



Global Platform for Disaster Risk Reduction
Geneva, Switzerland
June 5-7, 2007

Building Effective Public Private Partnerships:
A Case Study of the Turkish Catastrophe Insurance
Pool



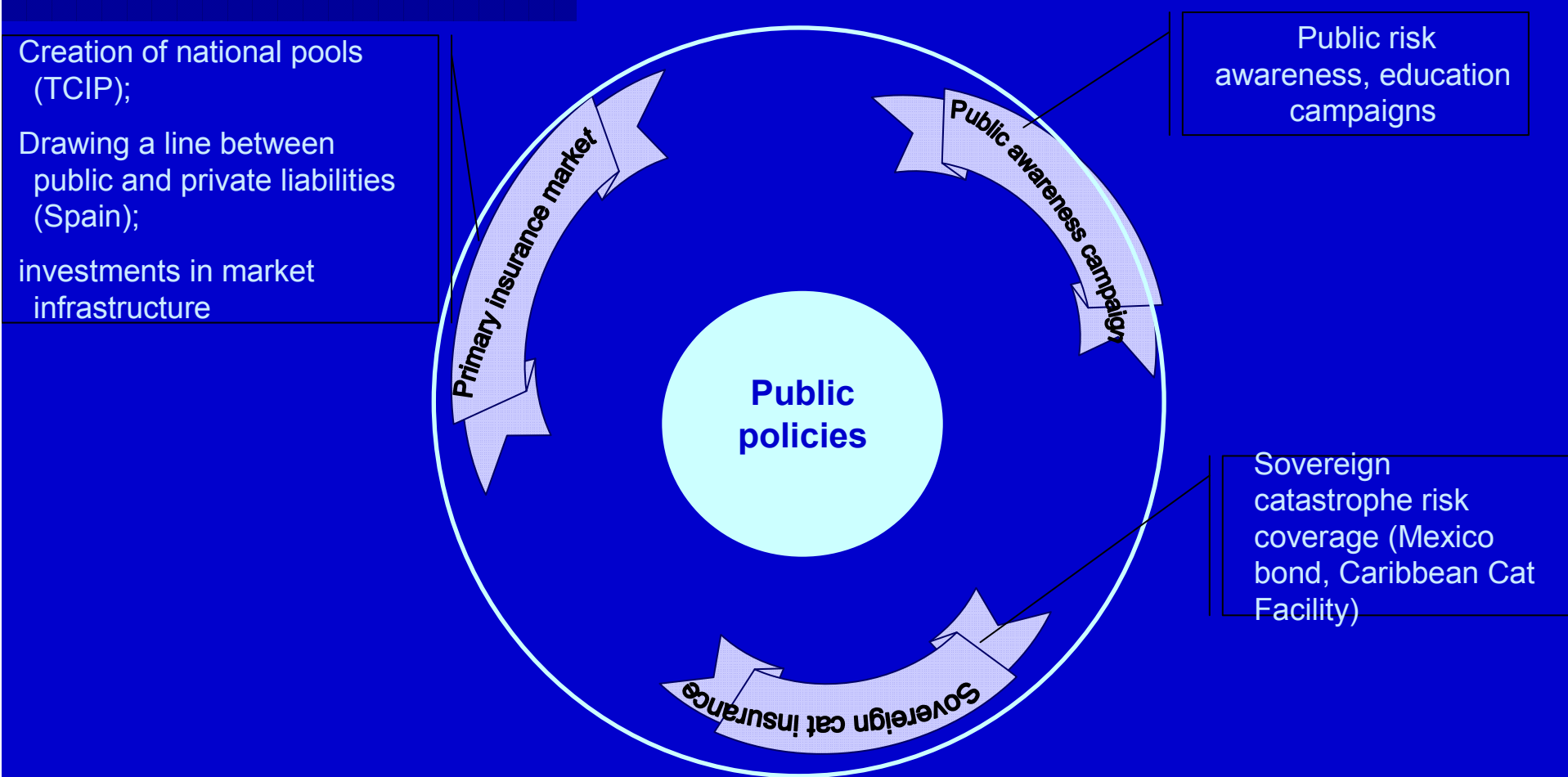
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Presentation Outline:

- TCIP in the broader context of catastrophe risk financing policies
- Historical Background
- Main Features of TCIP
- Program of World Bank Assistance to TCIP

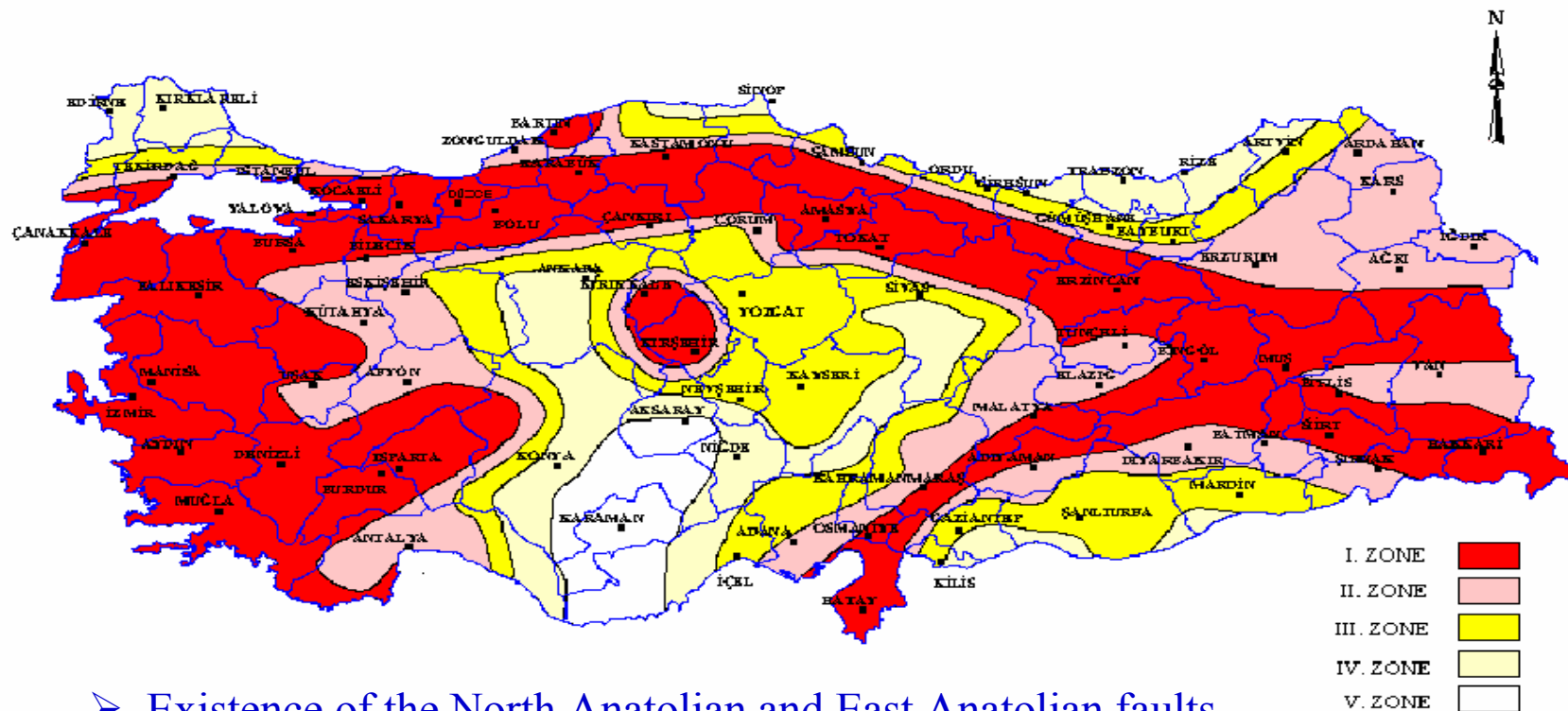
TCIP in a Broader Policy Context

Enabling public policies for catastrophe insurance



Historical Background

Turkey's Seismic Risk Exposure



- Existence of the North Anatolian and East Anatolian faults.
- Since 1894, around 120 earthquakes with magnitude over 5.0 took place in the country.
- Current situation: 70% of the population lives in the 1st and 2nd earthquake zones.

Historical Background

Government

Annual exceedance probability (%)	Economic loss (US\$, mill.)	% GDP
0.5	11,406.0	6.20
5.0	3,476.0	1.90
20.0	24.5	0.01

- Continuous government fiscal exposure to earthquakes
- Losses were financed with external borrowings and donor assistance

Source: World Bank, Christoph Pusch, 2004.

Potential severity of earthquakes underscores the importance of catastrophe risk transfer programs such as TCIP

Historical Background of TCIP

- The ever present country's risk exposure and its devastating economic consequences led to the establishment of TCIP as a public-private partnership, which brought together the GoT, the World Bank, international reinsurers and reinsurance brokers. The Pool commenced its operations on 09/27/00.

Main Features of TCIP

TCIP Objectives

- Ensure most domestic dwellings have affordable EQ insurance.
- Reduce government fiscal exposure by transferring catastrophe risk to international reinsurers.
- Overtime, build up TCIP's capital base to insure against larger events
- Encourage risk mitigation and safer construction practices

Main Features of TCIP

TCIP policy on its own merits

- Lowest long-term average premium compared to similar international programs
- Premium rate stability for homeowners
- High credit quality of insurance coverage (350+ years Return Period w/o resorting to government)
- Quick settlement to permit speedy relief to victims
- Coverage of multiple events
- Low 2% deductible

TCIP offers consumers highly attractive terms of coverage on affordable terms

Main Features of TCIP

Legislation

- Amendment of the Disaster Law:
 - no more government interest-free loans to homeowners
- Enactment of Earthquake Insurance Decree Law:
 - EQ insurance is made compulsory
 - TCIP is created as the sole-source provider of EQ coverage up to \$60,000
- Pending Enactment by the Parliament of EQ Insurance Law
 - introduces penalties
 - enhances the Decree law

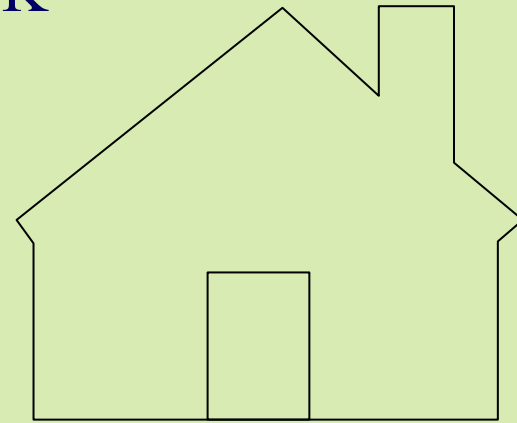
Main Features of TCIP

TCIP Coverage: Risks Covered

All material damages, including damages to building foundations, stairs, elevators, roofs, chimneys, main and shared walls, corridors, in insured buildings caused by:

All damages are covered up to insured value less 2% deductible

DASK



- Earthquake
- Fire and explosion following
- Land slides following

Main Features of TCIP: Affordability

Premium rates for a 100 square meter flat (USD)

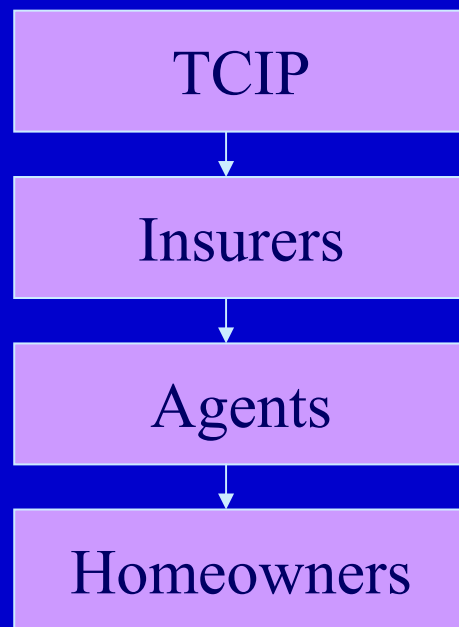
Zones/Type	Steel Reinforced concrete (\$27,000)	Amassed Stone and Brick (\$19,300)	Others (\$10,360)
Coverage			
Zone I	60	74	57
Zone II	42	53	37
Zone III	23	28	18
Zone IV	15	12	8
Zone V	12	10	6

Source: DASK, 2005

Average premium - \$46

Main Features of TCIP

Distribution System

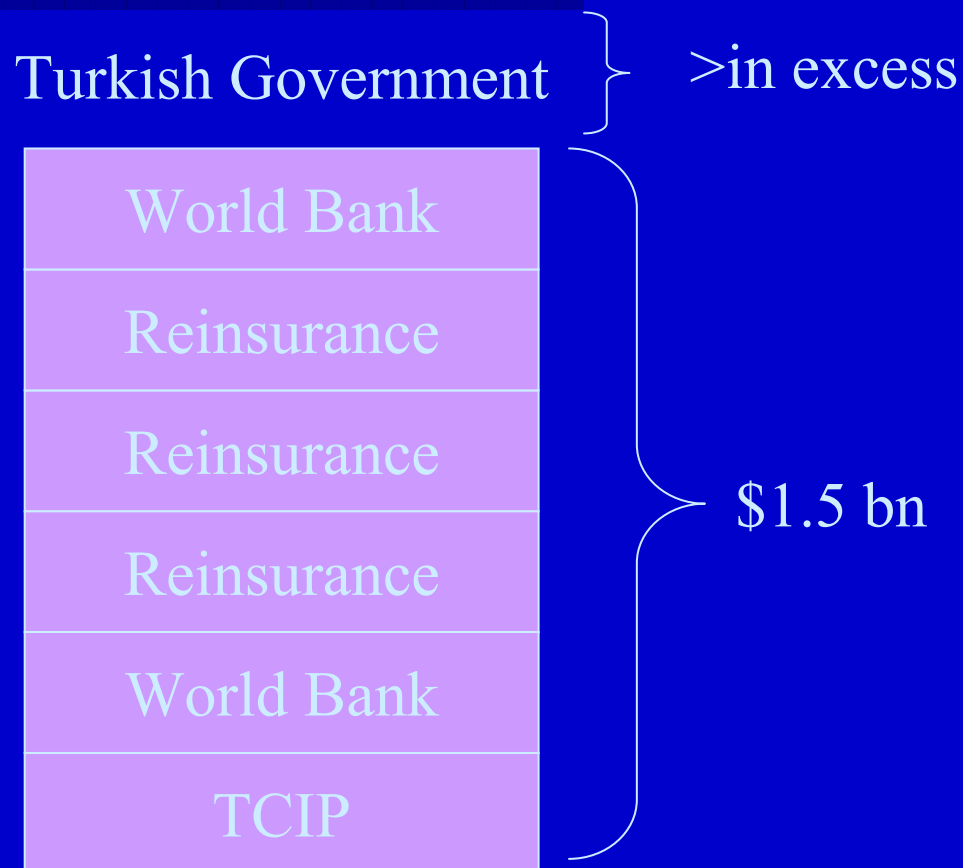


- 27 authorized insurance companies.
- State of the art integrated country-wide IT system that enables over 10,000 agents to produce TCIP policies in less than 1 minute
- Acquisition Costs:
 - 12,5% for risks located in Istanbul
 - 17,5% for risks situated outside

Finding alternative distribution channels and expanding the existing ones is the main focus of TCIP management

Main Features of TCIP

TCIP Claim Paying Capacity, 2006



- Overall protection against losses up to \$1 billion in the first 5 years
- Reinsurance program of A+ quality with dozens of international reinsurers.
- World Bank up to \$17 million on the first loss basis and on 40/60 basis proportional basis with reinsurers or TCIP, up to \$163 million.
- TCIP's own surplus funds - \$250 mm
- If claims exceed TCIP's available financial resources, GoT acts as reinsurer of last resort

Private reinsurance is by far the largest source of TCIP's claims paying capacity

World Bank Support to TCIP

Technical Assistance to TCIP:

- Modeling and pricing of property risk
- Insurance policy design
- Developing TCIP policy distribution and accounting systems
- Underwriting, rating and operational guidelines
- Public relations campaign
- Training
- Investment policy and fund management
- Improving regulatory framework and enforcement of building codes

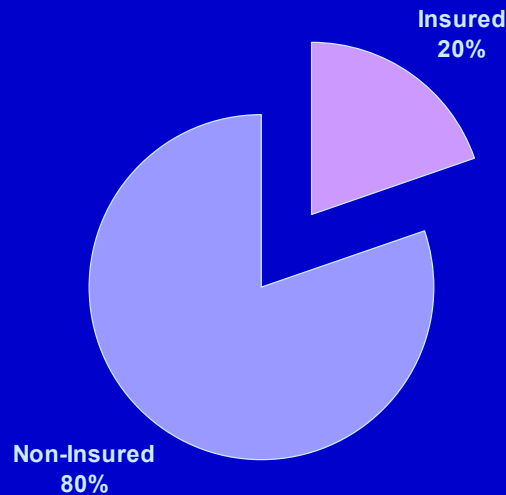
Status of TCIP Program Today

Insurance penetration

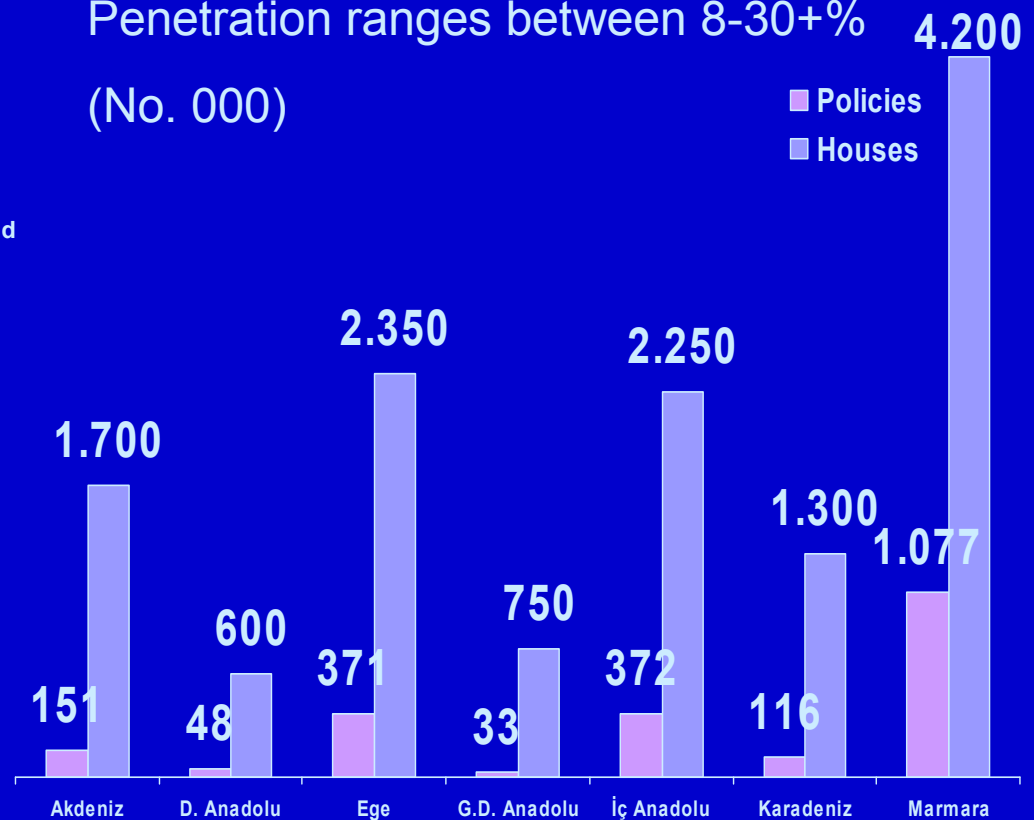
13,150,000 houses

2,600,000 policies

Penetration ranges between 8-30+%
(No. 000)



Source: DASK



While national average penetration is 20%, over 30% of homes in most disaster prone Marmara zone have TCIP policies