AKSigorta
Bambaşka.

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AKSIGORTA's GWP IN THE THIRD QUARTER OF 2020 REACHED 1.270m TL WITH 30% YoY GROWTH

For the Third Quarter Ended 30 September 2020

Aksigorta reported net profit of 86m TL and gross written premiums of 1.270m TL in the Third Quarter of 2020 compared to net profit of 91m TL and gross written premiums of 975m TL in the Third Quarter of 2019. These represent 95% and 130% of the corresponding numbers in the Third Quarter of 2019. Main factors in 3Q20 is summarized below:

- YoY GWP growth was back on double-digit track with 30% thanks to
  - 178% YoY increase in number of new car sales
  - New pricing model and new technologies used in MTPL such as AI and machine learning
  - New pricing model in LCV segment and new technologies used in MOD such as AI
  - and growth focus in non-motor products especially in agency and corporate sales channels
- Covid-19 driven decrease in mobility in 2Q20 bounced back to pre Covid-19 levels, thus the positive impact of Covid-19 on our motor underwriting (uw) margins did not last in 3Q20
- MOD uw result is negatively affected from hail rain claims which occured at 29th of September around Istanbul and Bursa region, which is expected to be around 20m TL in total
- Underwriting result in health business is not affected by Covid-19 due to full reinsurance
- Recovery of financial income with increase in interest rates and FX gain

Gross written premiums showed 30% increase in the Third Quarter of 2020 YoY; this is mainly driven by motor products and non-motor products and mainly in agency and corporate sales channels. Aksigorta market share is 7.9% as of September 30, 2020 whereas market share is 8,9% for Q3 only.; We gained market share in all products in Q3 standalone.

GWP (m TL)	1Q19	1Q20	YoY	2Q19	2Q20	YoY	3Q19	3Q20	YoY	3Q19 YTD	3Q20 YTD	YoY
MTPL	275	378	37%	368	332	-10%	374	418	12%	1.017	1.127	11%
MOD	186	247	33%	212	227	7%	250	316	26%	647	789	22%
Non-Motor	470	454	-3%	418	382	-9%	295	470	59%	1.182	1.306	10%
Health	127	155	22%	88	92	5%	56	66	19%	271	313	16%
Total	**1.058**	**1.234**	**17%**	**1.084**	**1.032**	**-5%**	**975**	**1.270**	**30%**	**3.118**	**3.536**	**13%**

Combined ratio is 100% in the Third Quarter of 2020. MOD and MTPL claims frequency normalized to pre Covid-19 levels and MOD CoR is affected from hail rain claims. Total Company underwriting result (uwr) is 60m TL in the Third Quarter of 2020 with a decrease of 4m TL YoY.

Financial Highlights (m TL)	1Q19	1Q20	YoY	2Q19	2Q20	YoY	3Q19	3Q20	YoY	3Q19 YTD	3Q20 YTD	YoY
GWP	1.058	1.234	17%	1.084	1.032	-5%	975	1.270	30%	3.118	3.536	13%
UWR	40	99	148%	70	196	179%	64	60	-7%	177	355	100%
Expenses	-54	-57	-6%	-51	-61	-20%	-52	-58	12%	-157	-176	12%
Financial Income	122	81	-34%	109	96	-12%	110	118	7%	341	295	-14%
Net Profit	**78**	**89**	**14%**	**90**	**169**	**88%**	**91**	**86**	**-5%**	**259**	**344**	**33%**
Combined Ratio	*102%*	*94%*	*-8pp*	*96%*	*79%*	*-17pp*	*97%*	*100%*	*+3pp*	*98%*	*91%*	*-7pp*

In the the Third Quarter of 2020 assets under management increased by 25% YoY and reached 3.065m TL. With the increase in interest rates and with active management of funds annualized return yield reached 12% in Sep.20 (annualized) which signals a higher run-rate for YTG 2020.

Covid-19 Impact

Cash flows: Due to slow down in mobility, trade and economic activities we foresee that the cash flows will be the biggest challenge in the coming periods. We don't face any risk in our business since:

- 63% of our receivables have a credit card collateral,
- 5% of our receivables are collected via bank accounts,
- 10% of our receivables has other collaterals (such as letter of credit, cash, etc.) provided by agencies
- Our bad debt ratio is less than 0,02%

Asset devaluations: Equity market decreased by 30-40% all over the world at the beginning of the pandemic. Weight of equities in our portfolio is limited at 6%

Business continuity: Thanks to our last 10 years of investment in information technologies 100% of our teams work from home efficiently

Economic slowdown: New business sales got hurt but we did not face a major decline in our renewals

Decline in claim frequency: Slowdown in mobility (curfews, lockdowns) led to lower claim frequency in Motor LoBs in the Second Quarter of 2020

Future Prospects

Topline growth will be maintained via:

- contribution of new agencies; in the last 2,5 years 974 new agencies are added to our agency network which make 23% of total agency GWP; # of agencies exceeded 3.000
- increase in bank penetration
- following corporate business potential closely

Combined ratio will be kept below 100% via:

- enhanced risk management policy and profitable insurance portfolio
- data analytics capabilities used in pricing and underwriting
- usage of robotic process automation (currently 91 processes are automated corresponding to 1,9m transactions in Jan.20-Sep.20 period)
- new technologies applied in customers' claim experiences
- new technologies such as AI, ML used in pricing of motor products

We will keep our focus on maximizing financial income and keeping costs under control. Even though majority of the risks are related with premium production, we maintain 2020 year end guidance of 15%-25% YoY GWP growth and 0%-10% YoY net profit growth.

Q&A

The following questions were raised during the earnings call:

1. Do you consider increasing time deposits in AuM and what are your expectations about the last quarter financial income?
   CFO: We foresee that AuM volume will reach to 3,2b TL at the end of the year and financial income in 2020 Q4 to be around 100m TL
2. Given rising money market rates, how do you see your float return as we move into 2021?
   CFO: We will share guidance for 2021 in the 2020 last quarter earnings call but we forecast an increase in financial income side with around 2,5% higher return yields, 20% increase in AuM volume and higher non-life insurance market growth than GDP growth.
3. Hello and congratulations on the results, can you tell more about the motor segment normalization observed in Q3?
   CEO: We see normalization on motor side in 2020 Q3. Claim frequencies returned to levels before pandemic and even exceeded the levels before pandemic. The severity of claims increased more than we expected. The major reason is that during pandemic, people started to use their own cars instead of public transportation or plane. There is a huge increase in car sales in 2020 Q3. In last quarter in 2020, we expect a decrease in mobility because of a potential second peak of the pandemic. As a result, decrease in both frequency and severity is expected in 2020 Q4.
4. Clearly, it’s too early for 2021 guidance , but in the current interest rate environment do you think you could sustain similar underwriting margin in the next year?
   CFO: If we exclude the surplus in 2020 Q2 (generated from motor side due to mobility decrease), we will keep that margin which corresponds to combined ratio around 95%-97%.
   CEO: There is a lot of uncertainties in current economic environment. We should take FX changes and its effects on cost of claims into consideration. It is too early to make an accurate estimation. Economic uncertainties have been there for years but Aksigorta has always reached its targets, and will reach in 2021, too. Aksigorta has strong competitive advantage compared to market which is efficiency (G&A/GWP), Aksigorta is 3.0pp better than the industry. In addition, digitalization is far better than the market.

About Aksigorta

Aksigorta is the third largest non-life insurance player in Turkish market with 4,5bn TL of gross premiums written and 8,3% market share in 2019. The Company is uniquely positioned to enjoy both global insurance business know-how of its shareholder Ageas and Sabancı Group expertise in doing business in Turkey. Aksigorta celebrates 60th anniversary in 2020 with 668 employees, ~3,000 agencies, 69 brokers.