AKSigorta
Bambaşka.

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AKSIGORTA's GWP IN THE THIRD QUARTER OF 2021 is 1.471m TL WITH 16% YoY GROWTH

For the Third Quarter Ended 30 September 2021

Aksigorta reported gross written premiums of 1.471m TL and net profit of 62m TL in the Third Quarter of 2021 compared to gross written premiums of 1.270m TL and net profit of 86m TL in the Third Quarter of 2020. These represent 116% and 72% of the corresponding numbers in the Third Quarter of 2020. Main factors in 3Q21 are summarized below:

- YoY GWP growth slowing down compared to previous quarters in current year but still going on with 16% (1Q21: 28%, 2Q21: 38%) thanks to:
    - strong growth in non-motor; mainly other accident, engineering, liability, and agriculture line of businesses
    - agencies' appreciation in motor products also increases our share in non-motor
    - new pricing model and new technologies in MTPL such as AI and machine learning
    - focus in non-motor products especially in bank and corporate channel
- Covid-19 driven decrease in mobility stopped in 3Q21, this affects loss ratio negatively
- Underwriting result in health business is not affected by Covid-19 due to full reinsurance
- Increase in MOD claim cost (spare part cost and labor expense) driven by depreciation in TL
- Increase in weather related claims (flood, hail, frost, wildfires etc.) in MOD and Non-Motor. Blacksea Region flood & hail and wildfires' impact on MOD and non-motor underwriting profitability is 29m TL
- Increase in frequency of medium size claims in Non-Motor
- Recovery of financial income with increase in interest rates and depreciation in TL
- Decrease in MTPL retro pool ultimate loss ratio from 111% to 107% calculated by PwC

Gross written premiums showed 16% increase in the Third Quarter of 2021 YoY; this is mainly coming from all products. Aksigorta market share is 8.2% with 0.3pp YoY increase as of September 30, 2021. We gained market share in motor and non-motor products in 3Q21.

GWP (m TL)	1Q20	1Q21	YoY	2Q20	2Q21	YoY	3Q20	3Q21	YoY	3Q20 YTD	3Q21 YTD	YoY
MTPL	378	488	29%	328	418	27%	421	522	24%	1.127	1.428	27%
MOD	247	370	50%	223	273	22%	319	333	4%	789	976	24%
Non-Motor	454	582	28%	389	625	61%	463	529	14%	1.306	1.736	33%
Health	155	139	-11%	92	106	15%	66	87	32%	313	332	6%
Total	**1.234**	**1.578**	**28%**	**1.032**	**1.422**	**38%**	**1.270**	**1.471**	**16%**	**3.536**	**4.471**	**27%**

Combined ratio is 109% in the Third Quarter of 2021, 9pp higher compared to Third Quarter of 2020. The increase in combined ratio is fully coming from loss ratio. We have faced big claims such as cotton factory fire, weather-related flood & hails and wildfire. Total Company underwriting result (UWR) is -9m TL in the Third Quarter of 2021 with a decline of 70m TL YoY.

Financial Highlights (m TL)	1Q20	1Q21	YoY	2Q20	2Q21	YoY	3Q20	3Q21	YoY	3Q20 YTD	3Q21 YTD	YoY
GWP	1.234	1.578	28%	1.032	1.422	38%	1.270	1.471	16%	3.536	4.471	27%
UWR	99	22	-78%	196	62	-69%	60	-9	-116%	355	74	-79%
Expenses	-57	-66	-16%	-58	-68	17%	-63	-68	9%	-178	-202	14%
Net Financial Income	81	147	81%	96	135	41%	118	162	37%	295	444	51%
Net Profit	**89**	**76**	**-15%**	**169**	**93**	**-45%**	**86**	**62**	**-28%**	**345**	**231**	**-33%**
Combined Ratio	*94%*	*106%*	*+12pp*	*79%*	*101%*	*+22pp*	*100%*	*109%*	*+9pp*	*91%*	*105%*	*+14pp*

In the Third Quarter of 2021, assets under management increased by 25% YoY and reached to 3.838m TL. First instalment of dividend from 2020 earnings, gross 202m TL is paid out in March 2021 and second instalment of gross 104m TL dividend is paid out in September 2021. With active management of funds, annualized return yield reached 18% in the Third Quarter of 2021.

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:

- 62% of our receivables have a credit card collateral,
- 4% of our receivables are collected via bank accounts,
- 12% of our receivables has other collaterals (such as letter of credit, cash, etc.) provided by agencies
- Our bad debt ratio is less than 0,01%

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 5%

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 and Fourth Quarters of 2020 and First and Second Quarters of 2021

Prospects

Topline growth will be maintained via:

- contribution of new agencies; in the last 3 years 1.342 new agencies are added to our agency network which make 31% of total agency GWP in Jan.21-Sep.21 period
- # of agencies exceeded 3.380
- increase in bank penetration
- following corporate business potential closely
- Telcosurance partnership with Vodafone as a single partner to sell insurance products
- IOT partnership with Fiat Connect to sell insurance products bundled with auto sales
- Mercedes-Benz branded MOD launched in October 2021

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 120 processes are automated corresponding to 3,0m transactions in Jan.21-Sep.21 period)

- new technologies applied in customers' claim experiences
- new technologies such as AI, ML used in pricing of motor products

<u>2021 Guidance</u>

- 15% - 25% growth in GWP
- 10% - 20% growth in net profit

<u>Q&A</u>

The following questions were raised during the earnings call:

1. Murat İğnebekçili, HSBC: Hi, thank you. A couple of questions, the first one is about MOD. You said that the pricing has been strong recently. Can you say that you cover all the risks in a 12-month horizon? I mean, I know it all depends on the level of depreciation, but have you revised your expectations for USD/TL? Now, you have a more conservation approach, normally you assume like 15% depreciation in-line with inflation maybe a couple of percentage points more, but now may be 20%-25% and reflect that on pricing? Is that what you have been doing or you think you may be still behind the curve in that? Secondly, it is a regulated business, you were suffering a lot in last couple of quarters, because of tool revaluation and so forth. Also, there was an issue about doctors' liability. Can you also give an update on if there is any posted development on those? Thank you.

   CEO: In the MOD side, as you know insurance business is a bit different than the rest of industries. Firstly, we put the price, sell the product, and wait for the cost to be incurred. So, from that perspective, it is one of the most dangerous business in the world. To make a good cost estimation, we use past and future data. But in this uncertain environment, it is difficult to estimate the future. Any price we are quoting is not a proper guess, we changed our pricing team in March, we started to use artificial intelligence to select customers. Our artificial intelligence algorithms are a proven one that can select low frequency customers. Since April, policies that were issued by Aksigorta have been the lowest claim frequent customers in the market. We can have some possible losses on this model incoming periods but if this level continues, the impact of losses in the market will be lowest for Aksigorta. Our position will be best of the worsts indeed. We have been carrying long FX position to cover possible underwriting losses in MOD, FX gain will be much higher than the MOD losses incoming periods. This is how we are calculated. This is a regulatory business you rightly mentioned. Pandemic broke all the past statistics in 2020 and 2021, in pool side ultimate loss ratio is fluctuating from quarter to quarter. After normalization, we probably will have more stable ultimate loss ratio. The pool prices have been increased by one and half percent each month. On the Med-Mal side, as you said the ultimate loss ratio is around 750% because of that whole insurance industry carries huge amount of over reserves. According to our calculation in Aksigorta, we can release 80%-85% of our case reserves, we know that they are all overly reported case reserves. To overcome that problem, the regulator has been in a preparation of new legislation. The possible amount will be a hundred million TL case reserve release in Med-Mal incoming weeks and that amount will be recognized year-end financials.

   CFO: Maybe, we cannot afford an increase around 30% but in our expectation, mid-term economical plan says it will be around 13%-14% inflation. We can afford until 20% increase, but it will be unaffordable for us with higher increase in inflation. According to actuals, our market share dropped from 12% to 8.5%-9% in MOD side, we reduced our market share for profitable pricing in MOD. So, our focus will be mainly profitable pricing, not market share. To avoid possible FX increase risks. We strongly believe that the government will announce the provisioning law, it will give us an opportunity to release some of our reserves in Medical Malpractice. According to our recent figures, we see a 75%-80% dilution in reserves. We have already around 120 million TL provision, it means we have an upside of 100 million TL potential pre-tax. There are some issues in MTPL side, one of them is minimum wage increase discussion nowadays. We can afford with our current provision approach up to 20% increase, but each more percentage points bring us 8-9 million extra cost in MTPL side. Another regulation issue, we were expecting the general conditions announcement from regulator party. The supreme court cancelled previous general conditions which were 1.8% technical interest margin for the calculation of indemnity payment. After the cancelation, the courts had very different decisions. New trend is zero technical interest margin, if this trend continues and general conditions are not announced yet or late announced, it can cause an increase in our reserve for MTPL, that's another risk. According to last rumors, it is very close to announcement with 1.8% technical margin which is good for non-life insurance market.

Q: In the last few years, Akbank had several problems on online services. Does Aksigorta have the same technological and cyber security infrastructure with Akbank? If yes, how much risk do you think you have financially depending on your worst-case scenarios?

CEO: Thank you for question, there is not organically or inorganically link between Akbank and Aksigorta. All our technological systems are different, we use totally different background and datacenters which have been located different locations. We are carrying a risk such as.

Q: With ever-increasing and highly volatile FX rates, it is reasonable to expect motor claims spin out of control due to increased costs. In addition to that, the government has increased maximum coverage amounts for MTPL insurance policy. As you mentioned, average premiums have increased by only 15% on average (smaller than even the official inflation). Question 1: With such a small price increase on average policy, should we expect the profitability in MOD&MTPL to deteriorate further in short/mid-term? Question 2: What prevents Aksigorta to increase average premium prices by significantly more than 15%?

CEO: First; MTPL and MOD are different elements and have different behaviors against FX rate increases. Let's start with coverage. Coverage increases affect only the tail of curve. So, in MTPL side it can bring only 1% more ultimate loss ratio increase. On the other hand, MOD side brings more recovery. Overall impact of coverage increase is beneficial for Aksigorta. As you know, MTPL accumulates assets under management. From that perspective, we do not consider only underwriting margin, we consider technical margin which contributes the financial income in high interest rate environment. Sometimes, it is better to issue policies less than announced premiums to make better technical margins in both MTPL and MOD. MTPL and MOD are profitable products with high technical margins.
For second question, this is a free competitive market. One of our KPIs is increase our market share. Every day, we are in a trade-off between market share and profitability. The art of insurance business is to keep or increase market share without deteriorating the profitability. Therefore, we invest a lot in technology, artificial intelligence, and operational efficiency. Turkish markets are fluctuating markets, these fluctuations affect us sometimes positively, sometimes negatively. If you look from a longer perspective, you will see that Aksigorta manages its market share and profitability in a harmonical way. Thank you for your questions.