MARKET PROFILE – TÜRKIYE

Turkish insurers and reinsurers boost non-proportional Nat CAT cover

Amid rising earthquake risks such as Kahramanmaras in 2023 and a challenging market environment, Turkish insurers and reinsurers are increasingly shifting towards non-proportional coverage, adjusting strategies to protect against escalating Nat CAT exposures. Major changes were made to treaty terms during 2024 renewals which Milli Re's Ms Seda Orman Küçükçirkin describes as a late and tough 2024 renewal season. *Middle East Insurance Review* spoke with her to find out more.

By Reva Ganesan

In 2023, one of the most severe and catastrophic events in Türkiye was the Kahramanmaras earthquake. The impact was felt across a wide region, including Southeast Anatolia, East Anatolia, Central Anatolia and the Mediterranean.

This earthquake highlighted the importance of insurance, risk transfer and earthquake coverage.

"The year 2023 will be remembered as a low-frequency year for risk losses but a high-frequency year for Nat CAT losses. After the Kahramanmaras earthquake, in line with rising total sum insureds due to inflation and the outcome of two separate earthquake-modelling scenarios, companies required more reinsurance protection than in 2023," said Milli Re manager of local reinsurance acceptances department Seda Orman Küçükçirkin.

The Turkish government estimated the economic cost at close to TRY2tn ($105bn). In terms of insured losses, it was by far the costliest catastrophe in Türkiye's history, with residential building losses covered by the government-run Turkish Catastrophe Insurance Pool (TCIP) and commercial lines losses and TCIP top-up losses covered by the private insurance industry.

She said that the impact of earthquake losses on reinsurers' risk appetites and cedants' increased need for capacity significantly boosted reinsurance costs which had been rising over the previous two years and delayed the finalisation of reinsurance treaty placements during the 2024 January renewals.

Some companies were also able to finalise their placements by developing hybrid models that included alternative reinsurance treaties while others converted their existing proportional treaties to excess-of-loss treaties, she said.

Challenges and setbacks

Ms Seda said the 2024 renewals, compared to previous years, have been "exceedingly challenging and costly for both proportional and non-proportional reinsurance treaties".

"Major changes were made to treaty terms during 2024 renewals, notably in relation to branches with high damage frequency in order to provide the capacity the industry requires.

"Demands for increased earthquake event limits, which is the most significant item in proportional treaties for insurers, went unfulfilled and the required earthquake capacity was provided through non-proportional treaties. The commission rates on earthquake premiums which account for a significant share of cessions to proportional treaties were reduced," she said.

Ms Seda said the failure to secure adequate premium production for fire and allied perils over the years as well as the compensation of fire-risk losses with earthquake premiums is unsustainable for the market considering the recent Kahramanmaras event and a long overdue earthquake along the Marmara fault.

"Although fire treaties have become more balanced as a result of increased fire and allied perils premiums in the aftermath of the Kahramanmaras earthquake, a clause has been added to fire treaties in order to maintain this positive trend," she said.

Speaking about the Kahramanmaras earthquake, she said it demonstrated the significance of business interruption insurance for commercial and industrial enterprises as well as earthquake coverage awareness.

"Given the importance and necessity of loss of profit (business interruption) coverage, time deductibles - for loss of profit damages that may result from material damage particularly earthquake coverage in fire and machinery breakdown proportional treaties - were doubled on average on the basis of types of coverage and field of activity to reduce the burden on treaties," she said.

In addition to the precautions indicated above, she said, "the closed coinsurance practice which is widespread in our sector particularly for insuring risks with high sum insureds was excluded from proportional treaties to ensure placement transparency for both insurers and reinsurers."

Higher demand and purchase of Nat CAT protections

Most Turkish insurance companies have maintained rates to protect their risk portfolios on proportional basis for 2024.

"Companies purchased more non-proportional Nat CAT protection during 2024 renewals than the previous year due to an increase in earthquake accumulations and liabilities that exceeded earthquake event limits on proportional treaties," she said.

"The non-proportional programmes' bottom and top limits were dramatically raised. The market in some cases experienced risk-adjusted rate increases by more than 100% mainly due to the Kahramanmaras earthquake," she added.

Tough and late renewal

"When we examine the Turkish reinsurance market and 2024 renewals in general, we see that substantial reliance on proportional agreements persists. It has been a tough and late renewal for all market participants due to high cost and capacity restrictions.

"It is still early to comment for the upcoming 2025 January renewals. However, if the market does not experience a significant event for the rest of the year, it seems that it will be a smoother renewal compared to 2024," Ms Seda said.