

власти не запаздывали с формализацией (узакониванием) назревших изменений в институтах страны. Иначе последние будут хуже выполнять свои функции и тормозить общественный и экономический прогресс.

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TURKISH INSURANCE SECTOR AND ANALYSIS

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Abstract

Today, insurance is related with every kind of trade, industry and an important part of the social structure. Insurance, in conjunction with securement qualifications, is also an element of trust. In addition, the creator of funds as of the part of economic activities, capital accumulation has become a yardstick to ensure and increase prosperity. Accumulated funds (especially in life insurance), banking and capital markets banker at a leading activity of insurance created. For this reason, insurance one of the most important activities that developed countries dealt with. In other words, there is a strong correlation between insurance activities and economic activities of developed countries with high social level.

Key words: Insurance, Insurance Sector, Turkish Insurance sector, Insurance Industry.

Ключевые слова: страхование, страховой сектор, турецкий страховой сектор, страховая индустрия.

Introduction

Since insurance creates long-dated funds, it contributes to capital saving and expansion of credit capacity. It also gives guarantee to agents (actors) engaging in economic activities ensuring the sustained continuity of such activities. Thanks to these characteristics, insurance is a crucial finance sector providing direct contribu-

tion to a country's development. Yet similarly, the expansion of trade capacity and economic growth bring forth new areas of warranty as well as increase the current capacity which in turn contributes to the advancement of insurance sector. Therefore, we can say that a linear relation is between the economic development and the development of insurance sector. (Kuşçu, 1996),

revealed in his studies that increase of earnings of individuals in a country as well as that of the country trigger a rise of the demand for insurance.

The economic crisis sparkling in the developed countries in 2008 and spreading over the globe had a negative effect on the insurance sector due to the aforementioned relationship. As a result, insurance premium production declined in 2008 and 2009 on a global scale. In our country, the insurance premium production in areas other than life was below the inflation rate and sector premium production diminished.

As of the end of 2009 a total of 57 companies are actively engaged in insurance and individual retirement sectors in Turkey. 33 of these companies operate in non-life (elementary) branches with 10 firms in life insurance and 13 in both branches. Only one company is engaged with reinsurance activities. Besides, there are 4 life insurance and one non-life insurance companies who were forced to cease activities by public authorities despite holding a license to operate.

In this study we will first pay a brief visit to the history of insurance after which we will review the status of insurance sector in Turkey and in the Globe.

Definition and Meaning of Insurance

Insurance is a word originated in Latin, meaning "safety and trust" in its essence. As we can understand from this definition, a system was needed for people to attain precaution and trust against events that may, in the future, threaten their life, property, interests or may put them under liability due to any harm to other people. This system is called insurance. Thanks to this system, people exposed to danger managed these issues together (Baran, 1982: 11). Throughout their lives, people come to face events borne by nature or peoples' behaviors which cause various harms. Some of these events, especially those caused by the nature, are accidental. Sometimes a totally unexpected event may bear dangerous results and may harm an individual. This harm may come as the loss of life or property. Thus in today's world where men's life becomes more active and technology further manipulates our life every day, these dangerous cases rise. Therefore the idea to take precautions against these potentially dangerous events that may harm the individual and the society gave birth to insurance.

In this context, the most comprehensive meaning of insurance could be; "*to take precautions against any possible harm that may emerge in connection with prospective risks*". Still another definition could be; "insurance is a contract intended to ensure that any damage to building, goods, property and life of an insured person due to any kind of fire, accident, death etc. by the insurer". This definition reveals a new meaning and direction of insurance which is that it is a contract. Thus it is a commercial agreement between the parties (Çaldağ, 1979: 8).

After a brief definition of insurance, a definition should be given for risk, which is the subject of insurance. Risk may be defined as; "*a suspicious event relating to future in terms of possibility of realization and period*". Yet another definition states risk as; "*possibility of occurrence of an event that may cause prospective damage or undesired situation*" (Pekiner, 1974: 3).

Activities Similar to Insurance in History

The first activities similar to insurance were first observed in Lower Egypt in 4500 B.C. It is understood from the papyruses that stone dressers who lived there created a cooperative fund and assisted the relatives of an individual in the case of their death (Çaldağ, 1979: 5).

We can see in the scriptures of Talmud found in "Babel" (around 2500 B.C.) that insurance was a commercial application performed by Hebrews. Any harm the people encountered in daily life was compensated in a property-for-property basis. In the case that caravan masters in Babel lost an animal, they were compensated through the fund created by the caravan master's premiums.

Again in 650-558 B.C. according to laws of Athens, communities that were closely related paid a certain amount to an organization they formed which would return funds as assistant to relatives of deceased individuals.

In 200 A.D., it is recorded that in the Roman Empire, a certain amount of money was paid to the first degree relatives of the deceased members of religious, vocational and military organizations (Külçür, 1946: 1-3).

We stated before that activities resembling insurance may be observed in all the ancient societies. Assessing the issue within this context, we can say these activities were present in the Ancient Turkish States as well.

According to Masao Mori (1987)¹¹; in the Great Hun Empire, the tradesmen from Sogd formed a close relation with the Huns to secure their trade with China, giving a portion of their profits as somewhat a “protection tax” in exchange for securing of trade routes. Tradesmen of Sogd later paid the same tax to Gokturks as well (Mori, 1987: 340-347).

In Turkish states of later periods (Khazars, İlkhaniids, Seljuks and Anatolian Feudal Lordships) this protection tax was taken as an addition to “customs duty” in exchange for protection of caravans by assigned guards throughout their route (Atan, 1990: 25).

We have information that, as a result of the conquest launched by Alaaddin Keykubat for commercial purposes and to secure the trade routes of caravans, following his victories, caravan owners who had to face robberies and plunders were compensated for all their losses by the state treasury. This is proof that, whether secured with a written agreement or not, the Seljuk state compensated the loss of commercial property caused by the intervention of foreign states or due to banditry (Akpınar, 1990: 36).

In this context, it would not be wrong to mention the use of a state insurance system as a requisite of the financial policy and practice of Seljuk state (Turan, 1971: 285).

Guild Establishments in Ottoman Empire, having operated before the initiation of modern insurance activities, did not only compensate the losses of guild members but also constituted a cooperation among the members to provide assistance to new, prospective establishments and those who are unable to work, similar to the guilds in the western countries. Common funds were created to compensate the losses of members who faced unexpected circumstances such as illness and death. (Erdoğan, 1993: 26).

Structural Status of Insurance Sector in Turkey

Number of Companies: The number of countries operating in insurance sector in Turkey in the year of 2007 was 61 while it increased to 62 in 2008; as for 2009, 4 new companies were set up though 2 companies withdrew from the market while two others disappeared through mergers which in turn made no changes to the number of firms.

On 31.12. 2009, the allocation of 62 companies was as follows: 37 firms in non-life branch-

es, 10 firms in life, 14 firms in life and retirement, and one is reinsurance firm. However, 4 of the 37 non-life companies and only one of the 10 life insurance firms operate in the market. Thus actual number of operating firms out of 62 is 57 (SDK, 2009: 9).

These companies issued a total of 41.175.035 insurance policies by the end of 2009; 33.281.456 in non-life branches and 7.893.579 in life branches. This amount is higher than 2008 by 14,51%.

Considering also the policies cancelled and terminated of those issued within the year as well as cumulative life insurance policies that were cancelled due to surrender, death and expiration, we can see that the number of life insurance policies in effect by the end of 2009 is 9.938.683. While 2.988.647 of these policies are cumulative life insurances, 2.203.491 of them are individual retirement policies (SDK, 2009: 12).

Capital Structure of Insurance Sector:

The high potential of insurance in Turkey as well as rapid development in recent years drew the interest of foreign investors in Turkish insurance market. 24 out of the 37 non-life companies in 31.12.2009, and 19 of the 24 life and insurance companies are directly or indirectly partners with foreign companies. 35 of these companies had a foreign partner share portion of more than %50. As of 31.12.2009, the number of companies with foreign partners in the market is 43 (SDK, 2009: 13).

Status of Insurance and Individual Retirement System in Turkish Finance Markets:

Turkish finance sector has a bank-dominant structure. The active size of the finance sector in 2009 soared to 1.047,7 Billion TL. While 834 Billion TL of this amount belongs to banking sector (excluding TCMB), the active total of insurance and individual insurance sector is 33,4 Billion TL. Thus, the share of banking sector is %79,6, the share of insurance sector is %3,19. In clearer terms, while the banking sector is in lead, insurance sector and stock exchange investment funds are runner-ups (SDK, 2009: 15).

Employment Status in Insurance Sector:

The total count of employees in 62 companies operating in insurance market is 15.602. By the end of 2009, the number of agencies established for marketing insurance services and registered in the board within the body of TOBB (Union of Chamber and Commodity Exchange) reached

15.579. The number of individual retirement commissioners is 15.666. 72 brokers currently operate in the market.

57 of these provide insurance and reinsurance brokerage, 13 being in insurance and only 2 provide brokerage for reinsurance. By the end of 2009, 908 real and legal entity insurance experts operate in the sector with 431 being legal insurance experts and 1.154 individuals operating as agricultural insurance experts. The number of actuaries operating as per agreements with insurance companies is 36. We can say that insurance sector provides employment for over 60 thousand people by the end of 2009 (SDK, 2009: 11).

4. Fundamental Indicators of Turkish Insurance Sector

Insurance is among the financial sectors most rapidly and intensely affected by any changes in the economy. When Gross Domestic Product (GDP) increases, insurance sector grows be-

yond the GDP but diminishes significantly when GDP descends (Kuşçu, 1996: 1).

Turkey's GDP in 2008 with current prices was 950.144 million TL while it was 953.974 million TL in 2009. In other words, despite the global economic crisis, Turkey's GDP managed to show at least a slight increase. This result reflected positively on the insurance sector, paving the way for development in spite of the economic crisis.

In parallel with the increase of GDP, it is observed that premium production in insurance sector within the same period increased from the level of 11.780 million TL in 2008 to 12.436 Million TL in 2009. It is seen that the sector provided assurance worth 24.938.878 Million TL in 2009. In other words, the sector produced premiums equal to 1,30% of GDP and provided assurance of 26 times greater than GDP. In addition, the ratio of fund savings in individual retirement system to GDP reached 0,96% (SDK, 2009: 5).

Table 1 - Course of Premium Assurance and Cumulative Fund Totals and GDP

(Million TL)	2005	2006	2007	2008	2009
Premium Production	7.817	9.670	10.931	11.780	12.436
Assurance Amount	7.500.780	9.472.643	11.910.814	22.676.538	24.937.878
Savings Amount	1.219	2.836	4.603	6.400	9.125
GDP	648.932	758.391	843.158	950.144	953.974
Premium/GDP(%)	1,20	1,28	1,30	1,24	1,30
Assurance/GDP(%)	1155,87	1249,04	1412,64	2386,64	2614,10
Savings Amount/GDP(%)	0,19	0,37	0,55	0,67	0,96

Source: Turkish Republic Prime Ministry Under secretariat of Treasury, SDK 2009 Report, p:5.

Turkish insurance sector produced a gross total of 12.436 Million TL of premiums; 10.614 Million TL in non-life branches and 1.882 Million TL in life branch in 2009.

Table 2 - Course of Gross Premium Production and Guarantee Totals

(Million TL)	2005	2006	2007	2008	2009
Premium Production					
Non-Life Premium	6.575	8.284	9.600	10.204	10.614
Life Premium Production	1.242	1.386	1.331	1.576	1.822
Total Premium Production	7.817	6.670	10.931	11.780	12.436
Life Percentage (%)	15,89	14,33	12,18	13,38	14,65
Guarantee Amount					
Non-Life Guarantee	7.410.652	9.358.669	11.756.248	22.452.225	24.772.284
Life Guarantee	90.128	113.974	154.566	224.314	215.594
Total Guarantee	7.500.780	9.472.643	11.910.814	22.678.538	24.937.878

Source: Turkish Republic Prime Ministry Under secretariat of Treasury, SDK 2009 Report, p:1.

Considering the amount received from this premium production through reinsurance, the direct production of premium stands out as 12.193 Million TL. Here, non-life premium production is 10.371 Million TL; since it is not possible to produce premiums in life branch through reinsurance, the gross and direct premium production totals are similar.

In Turkey, premium production in non-life insurance branches surpasses the life branch. Despite minor fluctuations over years, non-life insurance branches hold a share of 85% in total premium production. However, between 2005 and 2007, the share of life branch in the total premium production slightly decreased due to the transfer of life insurances into Individual Re-

tirement System but resumed its upward tendency in 2007 with the conclusion of these transfers (SDK, 2009: 2).

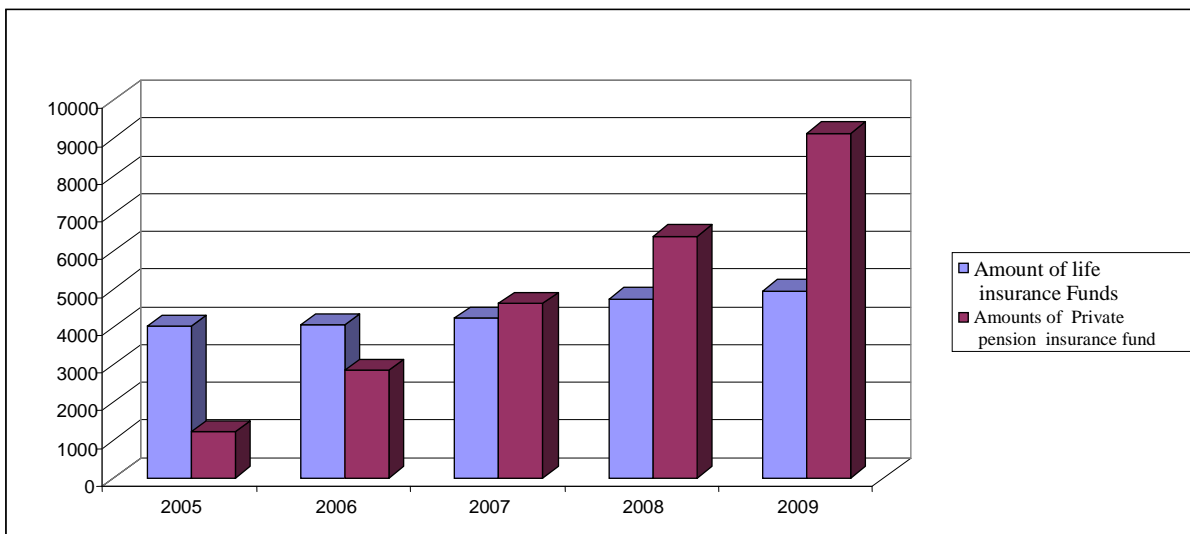
Individual retirement companies have allocated a net amount of 1.672 Million TL contribution margin to stakeholders in 2009. Of this amount, 655 Million TL is from new contracts while the remaining amount of 1.017 Million TL comes from the contracts in 2009.

The total amount of contribution margin collected for the contracts in effect as of late 2009 has reached 7.034 Million TL. Combined with an increase of 2.735 Million TL within the year, the amount of funds accumulated in Individual Retirement System has reached 9.125 Million TL.

Table 3 - Course of Direct Premium Production.

(Million TL)	2005	2006	2007	2008	2009
Non Life Direct Premium	6.575	8.090	9.370	9.995	10.371
Life Direct Premium	1.242	1.385	1.331	1.564	1.822
Direct Premium Totals	7.817	9.475	10.701	11.560	12.193
Nominal Variation (%)	18,18	21,21	12,95	8,02	5,48
Real Variation (%)	9,71	10,54	4,2	-1,85	-0,98

Source: Turkish Republic Prime Ministry Undersecretariat of Treasury, SDK 2009 Report, p:1.



Graphic 1. Life Insurance and Individual Retirement System Savings Amounts.

Source: Turkish Republic Prime Ministry Undersecretariat of Treasury, SDK 2009 Report, p:6.

Comparing the premiums and contribution margins collected from life insurance and individual retirement system with savings and funds diverted to investment, it is clear that funds gathered in individual retirement system have grown more rapidly compared to life insurance. While the funds accumulated in life insurance were approximately three times the funds accumulated in individual retirement system in 2005, the

amounts saved in individual retirement reached a size about two times greater than life insurance amounts by 2009.

Conclusion

As of 2009, industrialized countries have a share of 87% in global insurance premium production while developing countries possess a share of 13%. While in recent years, the premium

production in developed countries declined, the premium production in developing countries increased in spite of the crisis, as in the example of Turkey.

Turkey is the 36th in the global list with a share of 0,21%. While a premium of 106,2 USD was produced per person in 2008, this amount soared to 113 USD in 2009 (SDK, 2009: 8).

In 2009, Global insurance sector experienced a decline of 4,77%, producing a premium amount of 4.066 Billion USD. Life branch undergone a decline of 6,36% while non-life branches shrunk by 3,16%. But the real rate of decline in premium production occurred below the nominal values due to the crisis (SDK, 2009: 7).

Insurance sector in Turkey generally moves in parallel with the developing markets. Developing markets continued to grow during 2008 and 2009 despite the economic crisis (life: 4,2%, non-life: 2,9%). While Turkey continued to grow in life branch during 2008, a decline was observed in the real rates of non-life branches. As the world and Turkey leave behind the crisis, the premium production started to rise in effect.

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ЭТАПЫ РЕФОРМИРОВАНИЯ БЮДЖЕТНОЙ СФЕРЫ КЫРГЫЗСТАНА

BUDGET REFORM STAGES IN KYRGYZSTAN

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Abstract

This article is devoted to budget reform investigation in Kyrgyzstan. Here the author analyses three stages in budget reform: 1. the stabilization of the economy and budget deficit shortening (1991-1996); 2. active institutional transformation and budget law formation (1997-2001); 3. decentralization, democratization and budget transparency growth (2002-2007). The achievements and failures of budget reform in Kyrgyzstan are clarified and systemized within the framework of the concept of budget as a political category.

Key words: budget reform, public budget, public administration, local government, budget process