

Turkey Re/Insurance Dialogues Virtual Panel held

Swiss Re held a Turkey Re/Insurance dialogues virtual panel on 8th of June. Under the theme "Reflections and Perspectives on the Covid-19 Crisis", a panel composed by Mr. Arnaud R. Kopp and Mr. Thilo Herrmannsdörfer from Swiss Re, Mr. Maurice Williams from Willis Towers Watson and Mr. Kaan Acun from Milli Re discussed how to tackle the impact of Covid-19 in changing working environments and client relationship management.

We Will Preserve Our Lead Position in the Turkish Market Even During This Period Shaped by COVID-19, While Continuing to be a Preferred Business Partner for International Players

What has changed in our lives with Covid-19 pandemic?

Most importantly, we have realized the importance of the health of our families, our loved ones and our colleagues; in other words, we have understood the value of human life once again.

Even though we have emergency plans and procedures in place, and that we have been doing our drills regularly so far, like all the other companies, this has been a completely different experience for our us. Milli Re started working from home as of 23 March 2020, and I cannot say that we have found this transition difficult. Moreover, we have suddenly found ourselves in the middle of new circumstances such as working from home, self-improvement and spending most of our time at home with the spread of Covid-19. Finance sector in Turkey has adapted to the situation rapidly; and despite some challenges, I believe that we have not experienced many difficulties. Both our technological facilities and our young workforce has been effective in this easy adaptation.

On a global perspective, we have seen that many companies in other countries could not show the same flexibility. Societies with strong solidarity cultures that are organized well and those that value science have been more resilient during this crisis, while some great economies faced depressing circumstances. This has shown us that societies which have responded to this crisis in the best and swiftest way were not the most developed or richest ones, but those that were best organized and focused on human lives. Online platforms burst into prominence in every field, and we have appreciated the importance of technology and science. Some digital applications that maybe none of us had used before became important for all of us, and companies that have released those applications suddenly became much more valuable. For instance, the market value of an online meeting application that is very frequently used at the moment has climbed higher than the world's 7 biggest airline companies combined.

What will change when we return to our normal lives?

We can say that among other things, business models will change substantially in the new world order. We operate in the finance sector; therefore, it will be less important for us; but it is evident that existing supply chains will be globally scrutinized in detail.



Production had previously flown towards Asian countries within the scope of delocalization and due to high labor costs in developed countries. This pandemic has indicated how inconvenient it was for production to concentrate in one region. I believe that all models of logistics, production methods and systems should seriously be reconsidered on a global scale. Companies operating in the finance industry like us will adapt to this new reality a little bit more easily. Recently, PwC conducted a global survey in the finance market and asked CFOs around the world whether they will be shifting towards technology and digital platforms? Nearly 55% of CFOs in Turkey have affirmed. Similarly, as Milli Re we will put greater emphasis on this. For instance, currently we are conducting our meetings online over digital platforms, including our Board meetings. As we will possibly not be seeing our colleagues in our Singapore branch face to face for a year, our meetings with them are also held over digital platforms. Moreover, despite our sector's business might seem more technical, a substantial part of our jobs is based on relations.

General Management

Chairperson	: Ebru Özşuca
Director & General Manager	: F. Utku Özdemir
Assistant General Manager	: Özlem Civan (International Portfolio/ ECO-FAIR Pool/Retrocession/Financial Analysis&Rating/ Enterprise Architecture&Compliance)
	: V. Kaan Acun (Local Portfolio/Singapore Branch Office)
	: Şule Soylu (Financial Accounting & Administration)
	: Şebnem Kurhan Ünlü (Internal Control&Risk Management/Information Technology)

Contacts

Head Office

Local Acceptances (Treaty)	: Güneş Karakoyunlu (gkosar@millire.com)
International Accounting&Claims	: Pınar Yeter (pyeter@millire.com)
FAIR Non-Life Reinsurance Pool	: Aylin Kocatürk (akocaturk@millire.com)
Foreign Inward Business	: Gökhan Aktaş (gaktas@millire.com)
Retrocession	: Esen Temiz Önal (etemiz@millire.com)

Address	: Milli Re Maçka Cad. No:35 34367 İSTANBUL / TURKEY
Phone	: +90 (212) 231 47 30
Fax	: +90 (212) 230 86 08

Singapore Branch

CEO	: Chew Kwok Choong
Address	: 4 Battery Road #20-01 Bank of China Building Singapore 049908
Phone	: +65 6499 9340
Fax	: +65 6534 2884
E-mail	: singapore@millire.com

www.millire.com

We have a tradition of doing a major part of our businesses based on decades of connections in foreign markets, as well as in Turkey. This means that we will have to conduct our meetings with foreign companies using more efficient video technologies, and we will have to invest in them. Plus, we will try to improve our skills in using those technologies through new trainings. Milli Re will keep up with the new environment that will emerge as a result of these realities.

As Milli Re, could you tell us how the market players were impacted by these circumstances and share their experiences in managing their daily processes?

Based on our observations on the market I can say that the real impacts of these circumstances have not begun to be felt yet. Because, like Turkish economy in general, insurance companies started to experience the impacts starting from the second week of March. However, in Europe and North America the impacts had begun to be felt earlier. Growth and unemployment rates of many other countries were announced in the first quarter results, and it is seen that the reflection of those results on the global economy will be worrisome. Some major economies are expected to shrink in double-digit figures in the first half. I do not think these impacts are measurable in our country yet. To give you an idea, Lloyd's announced that they were expecting the insurance market to pay approximately 100 billion USD for losses, yet only 5% of that amount has been reflected onto the accounts. I think this will have serious impacts on our market on the global scale. During a time when financial activity has slowed down to such an extent, amount of payments made for Covid-19 related claims (even if not in our country but in the rest of the world) while premium income decreases, is expected to result in serious cash outflows from the balance sheets of insurance companies. Moreover, major steps were taken by developed economies for economic expansion, in addition to interest rate reductions. As a result, many companies will try to gain financial income with zero or very low real interest rates, which is estimated to have a negative impact on balance sheets. We can expect to see income losses due to the decrease in interest returns. For instance, in Turkey insurance companies included Covid-19 coverage in private health insurance policies even though it was out of scope and undertook other arrangements for compulsory traffic insurance. These may result in premium declines, or in some cases, return of premiums. Therefore, I think that as insurance market, we might start seeing the negative impacts after the second quarter, even if we do not feel them in the first quarter.

Of course, in terms of claims payments, we are lucky that we are not expecting any serious losses except for the life insurance segment for our market. We can say that as claims payments will be limited to a single branch, they will not have a serious impact on the market and on the financial structures of insurance companies. In terms of branches that make up our business portfolio as Milli Re, we have not observed any impacts that will force us to change or revise our business plans and projections for this year.

Moreover, I believe that cash flow will be a much more important item in the new term. Both insurance companies and brokers will be much more vigilant in following up their payments and collections. We were able to collect our receivables more efficiently during this term. So far, we have not observed any reinsurance companies or any insurance companies that we work with in other countries that have fallen apart or got stuck in difficulties. Interestingly, thanks

to efficient follow-up of our colleagues, we have rapidly collected our receivables from those few companies that we had been experiencing some difficulties with for a long time.

As to the overall impact, according to a stress test they conducted for companies, AM Best has recently announced that insurance and reinsurance companies were generally strong in terms of capital structure and passed the test without any problems.

Do you believe Covid-19 pandemic is a process that will change market trends?

Covid-19 is widely being compared to hurricanes Harvey, Irma or Maria in terms of size and impact. However, this pandemic is different than the catastrophic events we have experienced so far.

I believe that how economies around the world will come out of this process will also determine the conditions of reinsurance market because there are varying estimations. For instance, International Labor Organization estimates that 1.6 billion people could become unemployed including the informally employed workforce. It is early to make any definitive judgments; however, when we look into the level of claims of our company, we are not estimating any distinctive claims payments for branches in our portfolio within the scope of Covid 19. On the contrary, many countries in the western world will make claims payments in several insurance branches which we do not have in our portfolio. When we add possible revenue reductions to this fact, reinsurance companies will face decreases in premiums and increases in claim payments and will probably try to make up for those losses by stiffening their terms and conditions. Yet, we do not know how this will reflect on us; for instance, although our programs will be free of claims, changes in general conditions will naturally reflect on us. Because companies will try to increase their profitability, get their ratings back up, strengthen their financial structures and control their cash flows more strictly. Therefore, there will not be a very positive process lying ahead of us.

Although we currently have ample amount of liquidity and supply of capacity, we may not continue to see the contribution of ILS as an alternative reinsurance capital resource as much as we did in the past. For instance, some of the "cat bonds" will make payments related to the pandemic; so, we can assume issuers may not prefer to issue new cat bonds. On the other hand, new pandemic related pools may emerge. As an example, Pool Re was tasked to create a pandemic pool together with the public authorities in the UK. We may also see special ILS products being developed specifically for pandemics.

So far, results of catastrophes were naturally limited to the damages caused by the catastrophe and the relevant results; but as financial revenues and premiums will decrease and the economic slow-down will have long term impacts due to the pandemic, this time companies will experience a greater pressure on their balance sheets.

As a company that has business in 55 countries, Milli Re has not encountered any problems during the April renewals in different geographies. We also have not taken any negative impression for June and July renewals, but of course there might be some impacts after this term. When we completed the renewals, impacts of the pandemic had not shown themselves yet.

Considering the pace of technology, are there any applications you wish to implement at Milli Re in areas such as artificial intelligence or blockchain?

Our company is already in a digitalization process, within the scope of which we are adapting our business processes to the requirements of our era. There is an existing initiative in progress for blockchain overseas for our sector; when it materializes, we can all get integrated into it. However, we are also working on a task about account settlements which we think will benefit us and the market. In our country, use of technology is in high levels for the finance sector which also includes the insurance market; however, insurance companies generally use those technologies for areas such as claims services or marketing. This process has once again proven how important it is to use technology to increase efficiency.

Do you think Covid-19 will contribute to insurance products and direct distribution channels?

With Covid-19, organizations and individuals have realized the importance of insurance as a tool of protection. For instance, how much life or education insurance products are important is now clearer as a result of globally increasing employment rates. Or, some companies have understood the importance of using proper distribution

channels designed to fit the needs to create the appropriate insurance and policy conditions. We can say that organizations and individuals will investigate the policy conditions more, as they have understood the importance of risk management and insurance.

Although alternative distribution channels are not widespread enough, significance of digitalization and technology have been understood better with Covid-19. Work is in progress towards producing tailor-made insurance policies in the future.

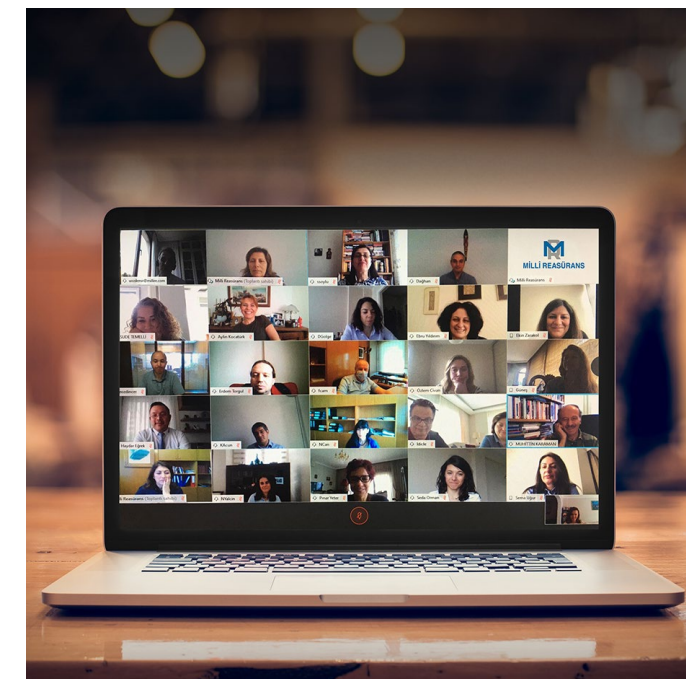
What are your expectations about the future?

Besides having an economy with low public debt rates, Turkey has managed to come out of previous crises by gaining strength as we knew to get the right lessons. Considering that we are a society with a strong solidarity culture, and we have a hardworking population, I believe that we will see good days in future as before.

With our strong corporate culture and experience as Milli Re, we will preserve our leadership position that we have maintained in the Turkish market for over 90 years, while consistently continuing to be a preferred business partner overseas in the future thanks to the contribution of our robust capital structure and the synergy we have created with our business partners.

As from 15 June 2020, Milli Re is Gradually Returning to the Office

Within the scope of gradually ending the home-office working model that has been in place since 23 March 2020 due to Covid-19 pandemic, Milli Re's senior management conducted an online video meeting. The senior managers talked about the measures taken by the company for the normalization period, company's plans and details of the new work order; as well as expectations for the period following the finalization of this process which has been carried out smoothly since the beginning of the pandemic.



Milli Re Employees Got Together in Online Meetings



During the days when we have mostly been working from our homes due to the Covid-19 pandemic that has been under way in our country and the rest of the world, Milli Re employees got together in online meetings.

Milli Re employees worked from home with the aim of protecting themselves, their loved ones and collective health of our society during the pandemic; and they have added value to the time spent at home via trainings such as "Importance of Nutrition for the Immune System", "Breathing Exercises to Protect Yourself from the Virus" and "Method of Working from Home". This helped them towards self-development and spend their time at home more efficiently.