

# A general evaluation on life insurance in Turkey

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**Abstract:** Insurance is a contract that aims to compensate the insured who suffers from building, object, property or life damage as a result of natural disasters such as fires, accidents, deaths and so on, by the insurer. In other words, it compensates for the damages and tries to reduce the uncertainty and risks of the future.

In this study, we have studied Life Insurance in Turkey, a Middle East country whose 90% of the population is Muslim and is in the category of developing countries.

As a result, we observe that in countries like Turkey and similar countries life insurance does not develop at the desired level due to religious, technological and economic reasons.

**Keywords:** Insurance, life insurance, insurance in Turkey, reasons for not developing.

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## 1 Introduction

## 2 Insurance and insurance claim in general

Insurance is a social development on the basis of mutual and equal agreement in order to partially reduce or eliminate the certain and measurable economic losses that a group of people may be exposed to.

Insurance compensates for the damages and tries to reduce the uncertainty and risks of the future. It creates substantial funds for investments. In some countries we are witnessing that the funds created through life insurance have passed the GNP of the countries in question. Insurance encourages competition and helps small-scaled businesses develop. The insurance undertakes a duty of a safety valve for the society, meeting the compensation claims arising as a result of accidents and similar events. It has many recommendations and insights for the insured on how to manage risk and mitigate risks through various methods and undertakes the role of a advisor. Insurance is a very important source of savings for societies without capital accumulation. With the role that insurance undertakes, it avoids socio-economic depressions and losses, it also supports long-term investments through the funds it has created, and at the same time has the effect of raising the level of prosperity. The insurance has the effect of enhancing international trade by eliminating the risks that may arise.

Factors that affect insurance claim in a society are; Wealth and income are the most important determinants of insurance claim as a sign of human welfare. It can be said that there is a positive relationship between wealth and income and insurance take out behavior. The insurance price is one of the most important determinants of demand. There is a negative relationship between the insurance price and the insurance take-out behavior. That is, as the price increases, the insurance rate drops. There is a positive effect between education level and insurance take out behavior. That is, as the

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level of education increases, the demand for insurance increases.

There are strong signs that there is an effect of religion on insurance take out behavior. Indeed, an international study was conducted in 1986 using data from Egypt, Iran, Morocco, Pakistan, Tunisia and Turkey. In this study, the effect of Islam on life insurance has been examined. As a result of this study, while the other conditions are constant (*ceteris paribus*), it is seen that customers in Islamic countries have bought less life insurance than non-Islamic countries have done.

It can be said that the effect of interest rates on insurance claims is negative. The higher the interest rates in a country, the lower the demand for insurance. Because high interest increases the cost of money and creates an alternative to insurance. Another issue is the dependency rate of the population. Observational studies show that as the dependency rate of the population increases, the demand for life insurance also increases. Because the basic function of life insurance is to protect its dependents, who are left behind in case of death. On the other hand, it can be said that there is a positive relationship between social security payments and state subsidies and insuring behavior. Because social security payments and subsidies can only be sustained on the basis of a strong and wealthy economy. Since the strength of the economy depends on the incomes of the individuals, it can be said that the result is a positive relation between high income and insurance.

### **3 Life insurance**

#### *3.1 Emergence of life insurance in the world*

The pioneers of today's modern life insurance are ancient Greece and Rome. Life insurances have been made in Greece to cover only funeral expenses. The Romans developed a simple mortality chart in AD 225 and implemented annuity policy life insurance, which provides cover for a certain period of time with life insurance. The fact that the subject insurance branch is given the name of life insurance; despite the payment is done as a result of death, not being called "death compensation", are the results of the system being built on life rather than death. In addition, the Romans expanded the coverage of the insurance and also insured for death, incapacity and retirement.

Life insurance for today's conditions was first made in London in the 17th century. The first mortality chart was prepared by Edmond Halley, a professor of geometry at Oxford University and the astronomer of the kingdom, in 1693 on the basis of mortality statistics and compound interest charts. Birth lists in the city of Breslau between 1687 and 1691 served as the basis for this work. The Dutch statesman, Jean de Witt, calculated the present value of the income paid in annuity policy in 1671.(Cash value calculator) The table that Halley prepared was revised by Joseph Dodson in 1756 and the premium tables were created according to age. In this way, the foundations of modern life insurance have been laid. This insurance was made by the British Equitable Company, which was founded in 1756 on the basis of fixed premium.

But before the above-mentioned developments, in 1699 the world's first life insurance company was established in England. The name of this company is "Society of Assurances for Widows and Orphans". This company was in the process of issuing a rent over 30% of the insured capital according to the wishes of the same person or persons, provided that the insurance is paid to the person or persons appointed by the insured or the real capital is left in the company. Life insurance has shown a great improvement in England at first. In 1830, the number of life insurance companies in England was 35.

### *3.2 Development of life insurance in Turkey*

In Turkey, insurance was considered as gambling for many years. At this point, it is not possible to talk about insurance before the second half of the 19th century in Turkey. After the great Beyoğlu fire in 1870, the people of Istanbul started to be interested in insurance. However, it is not the Turkish, but the insurance of foreigners. Since the contracts are written in foreign languages and the applicable fiqh rules in the country do not include insurance provisions, foreign country laws and courts have been authorized to resolve disputes. Since Muslim people could not lean towards the personal (life) insurance due to religious worries at that time and as foreign companies wanted to attract Muslims, The French Union Company asked for a fatwa from the Shaykh al-Islam to agree whether the agreement on insurer paying compensation when the hazard occurred would be valid or not when a Muslim got himself insured in a company in French, on condition that they died and survived. Two years later, the fatwa explained that it is permissible that the insurer is out of Islamic countries and that the contract is made on condition that it will be paid by its own consent. On the contrary, if the company located in a Muslim insurer company, especially a Muslim company, or if the insurance company does not want to pay the insurance fee, it is the result that it will not be permissible to demand this insurance fee by lawsuit. Naturally, the fatwa has been a major obstacle to the establishment of domestic companies.

Turkish Insurance started in Republic period. The first Turkish insurance company was established in the Republican period, the first Turkish insurance contract in real terms was made in the Republican period and the controlling laws were removed in the Republican period. Between 1946 and 1950, life insurance started to become widespread. First, individual life and then group life insurance had considerable breakthroughs according to the facilities of that period. The Insurance Supervision Law No. 7397 was issued in 1959.

The next stage in the insurance sector is concerned with the economic transformation that took place in the 1980s. In this period, the liberalization movement in the 1980s in the Turkish economy deeply affected the insurance. The need for the sector protective policy has been abolished in recent years and the sector has been opened for competition.

Major changes were made in the Insurance Supervision Law in 1987 and after the ten-year stagnation period in life insurance, the applications related to profit sharing life insurance were passed in 1985-1990. In this period, regulatory and supervisory authority regarding insurance was transferred to Undersecretariat of Treasury and Foreign Trade within the Prime Ministry and with the steps taken on life insurances, the application of the fixed premium was terminated and the application of the premium or foreign exchange indexed contract due to inflation went into effect.

The next important step in life insurance is the arrangement taken by the Decree-Law No. 510 in 1992, which rescues life insurance companies from being a department of the elementary insurance companies, thus reestablishing itself as an independent legal entity.

Until 1997, the above regulation continued, but since these regulations did not respond to the needs of the day, the Life Insurance Regulation was revised in 1997 and comprehensive innovations were introduced.

After many years, a comprehensive arrangement was made with the Life Insurances Regulation, which was enacted in 1997, for the first time in our country regarding life insurances. This regulation has tried to bring a new system to life insurance where contemporary insurance and finance rules are valid.

### **4 Life insurance products to be offered according to regulations in Turkey**

It is possible to present the following life insurance products according to 10.10.2012 dated and 28437 numbered "Life Group Insurances Regulation" which was published in the Official Gazette and went into effect.

#### 4.1 Life insurance

It is a life insurance branch in which collateral and / or additional collateral related to the probability of death and / or life can be given, the accumulation premium according to the product characteristic can be taken and the compensation and / or savings can be paid in a certain amount or in the form of premium annuity or gross income.

#### 4.2 Marriage / birth insurance

It is the life insurance group that pays single or installment premium payments based on similar incidents related to marriage, birth, and human life with the insured person.

#### 4.3 Capital redemption insurance

It is a life insurance group that does not contain any risk factors and makes payments based on accumulation transactions, based on actuarial techniques covering single or installment premium payments, which are specific in terms of duration and amount.

#### 4.4 Investment funded insurance

Life group is the life insurance branch where the life insurance products are indexed to an asset or group of assets and the investments are made on a fund basis.

**Table 1:** Premium production quantities and life insurance companies operating in Turkey.

Market Share Ranking	Company Name	Premium Production (TL)	Market Share (%)
1	Ziraat Hayat ve Emeklilik AŞ	1.071.164.904	21,26
2	Anadolu Hayat Emeklilik AŞ	500.565.012	9,93
3	Allianz Yaşam ve Emeklilik AŞ	452.028.563	8,97
4	Garanti Emeklilik ve Hayat AŞ	409.804.476	8,13
5	Halk Hayat ve Emeklilik AŞ	395.345.768	7,85
6	Metlife Emeklilik ve Hayat AŞ	350.042.983	6,95
7	Vakıf Emeklilik AŞ	311.592.763	6,1
8	Cigna Finans Emeklilik ve Hayat AŞ	273.820.543	5,43
9	Aegon Emeklilik ve Hayat AŞ	272.264.329	5,40
10	AvivaSA Emeklilik ve Hayat AŞ (*)	265.358.643	5,27
11	BNP Paribas Cardif Emeklilik AŞ	148.650.555	2,95
12	NN Hayat ve Emeklilik AŞ	131.772.477	2,62
13	Allianz Hayat ve Emeklilik AŞ	116.243.840	2,31
14	Groupama Emeklilik AŞ	113.069.964	2,24
15	BNP Paribas Cardif Hayat Sigorta AŞ	101.129.202	2,01
16	Fiba Emeklilik ve Hayat AŞ (*)	47.689.995	0,95
17	Axa Hayat ve Emeklilik AŞ	28.704.942	0,57
18	Katılım Emeklilik ve Hayat AŞ	23.668.852	0,47
19	Mapfre Yaşam Sigorta AŞ	13.250.573	0,26
20	Acıbadem Sağlık ve Hayat Sigorta AŞ	7.779.202	0,15
21	Demir Hayat Sigorta AŞ	4.470.821	0,09
22	Asya Emeklilik ve Hayat AŞ	382.370	0,01
23	Aksigorta AŞ (*)	7.480	0,00
	SECTOR TOTAL	5.038.808.257	100

**Table 2:** Development of premium production by years.

YEARS	PREMIUM PREMIUM (Million TL)	GROWTH (%)	NUMBER OF INSURED	CPI	MATH EQUIVALENT (Million TL)
2012	2.710,8	0.9%	17,676,521	6.16%	5.928,3
2013	3.395,3	25.3%	20,562,439	7.40%	5.665,5
2014	3.280,0	-3.4%	19.485.946	8.17%	5.148,6
2015	3.761,4	14.7%	20.495.742	8.81%	5.249,2
2016	5.038,8	33.7%	26.409.553	8.05%	5.200,8

**Table 3:** Comparison of life and non-life premium production in Turkey.

Years	Life	Non-Life
2012	13,67	86,33
2013	14,01	85,99
2014	12,60	87,40
2015	12,10	87,90
2016/9	11,50	88,50

**Table 4:** Comparison of life premium production in turkey with world life premium average.

	World	Turkey
Life Premium Production	2.533.818	1.361 (Share in World Premium Production: 0.05)
Premium Production Per Capita	345.7	17,3
Share of premium production in GNP (Penetration)	3.47	0,19

**Table 5:** Comparison of life premium production in Turkey with life premium average of developing countries.

	Developing Countries	Turkey
Life Premium Production	444.052	1.361 (Share in World Premium Production: 0.05)
Premium Production Per Capita	70,06	17,3
Share of premium production in GNP (Penetration)	1,52	0,19

**Table 6:** Comparison of life premium production in Turkey with the life premium average of OECD countries.

	OECD	Turkey
Life Premium Production	1.979.925	1.361
Premium Production Per Capita	1500	17,3
Share of premium production in GNP (Penetration)	4,19	0,19

## 5 Reasons behind the failure of the development of life insurance in Turkey

In short, we can connect it to six important reasons. These are;

### 5.1 Regulations and reasons of insurance technique

The main problem of the Turkish insurance industry is that politicians, bureaucrats and the man in the streets in the whole country "do not understand the value of the insurance, its value and functions". Since the small size of the industry does not allow insurance to be an independent business, the insurance agency has been seen as an additional business, insurance idea and the marketing of life insurance by unconscious people has resulted in the inability of the people to find their hopes at the end of the contract period. This situation has shaken confidence in insurance. The technical interest rate applied to the savings of insurers remained far behind inflation, especially since the profit share application was not fully explained to the persons, profit-sharing life insurance is confused with the bank deposit account.

### 5.2 Social reasons

Strong family ties and a common tradition of social cooperation in Turkey have prevented the development of mutual life insurance in particular. The insurance, which is based on the principle of sharing a certain risk by a very few people who are very unlikely to come to the market, could not find any place in the socio-economic structure of the Ottoman State. The guild system, which has an important place in the structure of the Ottoman state, and the social solidarity and cooperation created through foundation organizations, hides the need for the insurance to share the harm that can happen to the individuals and to meet the harm.

On the other hand, according to a survey conducted in our country at the end of the 90's, from a personal perspective, it is possible that the reasons for not insuring are as follows.

- (i) Not trusting the insurance 19%
- (ii) Not believing in the benefit of the insurance 18%
- (iii) Finding the insurance expensive 16%
- (iv) Finding lack of information 11%
- (v) Not having an asset to have insured 10%
- (vi) Not feeling the need for insurance 10%
- (vii) Inadequate income 8%
- (viii) Not having insurance due to religious beliefs 8%.

### 5.3 Legal reasons

When looking at the timing of legal regulations in the field of life insurances, it is often witnessed that legal arrangements cannot be made in a timely manner when there is usually a delay and when measures are to be taken or new methods must be developed. It is possible to observe that there has been a widespread concern about the interest and trust of life insurers, as legal arrangements are not made in a timely and efficient manner.

### 5.4 Religious reasons

One of the most important reasons why life insurances are not developed and domestic insurance companies are not active enough in the life branch is that people and the state take a negative view of the insurance due to religious reasons. There

are also various controversies in the present day regarding the interpretation of insurance as a gamble and as an unfair profit, and in essence, as it is interpreted as the insurer opposes the destiny. Moreover, in 1911, the fatwa and comments regarding the having life insurance done only by foreign insurance companies both resulted in the dominance of foreign insurance companies in the insurance market and they were deprived of the benefits obtained from insurance.

### *5.5 The effect of inflation*

In the 1970s, the oil crisis negatively affected the Turkish economy and inflation problems began to occur. The most important mistakes made in this period is to keep the premium payments constant. This situation led to the loss of premiums paid by the insured against the inflation in real terms. Another mistake made in this period is that the premiums are kept constant while the guarantees are kept constant, too so that the capital remains open to the effects of inflation. The interest rates (technical interest) applied to the savings of the insured were calculated far behind the inflation rate. All of these practices have caused insurers to suffer financial losses. In this period, insurance sales made in mass production style did not continue. Life insurance started to be built on investment products since 1970s. Because of this, the use of collected funds and the resulting returns are increasingly more important than ever, and the competition among companies has increased steadily. Life insurances work in systems based on fixed-payment basis and best in a low inflation environment. The negative, disreputable effects that deceptive and erroneous attitudes have placed on life insurance during the life insurance marketing are still ongoing.

### *5.6 The effects of reinsurance monopoly*

In 1927, about 70% of the Turkish insurance portfolio was held by foreign insurance companies. Those operating under the name of the Turkish insurance company were under the control and supervision of the foreign insurance companies. Insurance companies have been transferring all of the premiums they have collected through reinsurance, abroad. In addition, life insurance premiums, which form part of national savings, were also directed to invest abroad. Reinsurance monopoly practice is one of the first examples of intervention by developing countries in the insurance market and has had a significant impact on the development of national insurance and on the structure of the country's insurance sector.

## **6 Result**

Aziz Önen, who is one of the people who think about this issue and one of the important insurers of Turkey, has carried out a study on Life Insurance at the beginning of 90's about the development of 62 years in our country and reached the following results.

"It is remarkable that life insurance production made during the 56 years from 1929 to 1985 is growing like a snowball at first and then melts. There is no doubt that it was the savings the insured, most of whom are from middle class, had made by cutting down their essential needs, which they had melted, with great hopes. While the one who benefited from this at a great extent was an insurer and a mediator, it was a great frustration for the insured as well as the suffering of being deceived. Like the poor lambs that have nourished the owner, the shepherd and the wolf, there is lament of the insurance holders whose money have been wasted by means of their lives.

In the process from the 90's up to now, at the point where we have not achieved significant developments in life insurance in our country, it is seen that the market share of life insurance corresponds to only 12% in the country insurance market. It is not possible to argue that there has been a progress in the image of life insurance. Compared with similar countries and the world average, premium production seems to be extremely inadequate both in the field of life

and in life insurance. It is observed that the market shares of life and non-life insurance in OECD countries are realized at an equal level. In Turkey, this ratio is close to 90% in favor of non-life insurances. At this point, it seems clear that there is something that is not going well.

The main causes of this situation, which is against the life insurance premium production in the above insurance market shares is being tried to be examined. Each of the listed problems are, in our view, important at its own pace, and it is not possible that these problems will be removed with one-sided solutions. On the contrary, a unique solution method should be developed for each of the above mentioned problems. For example, in the work done by Sinan Kuşçu and mentioned above, (Insurance Claim Theory and Turkey Application) he pointed out that the public relatively understood the necessity of the insurance establishment and its multifaceted benefits, but also stated that the public displayed uneasy and unconcerned attitudes in the face of the problems arising from the sectoral structure and functioning flaws. Nonetheless, it has been stated that the introduction of more and more healthful and educative, conscious and demand stimulating activities from the brand and image advertisements of insurance companies will lead to a more rational service trend. On the other hand, legal and regulatory issues can be addressed relatively easily, in conjunction with sector representatives, public representatives and consumer organizations represented by insurers.

We observe that very important changes and transformations are taking place in our social structure, which makes life insurances difficult to accept in our society. The developments in our country about urbanization have caused the traditional social texture to be dissolved to a great extent and to the gradual withdrawal of the larger family into an elementary family. At the same time, negative developments in divorce rates have led to significant increases in the number of individuals living alone in a single parenting or childless way, even going beyond the elementary family in our society. It is not possible for the social texture to continue to provide the family support, which existed in the past, in this way. It has been observed that the individual is left to his own fate at a great extent. Life insurance, as a tool that plays an important role in the solution of many uncertainties about the future that arise in modern life, can come to a further point as a financial sector, to the extent that it can be a solution to this vulnerability that is observed in society.

## Competing interests

The authors declare that they have no competing interests.

## Authors' contributions

All authors have contributed to all parts of the article. All authors read and approved the final manuscript.

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