1. Basic Information

1.1. Title: Reinforcement of Institutional Capacity of the General Directorate of Insurance (GDI) and the Insurance Supervisory Board (ISB)

1.2. Sector: FI

1.3. Location: Turkey – Ankara

2. Objectives:

2.1. Overall Objective:
To increase competitiveness of Turkish insurance sector in order to stand against competition, once service sectors between the European Union (EU) and Turkey are liberalized.

2.2. Project Purpose:
Harmonize Turkish insurance legislation with the relevant European Community (EC) acquis, and ensure its proper implementation.

2.3. Accession Partnership and NPAA Priority:

AP 4.1 Short-term priority: “Align fully with the EU banking and insurance legislation and establish an insurance supervisory authority.”

AP. Medium-term priority: “Complete and implement aligned legislation in this area and remove all obstacles to the right of establishment and freedom to provide services.”

NPAA Chapter 4.4.1 (Insurance) sets adoption and implementation of the EC acquis as a final objective.

“Necessary Amendments and Modifications in the Corresponding Turkish Legislation”

Basically, in the fields of motor vehicles financial liability insurance and non-life insurance the alignment with the co-ordination directives on the taking up and pursuit of insurance activities will be completed.

Necessary efforts will be given for the approximation of the Turkish legislation to the EC acquis in respect of the following items:

- Cross border insurance services, provided by foreign insurance providers directly, without opening a branch in Turkey,
- In respect of non-life insurance, the compulsory buying of insurance services from insurance companies operating in Turkey,
• Requirement of Turkish nationality working as real person for insurance intermediaries such as insurance brokers, producers, claim adjusters etc…
• Reinsurance monopoly, which requires compulsory cession to the domestic reinsurance company, called “Milli Re.”

Eleven of the EC Directives with which Turkish legislation must harmonise are follows:

“A Additional Staffing and Training Requirements for the Implementation of Amendments and Modifications”

The organisational structure and the personnel of the relevant department of the Undersecretariat of Treasury (UoT) will probably be sufficient for the implementation of the new arrangements to be enforced in the course of the harmonisation of the legislation. Nevertheless, training of personnel during the harmonisation process bears great significance.”

2.4. Contribution to the National Development Plan:

Turkey has now begun preparation of its first National Development Plan. This is likely to be ready by the end of 2003.

2.5. Cross Border Impact:
Not applicable

3. Description:

3.1. Background and description:

The confirmation of Turkey’s candidacy in the Helsinki Summit put Turkey in a process of preparation for accession with the help of the European Union. This inevitably requires substantial efforts by Turkey to harmonise its legislation with the EC acquis in accordance with the priorities set forth in the Accession Partnership and its National Program for the Adoption of the Acquis.

Within this context, , it was decided that the negotiations on the liberalization of the services and public procurements between the EU and Turkey would be initiated simultaneously at the Turkey- EU Association Council meeting held on 11 April 2000. At the third round of these negotiations held on 14 December 2001, by taking into consideration the disparity at the social and economic level of development between the two parties, Turkey stated that the reciprocal liberalization should base on an asymmetrical approach and thereby “transition periods” should be decided for the each particular sector so as to achieve a progressive adoption.

As a part of its commitments to become a full member of the EU, the Turkish Government has undertaken to harmonise the insurance legislation with the EC acquis (as well as improving the institutional structure to implement this legislation effectively). Though some measures were taken to harmonise the related legislation before the official
declaration of Turkey’s candidacy at the Helsinki Summit, the substantial part of the current legislation still needs to be brought in line with the EC acquis. Those areas that need to be harmonised were identified in the National Programme for the Adoption of the Acquis in 2001.

Moreover, it was also stated in the Letter of Intent submitted to the IMF that restructuring of insurance sector would be undertaken to bring the regulation and supervision of the insurance sector in line with the EC Directives and approximating the norms of IAIS (International Association of Insurance Supervisors) Core Principles. In this light, a draft law in harmony with the EC Directives was drawn and will be submitted to the Council of Ministers.

**Insurance Sector Its Regulation and Supervision and the Recent Developments:**

Turkish insurance market is characterised by low insurance penetration and density when compared to EU countries. Premiums constitute only a small fraction of GDP and assets are low. In addition to that, sharp competition over prices has rendered some premium rates quite inadequate, because of deregulation of premium rates in 1990 for most classes of insurance other than certain compulsory lines. The increasing competition because of a liberal licensing regime that allowed the number of companies operating in the market to rise from 49 in 1991 to 68 as of end 2001. Increasing fierce competition also hindered insurance companies to reach sufficient level of scale economies and financial soundness. Currently, there are 57 insurance and reinsurance companies operating in Turkey by the end of 2002.

In 1990, the liberalisation of tariff system was applied to non-life insurance groups excluding the compulsory non-life branches and life insurance. The GDI is still approving tariffs, and determining and declaring the premiums annually for compulsory branches of insurances, such as life insurance and health insurance longer than one year.

The insurance sector is regulated and supervised by the Undersecretariat of Treasury in Turkey. Regulation of the insurance sector and implementation of the related policies as well as off-site supervision are performed by the GDI, while the ISB conducts on-site supervisory activities. In order to harmonise the economic policies implemented by various public institutions, the Undersecretariat of Treasury, reports to the Minister of State in charge of economic policies.

The GDI is responsible to fulfil the following tasks:

- Prepare and implement the insurance legislation,
- Set the general standards for the insurance business as well as oversee the actors in the insurance sector in terms of their compliance with laws, regulations and established standards,
- Control and make assessment of applications for entering/exiting the market, licensing, and advising on policies to be implemented, as well as handling the complaints,
- Conduct off-site inspection of insurance firms,
- Prepare periodic reports by compiling statistics on the main indicators of the insurance sector,
- Approve tariffs, and determine and declare the premiums annually for compulsory branches of insurances, such as life insurance and health insurance longer than one year,
- Conduct researches on the ways and impacts of insurance sector on financial and economic development of the country, publishing results of these studies.
- Regulation and supervision of the private pension companies

The ISB is responsible for supervision of insurance sector (insurance companies, insurance mediations, Association of Insurance and Reinsurance Companies of Turkey, Turkish Catastrophe Insurance Pool (TCIP), Guarantee Fund, independent audit companies that audit private insurance companies). The ISB is mainly responsible for on-site inspection of the insurance companies, and preparing reports, advise on the policies to be implemented, publishing annual statistical reports based on financial data received from the insurance companies. The ISB has the following tasks:

- To conduct and finalise the inspection, examination and investigation of insurance companies,
- To draw up consolidated reports on the insurance sector and other related financial markets,
- To advise the Undersecretary of Treasury on policies to be implemented and measures to be taken, etc,

The ISB is conducting two different supervisions:

- Regulatory and financial supervision
- Actuarial supervision

An important change was introduced by Decree 539 of June 1994, setting out the operating procedures for insurance and reinsurance companies, and requiring them to be established as joint stock or mutual companies as well as separating their life and non-life insurance activities. Decree 539 also lays down the minimum capital requirement indexed on an annual basis.

A recent measure was taken to end the reinsurance monopoly of Milli Re. Exclusive right is granted to Milli Re to administer and manage the system of reinsurance pool, which requires insurance companies to cede 20% of insurance reinsured abroad to Milli Re, while the requirement for compulsory cession of domestic insurance business to Milli-Re was terminated as of 1 January 2002. According to the present regulation, this requirement will remain in force until the end of 2006. It is expected that the reinsurance monopoly will be abolished with the adoption of new law on Insurance Supervision.

The GDI also prepared the legislation for the Individual Retirement System and the Parliament adopted it in April 2001.

From the point of view of insurance services, the real persons and legal entities domiciled in Turkey are required under article 29 of the Insurance Supervision Act No 7397 to buy their non-life insurance from insurance companies operating in Turkey. (There are some exceptions such as import and export insurance, Marine and hull liability insurance, etc.).
Moreover, because of the impact of the 1999 earthquake and the economic recession in 2001, the capital base of the insurance sector has been substantially eroded. The GDI has recognised the problem, and has placed almost one third of all insurance companies under enhanced supervision because of failure to meet solvency margin requirements.

**The main differences between Turkish legislation and the related EC acquis,**

The main principles of the EU legislation on insurance have already started to reflect in Turkish insurance legislation.

In the EU, life, and non-life insurance groups are managed separately In Turkey, life and non-life insurance groups have been placed under a single legal framework. As from the beginning of the year 1998, insurance companies have been obliged to act either in the life or non-life insurance groups thus enabling companies to differentiate their activities. This change is one of the significant milestones on the way to harmonisation with the EC acquis.

However there are significant discrepancies between the current legislation and the EC acquis, especially with regard to the rules and regulations concerning entering the market, licensing, and to the classification of the insurance branches. It is also necessary to alter the financial reporting system and the methods of compiling the financial data so as to increase the quality of the data available and thereby making a more effective supervision possible in line with the EU norms. Existing regulation on taxation, the rules concerning winding-up and liquidation of the insurance companies, rules for competition are also in need of harmonization with that of the relevant EC directives.


- Key differences can be summarized as the following: Cross-border insurance services provided by foreign insurance companies are not allowed in Turkey,
- With respect to some of the classes of non-life insurance, insurance services are required to be purchased from the insurance companies operating in Turkey;
- Persons employed in insurance intermediary services such as, producers, claim adjusters etc. are required to be Turkish citizens, whereas insurance broker are required to be resident in Turkey,
- Technical reserves should be redefined. Although, the solvency margin requirement implemented in Turkey is generally in line with the requirement as stated in the relevant EC Directive, there are still differences in the definition of technical reserves.
- Due to the low quality of financial data, financial reports published by the insurance companies have fallen short of the standards set forth by the International Accounting Standards.

An EU financed technical assistance project to assist the GDI and the ISB in preparing a project fiche for the 2003 programming took place in April, 2003. A gap analysis was made within the context of this project.

Summary of Legislative and Administrative Gap Analyses Report:
- Coordination between the GDI and the ISB is not at the desired level. A major effort is needed to upgrade the institutional structure and enforcement capacity of the GDI and the ISB on insurance supervision. Technical and financial assistance should be obtained to review the activities and legislation of the GDI and the ISB. Educational support is needed for the staff of both GDI and the ISB.
- Financial data produced are not up to the EU norms, since the uniform chart of accounts and financial tables used in the sector fall short of the standards set forth by the EC directives and they are insufficient. Moreover, the GDI and the ISB are having difficulties in terms of follow-up and filing of the financial data gathered within the framework of the existing database system. On the other hand, in terms of financial reporting and keeping statistics, a harmonization with the EU standards is essential.

One of the main reasons behind the problems in the insurance sector can be attributed to the imperfect regulatory framework that causes ineffective enforcement of legislation and monitoring rules.

Therefore, it is crucial to strengthen regulation and supervision of insurance and to harmonise primary and secondary legislation with the EC acquis.

A new draft law on the regulation and supervision of the insurance sector has been prepared providing the progressive harmonisation with the EC acquis. Expected amendments to be brought about with the draft law can be summarised as the following:

- In accordance with the EC acquis, approval of the Ministry at the stage of establishment would be lifted.
- In accordance with the EC acquis, a division of insurance groups would be adopted, however responsibility to adopt secondary legislation relating to that would be left to the Council of Ministers.
- The Undersecretariat of Treasury would be authorised to approve overall content of the insurance contracts, as in the EC acquis it has been envisaged that insurance companies could be authorised to determine the general conditions.
- Different from the existing regulations, the tariff regime would be liberalised; however, it would be adopted that tariffs of the life insurance branch and for the personal accident and health insurance branches longer than one year can still be subjected to the approval of the Undersecretariat. In compulsory lines of business, the authority to determine the tariffs would be lifted.
- It would be adopted that in the event of liquidation and bankruptcy or as a result of measures taken to strengthen the financial structures of the insurance companies whose licences were revoked, in order to fulfil their liabilities as stated in the law, the
authority would be transferred to the Policyholders Protection Account which will be formed.
- The Reinsurance Monopoly Law would be abolished.

3.2. **Linked activities:**

A new development took place following the 1999 earthquake. The Government launched compulsory earthquake insurance through enactment of the Decree on 27 December 1999 and established the Turkish Catastrophe Insurance Board (TCIB) and the Turkish Catastrophe Insurance Pool (TCIP). The World Bank provided technical and financial support for the development of TCIB.

Another major project, the Actuarial Training Project conducted between 1996–1999 as a sub-component of the World Bank Privatisation Implementation Technical Assistance and Social Security Net Project (PIAL), Loan No:3728-TU, and implemented by the GDI. The main objective of the project was to provide adequate and qualified actuaries to social security system and related government agencies.

The GDI and the ISB is planning to participate in pre-accession support program with Ministry of Finance of the Netherlands and a study visit is scheduled on 8-9 May 2003 to the Insurance Supervision Institution (PVK) to examine the organisational structure of the insurance authorities and future co-operation possibilities.

An EU financed technical assistance project to assist the GDI in preparing project for the 2003 programming took place in April 2003. A gap analysis, and an action plan were made within the context of this project. Furthermore, a workshop was held in Ankara. The Participants were the GDI, the ISB, Association of the Insurance and Reinsurance Companies of Turkey (AIRCT), Turkish Insurance Institute Foundation, Milli Re, Insurance companies and other related public institutions. Participants discussed the Legislative and Administrative gap analyses between Turkey and EU.

3.3. **Results:**

- Insurance legislation in conformity with the acquis is adopted, and monitoring of insurance sector in Turkey in line with the EU standards is operational.
- Minimum 100 staff of the GDI and the ISB, and officials of relevant public institutions dealing with implementation of regulations that effect insurance sector are trained. Awareness of public on newly adopted rules in the field of insurance is increased.
- Insurance accounting system and collecting/analysing of statistics in compliance with the EU standard is operational.

Those results would also contribute to the fulfilment of the commitments we have undertaken in the letter of intent submitted to the IMF.

3.4. **Activities:**

Activities within the project will cover 4 major components.

**Component 1: Legislative Assistance**
- Assistance in reviewing existing primary legislation according to their conformity with the relevant EC acquis. Thereafter assistance in drafting amendment in primary legislation to harmonize with the relevant EC acquis shall be provided, if necessary.
- Assistance in drafting secondary legislation in the field of insurance in conformity with the relevant EC acquis.
- Assistance in reviewing any amendment proposal for drafted secondary legislation that would be made by the government and/or other relevant public institutions. In this regard, amendment proposals would be reviewed according to their compatibility with the relevant EC acquis.
- Assistance in drafting amendments for primary or secondary legislation in other sectors that would be in contradiction with harmonised insurance legislation, if necessary.
- Legal advice to the GDI to assess draft legal acts prepared by other administrative bodies and Ministries that would effect proper implementation of harmonized insurance legislation in conformity with the EC Directives in the field of insurance.

**Component 2: Administrative Support**

- Reviewing administrative structures of the GDI and the ISB. Regarding this activity, best practices among Member States and Candidate Countries would be highlighted. A benchmark study would be made in which administrative structures of the GDI and the ISB would be compared with best practices. Thereafter, a draft plan for reorganization of administrative structures of the GDI and the ISB would be prepared in cooperation with the GDI and the ISB.
- Assistance in drafting legislation for restructuring the GDI and the ISB, if necessary, in order to improve implementation of harmonised monitoring legislation with the relevant EC acquis, based on benchmark studies and reorganization plan as mentioned in the activity above.

Following the activities above, assistance to the GDI and the ISB will be provided:

- To review operational procedures of the GDI and the ISB in order to ensure proper implementation of harmonised legislation.
- To draft operational manuals and guideline for procedures of the GDI and the ISB.
- To prepare guidelines and check lists for monitoring of insurance sector.
- To prepare monitoring standards in full conformity with the EC acquis.
- To prepare monitoring reporting system in full conformity with the EC acquis.

**Component 3: Training of officials of the GDI, the ISB Awareness Raising**

- Developing training curricula for the staff of the GDI and the ISB. The training curricula will be designed as appropriate in the areas of EC acquis. The curricula will be designed for the continuous assessment, evaluation and quality control;
- Training on the EC acquis in the field of insurance as well as monitoring, and reporting techniques for the staff of the GDI and the ISB in order to make them enforce provisions of legislation effectively;
- Training on other relevant acquis such as freedom to provide services, free movement of capital, competition, state aids, taxation, etc.
- Designing and implementing a ‘training-the-trainers’ programme for selected staff of the GDI and the ISB, in order to ensure sustainable in-house training activities;
- Training for public officials in other relevant public institutions, if it would be deemed necessary by the GDI in selected vertical and horizontal rules in the field of insurance in order to increase their awareness;
- An awareness raising seminar for the representatives of insurance sector, in particular, chambers, professional associations, non-governmental organizations, and related departments of selected universities on harmonised legislation in the field of insurance,


Turkish Insurance Financial data will be collected and analysed in the GDI and the ISB after forming financial reporting standards and statistics system in harmony with the EC acquis through activities covered in component 4. Installing full operational IT system to implement harmonised legislation in the field of insurance financial data system with the EU standards will assist the GDI and the ISB in fulfilling following activities:

- Establishing a system of supervision and reporting in line with the EU norms
- Establishing a database system within the GDI to make possible follow-up of the financial data and other statistics
- Creating a user friendly financial monitoring and database system at the disposal of both the GDI and the ISB so as to quicken policy-making process
- Providing the State Institute of Statistics (SIS) with data produced in accordance with the EU standards
- Easier handling of the complaints

Equipment and software required for Financial Monitoring and Statistics Reporting System are:
- Portable PC’s (notebooks) including extended standard office software packages,
- Network servers and PC’s and software package,
- Software for Financial Monitoring and Statistics Reporting System
- Wiring and installation materials

Necessary inputs:

Component 1, 2 and 3

Component 1, 2, and 3 will be implemented through one Twinning Covenant.

Pre-Accession Adviser (PAA) for 24 months:

Background of the PAA;

The PAA must be highly qualified in all subject matters covered by the twinning arrangement, and must possess good management skills. He/she must be well acquainted with
the enforcement of the EC Insurance Acquis. Experience in organising training programmes is an advantage.

More specifically, the PAA

- Shall have sound theoretical and practical experience in enforcement of insurance monitoring and supervising rules as well as reporting techniques.
- Shall have broad international insurance contacts,
- Shall be fluent in English

Tasks of the PAA

- To co-ordinate the programme,
- To mobilise short-term experts,
- To ensure proper quality of outputs,
- To provide detailed report on the impact of the programme

- Short-term expert(s) for 18 man-months of assistance (indicative)

Areas not directly covered by the PAA can be taken over by short-term experts within the limits of the budget. Short-term expert(s) are expected to cover, among others, the tasks listed below: (for indicative purpose)

- To prepare benchmark study comparing best practices with the GDI and the ISB.
- To prepare a draft plan for reorganisation of administrative structures of the GDI and the ISB
- To draft operational manuals and guideline for procedures of the GDI and the ISB
- To prepare monitoring standards and monitoring reporting systems
- To organise training seminars,
- To contribute/prepare training materials and manuals,
- To deliver training,

- Experts’ studies, legal assistance, experts on ad hoc basis:
  To reach all results of the project experts’ studies, legal assistance and experts on ad hoc basis will be provided within the limits of the budget in particular with regard to;
  Support in drafting secondary legislation in full conformity with the acquis,

- Organisation of training seminars:
  To train staff of the GDI and the ISB advanced training seminars that could be repeated periodically, in particular on insurance acquis, monitoring, and reporting techniques are expected to be held. Furthermore, it is expected to develop a training-the-trainers program for a limited number of the staff of the GDI and the ISB

- Study visits and short secondments in the EU Member State institutions:
  Study visits can be organised for limited number of the GDI and the ISB’s staff within the limit of budget to the insurance monitoring authority of Member State, or other related institutions in EU that will be specified in consultation with Pre-Accession Advisor (PAA).

Component 4:

This component will be carried out by a supply contract.
Operating Environment for Twinning:

The PAA will be placed at the headquarters of Undersecretariat of Treasury and will provide expert advice for effective implementation of the twinning arrangement. The PAA will also be responsible to identify medium and short-term experts with the assistance of his/her delegating institution.

The responsible staff of the GDI and the ISB will cooperate in identifying needs and will arrange local inputs.

3.5. Lessons learned

As for the lessons learned so far from the projects carried out under the auspices of the GDI, we can cite the following:

- To identify the objectives of the project, to point out the activities to achieve these ends contribute to the successful completion of the project.
- It is important to identify the target personnel to benefit within the framework of the project carefully. In this respect, especially for the training programmes to be held, the qualifications and skills of the personnel to be trained and the objectives of the training should be reconciled.
- It is also crucial for the successful completion of the project to recruit the consultants with the necessary experience and qualifications. They should have an extensive knowledge about international practices, as well as being aware of the existing national legal and administrative framework.
- From our previous experiences it has been contemplated that the selection of the consultants on Quality and Cost Based Selection (QSBC) would not have helped to recruit consultants most appropriate for the task.
- Previous experiences have shown us that having decided the country, which is structurally reminiscent to our existing institutional and legal framework is essential. This would provide us with a background upon which we would apply feasible reforms and applicable changes required with a relative ease.

4. Institutional framework

4.1. Steering and monitoring
A joint steering committee will be established for steering and monitoring of the project. The Committee will include the GDI and the ISB representatives.

4.2. Implementation
The implementation of the project will be secured by the GDI and the ISB in Turkey.

4.3. Beneficiaries
The main beneficiaries of this project are the GDI and the ISB of the Undersecretariat of Treasury. The components 1, 2, and 3 will be implemented
through a twinning covenant. With regard to component 3, staff of other relevant public institutions will be benefited from training activities.

The project is targeting mainly to support to the GDI and the ISB that will have a responsibility to monitoring and supervising of insurance industry in order to reach objectives. However, as it was mentioned in sections above, support will as well be given to other relevant public authorities, in order to create smooth functioning insurance system. However, cooperation and coordination between the GDI and ISB and other relevant public authorities with the PAA is crucial to reach the objectives successfully.

5. Budget: MEURO

<table>
<thead>
<tr>
<th>Component</th>
<th>Investment Support</th>
<th>Institutional Building</th>
<th>Total Phare (I+IB)</th>
<th>National Co-financing</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Legislative assistance</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative support</td>
<td>Twinning</td>
<td>2,00</td>
<td>2,00</td>
<td>-</td>
<td>2,00</td>
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<tr>
<td>Training of public officials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting Up an IT system for Financial Monitoring and Statistics Reporting.</td>
<td>Supply contract</td>
<td>0,825</td>
<td>0,825</td>
<td>0,275</td>
<td>1,100</td>
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<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,100</td>
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</tbody>
</table>

Co-financing will be jointly provided by the EU and Turkey.

Turkish contribution to the Twinning will cover provision of office equipment and space for the PAA, organizational costs of training (accommodation and catering in local training, rental fees as well as local and international travel of trainees) and other costs non eligible for funding as specified in the "Reference Manual on Twinning Projects.

The GDI supported by the Pre-Accession Adviser, will co-ordinate implementation of the project, which will be addressed also to other administration bodies on central and local levels.

6. Implementation Arrangements

6.1. Implementing Authority and Implementing Agency
The Central Financing Contracting Unit (CFCU) will be the Implementing Agency and will be responsible for all procedural aspects of the tendering process, contracting matters and financial management (including payments) of the project activities.

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### 6.2. Twinning

The components 1, 2, and 3 will be implemented in the form of one Twinning Covenant between Turkey and a Member State. The twinning partner will manage all aspects of
execution in close collaboration with the GDI, as well as securing a pool of international and national experts.

Member States may form a Consortium, which shall result in a wide range of experience of short-term experts gathered from different national administrations of more than one Member State provided that national approaches can be harmonised within the Consortium.

The beneficiary institution of the Twinning arrangement will be the GDI and the ISB.

6.3. Non-Standard Aspects

The manual on Twinning Projects will be governing components 1,2, and 3. The DIS Manual provisions will strictly be followed for the supply component.

6.4. Contracts

One supply contract was proposed will be implemented through "Practical Guide to PHARE, ISPA & SAPARD contract procedures".

Supply contract: 1,100,000 EURO

7. Implementation Schedule

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of negotiation of twinning covenant</th>
<th>Start of Project Activity</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td>06/2003</td>
<td>04/2004</td>
<td>03/2006</td>
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</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of tendering</th>
<th>Start of Project Activity</th>
<th>Project Completion</th>
</tr>
</thead>
</table>

8. Equal opportunity:

The GDI and the ISB as principal beneficiaries implementing the project will be responsible for granting equal chances of participation in this project independently of gender.

9. Environment:

Not applicable

10. Rates of Return:

Not applicable
11. Investment Criteria:

Not applicable

12. Conditionality and sequencing:

The implementation of the project is conditioned upon the adoption of Insurance Supervision Law in harmony with the relevant EC Acquis.

No contract shall be signed prior to the adoption of Insurance supervision law and annulment of the reinsurance monopoly law no.1160

The contract related to the investment shall not be signed, prior to the adoption of a secondary legislation for chart of accounts and statistics in conformity with the EC standards adopted.

Annexes to project fiche
1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme
4. Indicative Budget
5. List of relevant Laws and Regulations
# ANNEX 1

## LOGFRAME PLANNING MATRIX FOR REINFORCEMENT OF INSTITUTIONAL CAPACITY OF THE GENERAL DIRECTORATE OF INSURANCE AND THE INSURANCE SUPERVISORY AUTHORITY

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions and Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase competitiveness of Turkish insurance sector in order to stand against competition, once service sectors between the European Union (EU) and Turkey are liberalized.</td>
<td>Strengthened financial structures of the insurance undertakings; higher levels of premiums written in both life and non-life insurance groups; a robust capital base for the insurance undertakings, by the end of 2006: - a 25% increase in the total assets of the insurance companies, in real terms. - a minimum 10% increase in premiums per capita</td>
<td>The GDI and the ISB quarterly or annual reports AIRCT annual reports Other international organizations (i.e. IMF, the World Bank and OECD) reports The EU Progress Report</td>
<td>Macro economic situation will be stable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions and Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harmonize Turkish insurance legislation with the relevant EC acquis, and ensure its proper implementation.</td>
<td>Adoption of primary and secondary legislation in conformity with the relevant EC acquis, by the end of 2006. Establishment of monitoring rules in conformity with the EU standards, by the end of 2006.</td>
<td>The EU Progress Report Final evaluation report Official Gazette Other international organizations (i.e. IMF, the World Bank and OECD) reports</td>
<td>The GDI committed to enact secondary legislation.</td>
</tr>
<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
<td>Assumptions and Risk</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Insurance legislation in conformity with the acquis is adopted, and monitoring of insurance sector in Turkey in line with the EU standards is operational.</td>
<td>Adoption of Insurance Supervision Law and secondary legislation in full conformity with the EC acquis, by the end of 2006.  &lt;br&gt;Adoption of Insurance Monitoring Standards and Rules in conformity with the EC acquis, by the end of 2006.</td>
<td>Official Gazette  &lt;br&gt;Medium and short term expert reports  &lt;br&gt;Interim Evaluation Report  &lt;br&gt;Final evaluation report</td>
<td>The GDI committed to enact secondary legislation.</td>
</tr>
<tr>
<td>Minimum 100 staff of the GDI and the ISB, and officials of relevant public institutions dealing with implementation of regulations that effect insurance sector are trained. Awareness of public on newly adopted rules in the field of insurance is increased.</td>
<td>Training curricula developed, by the end of the third quarter of 2004.  &lt;br&gt;Expected number specialist personnel (minimum 100) at the GDI and the ISB and other Institutions trained, by the end of 2005.  &lt;br&gt;Training-the-trainers programs for at least 20 persons in the GDI and the ISB established, by the end of 2005.  &lt;br&gt;An awareness raising seminar organized, by the end of 2004.</td>
<td>Medium and short term expert reports  &lt;br&gt;Interim evaluation report  &lt;br&gt;Final evaluation report</td>
<td></td>
</tr>
<tr>
<td>Insurance accounting system and collecting/analysing of statistics in compliance with the EU standard is operational.</td>
<td>New hardware and software system for financial monitoring installed, by the end of the third quarter of 2004.  &lt;br&gt;Monthly, quarterly and annually</td>
<td>Short term expert reports  &lt;br&gt;Investment reports  &lt;br&gt;Final evaluation report</td>
<td>New chart of accounts and rules, financial tables, insurance statistics adopted.</td>
</tr>
<tr>
<td>Activities</td>
<td>Means</td>
<td>Cost</td>
<td>Assumptions and Risk</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1. Component 1: Legislative Assistance</td>
<td>1. Contract: Twinning</td>
<td>Contract 1 Twinning total value 2,00 MEUR</td>
<td>Other relevant legislative and institutional measures approved by the government, presented to and adopted by the parliament</td>
</tr>
<tr>
<td>1.1. Assistance in drafting secondary legislation in the field of insurance in conformity with the relevant EC acquis.</td>
<td>Pre-Accession Adviser (PAA) for 24 months; Medium and Short-term expert(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2. Assistance in reviewing any amendment proposal for drafted secondary legislation that would be made by the government and/or other relevant public institutions. In this regard, amendment proposals would be reviewed according to their compatibility with the relevant EC acquis.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3. Assistance in drafting amendments for primary or secondary legislation in other sectors that would be in contradiction with harmonised insurance legislation, if necessary.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4. Legal advice to the GDI to assess draft legal acts prepared by other administrative bodies and Ministries that would effect proper</td>
<td>Pre-Accession Adviser (PAA) for 24 months;</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
implementation of harmonized insurance legislation according to conformity of drafts with the EC in the field of insurance

1.5.

2. **Component 2: Administrative Support**

2.1. Reviewing administrative structures of the GDI and the ISB. Regarding this activity, best practices among Member States and Candidate Countries would be highlighted. A benchmark study would be made in which administrative structures of the GDI and the ISB would be compared with best practices. Thereafter, a draft plan for reorganization of administrative structures of the GDI and the ISB would be prepared in cooperation with the GDI and the ISB.

2.2. Assistance in drafting legislation establishing the GDI and the ISB, if necessary, in order to improve implementation of harmonised monitoring legislation with the relevant EC acquis, based on benchmark studies and reorganization plan as mentioned in the activity above.

Medium and Short-term expert(s), Pre-Accession Adviser (PAA) for 24 months;
| 2.3. | To review operational procedures of the GDI and the ISB in order to ensure proper implementation of harmonised legislation. |
| 2.4. | To draft operational manuals and guideline for procedures of the GDI and the ISB. |
| 2.5. | To prepare guidelines and check lists for monitoring of insurance sector. |
| 2.6. | To prepare monitoring standards in full conformity with the EC acquis. |
| 2.7. | To prepare monitoring reporting system in full conformity with the EC acquis. |

**3. Component 3: Training and Awareness Raising**

3.1. Developing training curricula for the staff of the GDI and the ISB. The training curricula will be designed as appropriate in the areas of EC acquis. The curricula will be designed for the continuous assessment, evaluation and quality control;

3.2. Training on the EC acquis in the field of insurance as well as monitoring, and reporting techniques for the staff of the GDI and the ISB in order to make them enforce provisions of legislation

<table>
<thead>
<tr>
<th>Resource Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium and Short-term expert(s), Study visits, Training seminars</td>
</tr>
</tbody>
</table>
effectively;

3.3. Training on other relevant acquis such as freedom to provide services, free movement of capital, competition, state aids, taxation, etc.

3.4. Designing and implementing a ‘training-the-trainers’ programme for selected staff of the GDI and the ISB, in order to ensure sustainable in-house training activities;

3.5. Training for public officials in other relevant public institutions, if it would be deemed necessary by the GDI in selected vertical and horizontal rules in the field of insurance in order to increase their awareness;

3.6. Awareness raising seminar for the representatives of insurance sector, in particular, chambers, professional associations, non-governmental organizations, and related departments of selected universities on harmonised legislation in the field of insurance,


<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>1 supply contract.</td>
<td>1 Contracts: total value 1,10 MEUR</td>
<td>New chart of accounts and rules, financial tables, insurance statistics</td>
</tr>
<tr>
<td>Supply of necessary hardware and</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.1. **Preconditions**

No contract shall be signed prior to the adoption of Insurance supervision law and annulment of the reinsurance monopoly law no.1160.

The contract related to the investment shall not be signed, prior to the adoption of a secondary legislation for chart of accounts and statistics in conformity with the EC standards adopted.
### ANNEX 2

#### TIME IMPLEMENTATION CHART

**Project No:**
**Project Title:**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Twinning</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Components 1,2, and 3)</td>
<td>N N N N</td>
<td>N N</td>
<td>I I I I I</td>
<td>I I I I I I I I I I I I I I I</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Component 4)</td>
<td>D D D D</td>
<td>T T</td>
<td>T T</td>
<td>C C</td>
</tr>
</tbody>
</table>

**Negotiation of twinning covenant** N
**Designing** D
**Tendering** T
**Contracting** C
**Implementation** I
ANNEX 3

Project No:

COMMITTMENT (CONTRACT) and DISBURSEMENT SCHEDULE

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contracted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Twinning (Components 1,2, and 3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>3,10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disbursed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Twinning (Components 1,2, and 3)</td>
<td></td>
<td>0,750</td>
<td>0,800</td>
<td>0,900</td>
</tr>
<tr>
<td>Investment (Component 4)</td>
<td></td>
<td>0,660</td>
<td>1,100</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>Institution Building (IB)</td>
<td>Investment</td>
<td>TOTAL</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>---------------------------</td>
<td>------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Pre-Accession Adviser (PAA)</td>
<td>900.000</td>
<td></td>
<td>900.000</td>
<td></td>
</tr>
<tr>
<td>Short-term experts</td>
<td>500.000</td>
<td></td>
<td>500.000</td>
<td></td>
</tr>
<tr>
<td><em>Ad hoc</em> experts (legal, administrative, IT)</td>
<td>350.000</td>
<td></td>
<td>350.000</td>
<td></td>
</tr>
<tr>
<td>Translation and Interpretation</td>
<td>100.000</td>
<td></td>
<td>100.000</td>
<td></td>
</tr>
<tr>
<td>Study visits</td>
<td>50.000</td>
<td></td>
<td>50.000</td>
<td></td>
</tr>
<tr>
<td>Contingency fund for adjustment of estimated costs</td>
<td>100.000</td>
<td></td>
<td>100.000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td><strong>2.000.000</strong></td>
<td></td>
<td><strong>2.000.000</strong></td>
<td></td>
</tr>
</tbody>
</table>
### ANNEX 4b: Pre-feasibility for Investment (EUR)

<table>
<thead>
<tr>
<th>Description</th>
<th>Institution Building (IB)</th>
<th>Investment</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portable PC’s including extended standard office software packages,</td>
<td></td>
<td>260.000</td>
<td>260.000</td>
</tr>
<tr>
<td>Network servers and PC’s and software package,</td>
<td></td>
<td>85.000</td>
<td>85.000</td>
</tr>
<tr>
<td>Software for Financial Monitoring and Statistics Reporting System</td>
<td></td>
<td>700.000</td>
<td>700.000</td>
</tr>
<tr>
<td>Wiring and installation materials</td>
<td></td>
<td>40.000</td>
<td>40.000</td>
</tr>
<tr>
<td>Contingency fund for adjustment of estimated costs</td>
<td></td>
<td>15.000</td>
<td>15.000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1.100.000</strong></td>
<td><strong>1.100.000</strong></td>
</tr>
</tbody>
</table>
ANNEX 4
List of relevant Laws and Regulations

The European Union Acquis on Insurance

Life
- Directive 2002/83/EC Life assurance (recast version)

Non-Life
- Directive 73/240/EEC Abolition of restrictions on freedom of establishment
- Directive 78/473/EEC Community co-insurance
- Directive 84/641/EEC Amending 73/239/EEC - Tourist assistance
- Directive 87/343/EEC Amending 73/239/EEC - Credit insurance and suretyship insurance
- Directive 87/344/EEC Legal expenses insurance
- Directive 2002/87/EC
- Directive 73/391/EEC Credit Insurance
- Directive 76/641/EEC Credit Insurance
- Directive 98/29/EC Credit Insurance
Accounting

- Directive 91/674/EEC Annual and consolidated accounts of insurance undertakings
- Directive 78/660/EEC
- Fourth Council Directive - Annual accounts of certain types of companies
- Directive 84/253/EEC
- Directive 2002/590/EC

Insurance Statistic:

- Commission Regulations (EC) No 1225/1999 of 27 May 1999 concerning the technical characteristics for insurance services statistic (Text with EEA relevance)
- Commission Regulations (EC) No 1226/1999 of 27 May 1999 concerning the delegations to be granted for insurance services statistic (Text with EEA relevance)
- Commission Regulations (EC) No 1227/1999 of 28 May 1999 concerning the technical format for the transmission of insurance services statistic (Text with EEA relevance)
- Commission Regulations (EC) No 1228/1999 of 28 May 1999 concerning the series of data to be produced for insurance services statistic (Text with EEA relevance)

E-Commerce

- Directive 2000/31/EC Electronic commerce

Insurance groups

- Directive 98/78/EC Supplementary supervision of insurance undertakings in an insurance group

Financial conglomerates

- Directive 2002/87/EC Supplementary supervision of financial conglomerates
  For further information, please see Financial Conglomerates under chapter "Financial Services".

Insurance mediation

- Directive 77/92/EEC Insurance agents and brokers
- Recommendation 92/48/EEC Insurance intermediaries
- Directive 2002/92/EC on insurance mediation
- 3932/92/EEC

Motor insurance

- Directive 72/166/EEC Insurance against civil liability in respect of the use of motor vehicles
- Directive 72/430/EEC Amending 72/166EEC
- Recommendation 73/185/EEC
- Recommendation 74/165/EEC
- Decision 74/166/EEC (no longer in force)
- Decision 74/167/EEC (no longer in force)
- Recommendation 81/76/EEC
• Decision 91/323/EEC Relating to the application of 72/166/EEC
• Decision 93/43/EEC Relating to the application of 72/166/EEC
• Decision 97/828/EC Relating to the application of 72/166/EEC
• Decision 1999/103/EC Relating to the application of 72/166/EEC
• Decision 2001/160/EC Relating to the application of 72/166/EEC - Cyprus
• Decision 2003/20/EC On the application of Article 6 of the Directive 2000/26/EC

**Reinsurance and Co-insurance**

• Directive 64/225/EEC Abolition of restrictions
• Directive 78/473/EEC Community co-insurance

**Solvency**

• Directive 2002/12/EC
• Directive 2002/13/EC

**Winding-up**

• Directive 2001/17/EC Reorganisation and winding-up of insurance undertakings

**Insurance Committee**

• Directive 91/675/EEC Setting up an insurance committee

**International agreements**

• Regulation (EEC) No 2155/91 Provisions of the Agreement between the EEC and the Swiss Confederation
• Decision 91/370/EEC Conclusion of the Agreement between the EEC and the Swiss Confederation
• Directive 91/371/EEC Implementation of the Agreement between the EEC and the Swiss Confederation
• 2001/776/EC EC-Switzerland Joint Committee Decision No 1/2001 amending annexes and protocols
• 2001/160/EEC
• 2199A0727(01)
**Turkish Insurance Regulations**
- Insurance Supervision Law No 7397
- Reinsurance Law No 1160
- Private Pension Saving and Investment System Act Law No 4632
- Turkish Commercial Code (Relating to Insurance Regulation)
- Obligatory Earthquake Insurance Law No 6762
- Road Traffic Law No 2918

**Secondary Legislation Pertaining To The Insurance Supervision Law**
- Regulation on the Formation and Operation Principles of Private Pension Companies (A) O.G. 28.2.2002
- Regulation on Private Pension System (B) O.G. 28.2.2002
- Regulation on Private Pension Intermediaries (C) O.G. 28.2.2002
- Regulation on the Formation and Operation of Pension Funds (D) O.G. 28.2.2002
- Notification on Formation adoration Principles of Private Pension Companies O.G. 28.2.2002
- Regulation on Reinsurance Monopoly Official Gazette 13.7.1929
- Decree on Reinsurance Monopoly Decree No 8/4008
- Decree on Domestic Retention Rates and the System for Increasing Reinsurance Capacity Decree No 91/2276
- Decree on Domestic Reinsurance Pool System Decree No 2001/3480
- Regulation on Operation Principles and Procedures of Association of Insurance and Reinsurance Companies of Turkey O.G. 30.1.1989
- Regulation on Insurance Adjusters O.G. 11.5.1992
- Regulation on Insurance Committees O.G. 15.6.1995
- Regulation on Insurance Producers O.G 2.8.1995
- Regulations on Actuaries O.G.3.8.1995
- Regulation on Auditing of Insurance and Reinsurance Companies by Independent External Auditing Institutions O.G. 4.6.1996
- Regulation on Insurance and Reinsurance Brokers O.G. 1.11.2000
- Communique on the Allocation of Securities to the Claims of Insureds During the Management of Affairs Relating to the Termination of Operations and Liquidation of Insurance Companies (Communique No 7) O.G. 16.10.2002
- Regulation on the Establishment and Operation Principles of Private Pension Companies (A) O.G. 28.2.2002
- Regulation on Private Pension System (B) O.G. 28.2.2002
- Regulation on Private Pension Intermediaries (C) O.G. 28.2.2002
- Regulation on the Establishment and Operation of Pension Funds (D) O.G. 28.2.2002
- Communique on Establishment and Operation Principles of Private Pension Companies O.G. 28.2.2002
Decree on compulsory earthquake insurance and related legislation

- Decree on Third Party Liability Insurance for Hazardous Substances and LPG Decree No 91/2253
- Communiqué Concerning General Conditions on Compulsory Third Party Liability Insurance for LPG (A) O.G. 20.12.1999
- Communiqué Concerning General Conditions on Compulsory Third Party Liability Insurance for Hazardous Substances (B) O.G. 20.12.1999
- Decree Concerning Enforcement of Compulsory Personal Accident Insurance for Buses Decree No 89/14684
- Regulation on School Bus Services O.G. 12.5.1992
- Regulation on Intercity Passenger Transportation O.G. 8.9.1994
- Regulation on Traffic Guarantee Account O.G. 3.7.2002
- Tariffs and Instructions for Compulsory Personal Accident Insurance for Buses (B) O.G. 21.12.2002
- Communiqué on Tariffs and Instructions for School Buses Personal Accident Insurance (C) O.G. 17.4.1998
- Legislation Concerning Taxation Of Banking And Insurance Transactions
- Related Provisions of Expenditure Tax Law Law No 6802
- Decrees on Taxation of Banking and Insurance Transactions Law No 6802
- General Communiqués on Taxation of Banking and Insurance Transactions Law No 6802

Other Legislation Relating To Insurance Legislation

- Related Provisions of Income Tax Law No 193
- Related Provisions of Municipality Revenues Law No 2464
- Related provisions of Turkish Civil Aviation Law No 2920
- Related Provisions of the Law on Organisation and Duties of Undersecretariat of Treasury and Undersecretariat of Foreign Trade Law No 4059
- Communiqués Issued by the General Directorate of Tax Procedure and Accounting Relating to the Documents Drawn by Insurance Companies and Intermediaries