Transparency in life insurance and pensions in Turkish Law

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Content of the presentation

- Transparency is achieved through
  - Legal provisions
  - Rules determined by the (Turkish) Supervisory & Regulatory Authority

- We will focus below mainly on some of the rules imposed by the Supervisory & Regulatory Authority in life insurance and pensions

Legal provisions

- The law on insurance contract and the law on pensions both provide that
  - all information relevant must be given to the prospective policyholder/contributor at the pre-contractual stage
  - Relevant information must be furnished also during the insurance/pension contract period

Regulatory rules

- The majority of the regulatory rules are aimed at giving the Supervisory & Regulatory Authority the opportunity to intervene in order to prevent or correct the irregularities detected.

Life insurance

- **Rules imposed by the Supervisory & Regulatory Authority relate to (mainly)**
- Technical parameters
- Tariffs (framework that the relevant insurance company establishes for each product)
- Rules about products other than annuities
- Particular products
  - Products where investment premiums are collected
  - Annuities

Life insurance

- **<u>Technical parameters</u>**
- Technical interest
- Profit shares
- General expenses, intermediary commissions (production expenses), administrative expenses
- Mortality and morbidity tables

Life insurance

- **<u>Life products tariffs</u>**
- Life products tariffs include
  - Premium for the risk and/or premium for savings
  - General expenses
  - Intermediary commissions (or production expenses)
  - Surrender value
  - Conversion value
  - Prepayment
  - Technical parameters including formulations for calculating the mathematical reserves
  - Special conditions

Life insurance

- **<u>Tariffs</u>**
- Each tariff: separate “code” and “name”
- Clear scope of coverage requirement
- Scope change? Acceptance of the insurer (!) or various alternatives at the outset.
- Surrender of the policy: Insurer can make a reduction for early termination (percentage of the mathematical reserves – percentage to be mentioned in the information document and in the front page of the insurance policy –at least 14 points)

Life insurance

- **<u>Tariffs</u>**
- Insurance money determined by reference to a value or asset(s) or index – premium calculation the same way
- Signs, abbreviations or symbols – clearly explained

Life insurance

- **<u>Tariffs</u>**
- Rate of the technical interest and mortality table used
- Profit share distribution basis
- Assets breakdown in case of contract linked to a group of assets
- Whether the profit share distribution is depending on the type of product
- Whether a tariff indexed to foreign currency can be converted into a tariff indexed to Turkish currency

Life insurance

- **<u>Tariffs</u>**
- Expenses, fees to be paid by the policyholder
- Premium amount and projection in respect of eventual mathematical reserves
- Insured event clearly defined (policyholder to be informed thereon at the pre-contractual stage)
- Contract linked to investment instruments: detailed information on the instruments + whether there will be a guaranteed profit equal to technical interest

Life insurance

- **<u>Tariffs</u>**
- Tariffs and profit shares conform to actuarial principles generally accepted
- Tariffs and profit shares technical parameters for products first launched to be submitted to the Supervisory & Regulatory Authority (which may require changes)

Life insurance

- **<u>Investment policies</u> (products where an investment premium is collected)**
- Guaranteed benefit (except for products linked to an investment fund)
- Profit sharing is mandatory
- Total sum of the contribution to expenses for each year must be stated on information document and on the insurance policy (14 points)
- Termination before a surrender value attracted: payment by the insurer of the investment premiums + profit share (minus: reduction on a predetermined basis + deduction of relevant taxes).

Life insurance

- **<u>Investment policies</u>**
- At each anniversary of the insurance policy: written statement indicating
  - the amount of the savings
  - investment income
  - total amount of the risk premium, if any
  - Deductions

Life insurance

- **<u>Annuities:</u>**
- Mortality tables can be revised (to be brought in line with the actual mortality rate)
- Approval of the Regulatory& Supervisory Authority: Tariff and the technical parameters for profit sharing.
- The total sum of the contribution to expenses and fees

Life insurance

- **<u>Annuities:</u>**
- Publication on the web site of the information about annuities.
- Including calculation samples
- Use of the forms set by the Regulatory& Supervisory Authority (information-policy)
- Sufficient electronic infrastructure
- Over 56 years of age only retirement products.

Pensions

- Private Pensions are facultative
- They are aimed at completing the state pension system
- “Contributors” are given the right to change
  - The composition of the investment fund
  - the pension company

  Under certain conditions

Pensions- Information

- The pension company must provide an “Informative Entry Form” aimed at informing the potential contributor or the sponsor (organiser of the group) about how the pensions fund system functions

Pensions- Information

- The burden of proof that all information duties are complied with (including information duty in respect of distant contracts) lies with the pension company
- In distant contracts, the contributor's confirmation that all necessary information are provided is a condition precedent for the validity of the contract.

Pensions- Proposal form

- The proposal (form): Document aimed at informing the contributor (mainly about the pensions plan, investment funds offered within those plans, contribution to be paid by the contributor, deductions, contributor's investment choices

Pensions- Duties of the pension company

- The pension company must
  - inform the potential contributor on points that may influence his decision to enter the pension system
  - Assist the potential contributor at the negotiation stage and drafting of the pension contract on technical issues concerning the functioning of the system
  - Provide information about the respective rights and duties of the parties
  - Refrain from misleading the potential contributor

Pensions- Duties of the pension company

- The pension company is required to propose a contract which is in line with
  - The contributor’s expectations
  - His/her income (earning) level
  - His/her age

Pensions- Cooling off period

- The contributor shall benefit from a cooling off period of 60 days from the conclusion of the pension contract.

Pensions- Contract

- The pensions company must send the contract to the contributor within ten days from effectiveness
    - Either by electronic means
    - Or on paper

  pursuant to the choice of the contributor (or the sponsor)

Pensions- Transfer to another pension company

- The pension company must send to the contributor's (or the sponsor's) e-mail address or fax or (if no e-mail address or fax exists) to the postal address
  - the statement of account,
  - information on the transfer and
  - The transfer request form
- within 5 working days.
- The pension company must ensure also that those information can be downloaded from the company's internet site.

Transfer to another pension company

- The contributor applies to the new pension company with the statement of account.
- The new company must inform the contributor about the amounts that will be deducted

Pensions- Exit from the system

- The exit from the system is similar to entry into the system and to transfer.

Pensions- Entitlement to retirement

- Information on options (retirement or continuation to remain in the system)
- Statement of the account.
- Projections on each option.

Pensions- Fees

- Entry fee
- Management fee
- Fund fee
- Performance fee

- The information form and the contract should mention the exact amounts of the fees (deductibles) that will affect the Contributor.

Pensions-
Information during contract

- Two years before the entitlement to retirement warning about choice of secure funds to reduce the risk.
- Information on
  - Default of the sponsor
  - Change in the parameters of the fund and in the legislation
- Statement of account
- Once in three months information and warning about investment risks.