 22362, dated 02.08.1995)

www.sigortacilik.gov.tr and www.bireyselemeklilik.gov.tr web sites have all the above listed and other related laws, regulations and communiqués in Turkish.

LEGISLATION CONCERNING THE INSURANCE SECTOR

Turkish Commercial Code

- ➢ Provisions regulating insurance contracts
  - ✓ Conclusion of contracts
  - ✓ Design of insurance policy
  - ✓ Obligations and liabilities of the sides of the contract
  - ✓ Termination of contract
  - ✓ Prescription

LEGISLATION CONCERNING THE INSURANCE SECTOR (cont.)

Contract Law

- As a general rule there exist a cancellation period in Turkish judicial system (exception: in the beginning of the life insurance contracts)

- Transparency is accepted within the context of the Law of Obligations No. 818 (OG No. 359, dated 29.04.1926) and Civil Code No. 4721 (OG No. 24607, dated 08.12.2001)

LEGISLATION CONCERNING THE INSURANCE SECTOR (cont.)

Insurance Supervision Law (ISL)

- The main regulatory framework of Turkish insurance system
- In force since 1959. Underwent two major amendments: In 1987 by Decree Law No. 510 and in 1994 by Decree Law No. 539

SCOPE OF INSURANCE SUPERVISION LAW

Insurance Supervision Law have provisions regulating

- Non-life, life, and reinsurance companies
- Insurance intermediaries
- Insurance loss adjusters
- Actuaries
- Association of the Insurance and Reinsurance Companies in Turkey

SCOPE OF INSURANCE SUPERVISION LAW (cont.)

Insurance Supervision Law regulates

- **Establishment of insurance and reinsurance companies**
- **Operation of insurance and reinsurance companies**
  - ✓ **Organization (board of directors, auditors managers)**
  - ✓ **Transfers and acquisition of shares**
  - ✓ **Portfolio transfers**
  - ✓ **Mergers**
  - ✓ **Reserves**
  - ✓ **Financial structure**

SCOPE OF INSURANCE SUPERVISION LAW (cont.)

- Winding-up of insurance and reinsurance companies
- Insurance contracts and tariffs
- Insurance intermediaries, actuaries and loss adjusters
- Association of the Insurance and Reinsurance Companies in Turkey
- Penal sanctions are applied by the Courts (to the acts and violations committed against the provisions of ISL)

ESTABLISHMENT

Joint Stock Company

Turkish/Foreign

Mutual Company

Turkish/Foreign

Branch Offices of Foreign Companies

CONDITIONS OF ESTABLISHMENT

- Field of activity of the companies must be solely insurance or reinsurance business.
- Their founders must not have been;
  - convicted acts against insurance regulations
  - declared bankruptcy or moratorium
  - convicted for serious offences

CONDITIONS OF ESTABLISHMENT (cont.)

Joint Stock Companies

- Their paid-up capital must be TRY 10.3 million (~ € 6.3 million).
- Their shares must be registered shares issued against cash.
- Their articles of association must be in compliance with the provisions of Insurance Supervision Law.

TAKING-UP BUSINESS OPERATIONS OF INSURANCE AND REINSURANCE COMPANIES

- Insurance activities are divided into two main insurance groups: life and non-life insurances.
- Insurance companies have been required to carry on either life or non-life business (from the beginning of 1993).
- Also, composite companies had to separate their business, in order to continue issuing life policies.

TAKING-UP BUSINESS OPERATIONS OF INSURANCE AND REINSURANCE COMPANIES (cont.)

- Taking-up of the business is subject to three-phased procedure

PRIOR AUTHORIZATION
(Granted by the Ministry of State in charge of Treasury)

ESTABLISHMENT
(Ministry of Commerce)

LICENSING
(Issued by the Undersecretariat of Treasury)

CONDITIONS OF ACTIVITY FOR FOREIGN UNDERTAKINGS

Foreign insurance and reinsurance companies may operate in Turkey;

- **By opening branch offices.**

OR

- **By acting as a separate entity having ownership in an insurance company established in Turkey under the requirements of the Turkish Commercial Code and Insurance Supervisory Law.**

CONDITIONS OF ACTIVITY FOR FOREIGN UNDERTAKINGS (cont.)

- **Branch offices are required to have, set aside for their local branch, the same amount required for local undertakings as paid-up capital at their establishment.**
- **Local and foreign entrepreneurs are subject to same conditions in terms of establishment and operations. In this context, there is no discriminatory treatment between them.**

CONDITIONS OF LICENSING

- Insurance and reinsurance companies are obliged to obtain a license from the Undersecretariat of Treasury before commencing operations.
- Licenses are granted separately for each branches under which operations will be undertaken.
- Necessary documents and legal forms required for application are stipulated in By-law on the Establishment and Operational Principles of Insurance and Reinsurance Companies (Article 15).

CONDITIONS OF LICENSING (cont.)

- License application can be refused in case that the application documents or conditions do not properly satisfy the requirements of the insurance legislation.

- There is no difference or discriminatory treatment between domestic and foreign insurance and reinsurance companies in terms of licensing criteria, required documents, legal forms and evaluation.

INSURANCE CLASSES

- Fire
- Transport
- Accident
- Compulsory Motor Third Party Liability
- Engineering
- Life
- Health
- Casualty
- Agriculture
- Legal Protection
- Credit

WITHDRAWAL OF LICENSES

Licenses can be withdrawn by the Undersecretary of Treasury, “temporarily” or “permanently” in the case of;

- The company concludes no contracts for an uninterrupted period of more than a year.
- No longer fulfils the conditions for admission relating to establishment and issuance of license.
- The company concludes agency contracts with persons with whom it is not possible to entrust the authority to conclude contracts and collects premiums.

WITHDRAWAL OF LICENSES (cont.)

- It is ascertained that the company have endangered the operation of the company or the rights and interests of the insureds by their actions contrary to the insurance legislation.
- It is deemed necessary pursuant to Article 20 of the Insurance Supervision Law.

ACQUISITION OF SHARES

Permission of the Treasury is required for;

- Acquisition of shares representing 10% or more of the capital of an insurance or reinsurance company by a natural person or legal entity

- Acquisition resulting with the shares of a shareholder going beyond 10%, 20%, 33% or 50% of the capital of these companies

ACQUISITION OF SHARES (cont.)

- Transfer of shares belonging to one of the shareholders resulting with falling below the said percentages are subject to the permission of the Treasury.

SPECIFIC LIFE INSURANCE ISSUES

- Amount/Rate of Dividends should be announced to the public annually (via at least 2 newspapers which have Turkey-wide distribution)
- Life Insurance Tariffs are subject to pre-approval by the Treasury
- Technical interest rates are determined according to the individual tariff
- No cancellation period before a specific time
- Single life insurance license: No separate licensing for different life insurance types

WINDING-UP

- Liquidation
  - ✓ Voluntary (self-liquidation)
  - ✓ Compulsory (legal reasons)

Turkish Commercial Code (General)

Insurance Supervision Law (Specific)

- Bankruptcy

Turkish Commercial Code, Execution and Bankruptcy Law (General); Insurance Supervision Law (Specific)

- Change of activity
- Mergers & Acquisitions

Turkish Commercial Code (General)

Insurance Supervision Law (Specific)

JUDICIAL REVIEW OF THE DECISIONS OF THE ADMINISTRATION

- According to the Turkish Constitution, all acts and actions of the Administration shall be subject to judicial review.

- As a general principle, all governmental cases governed by the Administrative Law fall within the competence of the administrative courts.

- The Council of State is the highest administrative court, mainly with the appellate jurisdiction.

ACTING INSURANCE CONTRACT ABROAD

Insurance Supervision Law

- **Natural persons and legal entities residing in Turkey are obliged to insure their interests in Turkey from companies operating in Turkey.**

ACTING INSURANCE CONTRACT ABROAD (cont.)

However some insurance contracts can be made abroad

- The hull insurance of aircrafts, helicopters and ships which are purchased through foreign credits or leased through a financial leasing contract from abroad
- Marine liability insurance
- Transportation insurance of imported and exported goods

ACTING INSURANCE CONTRACT ABROAD (cont.)

- Life insurance
- Personal injury, health and motor vehicle insurance during any travel abroad
- Hull insurance of ships and yachts (Law No. 4490 on Turkish International Ship Registry (OG No. 23913, dated 21.12.1999))

ACTING INSURANCE CONTRACT ABROAD (cont.)

Compulsory Cession

Decision of the Council of Ministers on Compulsory Cession (OG No. 24626, dated 30.12.2001)

- After holding the retention, only the part of non-life insurance concerning foreign reinsurance, 20% of premiums is subject to compulsory ceding to a special reinsurance pool
- This procedure will be terminated at the end of 2006

CAPITAL REQUIREMENTS

Capital requirements are based on

- Solvency margin
- Risk based capital

BY-LAW ON MEASURING AND EVALUATING THE CAPITAL REQUIREMENTS OF INSURANCE, REINSURANCE & PENSION COMPANIES

Purpose

- To ensure that the insurance and reinsurance companies and pension companies make available sufficient amount of equity against current losses and those to arise due to potential risks.

BY-LAW ON MEASURING AND EVALUATING THE CAPITAL REQUIREMENTS OF INSURANCE,REINSURANCE & PENSION COMPANIES (cont.)

Scope

This By-law covers the insurance and reinsurance companies established in Turkey, as well as the branches in Turkey of foreign insurance and reinsurance companies, and the companies operating in the field of pension in Turkey.

DEFINITION of EQUITY

Equity is the total of

- paid capital
- profit reserves
- capital reserves
- total of previous years' profits and the period profit after tax provision
- earthquake claim provision
- subordinated loan capital in accordance with Article 5 of this Regulation

Required Capital

1st Method (EU Directives)	**1) Non – life Branches**	a) premium principle b) claim principle
	2) Life Branches	a) liability principle b) risk principle
	3) Pension Companies	
2nd Method (Risk Based Capital)	**1)** asset risk **2)** reinsurance risk **3)** excessive premium increase risk **4)** outstanding claim provision risk **5)** underwriting risk **6)** interest rate risk and currency risk	

REQUIRED CAPITAL

Required capital is the higher of the results obtained from the first method (Solvency Margin) and second method (Risk Based Capital).

REQUIRED CAPITAL AS PER THE FIRST METHOD

Required Capital Based on Solvency Margin

- Required capital for Non Life Branches
  - ✓ Required capital as per the Premium Principle

    The amount derived by multiplying the results to be derived by multiplying the part of amount derived after deducting the termination and

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

cancellations from the gross written premiums within the last one-year period (excluding taxes and fees) up to TRY 85 million by 18%, and the remaining part by 16%, by 10% if the rate of the remaining claim amount incurred on the company for the last three-year period to the gross claim is less than 50%, and if it is higher, by the amount derived.

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

- ✓Required capital as per the Claim Principle

  The amount derived by multiplying the sum of amounts obtained by multiplying the sum to be determined by deducting the claim indemnifications collected as recourse by adding the last year outstanding claim provision (including those allocated for direct and indirect works) to the claims paid grossly in the last three-year period

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

as well as the outstanding claim provisions allocated one year before (pertaining to the sixth year in credit and agriculture insurances) allocated as 1/3 or 1/7 according to the risk group mentioned above as three and seven years.

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

by 26% for the portion up to TRY 60 million, and by 23% for the remaining portion, by 50% of the rate of net claim amount incurred by the company in the last three-year period to the gross claim amount is less than 50%, and by the amount derived if higher

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

- Required capital for Life Branch

  - ✓Required capital as per the Liability Principle:

    The amount derived by multiplying 4% of the sum of life mathematic provision (including direct and indirect works) and the unearned premiums provision allocated for one-year life insurances, by 85%

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

if the rate of the sum of net mathematic provisions allocated for the last one year and net unearned premiums provision allocated for one-year life insurances in the last one year, to the sum of gross mathematic provisions and gross unearned premiums allocated for one-year life insurances, and by the amount obtained if it is higher than 85%

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

- ✓Required capital as per the Risk Principle:

The amount derived by multiplying the sum of amounts derived by multiplying the portion of risk capital, which is derived by deducting the mathematic provisions and unearned premiums from the amount to be paid to the insured in case of death.

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

- by 0.1% for those with insurance period up to three years maximum
- by 0.15% for those with insurance period from three years to five years
- by 0.3% for those with insurance period more than five years

by 50% if the rate of total risk capital after reinsurance transfers in the last year to total risk capital before the reinsurance transfer is less than 50%

- by the amount obtained if such amount is higher

REQUIRED CAPITAL AS PER THE FIRST METHOD (cont.)

- **Required Capital for Pension Companies:**

  Required capital amount for pension branch shall be minimum 0.5% of the accumulations in individual pension accounts pertaining to the participants. In case that the equity amount calculated in this manner exceeds two folds (€ 23 million) of the minimum capital amount indicated under Article 8 of the Individual Pension and Investment System Law, the excess amount shall not be taken into consideration.

REQUIRED CAPITAL AS PER THE SECOND METHOD

Required Capital Based on Risk Based Capital

- Asset risk
- Reinsurance risk
- Excessive premium increase risk
- Outstanding claim provision risk
- Underwriting risk
- Interest rate risk and currency risk

are taken into consideration

REQUIRED CAPITAL AS PER THE SECOND METHOD (cont.)

Calculation of The Risks

- **Asset risk**, asset account items are calculated with their risk weights.

- **Reinsurance risk**, the transferred shared reinsurance premium amount is multiplied with risk factor of 0.05 for Rate A and B reinsurers and by 0.15 for other ratings.

REQUIRED CAPITAL AS PER THE SECOND METHOD (cont.)

- The premium increase risk, if the rate of increase of total written premium is more than 50% of sector increase rate, 0.2 risk weight is applied to the exceeding part.

- Outstanding claim provision risk, risk weights shall be applied to the amount of net outstanding claim provision over branches.

REQUIRED CAPITAL AS PER THE SECOND METHOD (cont.)

- **<u>Underwriting risk</u>, the premiums transferred to the reinsurer for shared reinsurance are deducted from the amount of premiums received over branches, and certain risk weights are applied to the balance.**

- **<u>Interest and exchange rate risk</u>, the sum calculated for the foregoing risks is multiplied by risk factor of 0.03.**

TECHNICAL RESERVES

- Unearned Premiums Reserve
- Outstanding Claims Reserve
  - ✓ Claims Reported
  - ✓ IBNR
  - ✓ Expenses
- Earthquake Loss Reserves
- Life Insurance Mathematical Reserves

UNEARNED PREMIUMS RESERVE

- Reserves for unearned premiums for premiums other than the earthquake premiums, premiums of life insurances that are more than one year and accumulation premiums of life insurances that are more than one year.

- Consist of the portion of premiums, on a time pro-rata basis, remaining after deduction of commissions from the premiums due on the insurance policies in force which extend over the next year or years.

UNEARNED PREMIUMS RESERVE (cont.)

- **At the reassurance and retrosession operations where there is no possibility of calculating the reserves for unearned premiums on a time pro-rata basis, it is possible to set aside reserves for unearned premiums on the basis of 1/8.**

OUTSTANDING CLAIMS RESERVE

- Outstanding Claims Reserve for the amounts of losses and compensations which are already incurred and taken into account but not paid during the previous or current accounting period, and loss and compensation amounts which are already incurred but not reported (IBNR).

- During the count of loss and compensation amounts which are already incurred but not reported, the results of the last five or more accounting periods of insurance and reinsurance companies are taken into account.

OUTSTANDING CLAIMS RESERVE (cont.)

- In every accounting period, insurance companies are obliged to prepare outstanding claims reserve tables for insurance branches and publish these tables with other financial tables.

- This table shows the outstanding claims reserves' adequacy rate which is the result of the proportion of the outstanding claims reserves set aside by the insurance companies in last five years to the amount paid for related files and includes all expenditures.

OUTSTANDING CLAIMS RESERVE (cont.)

- **If the average of outstanding claims reserves' adequacy rate, stays below 90% for the last five years, excluding the current accounting period, for the current accounting year, insurance companies add an adequacy amount which equals to the difference between the amount and the 90% rate.**

EARTHQUAKE LOSS RESERVES

- Insurance and reinsurance companies shall set aside against earthquake damage for a period of 15 years, the half of the sum remaining after they have deducted from the premiums which they underwrite as of the end of the year against the earthquake coverage they supplied in the branches of fire and engineering insurance and which remained in their own retention shares, one third of this premiums as the share of commissions and other expenses.
- The reserves shall not be less than the 6% of the gross earthquake premiums.

EARTHQUAKE LOSS RESERVES (cont.)

- Premiums for non proportional reinsurance treaties made not to exceed the earthquake loss reserve envisaged to be provided for the current year and to cover earthquake risk shall be deducted from earthquake damage reserves.
  - ✓The net revenues of the funds formed by these reserves shall also be shown in this account
  - ✓The losses due to the investments to these funds shall not be deducted from the reserves
- When there is no any payment of claims, the reserves and revenues shall be transferred to the equity at the end of the fifteenth year.

LIFE INSURANCE MATHEMATICAL RESERVES

- Insurance and reinsurance companies operating in the life insurance branch are obliged to create mathematical reserves in accordance with generally accepted actuarial calculations.

LIFE INSURANCE MATHEMATICAL RESERVES (cont.)

- Mathematical provisions consist of the sum of actuarial mathematical provisions and dividend provisions which are calculated separately for each contract that is in force according to the technical principles in the tariff.

LIFE INSURANCE MATHEMATICAL RESERVES (cont.)

- Actuarial mathematical provisions is the difference between the premiums collected for the risk undertaken by the insurance company, and the cash value of the obligations against policy owners and beneficiaries. Where calculated actuarial mathematical provision is negative, this value is accepted as zero.

LIFE INSURANCE MATHEMATICAL RESERVES (cont.)

- Dividend provisions consist of the remaining amount from the revenues of the assets in which provisions set aside based on the obligations against policy owners and beneficiaries under contracts where insurance companies undertake to give dividends are invested.

LIFE INSURANCE MATHEMATICAL RESERVES (cont.)

- **Except the guaranteed portion which should be limited to the revenue of the technical interest calculated as per the dividend allocation system as specified in the approved dividend technical principles, and the provision for accumulated dividends belonging to the previous years.**

TYPES OF ASSETS TO BE KEPT AS MATHEMATICAL RESERVES

- Turkish currency, foreign currencies which daily exchange rates are announced by the Central Bank of the Republic of Turkey and their cash deposits.
- Loan facilities on policy, investment fund participation certificates, profit/loss sharing certificates.
- Government borrowing instruments.
- Private sector bonds and repurchase agreements.

TYPES OF ASSETS TO BE KEPT AS MATHEMATICAL RESERVES (cont.)

- Asset based securities and stocks.
- Real estates and certificates of real estates.
- Long-term loan facilities made available to natural persons and secured by mortgages.
- Other money and capital market instruments determined by the Undersecretariat of Treasury.

RESOURCE UTILIZATION PERCENTAGES

- Excluding life insurance companies, the amount of the securities of one company held by insurance companies cannot exceed 10% of their own equities, and the amount of the securities of one capital group, which they hold cannot exceed 20% of their own equities.

- The sum of the investments of the insurance companies on unlisted securities cannot exceed 10% of their equities. However, securities issued under the state guarantee shall not be subject to this provision.

RESOURCE UTILIZATION PERCENTAGES (cont.)

- For the securities belonging to insurance companies, the provisions of the above paragraphs are not applicable.
- The sum of the loans of insurance companies, excluding loans to those with life insurance, cannot exceed 20% of their technical reserves. The sum of the loans without any mortgage or guarantee, cannot exceed 5% of the technical reserves, and such loans given to a person cannot exceed 1% of the technical reserves.

RESOURCE UTILIZATION PERCENTAGES

- Excluding life insurance companies, that portion of the real estates of insurance companies exceeding their equities cannot be over 20% of their total of real estate and financial assets portfolio.

RESOURCE UTILIZATION PERCENTAGES (cont.)

- Investment they will make in a real estate, excluding the real estates used by the insurance companies, cannot be over 10% of their own equities. For the purpose of this provision, real estates where the damage to one affects the other and adjoining and connected real estates will be considered as one real estate.

RESOURCE UTILIZATION PERCENTAGES (cont.)

- ✓Insurance and reinsurance companies as long as related with their own debts, can neither put out their real estate as security nor become a guarantor.

- ➢Insurance and reinsurance companies cannot issue bonds, bills or similar securities.
- ➢For the purposes of this article, equities will mean the sum of the paid-in capital, reserve funds, appreciation funds and undistributed profits minus the loss.

SPECIFIC NON-LIFE INSURANCES

MAIN RULE

➢ According to the Turkish Legislation it is possible to buy an insurance product for which Treasury has no regulations.

CREDIT INSURANCE

- Credit insurance branch was established in 1998
- Two general conditions: credit insurance and export credit insurance
  - ✓Credit insurance covers the risk of the debtor going into liquidation (Insolvency) and delay or non-payment (Protracted Default) risks arising from domestic credit based sales
  - ✓Export credit insurance protects foreign receivables against the aforementioned risks

LEGAL EXPENSES INSURANCE

➢Legal expenses insurance branch was established in 1993.

➢This insurance covers legal expenses borne of resolving legal conflicts arising from contracts or legal liabilites.

TOURIST ASSISTANCE

➢Tourist Assistance is given as an additional coverage to the comprehensive motor insurance policies.

MOTOR INSURANCE

PROVISIONS OF THE TRAFFIC LAW

Compulsory Liability Insurance

- Vehicle operators are deemed liable for damage to property and personal injuries in respect of the use of vehicles.

- This liability is covered by Compulsory Third Party Liability Motor Insurance.

- Vehicles without proper Compulsory Third Party Liability Motor Insurance are banned from traffic and the operators are sentenced to pay fine.

PROVISIONS OF THE TRAFFIC LAW (cont.)

Territory and Insurer

- Compulsory Third Party Liability Motor Insurance is only valid in Turkey.

- Compulsory Third Party Liability Motor Insurance can be contracted only by insurance companies which are licensed by Turkish authorities.

PROVISIONS OF THE TRAFFIC LAW (cont.)

General Provisions, Tariff and Instructions

- The Minister to which the Undersecretariat of Treasury is subordinated determines the general provisions, tariff and instructions of the Compulsory Third Party Liability Motor Insurance.

PROVISIONS OF THE TRAFFIC LAW (cont.)

Covered Persons

➢ Compulsory Third Party Liability Motor Insurance covers liability for personal injuries to everyone other than the operator.

➢ Minimum amounts of coverage (automobile- year 2006)

✓ In case of damage to property,TRY 5,750 (~ € 3,532) per vehicle or TRY 11,500 (~ € 7,064) per accident

✓ In case of personal injury, TRY 57,500 (~ € 35,322) per victim or TRY 287,500 (~ € 176,610) per accident

PROVISIONS OF THE TRAFFIC LAW (cont.)

Checks on Insurance and Frontier Insurance

- Every vehicle registered in a foreign country must be provided either with Compulsory Third Party Liability Motor Insurance contracted in accordance with international treaties or with a certificate of frontier insurance before entering the Turkish territory.

PROVISIONS OF THE TRAFFIC LAW (cont.)

Statutory Provisions and Contractual Clauses

- **Any statutory provision or any contractual clause contained in an insurance policy which eliminates or decreases the coverage is deemed to be void in respect of claims by third parties who have been victims of an accident.**

PROVISIONS OF THE TRAFFIC LAW (cont.)

Direct Right of Action

- Injured parties enjoy a direct right of action against the insurance undertaking covering the person responsible against civil liability.
- Insurance companies have to compensate the injured party within 8 working days following proper application by claimants.

GUARANTEE FUND

- Unidentified Motor Vehicle
- Lack of Insurance Policy
- Stolen Motor Vehicle
- Insurance Company Insolvency

GUARANTEE FUND (cont.)

Unidentified Motor Vehicle

- In case of an accident caused by an unidentified vehicle, personal injuries are compensated by the Guarantee Fund within the context of Compulsory Third Party Liability Motor Insurance.

GUARANTEE FUND (cont.)

Lack of Insurance Policy

- Personal injuries caused by a motor vehicle operator who fails to have Compulsory Third Party Liability Motor Insurance are compensated by the Guarantee Fund within the context of Compulsory Third Party Liability Motor Insurance.

GUARANTEE FUND (cont.)

Stolen Motor Vehicle

- If personal injuries are caused by a stolen motor vehicle for which cases the original operator is not responsible, personal injuries are compensated by the Guarantee Fund within the context of Compulsory Third Party Liability Motor Insurance.

GUARANTEE FUND (cont.)

Insurance Company Insolvency

- The Guarantee Fund protects the rights of the third parties within the context of Compulsory Third Party Liability Motor Insurance in case of insurance company insolvencies.

GUARANTEE FUND (cont.)

Income of the Guarantee Fund

- Contribution share of insurance companies:
  1% of net collected Compulsory Third Party Liability Motor Insurance premium
- Contribution share of policyholders:
  2% of net Compulsory Third Party Liability Motor Insurance premium
- Investment Income
- Subrogation Income

GUARANTEE FUND (cont.)

Total Payment

- The total amount of payments to claimants, from the year 2003 to the first quarter of 2006, is TRY 48.3 million (~ € 29.7 million).

- There is no discriminative treatment among claimants.

INFORMATION CENTER (TRAMER)

Definition

- National administrative infrastructure to monitor and audit Compulsory Third Party Liability Motor Insurance.

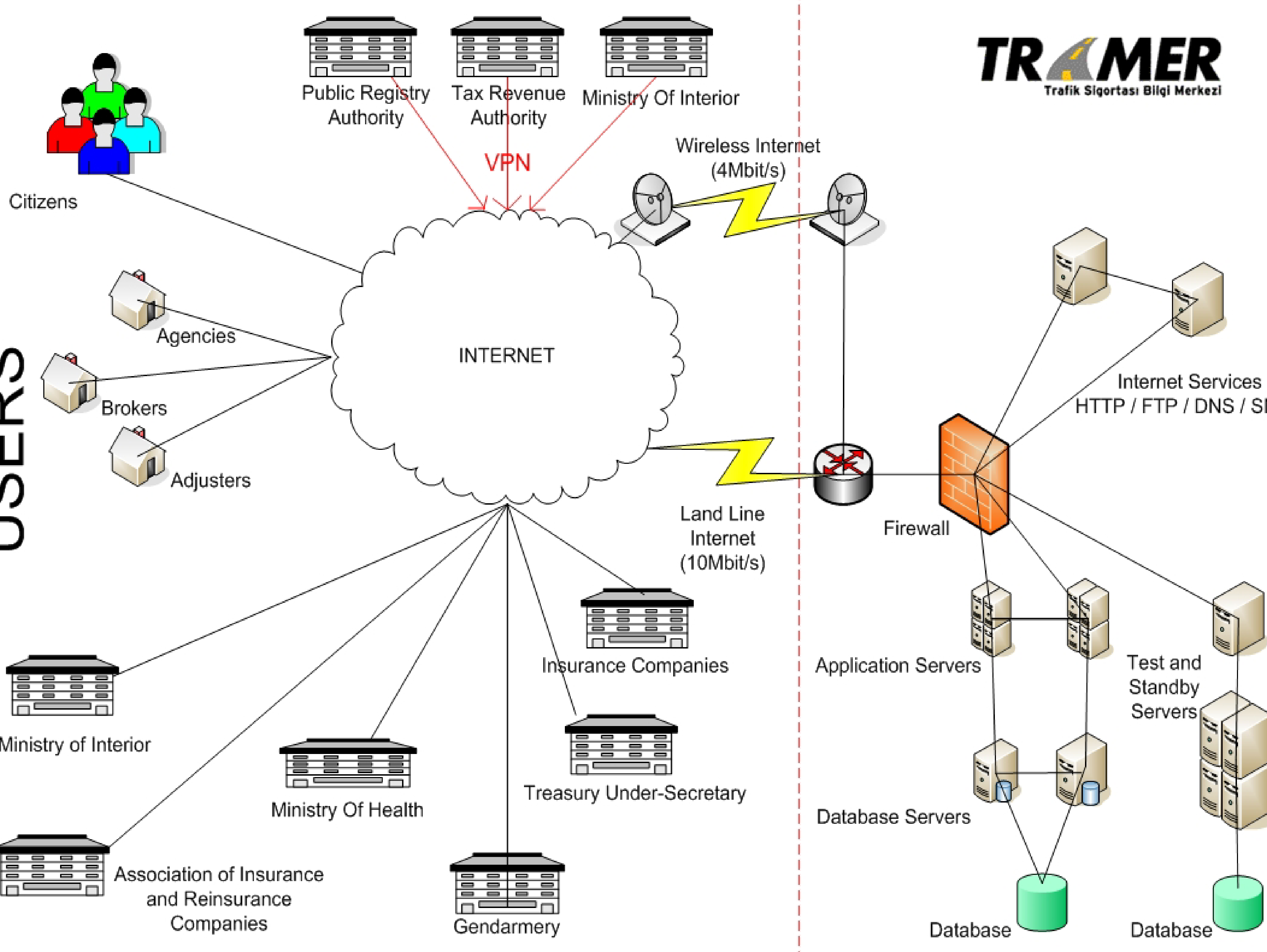
- Insurance companies licensed to sell Motor Insurance are members of the TRAMER.

INFORMATION CENTER (TRAMER) (cont.)

Mission of the TRAMER

TRAMER is established to

- increase efficiency
- prevent unfair competition and fraud
- obtain more reliable and systematic data
- prepare a more accurate tariff
- to decrease the number of uninsured vehicles


TRAMER
Trafik Sigortası Bilgi Merkezi
Citizens
Public Registry Authority
Tax Revenue Authority
Ministry Of Interior
VPN
Wireless Internet (4Mbit/s)
INTERNET
USERS
Agencies
Brokers
Adjusters
Internet Services
HTTP / FTP / DNS / SI
Firewall
Land Line Internet (10Mbit/s)
Application Servers
Test and Standby Servers
Insurance Companies
Ministry of Interior
Ministry Of Health
Treasury Under-Secretary
Database Servers
Association of Insurance and Reinsurance Companies
Gendarmery
Database
Database

The TRAMER Infrastructure

Citizenship Details
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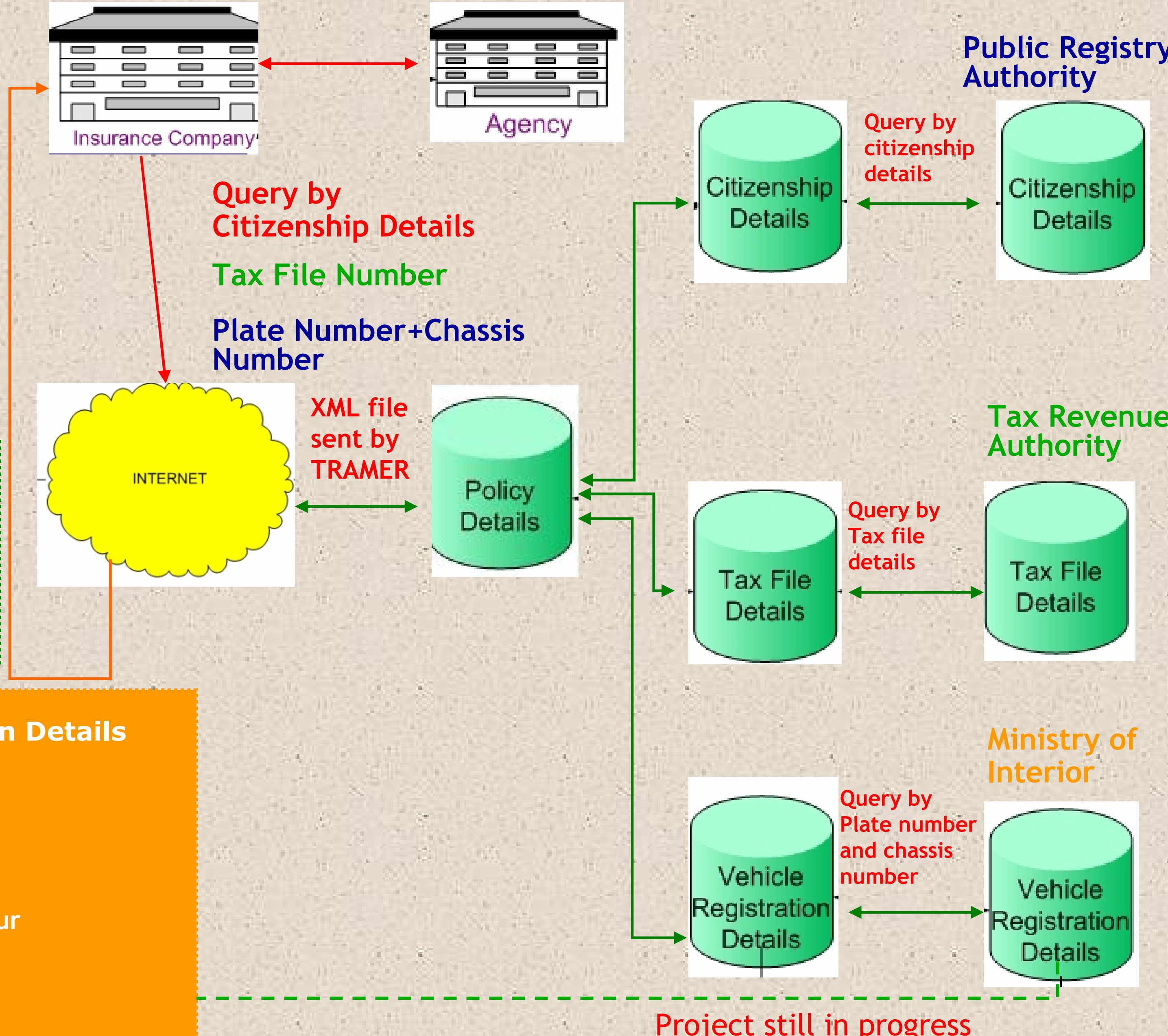
Policy Details

-Tax File Details
Company Name
ndividual/Company
Establishment Date

Policy Details

I-Vehicle Registration Details
Plate number
Motor number
Chassis number
Model year
Registration date
Vehicle brand/model/colour
Jsage type

Policy Details



INFORMATION CENTER (TRAMER) (cont.)

Results

- As of July 2004, insurance companies started to send their Compulsory Third Party Liability Motor Insurance information to the TRAMER via electronic lines.

- As of the same date, insurance sector has started to apply standardized applications for traffic insurance.

- TRAMER issues fundamental documents in preparing the insurance policy and claim reports.

INFORMATION CENTER (TRAMER) (cont.)

Results (cont.)

- Public supervision is more effective
- Premium income increases
- Number of uninsured vehicles reduces

GREEN CARD SYSTEM

- Operations related to Green Card are carried out by the Motor Vehicles Bureau in Turkey.
- Turkish Motor Vehicles Bureau and Turkish Green Card Reinsurance Pool have been founded in 1963.
- Turkish Motor Vehicles Bureau functions as both paying and handling bureaux.

REINSURANCE

THE MAIN RULE

- Reinsurance companies are regulated and supervised as non-life insurance companies.

CONDITIONS OF ESTABLISHMENT

- They must be joint stock company
- Their paid-up capital must be TRY 10.3 million (~ € 6.3 million)
- Their shares must be registered shares issued against cash
- Their articles of association must be in compliance with the provisions of Insurance Supervision Law

CONDITIONS OF ESTABLISHMENT (cont.)

- **Field of activity of the companies must be solely reinsurance business.**
- **Their founders must not have been**
  - ✓ **convicted acts against insurance regulations**
  - ✓ **declared bankruptcy or moratorium**
  - ✓ **convicted for serious offences**

REHABILITATION PROCEDURES

- **Rehabilitation procedures are the same as non-life insurance companies' rehabilitation procedures.**

- **For the rehabilitation procedures the Minister is authorized.**

To get more information about the required measures, see Reorganization and Winding-up presentation.

CUSTODY OF ASSETS (DEPOSIT SYSTEM)

- Reinsurance companies do not have custody of assets.

CAPITAL REQUIREMENTS

- Capital requirements are based on “Solvency Margin” and “Risk Based Capital”.

TECHNICAL RESERVES

- **Reinsurance companies have to calculate unearned premiums reserves, outstanding claims reserves, earthquake loss reserves, life insurance mathematical reserves.**

To get more information about the calculation of the reserves, see Life and Non-life Insurance presentation.