

MARKET PROFILE – TURKEY

Reinsurance industry on solid ground

The Turkish reinsurance market, despite the challenges from the COVID-19 pandemic, has remained strong and resilient over the past year and remains positive for the future. We spoke to Milli Re's Mr Fikret Utku Özdemir about the challenges in the market and the future of the industry.

By Jimmy John



The COVID-19 pandemic and resulting disruptions have affected the functioning of the insurance and reinsurance industry in Turkey. The market was marginally impacted by pandemic claims, as exclusions on contagious diseases and cyber risks were implemented in reinsurance agreements in virtually all lines of business in 2021 renewals.

The impact of the pandemic on the economy and the dynamics of the industry resulted in a modest growth in premium income from proportional treaties in Turkish lira terms. “Despite a notable decline in claims in the first half of 2020 due to lockdowns, loss levels started to increase as the restrictions were lifted in the second half of the year,” said Milli Re director and general manager Fikret Utku Özdemir on the impact of COVID-19 on the local industry.

As in proportional treaties, pandemic and cyber risks exclusions were implemented in excess of loss treaties and given upward movement in pricing, while placement of excess of loss programmes was faster and smoother.

Challenges over the past year
Considering its social and economic

disruptions, the COVID-19 pandemic was the biggest challenge for the insurance industry in Turkey.

“However, our company, which seamlessly adapted to the extraordinary conditions prevailing all over the world, continued to offer reinsurance capacity in line with the needs of ceding companies by accurately analysing market dynamics, with our experience going back many years and our strong financial structure,” said Mr Özdemir on how it dealt with the challenges over the past year.

Lessons from the pandemic

The pandemic caused significant transformation in the working conditions and affected all aspects of life in Turkey. “Although business continuity plans and procedures had been prepared and periodical exercises were executed successfully, it is considered to be a different experience, not only for our company but for everyone,” said Mr Özdemir.

To minimise risks to the employees, their relatives and public health and to maintain business continuity, Milli Re started its work-from-home programme in March 2020 which continued till June 2020. Following that, depending on the severity of the pandemic and government-imposed restrictions, some employees started coming back to work physically.

“Thanks to the developed IT infrastructure and measures taken in healthcare, this process has been executed without any consequential disruption so far,” he said.

Milli Re has no significant level of exposure against COVID-19-related losses for local businesses and the impact of the pandemic to its emerging markets portfolio is very limited. “The book of business consists of traditional lines, predominantly property treaty business in which business interruption cover is mainly given in conjunction with physical damage, as well as underlying contracts that exclude contagious diseases,” said Mr Özdemir.

Additionally, the company has excluded covers such as event cancellation and consequential incidents, which are likely to produce losses, from many of the accident treaties.

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“On the other hand, we booked some COVID-19 losses through the developed markets segment of the international portfolio, which mainly comprises worldwide retrocession accounts,” he said. However, the impact of these losses on the underwriting result of the company is subdued as all underwritten business has event and/or annual limits and is diluted in the well-diversified book of business of the company.

Hard market conditions – here to stay?

The impact of the pandemic was felt intensely in the insurance and reinsurance industry like many other sectors. “In mature insurance markets, lines such as life and health, which were directly affected by the pandemic, as well as event cancellation, contingent business interruption, directors’ and officers’ liability insurance and similar covers have faced high loss payments due to the negative impact of the economic recession and quarantine measures on industrial production, trade, services,” said Mr Özdemir.

In addition to pandemic-related claims, the insurance and reinsurance markets have been facing significant

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losses from Nat CATs. He feels that combined with the low profitability environment and the decline in investment revenues in recent years, the pressure created by the losses on balance sheets forced many reinsurers to make rate increases and restrict terms and conditions in order to compensate for the adverse circumstances.

“As far as the MENA region is concerned, although there has been hardening in rates, this has been capped at lower levels as a result of continued capacity supply,” he said. He believes, however, that the rise in rates along with the improvement in contractual wording will encourage the market to retain more and increase the number of real risk carriers.

COVID-19 – an opportunity for preparedness

The COVID-19 pandemic has shed light on the importance of operational strength and technological infrastructure for companies. “Therefore, through targeted and deliberate action and investment in technology, reporting and new ways of working, companies can use the crisis as an opportunity to get prepared for the future crises,” said Mr Özdemir. 

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