

Protection Gap: Lessons from Türkiye

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What Is the Protection Gap?

- The simple explanation: the difference between insured and economic losses
- The reality: well ... it's a bit more involved
 - Addressing the needs of the uninsured and under-insured
 - Being able to communicate the value of insurance where it may not be intuitive
 - Developing a relevant product that can actually help people when they are in need
- The real answer: the protection gap is the space between people in need and **helping them solve a very real problem!**



Two Types of Protection Gap

Individuals

- Identifying protection needs
- Contemplating insurance already in place (TCIP, motor)
- Developing solutions for real needs
- Communicating solutions effectively
- Addressing problems they will likely encounter

Businesses

- Understanding business risk (including BI)
- Addressing limitations such as budget and remoteness of risk
- Collaborating on complex solutions
- Keeping the client in mind constantly
- Solving a problem for the directors



Barriers to Closing the Gap

- The protection gap exists for a reason! There's no easy solution.
- **Distribution** is the principal challenge: you need product adoption for anything else to matter.
- Solutions have to make sense. Nobody is going to throw capacity at a high risk just for the sake of deployment.
- The biggest problems **tend to be big for a reason**. The key is to **find the right opportunities** within high-risk areas.



Compulsory: If, If, If, If, If

- **If** it's going to work, it has to be REALLY compulsory
- **If** it's going to stick, you need to build in a monitoring mechanism
- **If** it's going to be effective, you'll still have to invest in financial education
- **If** it's going to be compulsory, it still has to be affordable

And even then, compulsory microinsurance won't be the same as compulsory auto in Massachusetts!



Key Protection Gap Opportunities

- **California earthquake:** CEA's market share is just over 10%, low penetration
- **Microinsurance:** 4 billion people would benefit from a solution ... and a solution would create more opportunity.
- **Peak-peril prop-cat:** worldwide, the riskiest areas still have the greatest need
 - Florida hurricane
 - Mexican hurricane and EQ
 - Romanian EQ
 - India, China, Latin America, the list goes on and on
 - Cyber ... everywhere



What the World Can Learn from Turkey



The answer: a lot!



3 Lessons from Turkey for the World

1. **TCIP:** turning compulsory insurance into a voluntary renewal
2. **Incentive distribution:** how a telecoms provider delivered terror protection
3. **Missing hail:** the impact of an unexpected peril causing a large industry loss



A Study in Contrasts

- PAID (Romania)
 - 20% penetrated
 - No real monitoring or enforcement mechanism
 - Requesting more gov't intervention and support
- TCIP (Turkey)
 - Nearly 50% penetrated
 - 50+% retention
 - Proof of insurance required up front
 - Marketing used to drive retention (no subsequent check)





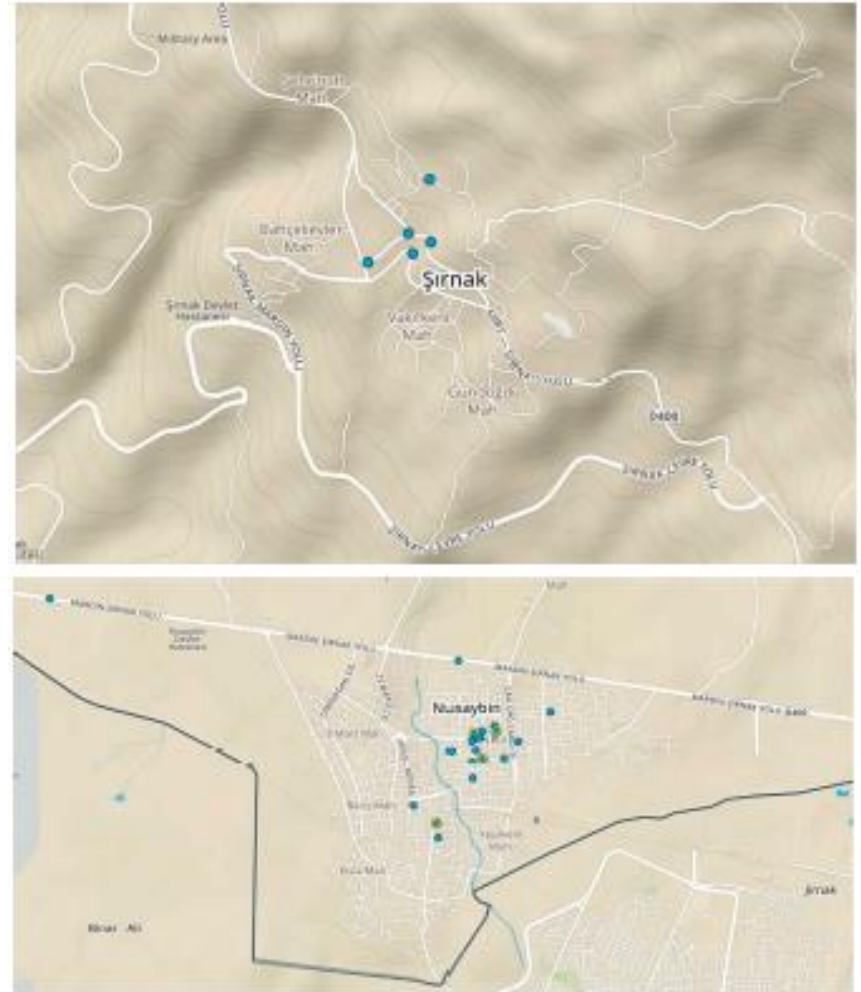
Why so Successful?

1. The product is easy to understand
2. The coverage is directly relevant to customer needs
3. Consumer education efforts have been aligned with product benefits
4. Advertising/promotion investments support public awareness and value reinforcement



Customer Retention Through Insurance

- Turkish telecom provider: TRY500 in terror cover
- Bonus for being a loyal customer
- 500,000 policies in force
- Triggered in 2016 (PCS Turkey Cat 1613)
- Terror attacks in Şırnak, Mardin, Hakkâri
- Avg personal claim: TRY26,000





Innovative Distribution Drives Loyalty

- Distribution is the greatest challenge in insurance
- For personal lines in particular, scale is crucial
- In microinsurance and other markets, consumer sales partnerships are sought after
- Finding an outlet with consumer reach helps drive adoption



The Unexpected Peril

- Around the world, re/insurers expect two types of loss from Turkey:
 - Earthquake
 - Flood
- But, it's not always that simple ...
- PCS Turkey has designated three cat events in the past 12 months
 - 1613: terror (TRY510 million)
 - 1711: hail (TRY154.8)
 - 1712: hail (TRY877.2 million)
- No earthquake or flood, despite more than TRY1.5 billion in industry-wide insured losses since 1/12016
- Many reinsurance agreements didn't include hail ... since nobody expected it!



Unexpected Perils: A Worldwide Problem

- Ft McMurray wildfire (Canada): at nearly C\$4 billion, the largest wildfire in North American cat loss history
- Texas hail: historically the cause of smaller losses, several hail events have caused at least US\$1 billion over the past few years, the largest roughly US\$4 billion
- Jubilee/Tullow: offshore energy risk loss currently at US\$1.4 billion, with the risk of continued loss creep
- Equifax: cyber loss of US\$125 million (full tower), with economic loss estimated to exceed US\$1 billion
- The most common feedback: “**Nobody saw that one coming!**”



Questions?

