

PRESS RELEASE



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WORLD BANK PROJECT IMPROVES RISK MANAGEMENT AND EARTHQUAKE MITIGATION IN TURKEY

Two years after the devastating Marmara earthquake claimed over 18,000 lives and resulted in multi-billion damages for the economy, the World Bank financial and technical assistance to the government in housing reconstruction, disaster mitigation and risk management has brought its first tangible results. Since September 27, 2000, the date on which the Turkish government in close cooperation with the World Bank, launched the Turkish Catastrophe Insurance Pool (TCIP), almost 1.8 million earthquake insurance policies have been issued, making the TCIP the second largest catastrophe pool in the world. The TCIP operates as a catastrophe risk transfer and risk financing facility. The TCIP, established as the national sole-source provider of earthquake insurance, will raise the financial preparedness of Turkey for future disasters, reduce government fiscal exposure to major catastrophic events and will make liquidity readily available to insured homeowners affected by such future events. The TCIP is modeled after the California Earthquake Authority and New Zealand Earthquake Commission programs, which provide similar earthquake coverage for homeowners and rely mainly on international reinsurance and capital markets for their risk capital capacity.

The launch of the TCIP marks the new beginning in the history of World Bank emergency lending in Turkey whose main emphasis is no longer on reconstruction of infrastructure and housing damaged by natural disasters, but rather on innovative and forward-looking measures to reduce future economic losses through better risk management and mitigation efforts. *The Marmara Earthquake Reconstruction Project (MEER), which was prepared by the World Bank in record-breaking time in the aftermath of the Marmara event, is the first example of such a forward looking comprehensive Bank approach to emergency lending. The insurance program supported under the MEER, is an important part of a comprehensive institutional reform program, which also supports the government efforts in strengthening national emergency preparedness and response systems, and improving the enforcement of construction code.*

The TCIP was set up in fulfillment of the government decree-law as a separate state-owned legal entity, with its Board and management, to provide compulsory earthquake insurance to all registered residential dwellings in Turkey. The pool provides a cover up to \$25,000 (at the current exchange rate) for each dwelling for a premium which will vary across the country depending upon seismicity, local soil conditions, and the type

and quality of construction. The TCIP's Board has representatives from the government, the private sector, and the academic community. The pool has no public sector employees as its management function has been contracted out to Milli Reinsurance, the oldest national reinsurance company. Local insurance companies act as distributors of the TCIP policies. Coverage in excess of the TCIP coverage could be obtained on a voluntary basis from private insurance providers. To issue policies, in addition to the insurance companies underwriting systems, the pool agents and the insurance companies can use an internet-based underwriting platform that will enable the TCIP to control its risk accumulations in real time and maintain the quality of underwriting. Over 300,000 policies was sold using this e-based approach.

The creation of the TCIP greatly contributes toward a rapid and efficient implementation of nationwide earthquake insurance coverage in Turkey that otherwise would have been severely constrained by the low level of reserves and insufficient earthquake underwriting capacity in the private insurance industry. This World Bank supported insurance program ensures that less advantaged lower income groups of the Turkish population have access to a reliable catastrophe pooling mechanism. In addition, the TCIP's earthquake program, designed for the riskier end of the market frees up the risk capital for private insurers. The availability of this additional capacity could be applied to write earthquake policies in excess of the TCIP's coverage, which will give a boost to the development of the local property/casualty insurance industry and thus will bring better financial protection for the Turkish population.