



High-Level Roundtable on the Financial Management of Earthquakes

Paris, 23-24 June, 2011

OECD Headquarters, 2 rue André Pascal, 75116 Paris

TURKISH CATASTROPHE INSURANCE POOL (TCIP): PAST EXPERIENCE AND RECOMMENDATIONS

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Introduction

- In Turkey, State used to have a legal obligation (**Disaster Law, No. 7269**) to fund the costs of reconstructing buildings after an earthquake. This responsibility of the State brought an **unplanned burden on the national economy** and on the already limited central budget in the case of catastrophic seismic events.
- The two major earthquakes in Turkey on **17 August and 12 November 1999** both occurred in or near urban settlements and caused widespread destruction of the building stock.

- Accordingly the Government of Turkey has decided to enforce the earthquake insurance on the nationwide basis with the sole purpose of privatizing the potential risk by offering insurance through the [Turkish Catastrophe Insurance Pool \(TCIP\)](#) and then exporting the major part of this risk to the international reinsurance and capital markets.

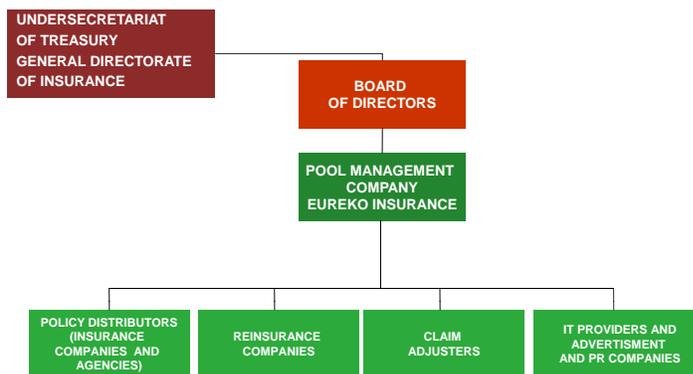
Objectives of TCIP

The primary objectives of TCIP can be summarized as follows:

- To provide [insurance coverage](#) for all the dwellings within the scope of the TCIP policies against [earthquake risk](#) in return for a premium;
- To ensure [risk sharing](#) within the country and also to distribute the financial liabilities caused by earthquakes on to the [international reinsurance markets](#);

- To mitigate the possible financial burdens on the government due to earthquakes (especially construction of new dwellings after a catastrophe);
- To utilize the insurance system as a means to encourage the **implementation of the Seismic Code** and construction of earthquake-resistant structures;
- To ensure the accumulation of long term reserves to finance the future earthquake losses;
- To contribute to the development of insurance consciousness in the public.

Organizational Structure of TCIP



29 Insurance Companies
22.500 Their Agencies

TCIP has no public employees

Comments Based on Past Experience

(i) GENERAL

- The decision that only property covered by the insurance will be eligible to receive compensation is a very significant **reform**, considering the traditional practice and realities in Turkey. TCIP was aimed to be the **only source of funding** for the earthquake losses in residential buildings.
- TCIP is proved to be a well designed **public-private partnership** due to its satisfactory performance over a relatively short period of time. A number of initiatives are still being undertaken for the betterment of the system in various aspects.

- TCIP is supervised by the **Under-secretariat of Treasury**, which forms the **public side** of this partnership. The Under-secretariat is responsible for **overseeing** of the program, **auditing** of all operations and accounts of TCIP.
- The other partner (**private sector**) performs the **administrative duties**. By engaging the private sector in the process of administration, the **bureaucratic burdens** are minimized.
- Formation of a very large pool independent of the national budget and therefore to a large extent free of the **"molest"** of **political decision makers** is among the major benefits of the system.

● In terms of program characteristics TCIP can form a **role model for countries with similar exposures and economic conditions.**

● TCIP has all the main components and the potential for substituting for the **government**, in compensating post disaster losses in residential buildings through an **insurance** program.

(ii) MAJOR PROBLEMS

- **Low penetration rate:**

- If the whole building stock is considered the current penetration rate is about **26%**.
- If the **eligible building stock** is considered (i.e. those buildings that are registered at the cadastral records) a more realistic rate will be obtained as **35%-40%**.

- **Low rate of renewal:**

It is about **48%** as of May, 2011, and needs to be improved substantially.

Reasons for low level of penetration:

- A fatalistic mentality in society and the habit of expecting the State to provide everything;
- A low level of income;
- The cultural awareness of insurance has not reached a sufficient level in our country and obtaining insurance is not a high priority in our daily lives;
- There are no legal penalties or fines for the enforcement of the “compulsory” earthquake insurance.

● The populist trend of governments: willingness to provide post disaster aid to homeowners by themselves. This destroys the homeowners' incentive to participate in the program.

● Instead, the State may subsidize the earthquake insurance premium for the low-income section of the population.

➤ As of March 27, 2001 the legal obligation of the government, determined by the Disaster Law for the compensation of losses of disaster victims, has been terminated. However, **this provision has been waived several times** since then, during recent earthquakes. This attitude had a very **adverse effect on the penetration rate**.

➤ TCIP was established by a temporary governmental decree. For its full effect the parliament should pass the follow up "**Earthquake Insurance Law**", making the earthquake insurance really a compulsory one. To date the parliament has not passed this legislation which has been waiting there for more than **five** years.

(iii) FUTURE ISSUES

● Allocation of a modest portion of annual income of the Pool to **mitigation investments** (e.g. risk avoidance and reduction projects, revisions in land use planning, retrofitting of public and private buildings).

● Assessment of more **realistic** earthquake insurance rates and revision of the **tariff rates** to reflect the "**seismic resistance quality**" of the buildings. Consequently earthquake insurance can be used as a **tool for the encouragement of the earthquake resistant provisions of the Code**.

POOLING NATURAL CATASTROPHE RISKS

Main Characteristics:

- Achieves maximum insurance penetration if made **mandatory** (*with affordable rates*).

India, Philippines, Iran, China < 1 %

Romania and Bulgaria < 5 %

Turkey > 26 %

- Establishes a single risk transfer solution for a whole region or country basis with usually low administrative expenses.
- Enforces standard wordings, conditions and tariffs.