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THE TAM HAYAT PROJECT  
A NEW DEVELOPMENT IN TURKISH LIFE INSURANCE

Noyan Arsan

Submitted in partial fulfillment of the requirements for the  
Degree of Master of Arts in the Faculty of the School of  
Business Administration and Economics  
Robert College  
1967

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## DEDICATION

This thesis is dedicated to Mr. Bedi Yazıcı, Chairman of the Board of Directors of Tam Hayat, and to Mr. Ali Neyzi, President of Tam Hayat, whose kind permissions and contributions could make the preparation of this thesis possible.



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## ACKNOWLEDGEMENTS

I wish to express my sincere appreciation to Professor Rodney Eldridge, professor of Economics at Robert College for his kind encouragement, review, and contributions; also to Professor Ahmet Koç, Professor Francis Potts, and Mr. Harris Wofford for their valuable criticism and evaluation of this thesis.

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## CHAPTER I

### INTRODUCTION

#### Purpose and Significance of the Study

The purpose of this study is to analyze the future contributions of Tam Hayat Insurance Company to the life insurance field in Turkey.

Had this study been undertaken in countries like the United States or Great Britain, it would involve only an analysis of the future contributions to life insurance and the growth potential of any newly established company in the market. However, in Turkey, the situation is different.

Turkey has a very small and unhealthy life insurance market. This market was first established in 1889 by an Austrian insurance company.<sup>1</sup> No records remain from the operational results of this company, but it can be expected that they were not of a wide scale and that they mostly were confined to the non-Moslem population of the Ottoman Empire. It has been more than seventy-five years since the foundation of that company and other companies with life insurance branches followed it. According to statistics in 1965, seventeen Turkish companies and two foreign

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<sup>1</sup>Ali Bozer, Sigorta Hukuku (Banka ve Ticaret Hukuku Araştırma Enstitüsü, Türkiye İş Bankası Tesisi, Hukuk Fakültesi Cebeci, Ankara, 1965), p. 12.

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companies were engaged in life insurance in Turkey, with 49,854 individual policies and with 65,278 covered by group policies, both totaling less than 2/5 of 1% of Turkey's population.<sup>1</sup> When the total population of Turkey is taken into consideration, the number of insured seems insignificantly small.<sup>2</sup>

All together, the people covered by private and group insurance add up to 115,132 for 1965, whereas the amount was 116,957 in 1964; this indicates a decline from 1964 to 1965. Total insurance in force also showed a decline in monetary terms from 951,692,318 TL. in 1964 to 899,336,561 TL. in 1965.<sup>3</sup>

The profits obtained from the life insurance branches were too insignificant to even be considered as a percent of the total profits. Four companies out of nineteen engaged in life insurance reported losses due to their life insurance branches, whereas when all operations are taken into consideration, only one out of nineteen companies reported a loss on operations for 1965. The present situation of the life insurance market will be analyzed in more detail in Chapter IV. For the moment, we will state that as a whole, a growing success in life insurance activity is in no way indicated.

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<sup>1</sup> Ticaret Bakanlığı Sigorta Murakabe Kurulu, Türkiyede Sigorta Faaliyet Hakkında Rapor.

<sup>2</sup> Similar comparisons for the United States and for India indicate 160% and 1.4% respectively.

<sup>3</sup> Although people covered by group insurance increased by 1,691 from 1964 to 1965, total group insurance in force decreased from 583,403,210 TL. in 1964 to 516,447,006 TL. in 1965.

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Another peculiar situation of the Turkish life insurance market is that all companies, with the exception of one, take up life insurance as a branch activity.<sup>1</sup> This aspect will be taken up in Chapters III and IV. Suffice it to say here that this situation has shortcomings in certain respects.

Thus, when Tam Hayat Insurance Company started operating in September, 1966, it had to face the existing market as described above. Therefore, the writer of this paper found the formation of Tam Hayat "daring" and "revolutionary". We say "daring" because 7,000,000 TL. of capital was put into a market which has offered no large profits up to now; "revolutionary", because the company could never have been formed had its owners not expected to change the basic structure of the market considerably. Therefore, the formation of this company is incomparable to the formation of any other insurance company in Turkey; it is the first life insurance company and will have probably the biggest impact on the Turkish life insurance market since 1889.

In addition, Tam Hayat uses premium rates based upon the CSO 1958 Table, the most up-to-date table ever put into use in Turkey. In comparison with German, French, and Swiss mortality tables used by other companies in Turkey,<sup>2</sup> the CSO 1958 Table has the lowest number of death rates per 1000 people. In life

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<sup>1</sup>The exception is Unyon Hayat, a foreign company, with 100,000 TL. capital owning a little less than 1% of the total assets of all the insurance companies in Turkey.

<sup>2</sup>Turkey does not have her own mortality tables.

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insurance, lower death rates mean lower premium payments for the same kind and amount of insurance. This aspect will be discussed in detail in Chapters III and IV.

For the first time, Tam Hayat realized the importance of a large life insurance sales force and invested in training such a force. The sales force will be taken up in Chapters III and IV as well.

A question might arise as to the significance of increasing life insurance sales in Turkey. What happens if Tam Hayat can increase insurance sales in the future?

People, when they buy life insurance, have one of the following motives in mind:<sup>1</sup>

1. To provide funds to pay debts and cover funeral expenses.
2. To provide an estate for the benefit of wife and children, the income from which will be sufficient to provide for their material wants (the ideal situation).
3. To provide a monthly income for the wife and children.
4. To provide paid-up insurance for old age, when the insured retires or his earning power declines materially.
5. To provide for the education of children.
6. To provide protection for business associates.
7. To provide bequests.
8. To provide cash to pay for taxes.
9. To pay the mortgage on the home of the insured.

<sup>1</sup>F. L. Garcia, Encyclopedia of Banking and Finance (Boston, Mass.: The Banker's Publishing Co., 1962).

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10. To provide an income during periods of sickness or disability.

11. To provide current liquidity and basis for borrowing.

The eleven items above indicate that life insurance is a social and economic service. The more widespread it is, the more people benefit from this service. In the United States, 320,124,000 insurance policies were outstanding, which means 1.6 policies per person.<sup>1</sup> In many developed and in some underdeveloped<sup>2</sup> countries, the social service that life insurance companies offer are found attractive by the society. Life insurance institutions grow at a very high rate. The economic and social services mentioned in the eleven items above are of three main categories:

1. Protection

2. Saving

3. Liquidity

The protection and saving aspects offered by life insurance companies are very attractive to the middle income group people. All three aspects will be discussed in Chapters III and IV and will be compared with the offerings of other financial institutions.

In addition to the importance of life insurance as a social service, life insurance companies turn out to be big col-

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<sup>1</sup>U.S. Dept. Of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1965.

<sup>2</sup>Such as India.

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lectors and investors of funds which would neither be saved nor invested if they were not used for the purpose of buying life insurance.<sup>1</sup> In 1963, in the United States, 6,300,000,000 dollars worth of funds from life insurance were invested in capital markets. This amount makes up approximately 13% of all funds plowed into the capital markets. Thus, among the fourteen different types of capital market investors, life insurance companies ranked third, following only savings and loans associations which deal with house mortgage loans only, and commercial banks. In terms of corporate bonds, life insurance companies are the biggest holders (holding 53.8%) of all corporate bonds outstanding in the United States in 1963.<sup>2</sup> Insurance companies also invest in a variety of other instruments and thus are one of the most important of financial intermediaries in the capital markets.

In Turkey, the role of insurance companies as financial intermediaries needs development. In 1965, Turkish insurance companies held approximately 72,000,000 TL. worth of stocks and 85,000,000 TL. worth of bonds. The total assets and/or liabilities of Turkish insurance companies were around 512,000,000 TL. However, the life insurance reserves which offer a better investment potential than other forms of insurance reserves, made up only 20% of total liabilities--approximately 100,000,000 TL.

<sup>1</sup>See Chapter III.

<sup>2</sup>Herbert E. Dougall, Capital Markets and Institutions (Englewood Cliffs, N.J.: Prentice-Hall Inc., 1965), p. 114.

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The formation of Tam Hayat might be expected to improve this situation and thus contribute to the development of a capital market in Turkey.

## Methodology and Limitations

This paper is prepared based upon three forms of sources:

### I. General Published Material Available on the Topic.

These materials themselves were of five kinds:

A. Those in the Robert College Library which were of two kinds.

1. Technical books on life insurance.

2. Statistical information.

B. Published materials outside the Robert College Library which are the statistical reports of the Turkish Ministry of Commerce for 1964 and 1965.

C. Published materials made available by Tam Hayat.

D. Turkish Newspaper of Commercial Registry.

E. Information obtained from the Ministry of Commerce in relation to premium rates.

II. Interviews: The interviews were made with various members of the Tam Hayat staff. The interviews were held on a formal as well as on an informal basis.

III. Personal Observations. The writer of this paper has been employed by the company since its foundation and before the time the company started selling life insurance. He has listened to different discussions and to the exchange of ideas among the working staff.



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The sources mentioned above were used together throughout the paper whenever necessary. Footnotes have been provided to indicate the sources of borrowed ideas. A list of all sources is given in the appendix section of this paper.

In general, company publications were mainly used in the preparation of Chapter III. Interviews were useful in preparing all chapters but especially in preparing Chapters II and IV. Library resources and personal observations were used throughout the entire paper.

In writing this paper, certain inevitable limitations occurred. An important limitation was the inadequacy of data about the general economic conditions in Turkey. Turkey does not have any income distribution statistics, except for the year 1963 for which an estimate was made by the Planning Office. Tax revenues do not give a real picture of the income distribution since income tax returns are understated in many cases, and a large proportion of the Turkish population falls outside the scope of income taxes.

Turkey did not have reliable life insurance statistics until 1964. Only in 1964 was a report on insurance practices issued by the Ministry of Commerce. The figures before 1963 have to be estimated. The lack of statistical data compelled the writer to use his own estimate or to depend upon published data which were themselves based upon estimates.

The writer was also somewhat hindered because, although the management of Tam Hayat was very helpful in general, certain

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information was not found appropriate to divulge to be used for public reading. This limitation was exercised within the necessities of sound management policies and due care was taken on the part of the writer not to disclose such information.

The third, and probably the most important limitation, was due to one-man research. It is not possible for one man to make a very extensive research, especially in terms of market research for life insurance. Existing data, though inadequate, was preferred to an individual market research because of the probable magnitude of the bias involved when using small samples. As a matter of fact, this thesis is not an investigation of what will happen, but it is an investigation of what can happen. Therefore, despite the existing limitations, the writer found it worthwhile to study the problem.

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## CHAPTER II

### OWNERSHIP, ORGANIZATION, AND PRINCIPLES OF OPERATION

Chapter II has two sections. In the first section, a descriptive analysis of ownership and organization is presented. In the second section, the operational procedures of Tam Hayat are described as they are practiced. Operational procedures are taken up for the purpose of familiarizing the reader with the principles behind the practices of Tam Hayat. The basic aim in writing this section has been to present a comprehensive picture rather than a technical one.

#### Ownership and Organization of Tam Hayat

Ownership and organization are the two main characteristics of a corporation. Usually companies receive their names in relation to their structure of ownership. For example, Mutual of New York indicates that the company has mutual ownership; i.e., customers are also the owners. The "Anonim Şirket" meaning "corporation whose ownership is limited to the shares issued by it" is a legal requirement to be used in the names of every corporation founded as an "Anonim Şirket".

In any company it is not possible to operate without some form of an organization. Therefore, it is a natural consequence

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that the organizations should be so formed as to provide for efficiency of operations. However, operational inefficiencies do exist in many companies. The discussion of organizational inefficiencies will be taken up in Chapter IV in terms of their detectable effect on insurance sales. In order to point out the effect of organization on sales, it is imperative to describe the existing organization.

Tam Hayat is a corporation ("Anonim Şirket") formed under the provisions of Turkish business law. According to Turkish business law, there are two ways of forming Turkish corporations. The first one is the so-called instantaneous formation ("ani kuruluş"), and the second is the so-called gradual formation ("tedrici kuruluş"). The main difference between these two kinds of formation is that in the former, all of the capital must be guaranteed to be paid by the organizers of the corporation, and 25% of it must be paid in before asking for formation permission from the Ministry of Commerce; in the latter case, it is not required that all of the capital be guaranteed payable by the organizers. The first form usually suits best the family type of closed corporations, whereas the second type requires general public investment.<sup>1</sup>

Tam Hayat is an instantaneous formation with six owners who are the organizers and shareholders as well. Three of the shareholders are legal entities; i.e., financial companies, and

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<sup>1</sup>Turgut S. Erem, Ticaret Hukuku Prensipleri (Istanbul: Yörük Matbaası, 1965), Vol. II, pp. 147-177.

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the other three shareholders are real persons. The 7,000,000 TL capital of which 25% is paid before formation is supplied by the owners in the following manner:<sup>1</sup>

<u>Owners</u>	<u>Guaranteed</u>	<u>Paid</u>
Tam Sigorta A.Ş.	3,200,000	800,000
Akbank A.Ş.	700,000	175,000
Osmanlı Bankası A.Ş.	700,000	175,000
Eczacıbaşı, Nejat	100,000	25,000
Koç, Vehbi	100,000	25,000
Yazıcı, Bedi	2,200,000	550,000
Total	7,000,000	1,750,000

Tam Hayat's formation as a stock company offers the following advantages and disadvantages over a mutual company:<sup>2</sup>

#### Advantages:

1. The stockholders' self-interest requires economical administration; therefore, a serious attempt is made to keep expenses low.
2. It offers the definite contract of insurance with the premium absolutely fixed in advance.
3. It boasts a capital and surplus as a guarantee and protection to policy holders.

#### Disadvantages:

1. The impersonal character of the management and the commissions paid to agents tend to create a high expense rate.

<sup>1</sup>From: "The Articles of Incorporation of Tam Hayat".

<sup>2</sup>Robert Riegel and S. Jerome Miller, Insurance Principles and Practices (Englewood Cliffs, N.J.: Prentice-Hall, Inc. 1966), p. 51.

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2. Control of the company is in the hands of the stockholders not of the policy holders.
3. The profits of the stockholders increase the cost of insurance.

## Distribution of Profits

The distribution of future profits is pre-determined in accordance with the Turkish Business Law and is included as an item in the Articles of Incorporation. Accordingly, the future profits will be distributed in the following manner.

After the net profit is determined, of this profit-

1. 30% will be distributed among the policy holders.
2. The amount left after Item 1 will be divided as follows:
  - A. 5% to the legal reserve.
  - B. An amount equal to 5% of capital (350,000 TL.) to partners as first dividends.
  - C. If any amount is left over from the above distributions:

1. 20% will be put into special reserves.
2. 60% will be distributed to shareholders as second dividends (if the amount turns out to be more than 12% of the capital, the excess will be put into retained earnings).
3. 10% will be distributed among the founders of the corporation.
4. 10% will be distributed among the members of the Board of Directors.

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D. From all the distribution mentioned in Item C, 10% will be taken away and added to the legal reserve.<sup>1</sup>

## Organizational Structure

Two out of three legal entity owners of Tam Hayat are represented by one member each in the Board of Directors. The Articles of Incorporation of Tam Hayat indicates that the Board of Directors can have between five and eleven members. Those elected to membership for the first time stay in their positions for three years. After three years another election will take place for five new members. However, a member already on the Board can be re-elected. After the second election, one-third of the members are renewed each year.<sup>2</sup> Any member who cannot be present in more than three consecutive meetings is assumed to have resigned from membership.

The Board of Directors has the following functions:

1. Determining long-range company policies.
2. Representing the company against third parties and shareholders.
3. Exercising control over the company's property.
4. Setting up policies for internal management.

<sup>1</sup>From: "The Articles of Incorporation of Tam Hayat".

<sup>2</sup>The election procedure is just a formality since there are only six owners, five of which are the members of the Board of Directors (two of them members through their representing the legal entities). It is highly improbable that an outsider can be elected to the Board of Directors. Renewing 1/3 of the members each year after the second election is not clear when there are only five members and since the membership is not divisible.

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5. Determining budgets and deciding on the selection of the higher management group.
6. Determining the range of the authority and the responsibility of the company's president.

The salaries of the Board of Directors are determined by the stockholders in the annual stockholders' meeting. As there are only six stockholders, five of whom compose the Board of directors, the writer of this paper thinks that there is no need to talk about the functions of the stockholders' meetings. The Board of Directors at present is composed of the following five people: Bedi Yazıcı (Chairman of the Board of Directors), Nejat Eczacıbaşı, Vehbi Keç, Reşat Aksan (representing Osmanlı Bankası A.Ş.), and Ahmet Dalli (representing Akbank A.Ş.).

The function of the company president is to execute the policies determined by the Board of Directors, to control all forms of company operations, and to determine the selection of the employees through the authority delegated to him by the Board of Directors.

The staff of Tam Hayat works together in the same building with the staff of Tam Sigorta. The personnel manager is the same for both companies. The Tam Hayat technical staff is very limited in number. A technical manager is in charge of the control and organization of the policies. Another employee under the supervision of the technical manager takes care of the daily routine matters in relation to operations. Another employee takes care of the recording of policies in a ledger and the removing the cancelled ones from the ledger. The internal organi-



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zation also has three typists who type policies and correspondence materials between the company and the policy holders. Two part-time workers handle extra clerical work that can not be handled by the other members of the internal organization due to time limitations. Thus the internal organization is composed of eight employees, two of them being part-time workers. What is called here the technical staff is basically trying to handle the work of the policy-writing, reinsurance, statistics, and claims departments of a large insurance company. The legal, accounting, investment, and personnel functions of Tam Hayat can not be separated from those of Tam Sigorta. The medical department is composed of two doctors so that the person to buy an insurance policy can be examined by two doctors separately. The policy holder can always have a medical check-up at no cost in the medical department of Tam Hayat. A recent attempt has been made by the Tam Hayat management to establish medical service in different sections of Istanbul to offer free medical check-ups for the convenience of the policy holders. For the actuarial department, a chief acturarian is hired on a salary basis working in close connection with the president of the company, chairman of the Board of Directors, and the technical manager. In general the organization is still in the early formation stage, and it is evident that it will change considerably; i.e., departmental functions will be more clearly identifiable.

The sales department of Tam Hayat is the largest department in the organization. More than fifty salesmen work in this department and their number is increasing. In addition, some of

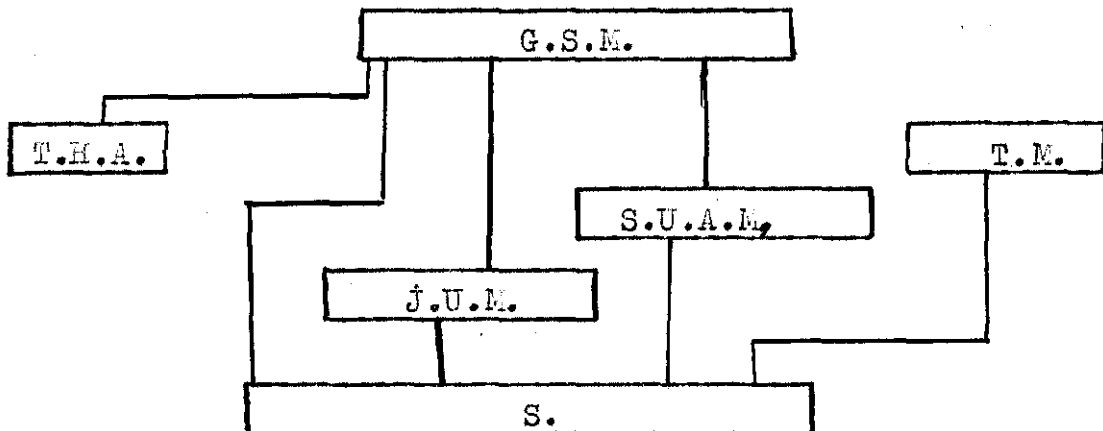
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the Tam Sigorta agencies throughout Turkey are given permission to serve as Tam Hayat agencies, provided at least one member of the agency attends training courses offered by the Tam Hayat sales department.

Although Tam Hayat has no organization chart, the head of the sales department (General Sales Manager) indicated the organization of Tam Hayat's sales department as shown in the chart below:



## Explanations:

1. G.S.M. : General Sales Manager. Functions: Administrative, selling, training.
2. T.M.: Technical Manager. Functions: Controls calculations and technical details of policies.
3. T.H.A.: Tam Hayat Agencies. Function: Selling.
4. S.U.A.M.: Sales Unit Associate Manager. Function: Training.
5. J.U.M.: Junior Unit Managers. Functions: Training, selling.
6. S.: Salesmen: Function: Selling.

## Policy Provisions, Premiums, and Reserves

The purpose of this section is twofold. Firstly, it is an attempt to show the reader different principles behind the actual practices of Tam Hayat, and secondly, it is an attempt to discuss certain factors that will influence the formation of the funds in the future development of Tam Hayat. These factors are predetermined and are outside the scope of the control of the management. The first part of this section will be concerned with the items involved in the life insurance policy of Tam Hayat, and the second part will describe the different kinds of policies that are used by Tam Hayat. The items that are in the Tam Hayat policy are common for all types of insurance policies. Turkish business law requires that some of these items be shown in the life insurance policy. These minimum legal requirements will first be stated, and then other items not specified by law but which exist in the Tam Hayat policies will be mentioned. The third and fourth parts will be devoted to Tam Hayat's method of arriving at policy premiums and to determining Tam Hayat's reserves respectively. The third and fourth parts are taken up due to their direct influence on the determination of the amount of funds that will be received by Tam Hayat in the future.

The life insurance policy is the most important document of a life insurance sale. Certain procedures are to be followed before the customer can obtain a life insurance policy. The Tam

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Hayat practice requires the following major steps before the customer can be given a life insurance policy:

1. The application. The person planning to buy life insurance gets in contact with one of the salesmen or with a Tam Hayat agency, or vice versa. He states his intention of buying a life insurance policy and discusses various policies with the salesman among which he makes his choice. Then he is asked by the salesman to fill out an application form which includes information in relation to his name, age, address, dependents, beneficiaries, and the kind of insurance wanted. When this form is completed, the salesman gets a first payment from the customer. The payment is not returned if the customer changes his mind about buying the policy. However if the customer fails the physical then the first payment is refunded in full. Normally, these two conditions do not take place and the first payment is counted towards a portion of his first premium payment.
2. Physical check-up. A complete physical check-up is required which must be made by two certified doctors. The results of the medical check-up are indicated in a report signed by the two doctors.
3. Preparation of the policy. When the first two steps are completed, the premiums are determined and the policy is filled in. Two identical copies of the policy are prepared, one for the customer and the other for the company. The customer is given his copy of the policy immediately after he makes his first premium payment.

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The first premium payment is larger than the following premium payments since an additional legal contract fee is collected from the customer in an amount equal to 4 TL. per 1000 TL of coverage for policies with coverages between 10,000 TL. to 40,000 TL. If the policy coverage is less than 10,000 TL., a flat sum of 40 TL. is collected. If the policy coverage is more than 40,000 TL., a flat sum of 160 TL. is collected. The legal fee cannot be less than 40 TL. nor more than 160 TL. for each policy.

## The Life Insurance Policy

### Minimum legal requirements for a life insurance policy

In terms of the composition of an insurance policy, the following aspects are strictly determined by Items 1266 and 1324 of the Turkish Business Law. Turkish Business Law defines an insurance policy as a contract by which the insurer undertakes the responsibility of paying a predetermined sum in case the risk covered by the insurance occurs in relation to the insured within the time specified by the policy. This definition covers all insurance policies, and therefore, the life insurance policies as well. However, in terms of the required items that should be present on the life insurance policy, certain additions were made to the requirements of Item 1324 of the law. After the minimum requirements have been satisfied, the company is free to include any other information that might seem pertinent. The following are the minimum items required to be present on a life insurance policy:

1. The names of the
  - a. Insurer
  - b. Insured
  - c. Beneficiaries
2. The type of insurance (that is, life insurance).
3. The kind of life insurance (whether term, endowment, etc.)
4. The beginning and the termination dates of the policy.
5. The amount of the policy coverage.
6. The amount of premiums to be paid, when and where.
7. Statement of all conditions that fall under the coverage of the policy.
8. Date of the preparation of the policy.
9. Age and occupation of the insured.
10. General health condition of the insured.

## The Tam Hayat policy

In addition to these legal requirements, the Tam Hayat policy has other different regulations expressed, some of which are considered below:

1. A section which states that the policy is entitled to share 30% of the profits through an increase in the amount of its coverage with no additional costs. The distribution of the profits in the stated manner is under the control of the Turkish Ministry of Commerce.<sup>1</sup>

<sup>1</sup>The management of Tam Hayat gave the following explanation: The policy holders are entitled to receive 30% of the yearly profits made by the company each year on an after-tax basis. The distribution of the profits will be made at intervals

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2. A section which calls attention of the policy holder to the following:

- a. That they should read every item on the policy carefully.
- b. That they should notify Tam Hayat of any change in their addresses.
- c. That they can contact Tam Hayat experts at any time on any matter.

3. In addition, the nature of the life insurance policy of Tam Hayat is explained in the following manner on the policy:

- a. The policy is prepared based upon the personal declaration of the insured.
- b. The policy will not be valid if the declaration of the policy holder is found to be purposely misleading or false. In that situation, the premiums collected up to date cannot be returned. However, if the situation is not discovered within two years, Tam Hayat cannot exercise its right of nullifying the policy.
- c. The policy goes into effect as soon as the policy

of not more than five years. Distribution will not be in the form of dividends but will be in the form of additions to the accumulated reserves (See the next section of this chapter). This means that: (a) policies close to maturity will receive a higher proportion of the profits than the new policies will receive since reserves increase continually until the maturity of the policy; (b) policies with higher premium payments and therefore higher reserves will receive larger profits. The profits will be returned to the policyholders (or to their beneficiaries) in the form of higher payments for claims. The share of each policy will depend upon the percentage of its accumulated reserve to total accumulated reserves.

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holder signs it and pays the first premium.

d. The special provisions desired by the policy holder cannot be considered applicable to a given policy unless it is recorded on the policy.

e. Exceptions to Item d are the following:

1. war; if the insured dies during war, the reserve accumulated on the policy is returned to the beneficiaries.

2. suicide; if a policy holder commits suicide within two years after the beginning date of the policy, the policy becomes invalid. However, if the policy holder commits suicide after two years, the coverage is paid to the beneficiaries in full amount.<sup>1</sup>

3. air travel; if the policy holder dies while travelling in an air vessel that does not belong to an official airline, the company is liable to pay only the surrender value of the policy accumulated up to that time. However, if the death results while travelling on an official airline, the beneficiaries will receive the amount in full.

f. The insurance premium is payable on an annual basis.

However, the amount can be distributed to certain periods within a year, such as to six-month periods or to three-month periods. If a payment is made before the given period, and death occurs before the given period, the amount paid for the given period is returned by Tam Hayat.

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<sup>1</sup>Law assumes that a person will not start plans for suicide two years in advance. The reasoning behind this can always be questioned as to why two years, and not more or less.



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g. The insurance premium must be paid by the policy holder at specified dates, predetermined by the policy holder and Tam Hayat. A thirty-day allowance is available to the policy holder. However, if the payment is not made within this thirty-day period, a warning sent by Tam Hayat to the policy holder declares that the amount must be paid within one month. The cost of the preparation of the warning and the mail charges belong to the customer.<sup>1</sup> The warning is sent through special delivery to the most recent address of the policy holder. As stated earlier, the policy holder is supposed to notify the company of any change in his address. If such change has taken place, and the customer has not notified Tam Hayat, then he is legally responsible for delays of his special delivery; this situation will not form a basis for the extension of the final thirty-day period. The insurance policy is cancelled if the payment is not made within the thirty-day period specified by the warning. If less than a three-year period has elapsed since the first premium was paid, then none of the premiums shall be returned to the ex-policy holder. If more than three years have elapsed since the first premium was paid, then the coverage value of the policy is reduced by a ratio of the premiums paid to the premiums that were supposed to be paid to fulfill the contract. After the reduction, the policy stands

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<sup>1</sup>This procedure means that actually the policy holder allowed a period of two months for payment.

in force as any other policy.<sup>1</sup> If the policy holder desires not to continue having the reduced protection, he can receive the surrender value of his policy less 5% deducted for collection charges.

h. The policy holder can borrow on his life insurance only after he pays in full the premiums due for the first three years. The amount that the policy holder can borrow cannot surpass 95% of the surrender value of the policy. The loan is made at 7% interest. If the borrower does not pay his interest when due, then Tam Hayat asks him to pay the amount he borrowed in full within three months. If the payment is not made within that time, the amount that the policy holder is liable to pay is cancelled from the value of his policy.

i. Whenever the policy holder dies, the beneficiaries should inform Tam Hayat as soon as possible. The beneficiaries should submit the following documents in order to receive the insurance payment from Tam Hayat.

1. The policy and the receipt of the last premium payment.
2. An official document specifying the occurrence of death.
3. The birth certificate of the policy holder or a copy of it.
4. A doctor's report explaining the cause of death.

j. Options of payment upon the death of the policy holder.

<sup>1</sup>An example to this situation will be as follows: If the policy holder makes no additional payments after paying 25% of the premiums to be paid for the entire life of the policy, and if the amount of coverage is 10,000 TL., then his policy is accepted to be a 2,500 TL. policy that is still in force within the terms of the original policy contract.

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One of the following three options can be selected by the policy holder while signing the insurance contract.

1. Immediate cash payment for the full amount.
2. Term payment. The amount is paid monthly within a given term as indicated in TABLE 2-1.

TABLE 2-1

OPTION 2: TERM PAYMENT FOR AN INSURANCE POLICY  
WITH 10,000 TL. FACE VALUE

Length of Term in Years	Fixed Monthly Payment in TL.
1	850.90
2	434.30
3	295.50
4	226.20
5	184.60
6	157.00
7	137.20
8	122.50
9	111.00
10	101.90
11	94.40
12	88.20
13	83.00
14	78.50
15	74.70

3. Payment for life. A fixed monthly payment is made for the entire life of the beneficiary as indicated in TABLE 2-2.

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TABLE 2-2

OPTION 3: LIFELONG PAYMENT FOR AN INSURANCE POLICY  
WITH 10,000 TL. FACE VALUE

Age of the Person to Receive the Payment	Yearly Payment in TL.	Monthly Payment in TL.
20	527.50	44.26
21	530.00	44.48
22	532.60	44.71
23	535.40	44.95
24	538.40	45.21
25	541.50	45.49
26	544.80	45.78
27	548.40	46.09
28	552.10	46.42
29	556.10	46.77
30	560.30	47.14
31	564.80	47.53
32	569.50	47.95
33	574.50	48.39
34	579.90	48.86
35	585.60	49.36
36	591.70	49.90
37	598.10	50.46
38	604.90	51.06
39	612.10	51.70
40	619.70	52.37
41	627.80	53.09
42	636.30	53.84
43	645.30	54.64
44	654.90	55.49
45	665.00	56.38
46	675.70	57.33
47	687.10	58.34
48	699.10	59.41
49	711.80	60.54
50	725.30	61.74
51	739.60	63.02
52	754.70	64.37
53	770.70	65.81
54	787.70	67.33
55	805.80	68.96
56	824.90	70.68
57	845.30	72.52
58	866.90	74.47

TABLE 2-2 continued.

Age of the Person to Receive the Payment	Yearly Payment in TL.	Monthly Payment in TL.
59	889.90	76.55
60	914.30	78.76
61	940.20	81.12
62	967.70	83.63
63	996.90	86.31
64	1028.00	89.16
65	1061.10	92.20
66	1096.20	95.44
67	1133.40	98.88
68	1172.70	102.54
69	1214.30	106.42
70	1258.00	110.52

Kinds of Life Insurance Policies Used By  
Tam Hayat and Related Clauses

There are three distinguished kinds of life insurance policies offered by Tam Hayat:

1. Life
2. Endowment
3. Term

The first kind, which is called life, covers ordinary life and limited-payment life.

Ordinary life (identified as H.B. by Tam Hayat) is the kind of insurance in which the premium payment continues until the death of the insured. From its basic characteristics, it is evident that this kind of insurance serves best the needs of salaried individuals with fixed incomes, certain to be received in the future. In Turkey, the best example of this group can be

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the government employees. This type of policy offers certain advantages. In the first place, the premium payments are distributed throughout the life time and enables the salaried worker to afford a larger coverage than the case in which the payments are distributed over a shorter time period. A person aged twenty can buy a straight life policy of 100,000 TL. by paying 330 TL. every three months. If he had to buy the same insurance and pay within ten years, he would have to pay 753 TL. every three months. The immediate protection has a lower cost in case of the straight life policy; i.e., if death occurs at an earlier age, the policy is cheaper than all other kinds of insurance except term insurance. The policy is highly flexible with a high cash value if the policy holder needs a loan. It can be exchanged at any time for a limited payment policy. However, this kind of policy has shortcomings as well, since it is more expensive than term insurance. Also, continuous premium payments in equal amounts might be burdensome in later ages when the income shows a decline because of retirement.

Limited payment life is of four kinds in terms of the length of premium payments; they are 10 payment life (H.B.10), 15 payment life (H.B.15), 20 payment life (H.B.20), and 25 payment life (H.B.25). The characteristics of this insurance lies in the fact that premium payments continue over the years designated by the number in each; that is, in case of 10 payment life, premiums are paid for ten years for a life protection. Obviously this kind of insurance sells best for people with incomes for a determined period, such as movie stars, professional athletes,

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etc. The main advantage of this kind of insurance policy is its allowing the possibility of making the payment when income is available. Also, compared with straight life, higher cash value is accumulated in the earlier years, and thus an extra borrowing strength is given to its holder in the earlier years. The main disadvantage lies in the fact that earlier death means more expensive insurance than straight life and term insurance of equal protection. Limited payment life is less flexible than straight life is, since straight life can be converted into limited payment in the future, whereas the opposite is not true.

Endowment (identified as H+S by Tam Hayat) has five different forms in terms of its duration; namely, 10 year endowment (H+S 10), 15 year endowment (H+S 15), 20 year endowment (H+S 20), 25 year endowment (H+S 25), and 30 year endowment (H+S 30). This kind of insurance offers protection and, in addition, provides the policy holder with the sum of money equal to the face value of the policy if the policy holder remains alive at the end of the duration of the policy. Due to this additional advantage provided by the endowment insurance, its cost is very high in comparison with the other kinds of insurance. This kind of policy best serves the needs of younger people who have a bigger chance to live than to die during the duration of the given period. However, if death occurs during duration, the cost becomes very high. At present, more than 80% of the policies that have been sold by Tam Hayat are endowment policies (the number is 833 policies in the first 1000 sold). The endow-

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ment insurance may be used for the purpose of retiring an obligation or debt as well. In older ages it might be used for protection against the loss of earning power. Yet the main offer of the endowment policy is more of a saving nature than of a protective nature.

The third main kind of life insurance policy is the term insurance (identified as S.H. by Tam Hayat). This kind of insurance provides protection for a limited period, and therefore, it requires the lowest yearly premium of all other kinds. It is offered in the following forms by Tam Hayat: 5 year term (S.H. 5), 10 year term (S.H. 10), 15 year term (S.H. 15), 20 year term (S.H.20). If death occurs at an earlier age, this policy offers the cheapest kind of insurance. However, it has no cash value, and when the term is over, the insured comes out with nothing. It is most suitable for people who expect large incomes in the future but for the moment are short of income. An example might be a large factory owner who has outstanding debt that will be paid over a given period of time. This insurance provides protection for him and his family in case his death occurs before the payment for debts is completed. Another example might be the situation of a company executive whose company might buy term insurance for his name during the duration of his contract so that in case of his death the company might receive benefits to overcome the loss due to the disappearance of his services.



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TABLE 2-3

## A. TAM HAYAT: PREMIUM PAYMENTS FOR LIFE AND LIMITED LIFE FOR AGE 20

From 1000 to 24,999 TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
HB	3.89	7.62	14.95
HB 10	8.09	15.87	31.11
HB 15	6.39	12.54	24.59
HB 20	5.57	10.93	21.43
HB 25	5.09	9.99	19.59

From 25,000 to 49,999 TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
HB	3.59	7.05	13.82
HB 10	7.81	15.32	30.03
HB 15	6.12	12.00	23.52
HB 20	5.29	10.38	20.35
HB 25	4.82	9.45	18.52

From 50,000 TL.--- face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
HB	3.30	6.47	12.69
HB 10	7.53	14.77	28.96
HB 15	5.83	11.44	22.44
HB 20	5.01	9.83	19.28
HB 25	4.53	8.89	17.44

## B. TAM HAYAT: PREMIUM PAYMENTS FOR TERM INSURANCE FOR AGE 20

From 1000-24,999 TL. face value (premiums per 1000 TL.)

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TABLE 2-3 continued.

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
SH 5	1.64	3.22	6.31
SH 10	1.69	3.32	6.51
SH 15	1.75	3.43	6.72
SH 20	1.83	3.58	7.02

From 25,000-49,999 TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
SH 5	1.36	2.67	5.24
SH 10	1.41	2.77	5.43
SH 15	1.47	2.88	5.65
SH 20	1.55	3.03	5.95

From 50,000--- TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
SH 5	1.08	2.12	4.16
SH 10	1.13	2.22	4.35
SH 15	1.19	2.33	4.57
SH 20	1.27	2.48	4.87

## C. TAM HAYAT: PREMIUM PAYMENTS FOR ENDOWMENT INSURANCE FOR AGE 20

From 1000-24,999 TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
H+S 10	24.18	47.42	92.99
H+S 15	15.07	29.57	57.98
H+S 20	10.64	20.86	40.91
H+S 25	8.07	15.83	31.03
H+S 30	6.44	12.63	24.77

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TABLE 2-3 continued.

From 25,000-49,999 TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
H+S 10	23.90	46.89	91.94
H+S 15	14.80	29.03	56.93
H+S 20	10.36	20.32	39.85
H+S 25	7.79	15.29	29.98
H+S 30	6.17	12.10	23.72

From 50,000---TL. face value (premiums per 1000 TL.)

	<u>Quarter</u>	<u>Semi-Annual</u>	<u>Annual</u>
H+S 10	23.63	46.35	90.88
H+S 15	14.53	28.49	55.87
H+S 20	10.09	19.79	38.80
H+S 25	7.52	14.75	28.93
H+S 30	5.89	11.56	22.66

Source: Tam Hayat Sigorta A.Ş., Tarife Kitabı.

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## Clauses

Four different clauses accompany the three major types of insurance discussed in the preceding section. They are:

1. Additional endowment.
2. Double indemnity.
3. Waiver of payment.
4. Disability income.

Additional endowment is similar in nature to endowment insurance except it is applied on a limited basis. It provides additional monetary payment to the policy holder at the end of a specified period of time which can not be less than ten nor more than thirty years. It is paid to the policy holder only in case he is still alive at the end of the specified period. The practice followed usually equates the specified time with the duration of the term of the insurance in the case of endowment insurance. It can be used with all other forms of insurance with durations equal to or longer than ten years except term insurance. The total amount that can be paid by this clause cannot be more than twice the amount of the policy. For example, if the policy's face value is 50,000 TL., this clause can be applied up to a maximum 100,000 TL. for this policy.

The double indemnity clause is derived from the principle of personal accident insurance. It provides the policy holder's beneficiaries with double payment; i.e., twice the amount of the face value of the policy in case the policy holder dies in an accident. The clause is applicable to all kinds of insurance policies until the policy holder reaches the age of sixty.

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The clause is no longer applicable after this age. It requires the lowest amount of payment in relation to other clauses, that is, per thousand lira of coverage its price is 26 kuruş for quarterly payment, 51 kuruş for semi-annual payment, and 1.- TL for each annual payment. One kuruş difference between the forms of payment is due to the extra clerical costs of additional processing.

Waiver of payment is a clause which enables the policy holder to keep his insurance if he becomes physically disabled and can not earn the income to pay his insurance premiums. Under the protection of this clause the insurance proceeds as if the payments have been made to the end of the duration. This clause is not applicable for a period of more than twenty years nor for people who are older than sixty years of age.

Disability income is the clause which provides income to the policy holder not more than 20% of the face value of his policy or not more than 12,000 TL. of income per year. It is not applicable for people who are over fifty years of age. The clause cannot cover a period longer than twenty years and it is applicable only during the premium payment period of the policy. This clause cannot be used together with term insurance.

It was mentioned earlier in this chapter that Tam Hayat policies would receive 30% of the yearly profits of Tam Hayat in relation to the amount of their reserves. However, not all of the policies can share the profits. Term insurance policies are not included in the profit-sharing plan. Among the clauses only

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TABLE 2-4

A. PREMIUM PAYMENT FOR AN ADDITIONAL ENDOWMENT  
OF 1000 TL. FOR SELECTED AGES

Age of the Insured		Duration of Endowment - 10 years		
		<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20		19.98	39.19	76.84
30		19.89	38.98	76.44
40		19.53	38.31	75.11
50		18.58	36.45	71.47
60		16.40	32.16	63.06
<hr/>				
Age of the Insured		Duration of Endowment - 15 years		
		<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20		11.78	23.11	45.31
30		11.62	22.79	44.68
40		11.19	21.96	43.05
50		10.12	19.84	38.91
<hr/>				
Age of the Insured		Duration of Endowment - 20 years		
		<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20		7.79	15.28	29.97
30		7.56	14.84	29.09
40		7.06	13.85	27.16
50		5.86	11.50	22.55
<hr/>				
Age of the Insured		Duration of Endowment - 25 years		
		<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20		5.50	10.79	21.15
30		5.22	10.24	20.08
40		4.60	9.02	17.69

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TABLE 2-4 continued.

Age of the Insured	Duration of Endowment - 30 years		
	<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20	4.02	7.88	15.45
30	3.67	7.20	14.12
40	2.98	5.85	11.48

B. WAIVER OF PREMIUM FOR SELECTED AGES (PAYMENT  
NEEDED TO COVER 100 TL. WORTH OF PREMIUMS)

Age	Duration of Clause		
	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
20	1.27	1.41	1.50
25	1.30	1.46	1.57
30	1.35	1.55	1.71
40	1.66	2.06	2.48
50	2.82		

C. DISABILITY INCOME CLAUSE PAYMENTS FOR  
SELECTED AGES  
(For income of 1200 TL. per year)

Age of the Insured	Duration of Clause - 10 years		
	<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20	3.96	7.77	15.24
30	4.21	8.26	16.20
40	5.18	10.16	19.92
50	8.80	17.26	33.84

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TABLE 2-4 continued.

Age of the Insured	Duration of Clause - 15 years		
	<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20	4.39	8.62	16.90
30	4.84	9.49	18.60
40	6.43	12.61	24.72
-----			
Age of the Insured	Duration of Clause - 20 years		
	<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annually</u>
20	4.68	9.18	18.00
30	5.34	10.47	20.52
40	7.74	15.18	29.76

Source: Tam Hayat Sigorta A.Ş., Tarife Kitabı.



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additional endowment clauses can participate in the profit sharing plan; double indemnity, waiver of payment, and disability income clauses can not participate.

## Premiums

Life insurance policies are designed to serve their purposes<sup>1</sup> which show variations among themselves. The basic purpose is the same all-over protection. However, in detail, the purpose can be achieved in various ways which necessitates insurance coverage of different character, length of service, and price. The total cost of life insurance involves expenses due to death claims and due to organizational, administrative, and selling efforts.

## Net Premiums

Expenses that arise because of death claims and/or the fulfillment of the terms of the contract are provided by the so-called net premiums. Net premiums are to be calculated in such a way that they will be enough to cover the claims by the beneficiaries when they become due. Since premiums are collected in advance of the occurrence of the payment for the claim, they should be calculated in such a way that their present value would be able to cover the present value of the claim. Or in mathematical terms:

$$P \text{ of } M_1 + N_2 + N_3 \dots + N_n = P \text{ of } C \quad \text{where}$$

<sup>1</sup>See Chapter I: The purposes of buying life insurance.

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P = present value

N = net premium per period

C = claim upon the fulfillment of the insurance contract

However, the simple formulation above does not tell anything about the time of occurrence of the claim. Had there been perfect certainty that the claim would take place--let's say in period 15--the above formulation would tell the whole story. This is not the case. There is uncertainty as to the time of occurrence of the claim, and therefore, it is not definite that the premium payments will continue until period "n". However, it is definite that among a large number of cases, some of them will actually be paid until period "n". Here, the importance shifts from the single policy to the large group of policies or rather to the whole population. The problem is not the time of occurrence of the single claim anymore, but the percentage of cases among the whole population that result in claims within the specified period.

It is possible to determine these percentages (or amounts) through the use of mortality tables. It is possible to design a mortality table for any group. The table basically has two columns: (a) one for the number of people within the group alive at a given age, and (b) one for the number of people who will die within the given age. The table ends at the age when nobody from the group is alive.

It is a natural consequence that the mortality table represents past experience. Using this past experience the insurers calculate the amount of net premiums, assuming the past

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trend will continue into the future. As time passes and new experience indicates deviations from the general trend, modifications are made and the tables are brought up to date. Up to the present, the modifications, in general, seem to be required in the positive direction; that is, in the decline in death rates and the increase in the average length of life. Fewer deaths occur at present than in the past, both in developed and in underdeveloped countries. Therefore, an opinion could be expressed that life insurance gets cheaper. However, due to the cost of recalculating premium rates and compiling mortality tables, the decline in the death rate is not reflected immediately in the amounts of the premiums.

Calculating a mortality table for life insurance purposes necessitates a large enough population so that the amount of bias can be as little as possible. Therefore, it is natural to expect that companies with large life insurance sales can prepare their own tables; or a combination of the experiences of different companies can be tabulated as a table. American Experience is a table of the former, and the American Men Ultimate Table is of the latter kind.<sup>1</sup> However, CSO 1958 has the widest use in the United States, and it is the mortality table used by Tam Hayat (CSO 1958 Mortality Table is shown in TABLE 2-6; American Experience Mortality Table in TABLE 2-7).

<sup>1</sup>Robert Riegel and S. Jerome Miller, Insurance Principles and Practices (Englewood Cliffs: Prentice-Hall, 1966), pp. 201-202.

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Both tables start at a fixed number of people at a specified age (CSO at age 0, AB at age 10), and then people dying within each age are deducted from the amounts. The third column of both tables indicates the probability of death within each age. The amounts in each table for the first column are obtained by deducting the number of deaths for a given year from the number of living people at the beginning of that given year. The difference is the amount that is alive at the end of the given year or at the beginning of the next year. For example, in TABLE 2-6, we read that:

At age 0, people living	10,000,000
Deaths for year 0	<u>70,800</u>
Therefore, number living at age 1	9,929,200

The third column, in which the probability of dying in a given year is shown, is the vital concern for the insurer. He does not work with the absolute amounts but with the ratios. In fact the table could have started from any other age and with a different absolute figure (for example, 5,000,000 instead of 10,000,000).

The second step in the calculation of net premiums is the interest rate. For Tam Hayat, the rate used in calculations is  $4 \frac{1}{4} \%$ . Actually, the amount could be different for other companies, since it is based upon a subjective estimate of how much the company can make on its investments. However, the rate should be established cautiously (or conservatively), since the

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company can not be definite about the return on its investments in the future. Therefore, the rates established are below the expected future rates to allow a safety margin.<sup>1</sup> From the financial point of view, the interest rate enables Tam Hayat to charge 959.20 TL. for a claim of 1000 TL. that will occur one year after the date of payment.<sup>2</sup> However, this situation assumes that the claim will definitely occur at the end of the period. The mortality table indicates the probabilities that the claims occur for different ages. From CSO 1958, if, for example, age 20 is considered:

The probability of dying at age 20 = .00179%

Therefore, the cost of 1000 TL. claim for one year amount payable at the beginning of the year for a person age 20 is:  
 $959.20 \text{ TL.} \times .00179 = 1.716968 \text{ TL.}$  or 1.72 TL.

The above calculation is the basis for term insurance (see "Kinds of Life Insurance Policies Used by Tam Hayat" of this chapter). However, in Tam Hayat practice, the term is at least on a five year basis, and the amount of payment is made, not in a lump sum,

<sup>1</sup>Tam Hayat's future expected return on their investments is around 10-12%. On the U.S. Royal stock purchased as the first step in investing funds, the company received a 35% return on investment in the form of dividends for 1966 before taxes.

<sup>2</sup>  $V = (1 + 0.0425)^{-1} = 959.20$   
The general formula for calculating is:

$$V^n = (1 + r)^{-n} \quad \text{where } n = \text{number of periods} \\ r = \text{the interest rate}$$

Richard Stevens Burington, Handbook of Mathematical Tables and Formulas (Sandusky, Ohio: Handbook Publishers, Inc., 1957), p. 266.

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but distributed evenly throughout the five years. In that case, the yearly net premium of a five-year term insurance for a twenty year old person based upon Tam Hayat rates is:

Period	Pres. Value 4 1/4%	CSO 1958 Prob. of dying	Amount
1	.9592	.00179	1.72
2	.9200	.00183	1.68
3	.8826	.00186	1.64
4	.8466	.00189	1.60
5	.8121	.00191	1.55
Total			8.19

Had the person paid in a lump sum, 8.19 TL. would have been charged. For a five-year term with equal installments, the amount would be calculated as follows:

<u>Period</u>	<u>Payment Beg. of Period</u> <u>Pres. Value at 4 1/4%</u>
1	1.0000
2	.9592
3	.9200
4	.8826
5	.8466
	<hr/>
Total	4.6084

In other words, 1 TL. paid at the beginning of each year for five years is worth at present 4.61 TL. In order to receive 8.19 TL. valued at present, the company charges:  $8.19/4.61 = 1.78$  TL. per year for five years.

The procedures mentioned for term insurance are applicable to whole life and to endowment insurance as well. The whole life policy can be considered as a term insurance policy that extends up to age 99 (according to CSO 1958 the probability of death is 100% at age 99). The same mathematical method is

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used in the calculation of net premiums for whole life as was illustrated for five-year term insurance.

In terms of an endowment policy, the net premium is composed of two parts. The first part corresponds to the premium of five-year term insurance, since the payment is made to the beneficiaries if death occurs within five years. However, if the policy holder stays alive for the five years, he is entitled to the payment as well.<sup>1</sup> Therefore, the second part of the policy corresponds to an annuity due payable in five years. The payment at the end of five years has a probability less than 100% since the policy holder can as well die before the end of the five years. Let us illustrate the situation mathematically.

It was already calculated that the lump sum payment for a five-year term insurance at 4 1/4% for a twenty year old person was 8.19 TL. for a 1000 TL. coverage. This amount forms the first part of the net premium for endowment insurance as well. The total probability of death within ages 20-25 is:

$$\begin{aligned} .00179 + .00183 + .00186 + .00189 + .00191 &= .00928 \text{ or} \\ &= .928\%. \end{aligned}$$

Therefore, the probability that a twenty year old person will not die within five years is 99.072%. It can as well be stated that when a person at twenty buys an endowment insurance for a five-year period, a .928% chance exists that the payment will be made before five years, and a 99.072% chance exists that the payment will be made at the end of the fifth year. The sum of both

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<sup>1</sup>See "Kinds of Life Insurance Policies Used by Tam Hayat" in this chapter.

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probabilities equal one since the payment is definitely going to occur, no matter which situation takes place. The present value of 1000 TL. payable in five years at  $4\frac{1}{4}\%$  interest is 812.10 TL. But since the probability of occurrence is 99.072%,

$$812.10 \times 99.072\% = 804.563712 \text{ or}$$

$$804.56 \text{ TL.}$$

$$\text{premium for term} \quad \underline{+8.19 \text{ TL.}}$$

lump sum for 5

$$812.75 \text{ TL.}$$

yr. endowment

Distributed over five years, payment per annum:

$$812.75/4.61 = 176.29 \text{ TL. per annum for five years.}$$

## Gross Premiums

Gross premiums are the amounts actually collected from the policy holders. The net premiums are collected for the purpose of being able to pay the death claims in the future. However, as the practice runs, this is not the only expense that an insurance company has. The insurance company has to have different departments to run its business (see the first section of this chapter: organization). Most important of all, it has a sales department and agencies to which the insurance company has to pay commissions for each policy sold to the customers. In Tam Hayat practices the commission rates for a twenty-year endowment or longer or for whole life run as follows:



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Year	Percent of Total Premiums Per Year
1	50%
2	25%
3	10%
4	10%
5	5%
Total	100%

In five years, an amount equal to one year's premium is paid out as commissions. On the average, the commissions are 20% of yearly premiums for the first five years. For a ten-year endowment the total amount of commissions paid run as 50% of one year's premiums. For term insurance it is 10% of the premiums collected for each year of the term.

In addition to commissions, an administrative charge of a given percentage of gross premiums plus a premium collection charge of a given percentage of gross premiums is included.<sup>1</sup>

<sup>1</sup>The Tam Hayat management does not want to reveal these percentages since they are considered to be "business secrets". Therefore, the writer did not make any attempt to obtain them. However, to give the reader an idea, the following comparison will be helpful to determine the magnitude of those amounts. For a person aged twenty, the premium table of Tam Hayat indicates a premium payment of 6.31 TL. per year for a five-year term insurance of 1000 TL. face value. The calculated net premium, on the other hand, was 1.78 TL. per year. Therefore, the difference is 4.53 which is approximately 72% of gross premiums. The amount varies for different years and kinds of insurance. For example, for a ten-year endowment for a twenty year old person, the yearly premium is 92.99 TL. per 1000 TL. and the net premium is 79.81 TL. per year, the difference being 13.18 TL., which is approximately 14% of gross premiums. The difference between percentages among the two types of insurance is to be expected since collection and administrative charges do not vary for each kind of policy and thus become small percentage-wise because gross premiums per year are much larger for endowment insurance in comparison with term insurance.

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## Reserves

Since the premium collections by Tam Hayat are made in advance of the occurrence of the death claim, and the premiums are collected in equal installment payments every year, this situation causes the generation of reserves. Despite the fact that premium collections are constant every year, the probability of dying increases with the increasing age. This also means that the payments for death claims increase with the increasing ages, whereas the inflows due to premiums are constant. This difference, together with the financial concept of the present value of money, is the cause of the formation of the reserves. An example will make the definition clear.

As can be seen from the CSO 1958 Table, the probability of dying constantly increases as the age increases.<sup>1</sup> The probability is .179% at twenty, .213% at thirty, .353% at forty, .832% at fifty, and 100.0% at ninety-nine. To put it in another way: if 9,664,994 people who are twenty years old buy a five-year term insurance policy, the first year together they will pay:  $9,664,994 \times 1.78 \text{ TL.} = 17,203,689.32 \text{ TL.}$  This amount will be received at the beginning of the year. Therefore, at  $4 \frac{1}{4}\%$ , interest will be earned on the amount which will be equal to:

$$17,203,689.32 \times 4 \frac{1}{4}\% = 731,156.80$$

The total amount at the end of the year is:

<sup>1</sup>However, at age 0 the death rate is very high, and the rate decreases instead of increasing until age ten. Since Tam Hayat cannot insure anyone below twenty, this is of no concern to us.

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$$17,203,689.32 + 731,156.80 = 17,934,846.12 \text{ TL.}$$

However, since 17,300 people are expected to die during the year, the amount to be paid for death claims will be 17,300,000.00 TL. Therefore, a difference results which is equal to:

$$\begin{array}{r} 17,934,846.12 \\ - 17,300,000.00 \\ \hline 634,846.12 \text{ TL.} \end{array}$$

The difference is what the insurance companies call the reserve: Excess of receipts over payments to the policy holders by the company to be kept for the future period where the opposite situation will take place.<sup>1</sup>

Thus the reserves will be collected over the life of the policies in the manner as is indicated in TABLE 2-5. It can be

TABLE 2-5

Period I Premiums Collected	17,203,679.32
Plus: 4 1/4% interest	731,156.37
	<hr/>
	17,934,835.69
Less: Death Claims	17,300,000.00
	<hr/>
	634,835.69
Reserve at the end of Period I	
Plus: Period II premiums collected	17,172,895.32
	<hr/>
Total	17,807,731.01
Plus: 4 1/4% interest	756,828.57
	<hr/>
	18,564,559.58

<sup>1</sup>The insurance practitioner assumes that the deaths occur at the end of the period and therefore total premiums collected at the beginning of the year will be given interest at 4 1/4%. This is an over-simplification but since the return on reserves invested is expected to be considerably larger than 4 1/4% (10-12%), the amount can be expected to be covered as well even if the deaths do not occur at the end of the period.

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TABLE 2-5 continued.

Less: Death claims	18,564,559.58 <u>17,655,000.00</u>
Reserve at the end of Period II	909,559.58
Plus: Period III premiums collected	17,141,469.42 <u>                    </u>
Total	18,051,029.00
Plus: 4 1/4% interest	767,168.73 <u>                    </u>
Less: Death claims	18,818,197.73 <u>17,912,000.00</u>
Reserve at the end of Period III	906,197.73
Plus: Period IV premiums collected	17,109,586.06 <u>                    </u>
Total	18,015,783.79
Plus: 4 1/4% interest	765,670.81 <u>                    </u>
Less: Death claims	18,781,454.60 <u>18,167,000.00</u>
Reserve at the end of period IV	614,454.60
Plus: Period V premiums collected	17,077,248.80 <u>                    </u>
Total	17,691,703.40
Plus: 4 1/4% interest	751,897.39 <u>                    </u>
Less: Death claims	18,443,600.79 <u>18,324,000.00</u>
	<u>119,600.79<sup>a</sup></u>

<sup>a</sup>Difference due to rounding-off.

observed from this table that at the end of the five-year period, the reserve becomes zero. That is a natural consequence due to the definition of the reserve. Since the reserve exists for the purpose of fulfilling the policy payments, they should be equal to zero when all the policies are fulfilled.

In the following example, reserves were calculated for term insurance. Since term insurance has a small chance of

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resulting into payment, its reserves are insignificantly small. However, in terms of other kinds of policies, especially with endowment insurance, they add up to significant amounts during the lifetime of the contract. At the end of the period, reserves on endowment insurance has to equal the total amount of endowment payments to be fulfilled at the end of the term. Let us demonstrate this with a simple example. Suppose a person aged 20 wants to buy a three-year 1000 TL. endowment insurance. The premium payment for that insurance would be 302.28 TL. as calculated below:<sup>1</sup>

Prob. of Payment at end of:	Pres. Val. at 5%	Amount Payable at end of yr.
Year 1	.00179	0.952
Year 2	.00183	0.907
Year 3	.99638	0.864
		<u>.86423</u>

.86423

= 302.28 TL. payment per year.

(1.000 + .952 + .907)

The reserves for this insurance would be allocated as follows:

Premium for Year 1	302.28
Plus: Interest at 5%	<u>15.11</u>
Total	317.39
Less: Death claims	<u>1.79</u>
Reserves end of Period I	315.60
Premium for Period II	<u>302.28</u>
	617.88
Plus: Interest at 5%	<u>30.90</u>
Total	648.78

<sup>1</sup>We assume a computational interest rate of 5% instead of 4 1/4% for computational ease.

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Total	648.78
Less: Death claims	<u>1.83</u>
Reserves end of Period II	646.95
Premium for Period III	<u>302.38</u>
	949.23
Plus: Interest at 5%	<u>47.46</u>
	996.69
Less: Death claims	<u>1.86</u>
Reserves end of Period III	994.83 <sup>a</sup>

<sup>a</sup>Difference due to rounding-off.

Therefore, reserves constitute a large source of investment funds for the life insurance companies. If the life insurance company can invest these reserves in good securities at a higher rate than the one used for compounding the policies, the difference will be left to the company as profit. As was indicated in the first chapter of this paper, the reserves grow to very substantial amounts and form a large investment potential.

There are different methods of stating reserves. However, no matter how the presentation is made, the basic principle behind the reserve does not change. Tam Hayat allows no reserves for the first year on its policies with more than twenty years of duration. This is a common practice followed by newly formed life insurance companies due to lack of accumulated surpluses to overcome the large first year organizational expenses; they do not want to have themselves legally liable for reporting reserves. When no reserves are allowed for the first year, this means larger allowances per year for the following

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years. However, larger allowance for the following years is feasible since first year expenses are by far the largest on any policy, especially due to high levels of commissions for the first year. In the following years, despite the premium collected being fixed, the commissions even out. Also, it might be expected that in the future years of a young company, more policies will be sold for the same level premiums for each policy, but some expenses will not vary in the exact proportion with the number of policies sold. If the legal side of the problem is ignored, then whether reporting reserves in the first year and having a negative surplus in the balance sheet, or not reporting reserves is of no significance since the total financial resources do not change in the real sense under either method. The company is still liable for death claims that occur in the first year whether they report accumulated reserves or not.

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TABLE 2-6

TABLE OF MORTALITY  
COMMISSIONERS' STANDARD ORDINARY 1958

Age	Number Living	Deaths each Year	Deaths per 1,000
0	10,000,000	70,800	7.08
1	9,929,200	17,475	1.76
2	9,911,725	15,066	1.52
3	9,896,659	14,449	1.46
4	9,882,210	13,835	1.40
5	9,868,375	13,322	1.35
6	9,855,053	12,812	1.30
7	9,842,241	12,401	1.26
8	9,829,840	12,091	1.23
9	9,817,749	11,879	1.21
10	9,805,870	11,865	1.21
11	9,794,005	12,047	1.23
12	9,781,958	12,325	1.26
13	9,769,633	12,396	1.32
14	9,756,737	13,562	1.39
15	9,743,175	14,225	1.46
16	9,728,950	14,983	1.54
17	9,713,967	15,737	1.62
18	9,698,230	16,390	1.69
19	9,681,840	16,846	1.74
20	9,664,994	17,300	1.79
21	9,647,694	17,655	1.83
22	9,630,039	17,912	1.86
23	9,612,127	18,167	1.89
24	9,593,960	18,324	1.91
25	9,575,636	18,481	1.93
26	9,557,155	18,732	1.96
27	9,538,423	18,981	1.99
28	9,519,442	19,324	2.03
29	9,500,118	19,760	2.08
30	9,480,358	20,193	2.13
31	9,460,165	20,718	2.19
32	9,439,447	21,239	2.25
33	9,418,208	21,850	2.32
34	9,396,358	22,551	2.40
35	9,373,807	23,528	2.51
36	9,350,279	24,685	2.64
37	9,325,594	26,112	2.80
38	9,299,482	27,991	3.01
39	9,271,491	30,122	3.25



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TABLE 2-6 continued.

Age	Number Living	Deaths Each Year	Deaths per 1,000
40	9,241,359	32,622	3.53
41	9,208,737	35,362	3.84
42	9,173,375	38,253	4.17
43	9,135,122	41,382	4.53
44	9,093,740	44,741	4.92
45	9,048,999	48,412	5.35
46	9,000,587	52,473	5.83
47	8,948,114	56,910	6.36
48	8,891,204	61,794	6.95
49	8,829,410	67,104	7.60
50	8,762,306	72,902	8.32
51	8,689,404	79,160	9.11
52	8,610,244	85,758	9.96
53	8,524,486	92,832	10.89
54	8,431,654	100,337	11.90
55	8,331,317	108,307	13.00
56	8,223,010	116,849	14.21
57	8,106,161	125,970	15.54
58	7,980,191	135,663	17.00
59	7,844,528	145,830	18.59
60	7,698,698	156,592	20.34
61	7,542,106	167,736	22.24
62	7,374,370	179,271	24.31
63	7,195,099	191,174	26.57
64	7,003,925	203,394	29.04
65	6,800,531	215,917	31.75
66	6,584,614	228,749	34.74
67	6,355,865	241,777	38.04
68	6,114,088	254,835	41.68
69	5,859,253	267,241	45.61
70	5,592,012	278,426	49.79
71	5,313,586	287,731	54.15
72	5,025,855	294,766	58.65
73	4,731,089	299,289	63.26
74	4,431,800	301,894	68.12
75	4,129,906	303,011	73.37
76	3,826,895	303,014	79.18
77	3,523,881	301,997	85.70
78	3,221,884	299,829	93.06
79	2,922,055	295,683	101.19
80	2,626,372	288,848	109.98
81	2,337,524	278,983	119.35
82	2,058,541	265,902	129.17
83	1,729,639	249,858	139.38
84	1,542,781	231,433	150.01
85	1,311,348	211,311	161.14

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TABLE 2-6 continued.

Age	Number Living	Deaths Each Year	Deaths Per 1,000
86	1,100,037	190,108	172.82
87	909,929	168,455	185.13
88	741,474	146,997	198.25
89	594,477	126,303	212.46
90	468,174	106,809	228.14
91	361,365	88,813	245.77
92	272,552	72,480	265.93
93	200,072	57,881	289.30
94	142,191	45,026	316.66
95	97,165	34,128	351.24
96	63,037	25,250	400.56
97	37,787	18,456	488.42
98	19,331	12,916	668.15
99	6,415	6,415	1,000.00

From: Robert Riegel and Jerome S. Miller, Insurance Principles and Practices (Englewood Cliffs, New Jersey: Prentice Hall Inc., 1966), p. 205

TABLE 2-7  
AMERICAN EXPERIENCE TABLE OF MORTALITY

Age	Number Living	Number of Deaths	Yearly Proba- bility of dying
10	100,000	749	0.007 490
11	99,251	746	0.007 516
12	98,505	743	0.007 543
13	97,762	740	0.007 569
14	97,022	737	0.007 596
15	96,285	735	0.007 634
16	95,550	732	0.007 661
17	94,818	729	0.007 688
18	94,089	727	0.007 727
19	93,362	725	0.007 765
20	92,637	723	0.007 805
21	91,914	722	0.007 855
22	91,192	721	0.007 906
23	90,471	720	0.007 958
24	89,751	719	0.008 011
25	89,032	718	0.008 065
26	88,314	718	0.008 130
27	87,596	718	0.008 197
28	86,878	718	0.008 264
29	86,160	719	0.008 345
30	85,441	720	0.008 427
31	84,721	721	0.008 510
32	84,000	723	0.008 607
33	83,277	726	0.008 718
34	82,551	729	0.008 831
35	81,822	732	0.008 946
36	81,090	737	0.009 089
37	80,353	742	0.009 234
38	79,611	749	0.009 408
39	78,862	756	0.009 586
40	78,106	765	0.009 794
41	77,341	774	0.010 008
42	76,567	785	0.010 252
43	75,782	797	0.010 517
44	74,985	812	0.010 829
45	74,173	828	0.011 163
46	73,345	848	0.011 562
47	72,497	870	0.012 000
48	71,627	896	0.012 509
49	70,731	927	0.013 106

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TABLE 2-7 continued.

Age	Number Living	Number of Deaths	Yearly Proba- bility of dying
50	69,804	962	0.013 781
51	68,842	1,001	0.014 541
52	67,841	1,044	0.015 389
53	66,797	1,091	0.016 333
54	65,706	1,143	0.017 396
55	64,563	1,199	0.018 571
56	63,364	1,260	0.019 885
57	62,104	1,325	0.021 335
58	60,779	1,394	0.022 936
59	59,385	1,468	0.024 720
60	57,917	1,546	0.026 693
61	56,371	1,628	0.028 880
62	54,743	1,713	0.031 292
63	53,030	1,800	0.033 943
64	51,230	1,889	0.036 873
65	49,341	1,980	0.040 129
66	47,361	2,070	0.043 707
67	45,291	2,158	0.047 647
68	43,133	2,243	0.052 002
69	40,890	2,321	0.056 762
70	38,569	2,391	0.061 993
71	36,178	2,448	0.067 665
72	33,730	2,487	0.073 733
73	31,243	2,505	0.080 178
74	28,738	2,501	0.087 028
75	26,237	2,476	0.094 371
76	23,761	2,431	0.102 311
77	21,330	2,369	0.111 064
78	18,961	2,291	0.120 827
79	16,670	2,196	0.131 734
80	14,474	2,091	0.144 466
81	12,383	1,964	0.158 605
82	10,419	1,816	0.174 297
83	8,603	1,648	0.191 561
84	6,955	1,470	0.211 359
85	5,485	1,292	0.235 552
86	4,193	1,114	0.265 681
87	3,079	933	0.303 020
88	2,146	744	0.346 692
89	1,402	555	0.395 863
90	847	385	0.454 545
91	462	246	0.532 466
92	216	137	0.634 259
93	79	58	0.734 177

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TABLE 2-7 continued.

Age	Number Living	Number of Deaths	Yearly Proba- bility of dying
94	21	18	0.857.143
95	3	3	1.000 000

From: Thomas Marshall Simpson, Sarah H. Firenian, and  
Bolling H. Crenshaw, Mathematics of Finance (Englewood Cliffs,  
New Jersey: Prentice-Hall, Inc., 1951), p. 124 (Tables).

## CHAPTER III

TAM HAYAT'S MANAGEMENT OBJECTIVES<sup>1</sup>

In making a forecast of the future growth of a company, a consideration of the management's objectives is of vital importance. The management is inclined to work in such a way that the operations of the company will be consistent with the objectives.

How would a modern business executive organize the production.....He would organize the activities of people around the functions necessary to accomplish the primary objective.....Formal organizations are consciously directed and designed to accomplish a predetermined objective.<sup>2</sup>

There are many factors which influence the determination of management objectives: the desires of the stockholders, the public, and the government, none of which will be discussed here. The management is expected to fulfill these objectives, and to the management, success means fulfillment of these objectives. The objectives might be modified or somewhat changed, but it is unlikely that any big changes in the major objectives will take place unless the objectives are found to be impossible

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<sup>1</sup>Unless otherwise stated, all of the basic objectives expressed throughout this chapter were obtained from the Tam Hayat management's publication, The Tam Hayat Project.

<sup>2</sup>Henry H. Albers, Organized Executive Action (New York: John Wiley and Sons, Inc., 1961), p. 5.

to attain. If changes in the objectives are made, it will be in accordance with the previously existing major objectives, or at least, not contradictory to them. The underlying principles behind the major objectives will not vary, because every existing objective will itself limit the possibility of the future changes and modifications that might take place in it.<sup>1</sup> For instance, the existence of the predetermined objective of selling life insurance will limit the future operations of this company. The company might make a significant change in the objective and might decide to go into the fire insurance business. However, it is highly improbable that this company will go into auto manufacturing because of the limitation placed upon it by its first major objective.

Tam Sigorta and Its Influence Upon the  
Formation of Tam Hayat

Tam Sigorta started its operations in early July, 1964. During formation, its capital was 3,000,000 TL., which was raised to 6,500,000 TL. in 1965. A foreign company, the American International Underwriters<sup>2</sup>, provided 45% of this capital. The remainder of the capital was invested by distinguished

<sup>1</sup>This idea was borrowed from Professor Koç's course in Business Decision Making, first semester, 1966.

<sup>2</sup>From here on, the name shall be referred to as A.I.U. For further information on A.I.U. and related companies, see Appendix I.

Turkish businessmen.<sup>1</sup> A.I.U. is an international organization which was founded in New York in 1920. Most of the American insurance companies doing business through A.I.U. now were already formed at that time.(TABLE 3-1)

## AMERICAN INSURANCE COMPANIES DOING BUSINESS ABROAD THROUGH A.I.U.<sup>a</sup>

<u>Name of the company</u>	<u>Foundation year</u>
American Home Assurance Co.	1899
Birmingham Fire Ins. Co. of Penn.	1871
Commercial Ins. Co. of Newark	1909
Firemen's Ins. Co. of Newark	1855
The Fulton Ins. Co.	1929
Granite State Ins. Co.	1885
The Hanover Ins. Co.	1852
The Ins. Co. of the State of Penn.	1794
Milwaukee Ins. Co. of Milwaukee, Wis.	1852
National Union Fire Ins. Co.	1901
New Hampshire Ins. Co.	1869
Security Ins. Co. of New Haven	1841
U.S. Fidelity and Guarantee Co.	1896

<sup>a</sup>From: Tam Sigorta A.Ş. Mecmuası, August, 1965

The management of Tam Sigorta benefited from the technical "know-how" of A.I.U. The Turkish side of the ownership of Tam Sigorta made a positive contribution to the success of the company's business. The well-established reputations of the businessmen who formed and did active work in the organization were favorable in establishing the trust of the public towards

<sup>1</sup>To name a few: Bedi Yazıcı, Nejat Eczacıbaşı, A. Sici Edin, Behçet Osmanagaoglu.



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the company. The result of the first twelve months of operations indicated that, in terms of the amounts of premiums collected, Tam Sigorta established itself as tenth highest among the thirty-eight insurance companies active in Turkey.(TABLE 3-2)

TABLE 3-2

THE BIGGEST TEN INSURANCE COMPANIES IN TURKEY  
(Ranked in Terms of Net Profit for 1964)<sup>a</sup>

<u>Name</u>	<u>Net Profit(TL.)</u>	<u>Total Assets(TL.)</u>	<u>P/A(%)</u> <sup>b</sup>
Başak	5,100,780	46,445,533	11.0
Güven	2,817,151	57,750,412	4.9
Şeker	2,647,956	37,625,532	7.0
Anadolu	2,386,332	68,215,730	3.5
Güneş	1,554,290	32,955,355	4.8
İttihadi Milli	1,054,515	28,759,792	3.6
Istanbul Umum	853,199	24,528,467	3.5
Genel	844,392	41,539,466	2.0
Tam	802,393	15,108,342	5.3
Ray	663,562	9,017,002	7.4

<sup>a</sup>From: Ticaret Bakanlığı, Sigorta Murakabe Kurulu, Türkiyede Sigorta Faaliyeti Hakkında Rapor, 1965.

<sup>b</sup>The ratio of profits to total assets at the end of 1964, expressed in percent.

The results seem more impressive when we compare the amount of premiums collected by Tam Sigorta with the first year operations of other insurance companies in Turkey; Tam Sigorta exceeded all other companies in terms of total premiums collected in the first year of operations.<sup>1</sup> Tam Sigorta covers various numbers of risks

<sup>1</sup>However, the reader should not be misled by this simple comparison. Despite the impressive results achieved by Tam Sigorta, the data stated above do not indicate the real magnitude

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and insurable items as can be seen from TABLE 3-3. The items

TABLE 3-3

SOME OF THE ITEMS AND RISKS COVERED  
BY TAM SIGORTA<sup>a</sup>

<u>Some of the Items Insured</u>	<u>Some of the Risks Covered</u>
1. Warehouses	1. Sickness
2. Apartment houses	2. Breakage
3. Workshops	3. Earthquakes
4. Mirrors	4. Freezing
5. Factory chimneys	5. Damage from falling objects
6. Bank buildings	6. Electricity damage
7. Plants, flowers	7. Storms
8. Offices	8. Worker strikes
9. Shop windows	9. Theft
10. Animals	10. Explosion
11. Farms	11. Riots
12. Stores	12. Snow damage
13. Furniture	13. Chemical damage
14. Factories	14. Accidents
15. Garages	15. Sabotage
16. Ships, boats	16. Default
17. Hospitals	17. Travel
18. Construction	18. Fire
19. Construction machinery	19. Rain damage
20. Transport equipment	20. Thunder and lightning damage
21. Rented property	21. Leakage
22. Printing equipment	22. Sinking
23. Bank accounts	23. Damage due to war
24. Items transported	24. Injury
25. Schools	25. Third-party liability
26. Filling stations	26. Damage from hail
27. Movie theaters, halls	
28. Railroads	
29. Apparel	
30. Planes	

<sup>a</sup>Compiled from Tam Sigorta A.Ş. Mecmuası, August, 1965

of comparison because of price changes over a period of time and changes in the business structure in Turkey. We must remember that Tam Sigorta's operational results are expressed in current

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and risks covered by Tam Sigorta are covered by most of the other insurance companies. For that reason, when Tam Sigorta started its operations, competition was keen. Remarkably, it achieved its rank in a relatively short time. It is not possible to determine the customer preference for Tam Sigorta, but the writer's own estimation rests on the fact that Tam Sigorta established prompt payment, fast service methods, and a cut-down on the amount of bureaucracy which prevails in other insurance companies.

Most of the owners of Tam Sigorta have close connections with other firms in terms of management and ownership. It should be expected that this situation would create a considerable volume of business for Tam Sigorta. However, the management of Tam Sigorta claims that only about 10% of their past business was in direct connection with the owners and the companies related to them. If we accept this statement as valid, then it indicates that the success of Tam Sigorta results from public acceptance of the company.

The success of Tam Sigorta served as a criterion for the formation of Tam Hayat. The owners strongly desired that the successful top management of Tam Sigorta should also be employed as the top management of Tam Hayat. It is believed that through

Turkish lira, while the first year operation of other companies are expressed in past currency. Even if a price deflating factor is used, still this does not make the comparison much more realistic because of the incomparability of the changes in the Turkish business structure that took place over a large number of years. For further information on the comparative status of Tam Sigorta, see Appendix II.

its successful operations, Tam Sigorta created a favorable business environment in which Tam Hayat could operate. In addition, the success of Tam Sigorta attracted capital, both domestic and foreign, for the formation of Tam Hayat.<sup>1</sup>

## The Time To Enter The Life Insurance Field

The management of Tam Sigorta believed that it was the right time to enter the life insurance field. It was possible for Tam Sigorta to deal with life insurance in addition to its other activities from a legal point of view. However, since life insurance companies generally operate in a separate capacity in developed countries,<sup>2</sup> Tam Sigorta decided to follow the

<sup>1</sup>The opinions of the foreign executives connected with Tam Sigorta are an indication of this:  
Mr. J.M. Tompkins (President of the Board of Directors of A.I.U. Mediterranean):

I strongly advise an increase in our investments in Tam Sigorta and an involvement in the new enterprise (Tam Hayat) ....This proposal depends on our firm belief of the experience, management capacity, and business knowledge of Bedi Yazici and Ali Neyzi (President of the Board of Directors and President of Tam Hayat, respectively)....We have been working together with Ali Neyzi and Bedi Yazici for almost two years. Up to now their estimations in terms of the volume of business, revenues, and expenses have always been realistic and conservative....

Mr. Paul Anderson (life insurance consultant for C.V. Starr and Company):

...The estimated profit (of Tam Hayat) is not only probable but highly possible....I do not have the slightest doubt Bedi Yazici's success and the accomplishment of his expectations. I feel that we are doing business with highly trustworthy people....In addition to our contribution to the increase of the capital of Tam Sigorta, I also think we should purchase the 49% of Tam Hayat stocks which are available to us....

<sup>2</sup>The main country in mind here is the United States.

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same procedure. In terms of obtaining a large amount of funds for long term investment, the management believes that the life insurance field offers more advantages than other types of insurance. Consequently, the following decisions which were made by the Board of Directors of Tam Sigorta in their meeting of October 22, 1964, became objectives for the management of a separate life insurance company (Tam Hayat).

1. Tam Sigorta is determined not to take up life insurance as a branch activity and does not approve the practices of other companies which are doing so.
2. The life insurance field in Turkey remains greatly unexplored due to the lack of insurance plans that fit the character of Turkey and its people.
3. A life insurance company that can satisfy the necessities of the Turkish life insurance market is bound to succeed.
4. Eighteen years ago, Philamlife, which was founded by A.I.U. in the Philippines under circumstances similar to those now existed in Turkey, prove to be highly successful. Its success can serve as an indication for a similar development in Turkey.

There were three factors which led the management of Tam Sigorta to create Tam Hayat as a separate organization which would engage only in life insurance. The first of these factors is the difference in the characteristics of the risk between life insurance and other kinds of insurance. The occurrence of risk in other types of insurance is merely a chance; however, in terms of life insurance, the occurrence of death is definite,

and therefore, it might even be stated that no risk is involved in life insurance.<sup>1</sup> This situation makes life insurance contracts definitely to be fulfilled. Life insurance resembles a bank deposit more than it resembles other forms of insurance. Consequently, the investment policy for these funds will follow a different pattern than the funds of other types of insurance. The second factor is the duration of the life insurance policy. The duration is longer in comparison with other kinds of insurance whose contracts are renewable, usually each year. The life insurance premiums do not vary for different individuals of the same age, whereas the premiums for other types of insurance vary with the value and the structure of the object insured. The third factor is the actual practice in the developed countries. Life insurance companies in other countries have found it advantageous to concentrate on life insurance exclusively and Tam Hayat has the objective of following a similar practice.

Tam Hayat's capital, which is 7,000,000 TL., is the highest among all other insurance companies in Turkey.(TABLE 3-4)  
The management justifies the large capital as follows:

1. Large capital creates dependability in the eyes of the public.

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<sup>1</sup>In terms of ordinary life insurance, the liability is definitely going to occur. The chance factor is only involved in the timing of the occurrence. The company will face a loss on the individual policy if death occurs early. However, term insurance involves chance factors just like other types of insurance; i.e., the occurrence of liability is not definite.

2. It enables ample resources for investment in organization structure and thus increase organizational efficiency.

TABLE 3-4

NOMINAL CAPITALS OF COMPANIES DEALING WITH LIFE  
INSURANCE IN TURKEY AS OF END OF 1965<sup>a</sup>

Turkish Companies	Capital
Ak	2.000.000
Anadolu	1.500.000
Ankara	1.000.000
Başak	3.000.000
Birlik	754.500
Dogan	1.000.000
Genel	3.000.000
Güneş	2.500.000
Güven	1.000.000
Şark	1.000.000
Inan	1.000.000
Istanbul Umum	1.500.000
İmtaş	1.050.000
Ray	2.000.000
Halk	1.000.000
Şeker	2.500.000
Foreign Companies	Capital
Assicurazioni Generali	251.658
Unyon Hayat	100.000

<sup>a</sup>From: Ticaret Bakanlığı Sigorta Murakabe Kurulu, Türkiyede Sigorta Faaliyeti Hakkında Rapor (İstanbul: Kağıt ve Basım İşleri A.Ş., 1965).

Certain figures are used to support the management's opinion in terms of the unexplored Turkish life insurance market. At the end of 1963, the Turkish population was approximately 30,000,000, out of which only 150,000 had life insurance (that means one out of every two hundred people). The total capital

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coverage is estimated at about 800,000,000 TL., which means 27 TL. of insurance coverage per capita and about 5,300 TL. per capita insured. The total life insurance premiums collected are estimated at about 30,000,000 TL., which means one lira per capita and 200 TL. per capita insured for the same year. Since the Turkish GNP per capita was about 1800 TL. for the same year, the management is convinced that a 1/1800 ratio can in no way be a proper indication of the Turkish public's feelings about their future security. In comparing individual savings deposits with insurance coverage, the management concludes that the Turkish life insurance market is definitely not satisfied with the existing life insurance practices. The management holds the opinion that life insurance coverage should at least be equal to or even more than the total individual savings deposits in a given country. If the total life insurance coverage runs below the level of bank deposits, this means that the life insurance market is operating below its capacity.<sup>1</sup> In Turkey, at the end of 1963, the total life insurance coverage was about 12.1% of total individual savings deposits in banks. (TABLE 3-5)

---

<sup>1</sup>In the United States, life insurance in force exceeds total bank deposits by a huge margin.

Life Insurance in Force <sup>a</sup>	= 900,554,000,000	(U.S. dollars)
Bank Deposits <sup>b</sup>	= 335,069,000,000	"

<sup>a</sup>Includes group, ordinary, and industrial life insurance.

<sup>b</sup>Includes time and demand deposits, not interbank deposits.

Source: U.S., Dept. of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1966.



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TABLE 3-5

A COMPARISON OF TOTAL LIFE INSURANCE IN FORCE  
WITH TOTAL SAVINGS DEPOSITS IN TURKEY<sup>a</sup>

Life Ins. Cov.(A)			Savings Deposits(B)		A/B(%)
Year	Mill.TL.	Index	Mill.TL.	Index	Percent
1950	112	100	578	100	19.3
1954	250	223	1424	246	17.5
1959	641	572	4040	700	15.8
1963	800	714	6603	1142	12.1

<sup>a</sup>(Management estimates) Source for the figures not stated. From: A tam Management Publication, The Tam Hayat Project (Istanbul: Verdi Matbaası, 1965), p. 8.

Another comparison can be made by comparing the national incomes and the life insurance per capita among countries that have some aspects in common with Turkey.<sup>1</sup> The comparison made (as is shown in TABLE 3-6) indicates that Turkey is far behind in terms of insurance coverage per capita.

TABLE 3-6

Countries	Per Capita Income (dollar)	Life Ins. Cov. to Total Nat. Income	Life Ins. Cov. Per Capita (dollar)
TURKEY	228	1.2%	3
Argentina	315	5.2%	20
Ceylon	125	24.3%	19
India	70	27.4%	14

<sup>1</sup>Whatever the common aspects may be, they are not indicated by the management. The assumption is that all these countries are underdeveloped.

TABLE 3-6 continued.

Countries	Per Capita Income (dollar)	Life Ins. Cov. to Total Nat. Income	Life Ins. Cov. Per Capita (dollar)
Mexico	345	10.4%	40
Pakistan	45	8.0%	4
Philippines	111	35.50	45
Spain	363	5.2%	21
Thailand	94	5.---%	5

<sup>a</sup>Source for the figures not stated. From: The Tam Hayat Project, p. 9,

### The Profit Objective

The Tam Hayat management expects to make their profits from three different factors. The first kind of profit results from the premiums collected from the policy holder. This premium from the policy holder is calculated in a way that includes the risk premiums which are determined from the expected mortality rate. To the risk are added operational expenses that are expected to occur during the business operations of the firm. In addition, the commissions for the sales representatives and the amount that should be incurred in terms of computation interest are added. Thus they arrive at a total premium.<sup>1</sup> The profit in this situation results from using safety margins in calculating the gross premium. In case abnormal conditions prevail, each probable expense is allowed a safety margin to give flexibility to the operations of the company. In case the business conditions turn out to be normal, these safety margins turn out

<sup>1</sup>For the method of calculating each premium, see Chap.II.

as profit. In other words, a life insurance company must be somewhat overcautious in terms of its operations. However, the management realizes that lower premiums will give them a better competitive position; therefore, it is their main objective to keep premiums low in comparison with their competitors. This inevitably will exert a restriction on the amount of profit that can be obtained from the so-called safety margin. However, as was indicated in Chapter II, because of the more up-to-date mortality rates (Tam Hayat's use of the American Mortality Tables, CSO 1958), its position will prove to be advantageous in comparison with competitors.

The second kind of profit that is expected by the Tam Hayat management is the return on investments. Their expectation is a return of 10%-12% per year.

The third kind of profit results from the good money-bad money aspect as termed by the management. The logic behind this concept runs as follows. The payments over a period of time form a liability which is supposed to be fulfilled at a date later than the payments of the majority of the premiums. The premiums are paid in good money, or to clarify, in money that has a higher worth than the money paid in the future. Therefore, 100 TL. of today will have a higher value than the 100 TL. of ten years from now. There is the economic concept which enables us to generalize that the value of money does not remain the same over a period of time. It will fall or rise in value in the future in comparison with the present. However, the general trend in the last twenty years is such that it falls in value in

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the long run, rather than rising as indicated in TABLE 3-7.

TABLE 3-7

PRICE LEVEL CHANGES IN SOME COUNTRIES  
OF THE WORLD 1958 = 100<sup>a</sup>

Countries	1948	1950	1955	1960	1962	1963	1964	1965
Argentina	....	....	....	269	381	491	619	768
Australia	51	67	98	107	100	102	105	108
Belgium-Lux.	92	92	99	101	101	103	109	110
Brazil	25	27	63	188	396	697	1270	1940
Canada	85	93	96	101	105	107	108	110
Denmark	71	82	98	100	104	107	110	114
Finland	52	60	81	103	106	109	120	124
France	54	65	81	107	113	116	119	120
Germany (Ind.)	84	82	97	100	103	103	105	107
Germany (Agri.)	83	77	93	101	103	106	108	115
Greece	....	55	94	104	105	110	115	119
India	87	98	82	111	115	119	134	146
Italy	103	92	99	98	101	106	110	112
Japan	37	72	99	102	101	103	103	104
Mexico	47	56	88	106	109	110	114	116
Netherlands	71	83	97	99	99	101	107	111
New Zealand	67	72	93	102	101	103	106	109
Norway	50	69	94	101	104	104	109	112
Pakistan	....	....	....	105	111	110	110	118
Paraguay	48	72	58	133	157	158	....	....
Philippines	....	98	91	104	113	125	132	136
South Africa	62	71	97	101	104	105	108	111
Spain	39	49	71	105	113	117	121	132
Sudan	92	105	104	96	98	96	108	....
Sweden	69	73	96	103	107	110	116	120
Switzerland	100	94	99	99	102	107	108	109
Turkey	50	48	63	126	137	143	142	155
United Arab Rep.	79	82	84	100	101	100	105	113
United Kingdom	....	77	93	102	107	108	112	117
United States	88	86	93	100	100	100	100	102
Yugoslavia (Ind.)	....	98	99	102	106	106	112	130
Yugoslavia (Agri.)	....	90	94	110	147	165	199	276

<sup>a</sup>Compiled from: International Financial Statistics,  
1966 Supplement, An IMF Publication.

It is this kind of profit to which the management refers as the third type. Normally, the premiums are paid throughout the whole range of the period, and the return payments have a higher probability of falling to the second half of the period. The economic assumption of money losing its purchasing value over a period of time assumes normal economic conditions. It is true that during depressions, money can increase in value, instead of decreasing in value. In this case, the first type of expected profits might actually turn out to be a loss. However, the economic development in the last decade indicates that although price falls exist in certain years, the general over-all tendency is a rise in prices rather than a fall in prices.

## Capital Markets

The management of Tam Hayat believes that their practices in life insurance will cause a continuous generation of funds that can be channeled into the Turkish capital market and will exert a considerable influence on its growth and formation. It is stated that the formation of a well-developed capital market can only be possible through channeling the resources of private funds into the capital market. It is claimed in The Tam Hayat Project that life insurance companies are the most typical of the capital market institutions. In developed countries, life insurance companies generate a larger investment potential than the total sum of all other investment potential belonging to other institutions that are involved in the capital market. However, it is not possible to support this opinion.

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The statistics shown in TABLE 3-8 indicate that the increase in the total assets in banks in comparison with the total assets of life insurance companies revealed that banks had the bigger investment potential since they had larger increases in total assets between 1960 and 1964 in developed countries.

TABLE 3-8

A COMPARISON BETWEEN THE INCREASES IN THE TOTAL ASSETS OF LIFE INSURANCE COMPANIES AND THE TOTAL ASSETS IN BANKS<sup>a</sup>

Country	Total Assets of Life Ins. Co.		Total Assets of Banks(Comm.+Sav.)	
1. Australia (in mill. of Australian dol.)	<u>1960</u> 2,064 Diff.: +1,190	<u>1965</u> 3,254	<u>1960</u> 9,888 Diff.: +2,079	<u>1965</u> 11,967
2. Belgium (in bill. of Belgian francs)	<u>1960</u> 46.4 Diff.: +18.2	<u>1965</u> 64.6	<u>1960</u> 192.9 Diff.: +134.8	<u>1965</u> 327.7
3. Canada (in mill. of Canadian dol.)	<u>1960</u> 8,007 Diff.: +2,631	<u>1964</u> 10,638	<u>1960</u> 15,780 Diff.: +6,470	<u>1964</u> 22,250
4. Denmark (in mill. of kroner)	<u>1960</u> 4,642 Diff.: +1,571	<u>1964</u> 6,213	<u>1960</u> 23,900 Diff.: +9,090	<u>1964</u> 32,990
5. Germany (in bill. of Deutsche marks)	<u>1960</u> 14.78 Diff.: +14.92	<u>1965</u> 29.70	<u>1960</u> 183.7 Diff.: +148.0	<u>1965</u> 331.7
6. Netherlands (in mill. of guilders)	<u>1960</u> 8,299 Diff.: +4,643	<u>1965</u> 12,942	<u>1960</u> 11,000 Diff.: +8,680	<u>1965</u> 19,680

TABLE 3-8 continued.

Country	Total Assets of Life Ins. Co.		Total Assets of Banks (Comm.+ Sav.)	
7. New Zealand <sup>b</sup> (in mill. of pounds)	<u>1960</u>	<u>1964</u>	<u>1960</u>	<u>1964</u>
	275.2	397.4	363.1	392.5
	Diff.: +122.2		Diff.: +29.4	
8. Norway (in bill. of kroner)	<u>1960</u>	<u>1965</u>	<u>1960</u>	<u>1965</u>
	5.10	7.71	16.63	24.21
	Diff.: +2.61		Diff.: +7.58	
9. Sweden (in bill. of kroner)	<u>1960</u>	<u>1964</u>	<u>1960</u>	<u>1964</u>
	13.68	16.36	22.71	33.86
	Diff.: +2.68		Diff.: +11.13	
10. United Kingdom (in mill. of pounds)	<u>1960</u>	<u>1965</u>	<u>1960</u>	<u>1965</u>
	6,927	13,718	8,073	10,102
	Diff.: +6,791		Diff.: +2,029	
11. United States (in bill. of dollars)	<u>1960</u>	<u>1965</u>	<u>1960</u>	<u>1965</u>
	119.58	158.88	226.4	337.1
	Diff.: +39.30		Diff.: +110.7	

<sup>a</sup>Compiled from: International Financial Statistics  
(Washington D.C.: An IMF Publication, 1966 Supplement).

<sup>b</sup>New Zealand is the only country that seems to show  
life insurance companies with a bigger investment potential  
than banks.

The importance of life insurance companies results from  
their ability to channel insignificantly small savings into the  
capital markets. A similar situation to the one existing in  
developed countries can take place in Turkey provided the life  
insurance companies make use of the experience and the technical  
"know-how" acquired throughout the years by institutions in the  
developed countries. It is further stated that life insurance

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companies not only channel individually insignificant savings, collected and aggregated, but also create these savings; i.e., in the sense that these amounts would not normally occur as savings had their owners not bought life insurance. The small savings become important only in buying life insurance; otherwise they do not appeal to the small saver. In other words, these small amounts are spent rather than saved, because the returns on them are so insignificant that they have little importance to the individual. Apart from these considerations, the life insurance policy grants security.

The social security that is becoming more and more widespread throughout the working force in Turkey might at first seem competitive to the private life insurance that Tam Hayat undertakes. However, the management of Tam Hayat considers the existence of social security as a complementary factor rather than a competitive factor. The management thinks that social security works favorably for the future practices of Tam Hayat because social security lays the foundations for a basic knowledge of life insurance and the concept of security. Security might have seemed completely out of reach before, but once the possibility is open, the demand for more security is generated. The management believes that Tam Hayat will fill an important gap that exists between social security and complete insurance coverage. This gap exists because firstly, social security does not cover people who have their own business; and secondly, many members of the working force who are covered by social security might find its coverage too narrow. Examples are given from



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countries like the United States, Great Britain, and Germany in which this situation actually exists. In addition, certain companies might find the social security coverage inadequate for the members of their work force and might demand more extensive life insurance and retirement payment for them.<sup>1</sup>

The management believes that Tam Hayat is being formed at the right time. To support this opinion, they list the following factors:

1. They claim that the Turkish economy has been comparatively stable for the last few years in terms of prices (in comparison with the period between 1955 and 1960), and this situation is expected to remain so in the future years. However, it is claimed that even if this condition of relative price stability did not exist, the company could still do satisfactory business because of its 30% profit-sharing plan which is supposed to be able to serve the individual policyholder as a protection against rapidly rising price levels.
2. Tam Sigorta achieved success throughout its operations and there emerged a group of customers who insisted that Tam Sigorta should go into the life insurance field as well. This indicates that a considerable demand has been generated for life insurance through the successful operations of Tam Sigorta.
3. The management of Tam Hayat intends to make use of the

<sup>1</sup>Certain Turkish companies have actually adopted this practice; to name a few: Koç Holdings A.Ş., Gaz Aletleri A.Ş., Aygaz A.Ş., Squibb.

experience and the knowledge acquired by A.I.U. during its successful organization and formation of life insurance companies in underdeveloped countries.

4. The management feels that they have competent personnel ready to operate in an administrative capacity. In addition, the training of a large life insurance sales force is undertaken as a primary objective.

#### The Scope of the Life Insurance for Tam Hayat

The management considers the middle-income group of people in Turkey as their primary customers. They believe that in general the very high and the very low income groups generate little demand for life insurance. The target of Tam Hayat is the group of salaried employees with a yearly income of 15,000 TL. and more, and the individual small-scale tradesmen, such as private store owners, small merchants, etc. The management assumes that this group of people make up about 10% of the total population of Turkey.

Turkish business law and the law numbered 7397, which is an additional regulator for life insurance companies, allow the individual companies to decide what mortality rates and what premiums they will use and what kinds of life insurance they will offer, provided they are controlled and found reasonable by the Ministry of Commerce. Therefore, the Tam Hayat management first tried to choose the mortality table that would best fit the life

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insurance market in Turkey. The management thinks that other companies have very high premium rates because of their high mortality rates based upon old mortality tables. A comparison is made between the two most common mortality tables used by other companies and a mortality table compiled recently. In turn, these tables are compared with the mortality rates prevailing in the city of Istanbul during 1960. (TABLE 3-9)

TABLE 3-9

A COMPARISON OF DIFFERENT MORTALITY TABLES  
WITH THE MORTALITY RATE IN ISTANBUL<sup>a,b</sup>

Age	M.S. 1921-1930 Swiss Mort. Table in Use at Pres. in Turkey	German Mort. Table in Use at Pres. in Turkey (Abel)	A recent Swiss Mort. Table	Istanbul Mort. Rate 1960
20	3.65	3.27	1.63	1.43
25	3.94	3.34	1.92	1.96
30	4.12	3.69	2.02	2.36
35	4.86	5.17	2.38	2.48
40	6.43	7.59	3.30	3.87
45	9.21	10.61	4.97	5.30
50	13.44	15.52	8.21	7.62
55	19.50	22.67	13.38	11.54
60	28.43	33.63	20.35	18.18

<sup>a</sup>From: The Tam Hayat Project.

<sup>b</sup>The mortality table finally adopted by Tam Hayat (CSO 1958) has the following rates:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	1.79	35	2.51	50	8.32
25	1.93	40	3.53	55	13.00
30	2.13	45	5.35	60	20.34

The table indicates that the two tables used by life insurance

companies other than Tam Hayat are totally unrealistic in terms of their death rates in comparison with the death rate in Istanbul. The new table, on the other hand, falls close to the Istanbul death rates.

### The Investment Outlets for Tam Hayat Funds

The management feels that the security aspect is the most important consideration in their investment policy. The investments should be made in such a way that they should not be adversely effected by any rise in the general price level. The management thinks that there are certain industrial securities that have these characteristics; also, investment in real estate is considered to be secure and uneffected by price level changes.

Law number 7397 determines certain outlets for the investment of legal reserves. The funds outside these reserves can be used by the management in whatever ways they wish. The following are the outlets determined by the law in which the reserves must be invested:

1. Deposits in banks.
2. Government bonds (Turkish)
3. Securities of institutions partly or completely owned by the state.
4. Municipal bonds.
5. Bonds and stocks of Turkish corporations.<sup>1</sup>
6. Real Estate in Turkey.

<sup>1</sup>Only the securities which are traded on the market are included in the list of the Turkish Ministry of Commerce.

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7. Collateral loans.

8. Loans to policy holders.

There are limitations in terms of Items 5, 6, and 7. In terms of Item 5, the amount in any one corporation cannot be more than 10% of the reserves; in terms of Items 6 and 7, the amount of reserves engaged cannot be more than 50% of the total legal reserves.

Therefore, it is natural that the investment policy of Tam Hayat should be consistent with the legal requirements. The investment policy can be summarized in four main parts:

1. Highly liquid amounts in cash form, such as bank deposits.
2. Purchase of land to be used for building purposes.
3. Real estate construction.
4. Purchase of Turkish industrial corporate securities.

Real estate construction will be of two kinds: one is to be used for housing purposes, and the other is to be used for business concerns. Housing construction will be either as apartment houses or as individual residences. They will be rented to policy holders in such a way that the rent paid for a period of fifteen to twenty years will include sufficient payment on principal to pay for the house. This is different from a house mortgage plan in that if the policy holder dies before the completion of the full payment, the amount remaining will be automatically covered by a portion of his insurance policy. This arrangement eliminates the danger of being unable to fulfill the housing contract in case of the death of the head of the family. In addition, a situation might occur in which the bread winner loses

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his job and the family faces a shortage of income. In this case, borrowing on life insurance can provide payment for the house. This project should work efficiently because of credit conditions peculiar to Turkey. Housing credit is not available for most of the middle class families whose bread winners work on a salary basis. (TABLE 3-10)

TABLE 3-10

BANK CREDIT FOR HOUSING CONSTRUCTION COMPARED WITH  
TOTAL BANK CREDIT FOR THE PRIVATE SECTOR  
IN TURKEY FOR YEARS 1949-1965<sup>a</sup>

Year	Bank Credit For Housing (in mill. TL.)	As a Percentage of Total Bank Credit for Pri. Sector
1949	32	3.6
1950	40	3.6
1951	68	4.3
1952	118	5.0
1953	171	5.6
1954	233	6.1
1955	346	7.9
1956	382	7.7
1957	434	7.6
1958	462	7.2
1959	532	7.7
1960	633	8.7
1961	844	12.1
1962	1131	12.7
1963	1294	12.7
1964	1528	13.2
1965 <sup>b</sup>	1537	11.6

<sup>a</sup>From: Turkish Economic Review, (The Union of Chambers of Commerce, Industry and Commodity Exchanges of Turkey: Vol.VII, No.'s 4 and 5).

<sup>b</sup>If an average credit of 40,000 TL. per borrower is assumed, the 1965 total means lending to approximately 38,000 creditors.

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Buying on installment payments is not the practice in terms of individuals selling their homes. In order to establish a credit line with the bank, the borrower must usually deposit a flat sum so that he can borrow money for his house on a long term basis. For the salaried worker, the depositing of a flat sum for his credit standing often proves to be burdensome. The project of Tam Hayat management will eliminate the burden in the following way. Firstly, a large down payment will not be needed on the part of the individual policy holder. In order to enter into a housing commitment, one must only pay one's insurance premiums promptly. In addition, since only the people with life insurance policies can be considered for the commitment, insurance protection will be given to them; i.e., insurance protection will be a prerequisite for the housing contract. This at first might seem a forced selling; however, it serves as a protection both for the insured and for the insurer. For the company it proves to be advantageous since it will probably have a positive impact on insurance sales. Through informal talks with many of the Tam Hayat salesmen, this writer found that most salesmen believed a high increase in life insurance sales would have been possible had this policy been put into practice. Also, construction on a wide scale will result in lower cost per house in comparison to construction on an individual basis.<sup>1</sup>

Construction for business purposes will be undertaken

<sup>1</sup>An example to such a large construction activity is seen in Etiler and in dört Levent.

to:

1. Eliminate the rent expenditures of Tam Hayat offices.
2. Generate dependable and stable income for Tam Hayat over a long-run from the real estate rented to outsiders.
3. Benefit from the appreciation value of the real estate.

Priority will be given for an investment in a large business building to serve as headquarters for Tam Hayat in the future. The company expects to benefit from the building in terms of advertising as well. This means that the building is going to be a large construction unit. This generally is the policy of insurance companies, especially in the United States.

### Sales Force

The management of Tam Hayat considers the sales force as the most important unit of a life insurance company. The characteristics of a qualified salesman are determined to be as follows:

1. He should be able to give the feeling of dependability to the buyer.
2. He should be able to realize each customer's special needs and available sources for the purchase of life insurance.
3. He should be persuasive enough to make the purchaser understand and buy the combination of insurance that most suits him.

The management believes that most of these qualities are lacking in many of the salesmen of life insurance in Turkey.



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In order to be able to recruit people fulfilling the above requirements, a careful selection policy is implemented which involves the following:

1. Selection of the salesmen from among the well-educated people, preferably from the graduates of different business institutions, such as Istanbul Faculty of Business, Sultan Ahmet School of Commerce, and Robert College.
2. The candidates will have to fulfill a training program in selling life insurance for three months.

For each training program about twenty-five candidates will be taken. The management expects to have four training programs each year and thus be able to have three hundred trained salesmen at the end of three years.

Only the candidates who fulfill the requirements of the training program will be allowed to work as salesmen. The emphasis on the training program will be placed on the elimination of deceit and misunderstanding as sales techniques. The customer will clearly and thoroughly understand the consequences and requirements of his life insurance before buying it. The emphasis will be placed on the importance of continuing policies, rather than on selling policies that will be likely to be cancelled in a short term period.

The already existing agency organization of Tam Sigorta will not be allowed to sell life insurance for Tam Hayat unless each has at least one member trained by Tam Hayat who has shown capability in salesmanship.

Advertising policy will have clarity as its prime objec-

tive. Caution will be taken to avoid any misrepresentation or misunderstanding of Tam Hayat and its objectives in the eyes of the public. The advertisements will emphasize that Tam Hayat exists for the benefit of the public and tries to fulfill a social service. The profit-sharing plan will be emphasized in all advertising. A five-year advertising plan will be determined which will be modified at the end of each year, depending upon the actual operation results.

Future Estimations

The management made its own estimations for the future growth of Tam Hayat based upon the following assumptions:

1. Each insurance policy sold will be of 20 years duration with a 10,000 TL. capital coverage and the person buying each policy will be of an average age of forty. The yearly premium payments for each insurance policy will be 460 TL.
2. Investment income for insurance funds will be 10% per year. (TABLE 3-11)

TABLE 3-11

FORECAST OF FUTURE OPERATIONS OF TAM HAYAT<sup>a</sup>

	1 <sup>st</sup> Year	Years 2-5	Years 6-10	Years 1-10
<b>REVENUES</b>				
Premiums	460,000	24,049,902	125,405,362	149,915,264
Invest.Inc.	565,470	3,091,155	23,739,300	27,395,925
Total	1,025,470	27,141,057	149,144,662	177,311,189

TABLE 3-11 continued.

	1 <sup>st</sup> Year	Years 2-5	Years 6-10	Years 1-10
<b>EXPENSES</b>				
Commissions	380,000	10,622,000	24,491,000	35,493,000
Payments to Insured	35,300	2,018,000	12,116,400	14,169,700
Adm. Exp.	1,390,000	4,895,000	8,500,000	14,785,000
Math. Res.		7,407,000	66,740,000	74,147,000
<b>Total</b>	<b>1,805,300</b>	<b>24,942,000</b>	<b>111,847,400</b>	<b>138,594,700</b>
Diff.	-779,830	+2,199,057	+37,297,262	+38,716,489
Cum. Diff.		+1,419,227	+38,716,489	

<sup>a</sup>From: The Tam Hayat Project, p. 27.

### Summary of the Management's Objectives

The objectives of Tam Hayat's management can be summarized as follows:

1. Keeping life insurance practices apart from other insurance practices.
2. Fulfilling the necessities of Turkish life insurance market.
3. Increasing the total life insurance coverage to an amount equal to or more than bank deposits.
4. Offering lower premium rates than the ones prevailing at present.
5. Generating enough funds to fulfill an important position in the Turkish capital market.
6. Filling the gaps left by social security.
7. Distributing 30% of the annual profits among the insurance policy holders.

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8. Creating a large sales force (well-trained).
9. Giving priority to investments in a large business center for Tam Hayat and to investments in houses for policy holders.

## CHAPTER IV

### ANALYSIS OF THE FUTURE OPERATIONS OF TAM HAYAT

This chapter makes an attempt to estimate the possible future contributions of Tam Hayat to the life insurance market in Turkey. The significance of this analysis was discussed in Chapter I.

Future estimations are limited since the future involves uncertainty. In our estimations about the future of a life insurance institution, we are trying to predict future events so that we can generalize in relation to their impact upon the institution. Therefore, if future events turn out to be different than we predict, our estimations will not hold. Unfortunately, we are not provided with any tools that can eliminate uncertainty about the future. However, there are certain tools that can be useful in making our estimations. These tools are the available past and present data. In many instances, past events have an influence on future events, or, to put it differently, certain things related to past and present data continue into the future. In some cases it is possible to predict this continuation quite accurately. We know this through analyzing our estimations made in the past about the future, and comparing our estimations with the actual afterwards.

There is no single method used in estimations that can

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be claimed to be superior to others. There is always the danger of misrepresentation in any method employed. Therefore, the safest thing is to remember the limitations of future estimations made by using any method. Consequently, throughout this chapter, whenever past data are evaluated in terms of their indication about the future, the writer tried to point out its limitations as best he could.

There is another danger in using past data in making future estimations--the problem of accuracy. When past data are accurate, there is a better chance of making more reliable future estimations. Unfortunately, the writer of this paper, with his limited data, can not claim that they are very reliable, especially in terms of those concerned with Turkey. All he can say is that they were the available data. It might seem ironical that some of the data analyzed in order to help estimations were themselves crude estimates.<sup>1</sup>

Life insurance is an activity influenced by a large variety of factors, all of which are impossible to analyze. This chapter will consider only some of the most important determinants. Other important determinants, such as attitudes and preferences of individuals are left out for the following reasons:

1. No such data are available in Turkey.
2. To prepare such data requires time and resources which are lacking in one-man research.

<sup>1</sup>Such as data related to life insurance sales in Turkey for some years and income distribution in Turkey, etc.

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Attitudes and preferences of individuals are important because it is the individual who will decide about buying life insurance. This decision is influenced by different psychological factors. As is the case in all subjective evaluations, the evaluation of life insurance will depend upon the individual's attitude toward economic security. If he is security-oriented, future benefits from life insurance will have a higher value to him. However, the condition varies from one individual to another. There were some customers that came to the company to learn about life insurance and refused to buy it afterwards because it was not "profitable" enough. One prospective customer who visited the company on September 21, 1966, indicated bluntly that he could get a higher return if he invested his money in something else instead of life insurance. In making this judgment, he was thinking in terms of the total premiums that he would have to pay for a 10 year endowment insurance and was comparing this amount with the payment he would receive at the end of the ten years. When one of the employees reminded him that he was disregarding the security aspect, he answered, "If I die, I am not going to get anything anyway..." which indicates that he was not concerned with the security of his beneficiaries but regarded life insurance as any other business contract for profit.

The above situation was the one recorded by the writer. Similar situations occurred other times as well. However, it is not possible to make a generalization about the attitude of all

Turkish people towards life insurance based on these few cases. Yet it is important to notice that such an attitude might prevail in a large number of people.

It would have been possible to make surveys based on limited groups and/or small samples. However, they were not used due to the magnitude of bias involved in them, as was discussed above in the question of accuracy. However, personal observations concerning the limited group of people are mentioned once or twice. They should not be taken as statements representing the whole population that can be available for life insurance in the future.

Also, the writer preferred not to use multiple correlation as a technique for future estimations because of its tendency to magnify error in multiples when based upon data crudely estimated and thus involving a large proportion of error in itself. Instead, relationships were expressed in forms of available data and then interpretations were made from the data.

The future determinants of the growth of Tam Hayat are grouped into two main categories as controllable and uncontrollable. Uncontrollable determinants are those which influence life insurance but are not within the scope of the control of the Tam Hayat management. These factors are discussed under three general groups: income, price levels, and uncontrollable aspects of competition. The controllable determinants are those which can be influenced by the management in different degrees. These are discussed under two main groups: objectives and ope-



rational policy, personnel and advertising policy.

## Uncontrollable Determinants

These determinants are uncontrollable due to their nature. They are either too large in magnitude or caused by factors to which the life insurance management can not be directly related. For instance, the national income of a nation is so large in magnitude that the operations of a life insurance company can not directly influence it in any significant way. General price levels are a function of general supply and demand, market controls and restrictions, etc., all of which are of such scope that the activities of a life insurance company can not have any direct relationship in their determination.

### Income

#### National Income

From the theoretical point of view, national income should be an important determinant of life insurance sales. This is due to the fact that life insurance is obtainable through purchase. It is purchased for future economic security<sup>1</sup> and therefore should be purchased by the group of people who can afford future economic security. The reasoning is quite straightforward: future security can not be the question if basic necessities are not satisfied at present.

Theoretically, high per capita incomes at present should mean more amounts spent for future economic security. Generally speaking, higher per capita incomes should mean better satisfac-

<sup>1</sup>See Chapter I, the reasons for buying life insurance.

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tion of present needs. Thus, following from our reasoning, higher per capita income countries should spend more on life insurance, i.e., bigger purchasing of future economic security. Do statistics support the generalization that countries with higher per capita incomes spend more on life insurance?

TABLE 4-1 presents the 1965 statistics for the per capita incomes of two groups of countries, together with the total amount paid for life insurance per year expressed as a percentage of total national income.

TABLE 4-1<sup>a</sup>

Country	Per Capita Income	Life Ins. Premium Payments Per. Cap.	Prem. Rec./ Nat. Inc.
<u>A - Developed Countries</u>			
1. United States	2873	116	4.05
2. Switzerland	1838	56	3.07
3. Canada	1826	59	3.21
4. Australia	1553	40	2.57
5. United Kingdom('63)	1450	36	2.47
6. Germany	1449	24	1.66
7. Sweden	1392	34	2.46
8. New Zealand	1166	57	4.85
9. Denmark	859	21	2.49
10. Netherlands	728	37	5.07
11. Japan	575	23	4.08
<u>B- Underdeveloped Countries</u>			
1. Portugal	366	1.35	0.37
2. Turkey	242	0.12	0.05
3. Guatemala	236	1.39	0.59
4. Ecuador	190	0.36	0.19
5. India	57	0.20	0.35

<sup>a</sup>Compiled from: International Financial Statistics.

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In TABLE 4-1, the national income figures were obtained through dividing national income by population and converting the per capita incomes into dollars by using the official rate of exchange determined in agreement with IMF. In cases where no such rate exists, the exchange rate prevailing during the year is used. Only the countries that report their net life insurance premiums to IMF (except Turkey) are shown in the table.

Countries classified under Group A have higher per capita incomes and a higher percentage of premium receipts to national income than the countries in Group B. Therefore, through comparing the developed and the underdeveloped country groups, it is possible to generalize, with limitations, that countries with higher per capita incomes spend more on life insurance. We say "with limitations" because this generalization is made based upon only those countries with reported life insurance sales. Secondly, this generalization says nothing about the situation within each group. When each group is analyzed separately, it does not necessarily follow that countries with higher incomes spend a bigger percentage of their incomes on life insurance, nor does it follow that richer countries spend more on life insurance in terms of monetary amounts. For example, New Zealand spends 57 dollars per person on life insurance a year, whereas Switzerland with a per capita income of approximately 50% higher than that of New Zealand spends only 56 dollars on life insurance per capita per year. In a study conducted by Duesenberry in 1948, it was concluded that the aggregate

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savings ratio is independent of the absolute level of aggregate income.<sup>1</sup> This conclusion is statistically provable for the United States, as can be seen in TABLE 4-2.

TABLE 4-2.

PERSONAL NET SAVING AS A PERCENTAGE OF DISPOSABLE INCOME<sup>a</sup>

<u>1929</u>	<u>1933</u>	<u>1940</u>	<u>1945</u>	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>
5.0	-2.0	5.1	19.7	6.3	5.7	4.9	5.4

<sup>a</sup>From: U.S. Dept. of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1966, p. 327.

Duesenberry also states that, despite the fact that savings are independent of the absolute level of incomes, they are dependent on the rate of growth of income.<sup>2</sup> However, Duesenberry can not determine the exact influence. He states that even if the income rises steadily the same percent each year, the savings percentage will not change. If, however, incomes rise at an increasing rate, then the savings ratio will rise as well. But Duesenberry can not determine the exact increase since so many other factors that influence savings enter the picture that it is not possible to separate them.

In the United States, personal savings fluctuate from year to year as income fluctuates (TABLE 4-3). Fluctuations in

<sup>1</sup>James S. Duesenberry, Income, Saving and the Theory of Consumer Behavior (Cambridge, Mass.: Harvard University Press, 1952), p. 45.

<sup>2</sup>Ibid. p. 65.

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personal savings are considerably more than fluctuations in income. This should be expected since when income changes, the first impact shows itself on savings rather than on consumption.

TABLE 4-3

U.S. DISPOSABLE PERSONAL INCOME, PERSONAL CONSUMPTION,  
AND TOTAL INDIVIDUAL SAVINGS 1935-1962<sup>a</sup>  
(in billions of current dollars)

Year	Disposable Personal Income	Personal Consumption	Total Individual Savings
1962	384.4	355.4	26.3
1961	364.4	336.8	24.3
1960	349.9	328.2	17.7
1959	337.1	313.5	23.5
1958	317.9	293.2	24.4
1957	305.1	284.4	22.3
1956	290.5	269.4	19.5
1955	274.4	256.9	18.2
1954	256.9	238.0	16.6
1953	252.5	232.6	21.1
1952	238.7	219.8	19.2
1951	227.5	210.0	19.9
1950	207.7	195.0	10.0
1949	189.7	181.2	8.1
1948	189.3	178.3	11.2
1947	170.1	165.4	7.1
1946	160.6	147.1	12.1
1945	150.4	121.7	29.5
1944	146.8	109.8	35.1
1943	133.5	100.5	33.7
1942	117.5	89.7	30.0
1941	93.0	81.9	11.1
1940	76.1	71.9	5.1
1939	70.4	67.6	4.0
1938	65.7	64.6	0.4
1937	71.0	67.2	4.1
1936	66.2	62.6	4.0
1935	58.3	56.3	1.6

<sup>a</sup>From: U.S. Dept. of Commerce, Historical Statistics of the United States (Washington D.C.: U.S. Government Printing Office, 1965).

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People are quite reluctant to change their patterns of consumption. In periods when incomes fall for some time, people use their savings to keep their standard of living more or less at the same level.

The analysis of CHART 4-1 illustrates the situation. Savings immediately respond to rises in disposable income, and consumption follows afterwards. However, once consumption starts increasing it keeps on increasing despite a levelling off in the growth rate of income; savings are reduced until consumption adjusts its growth to the slackened rate of growth in disposable income.

However, not all components of individual savings react to fluctuations in the same manner. As can be seen through the analysis of TABLE 4-4 and CHART 4-2, life insurance reserves are the least affected among all components of personal savings. The yearly increases and/or decreases in life insurance reserves belonging to individuals are moderate. They react to changes in savings and therefore in income; however, in a slower way than the other components. Even in the years between 1941-1945 where personal savings experienced a tremendous rise, the increases in life insurance reserves were moderate. Even the savings shares of savings and loan associations, which seem the least affected by changes in the amount of savings, fluctuated more than life insurance reserves after 1950.

The growth in life insurance reserves are slower but steadier than other components. Only between 1930-1934 do increases in life insurance reserves show an important decline.

CHART 4-1

U.S.: DISPOSABLE PERSONAL INCOME,  
PERSONAL CONSUMPTION,  
INDIVIDUAL SAVING

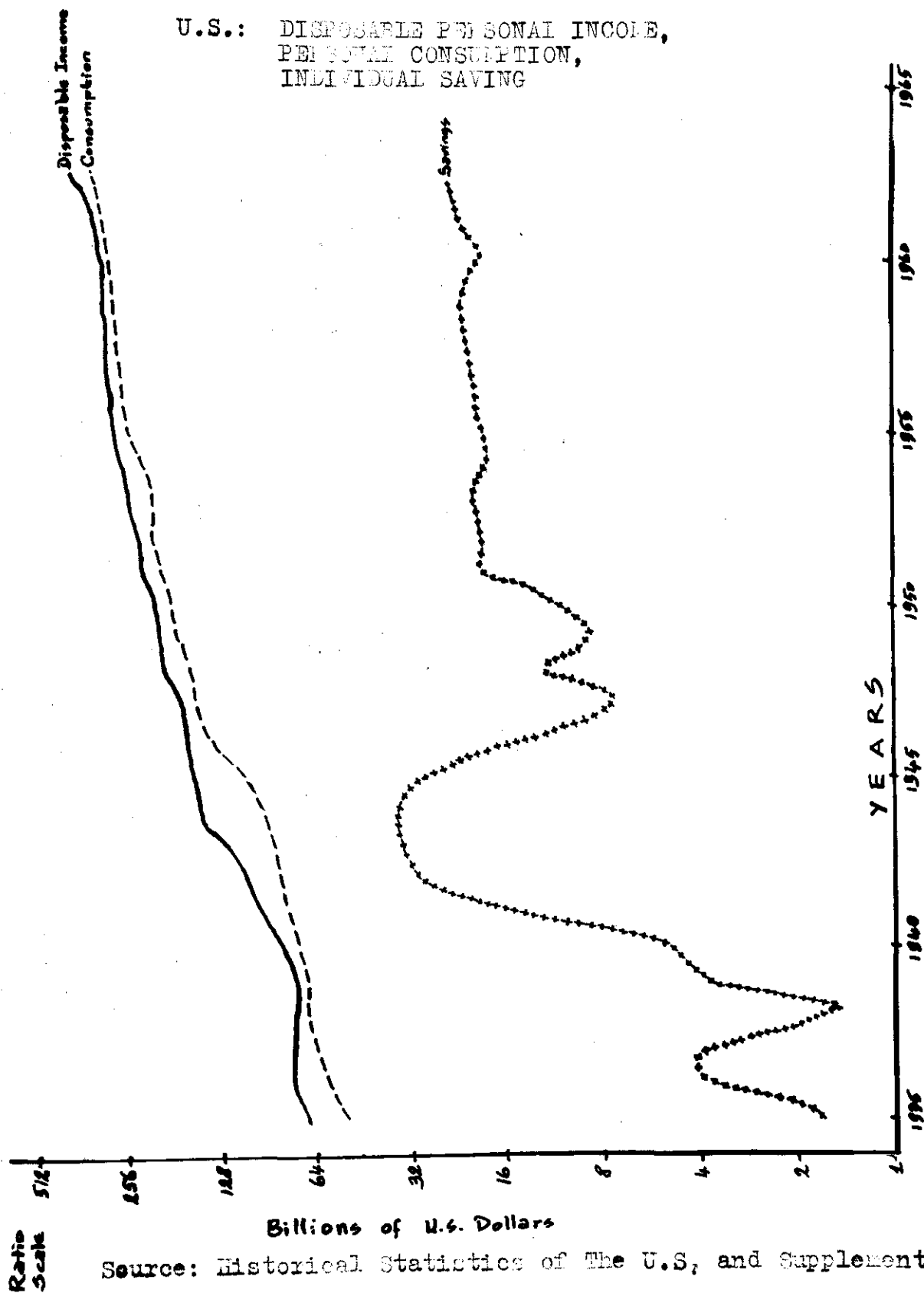


CHART 4-2

U.S. CERTAIN COMPONENTS OF  
INDIVIDUAL SAVING 1929-65

- CURRENCY + DEMAND DEPOSITS
- - - TIME + SAVINGS DEPOSITS
- + + + + + SAVINGS SHARES
- × × × × × SECURITIES
- · - · - · INSURANCE RESERVES

BILLIONS OF U.S. DOLLARS

Y E A R S

1929

1935

1940

1945

1950

1955

1960

1965

SOURCE: HISTORICAL STATISTICS OF THE UNITED STATES AND SUPPLEMENT.  
STATISTICAL ABSTRACT OF THE UNITED STATES 1966.



TABLE 4-4

U.S. CERTAIN COMPONENTS OF INDIVIDUAL SAVING, 1929-1965<sup>a</sup>  
(in billions of dollars)

Year	Curr.	Dem. Dep.	Time Sav. Dep.	Sav. Shares <sup>b</sup>	Secu- rities <sup>c</sup>	Insu. Res. <sup>d</sup>
1965	10.0		15.3	9.3	4.9	13.0
1964	7.0		12.3	11.3	7.0	11.7
1963	6.8		11.6	11.7	1.6	10.7
1962	2.8		14.9	9.9	-0.4	9.9
1961	1.4		9.1	9.2	1.1	9.2
1960	-2.5		4.9	8.2	-1.0	8.8
1959	0.7	-0.4	4.1	7.2	9.9	8.9
1958	0.3	2.2	7.7	6.4	1.1	8.4
1957	-0.0	-1.3	6.3	5.2	4.6	8.0
1956	+0.0	0.9	3.8	5.4	5.6	8.2
1955	0.4	-0.1	3.5	4.8	6.3	7.6
1954	-0.4	1.1	4.7	4.5	0.2	7.3
1953	0.6	-0.2	4.6	3.6	3.4	6.9
1952	1.1	1.5	4.5	3.1	3.5	6.4
1951	0.8	3.1	2.1	2.1	0.6	5.4
1950	-0.1	3.2	0.6	1.5	1.0	4.8
1949	-0.8	-1.6	1.0	1.5	2.5	4.3
1948	-0.5	-2.2	0.9	1.2	3.4	4.2
1947	-0.4	0.2	2.3	1.2	2.3	3.9
1946	0.1	5.1	5.4	1.2	-2.0	3.7
1945	3.0	7.2	8.7	1.1	9.9	4.4
1944	4.6	5.9	7.2	0.8	15.7	3.8
1943	4.7	7.1	4.4	0.6	14.1	3.1
1942	4.1	6.1	0.8	0.3	10.3	2.6
1941	2.2	2.5	0.1	0.4	2.6	2.2
1940	0.8	1.5	0.7	0.2	-0.4	1.9
1939	0.5	1.9	0.7	+0.0	-0.8	1.8
1938	+0.0	0.4	+0.0	+0.0	-0.4	1.6
1937	0.2	-0.5	0.7	-0.1	0.6	1.8
1936	0.5	2.1	1.1	-0.1	-0.3	1.8
1935	0.2	1.0	1.2	-0.2	-1.8	1.6
1934	-0.1	0.2	1.7	-0.3	-0.1	1.4
1933	0.2	1.2	-2.7	-0.6	-0.2	0.6
1932	0.3	-0.5	-1.4	-0.6	0.6	0.3
1931	1.0	-0.3	-2.3	-0.4	1.5	0.9
1930	+0.0	-2.2	0.7	0.1	1.3	1.2
1929	-0.1	-2.5	-0.9	0.5	1.3	1.2

<sup>a</sup>From: U.S. Dept. of Commerce, Bureau of the Census,  
Statistical Abstract of the United States 1966 (Washington:

U.S. Government Printing Office, 1966); and from: U.S. Dept. of Commerce, Bureau of the Census, Historical Statistics of the United States, Statistical Abstract Supplements 1960, 1965 (Washington: U.S. Government Printing Office).

<sup>b</sup>Savings Shares include Savings and Loans Associations shares.

<sup>c</sup>Securities include federal, state, and local government and corporate securities.

<sup>d</sup>Insurance Reserves include pension reserves as well.

But the increase is always there no matter how moderate. All other components show a decrease (dis-saving) at some time during this period.

The analysis of the United States situation indicates certain general aspects of life insurance:

1. Life insurance is not immediately responsive to fluctuations in income and in the amount of total savings.

2. However, in the long-run, personal life insurance increases along with increases in incomes.

3. Cancellation of life insurance to be used for supporting higher consumption levels is the last resort to which individuals turn. In terms of priority, the following sources of savings are decreased for consumption purposes:

a. Security holdings.

b. Currency and demand deposits holdings.

c. Time and savings deposits.

d. Savings shares of savings and loan associations.

e. Life insurance reserves.

International data, though not as complete as the data

of the United States, seem to support our opinion as well.

CHART 4-3 shows yearly increases in time deposits for Australia, Germany, Canada, and Switzerland as compared with yearly increases in life insurance assets in each country. Life insurance reserves increase at an increasing rate (except in Canada it fluctuates), whereas increases in time deposits fluctuate widely over the years. Even in Canada, where increases in life insurance reserves fluctuate a great deal, fluctuations in increases in time deposits are even greater. Data for other countries like Denmark, Japan, and Great Britain indicate similar relationships.

### The Turkish Situation

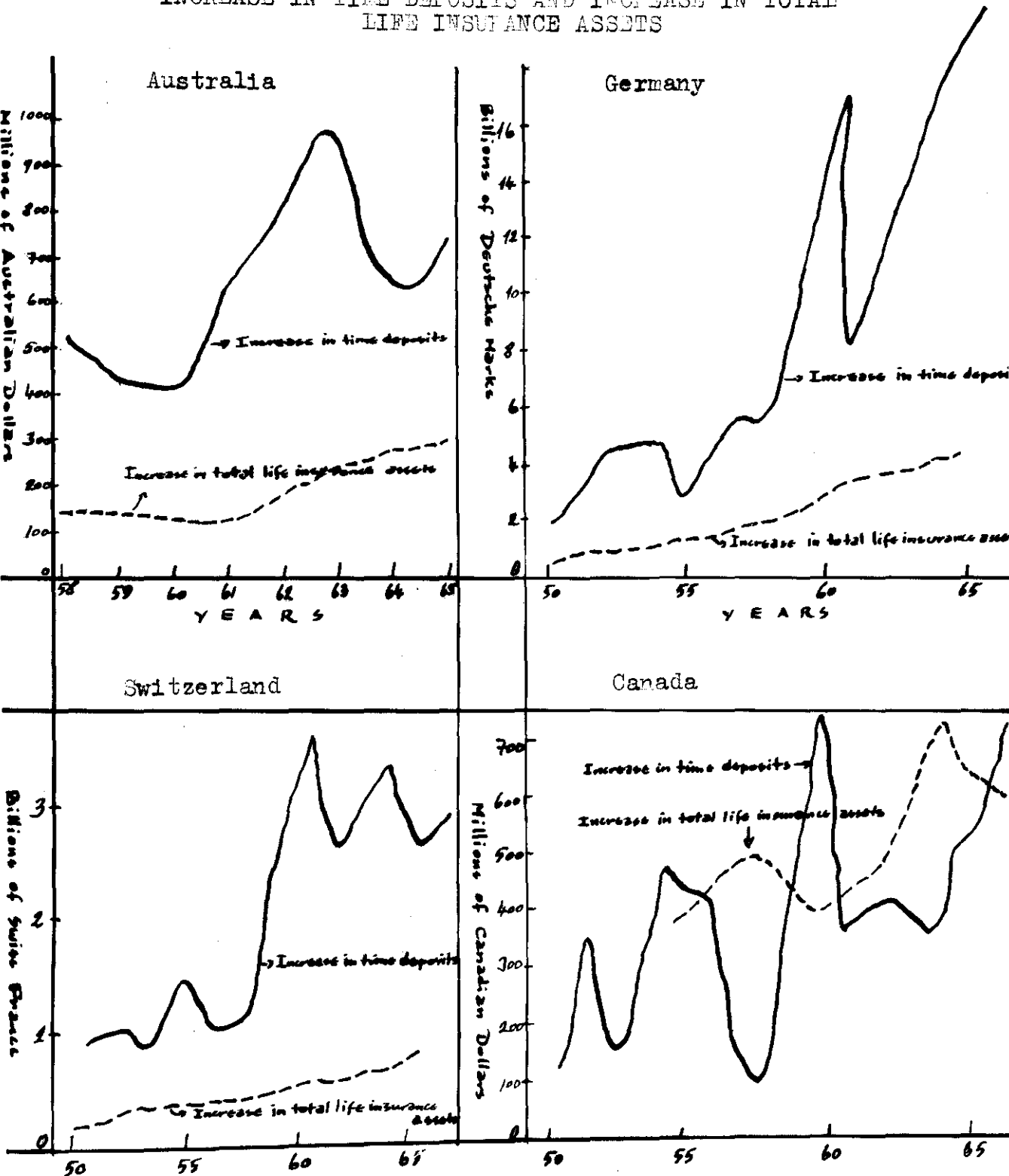
Within the light of the international situation, let us examine the Turkish situation. Figures until 1963 are estimates. For the period between 1963 and 1965, we have reliable data based on the yearly reports by the Turkish Ministry of Commerce.

For the period between 1950-1963, the writer could obtain two estimates: one by Mr. Bedi Yazıcı of Tam Hayat for the years 1950, 1954, 1959; and another by Mr. Oktay Yenal for the period 1950-1959. Combining the data and estimating the reserves, roughly we get the following figures for the life insurance reserves in Turkey.

Year	Reserves (Min. of Commerce)	Based Upon Yazıcı Estimates	Based Upon Yenal Estimates
1965	146.106.652		
1964	157.642.225		
1963	143.546.467		
1962	...		

## CHAFT 4-3

### INCREASE IN TIME DEPOSITS AND INCREASE IN TOTAL LIFE INSURANCE ASSETS



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Year	Reserves (Min. of Comm.)	Based Upon Yazıcı Estimates	Based Upon Yenal Estimates
1961	...		
1960	...		
1959		96.000.000	19.000.000
1958			23.500.000
1957			23.500.000
1956			23.000.000
1955			25.000.000
1954		37.500.000	30.500.000
1953			29.000.000
1952			21.500.000
1951			16.500.000
1950		16.800.000	16.000.000

Estimates by Mr. Yazıcı are in terms of total life insurance in force (see Chapter III, Table 3-5). In making our estimations, we use a rough rate of 15% of total life insurance in force to represent reserves for the year (roughly corresponding to ratios in 1963, 1964, and 1965). In making estimations about the reserves based on Dr. Yenal's figures, which are stated in terms of premium receipts, we used the "5 times premiums" ratio which roughly corresponds to the 1963, 1964, and 1965 results.

Both estimates have their own merit. Bedi Yazıcı's estimates, based upon the Milli Reasurans<sup>1</sup> results until 1954 and then on the annual reports of individual life insurance companies, indicate a greater dependability. However, according to these estimates, from 1954 on, life insurance reserves should be increasing at a rate higher than that of between 1950-1954. Between 1954-1958 where a strong inflation was dominant in Turkey,

<sup>1</sup>National Reassurance Company of Turkey, the sole reinsurer of life insurance until 1954.

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this kind of relationship seems unnatural. Yenai's estimates, on the other hand, indicate rises until 1954 but then falls until 1959. If we extend this from 1959 to the first reported result in 1963, it fits perfectly with the results for 1963, as can be seen from CHART 4-4.

In examining the international situation, it was indicated that life insurance responds to income changes over a period of time. For Turkey, rises in incomes are to be expected in the future. Between 1963-1966, the Turkish National Income increased at an average rate of  $6.4\%$ <sup>1</sup> per year in real terms and this trend is expected to continue.<sup>2</sup> Therefore, it should be expected that life insurance sales in Turkey should increase as well. Assuming everything else remaining unchanged, rises in income will cause rises in life insurance sales at a steady growth rate.

## Estimations of Future Life Insurance

Reserve Estimates. Based upon the Bedi Yazıcı estimates for 1950 we calculated the life insurance reserves as 16,800,000 TL. for the same year. The total reserves of life insurance in Turkey, as reported by the Ministry of Commerce, were 157,642,225 TL. for 1964. This indicates a growth of 9.38 times over 1950, or an average growth rate of 67% per year. Assuming the 67% rate to prevail in the future this should mean that life

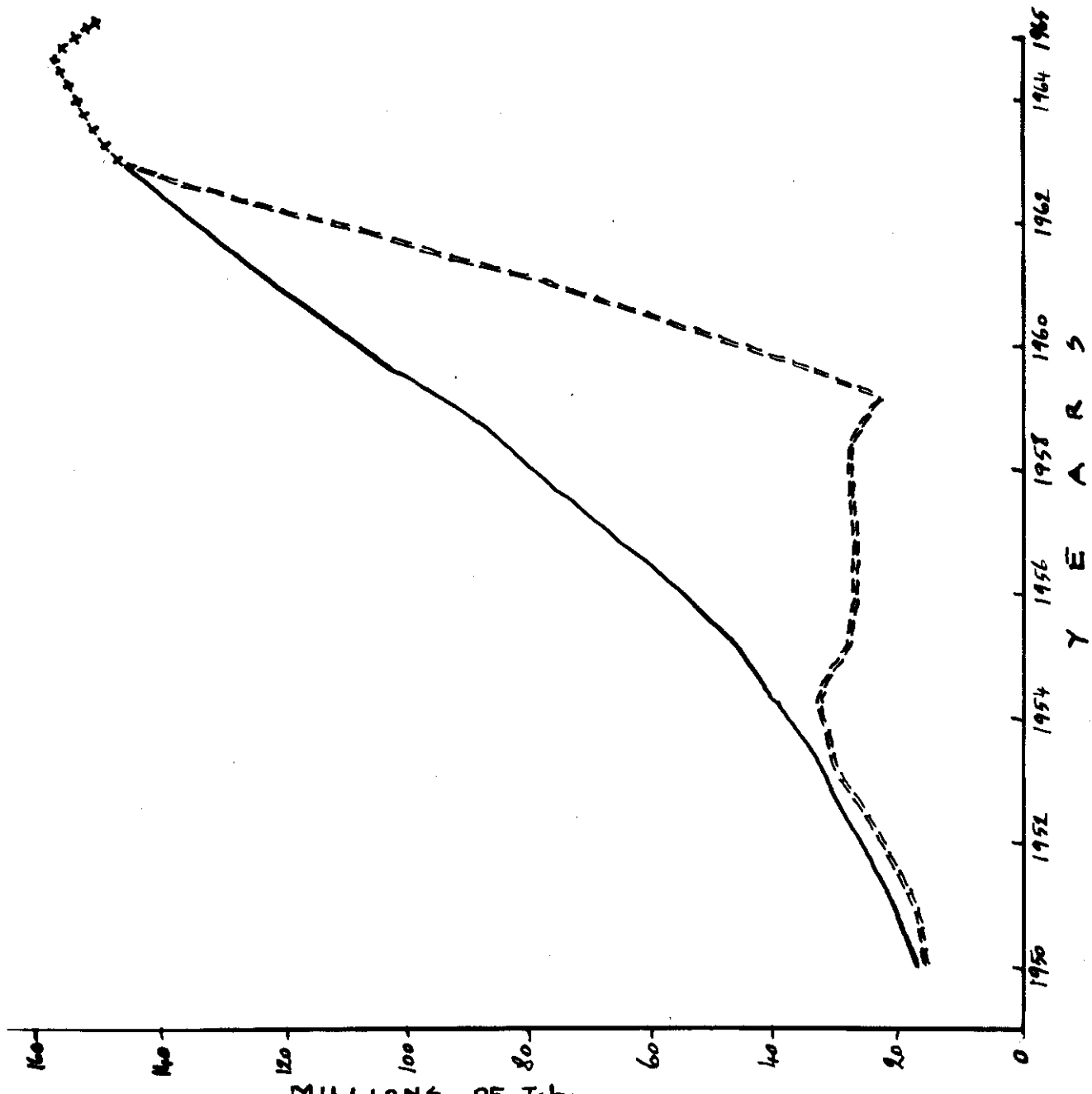
<sup>1</sup>As is indicated in the Five Year Development Plan, 1967 program.

<sup>2</sup>The target rate is 7% as set by the Central Planning Office. In 1966 the growth rate was 8.4% which indicates that the 7% rate is attainable.

CHART 4-4  
TURKISH LIFE INSURANCE RESERVES

— Bedi Yazıcı estimates  
- - - Oktay Yenal estimates  
+ + + + + 1963-65 Ministry of Commerce reported results

Source: P. 106, 108.



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insurance reserves in the next thirty years will be approximately as seen in TABLE 4-5.

TABLE 4-5

## LIFE INSURANCE RESERVE ESTIMATES<sup>a</sup> (in millions of TL.)

Year	Reserves	Year	Reserves	Year	Reserves
1964	157.64	1980	1689.47	1995	3273.35
1970	533.55	1985	2217.43	1997	3484.54
1975	1161.51	1990	2745.39		

<sup>a</sup>Calculated using Bedi Yazıcı's estimates.

Estimates of Total Life Insurance in Force. Another estimate can be made in relation to total life insurance coverage. Mr. Bedi Yazıcı estimated total life insurance in force for 1950 as 112,000,000 TL. The reportings of the Turkish Ministry of Commerce indicate 951,700,000 TL. of life insurance in force in 1964 which indicates a growth of 8.59 times over 1950 or an annual average growth rate of 61.3%. The same rate applied for the future gives the results shown in TABLE 4-6.

TABLE 4-6

## TOTAL LIFE INSURANCE IN FORCE ESTIMATES<sup>a</sup> (in millions of TL.)

Year	Amount	Year	Amount	Year	Amount
1964	951.7	1980	9334.3	1995	18085.2
1970	3500.4	1985	12251.2	1997	19251.9
1975	6417.3	1990	15167.2		



<sup>a</sup>Calculated from the 61.3% growth rate indicated above.

Yearly Premium Estimates. Dr. Oktay Yenal's estimate for 1950 premiums was 3,200,000 TL. As reported by the Ministry of Commerce the figure was 29,400,000 TL. in 1964. This indicates a growth of 9.19 times over the base year or an average percentage growth of 65.6% a year. Based upon this average percentage growth we can estimate yearly premium receipts as is presented in TABLE 4-7.

TABLE 4-7

PREMIUM RECEIPTS ESTIMATES<sup>a</sup>  
(in millions of TL.)

Year	Premiums	Year	Premiums	Year	Premiums
1964	29.4	1980	308.6	1995	597.9
1970	115.7	1985	405.0	1997	636.5
1975	212.2	1990	501.4		

<sup>a</sup>Calculated from the 65.6% growth rate indicated above.

Similar assumptions were made in estimating all three components. They were:

1. Average rates prevailing in the past will be the same in the future.
2. Aggregate influence of past events on life insurance will remain unchanged in the future.

The above assumptions were made due to our findings through the analysis of the international data. One of the conclusions of our analysis was that life insurance had a steady

growth in the long-run with very minor deviations from the trend.

## Distribution of Family Income and Turkish Life Insurance Potential

A study based on a sample survey published in the Federal Reserve Bulletin of March 1964 indicates that the higher the family income the more the families invest in life insurance. American families with an average net worth of 8875 dollars and which reported incomes of 0.00 - 2,999.- dollars in 1962, had average life insurance worth 190 dollars (approximately 2% of total net worth). Families with an average net worth of 1,554,152 dollars and with incomes of 100,000 dollars and over had 32,309 dollars worth of life insurance (approximately 2% of total net worth). Details in relation to other income groups are presented in TABLE 4-8.

TABLE 4-8

U.S. INSURANCE PROTECTION PER FAMILY COMPARED  
WITH YEARLY INCOME AND TOTAL NET WORTH  
(1962)<sup>a</sup>

1962 Income	Total Net Worth	Insurance Worth	Ins. Worth/ Total Net Worth	As % of Midpt. Income
0-2999	8,875	190	2.2	12.7
3000-4999	10,914	635	5.8	15.9
5000-7499	15,112	1,135	7.5	18.2
7500-9999	21,243	1,879	8.9	21.5
10000-14999	30,389	2,975	9.9	23.8
15000-24999	74,328	5,196	7.0	26.0
25000-49999	267,996	10,819	4.0	29.0

TABLE 4-8 continued.

1962 Income	Total Net Worth	Insurance Worth	Ins. Worth/ Total Net Worth	As % of Midpt. Income
50000-99999	789,582	19,559	2.5	26.1
100000+ <sup>b</sup>	1,554,152	32,309	2.1	21.5

<sup>a</sup>Federal Reserve Bulletin, March, 1964, Board of the Governors of the Federal Reserve System, pp. 285-293.

<sup>b</sup>Assuming 150,000 dollars as the midpoint income.

An estimate by the Planning Board was made in relation to the distribution of income in Turkey. The results of this estimation are presented in TABLE 4-9.

TABLE 4-9

## DISTRIBUTION OF INCOME ON A FAMILY BASIS<sup>a</sup> 1963

Income Groups	All Families	%	Non-agricultural Families	%
(488)-2000	42,741	0.8	42,741	2.4
2001-5000	1,718,699	32.6	36,635	2.1
5001-10000	2,197,761	41.7	773,559	44.0
10001-20000	889,363	16.9	587,725	34.1
20001-40000	295,580	5.6	195,713	11.1
40001-100000	108,871	2.1	92,636	5.3
100001-1000000	18,386	0.3	17,884	1.0
1000001+	101	0.0	101	0.0
	<u>5,270,377</u>	<u>100.0</u>	<u>1,746,994</u>	<u>100.0</u>

<sup>a</sup>Source: Cumhuriyet, December 6, 1966, p. 1, 7.

No estimations are provided for the net worth of the

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families. However, based on the results provided by the U.S. study, we can make a very general estimation about the life insurance potential of Turkey. If we reclassify the distribution of income in terms of the U.S. brackets, we get the following relationships for Turkey, as seen in TABLE 4-10.

TABLE 4-10<sup>a</sup>

Income Groups	No. of Families	% of Total	Life Ins. Cov. as a % of lldpt. Income
0-29,999	5,683,911	96.4	12.7
30,000-49,999	113,949	2.1	15.9
50,000-79,999	29,674	0.7	18.2
80,000-99,999	23,249	0.5	21.5
100,000-149,999	1,876	0.0	23.8
150,000-999,999	16,150	0.3	27.0
1,000,000+	101	0.0	21.5

<sup>a</sup>Compiled from: Table 4-9.

Using the following assumptions we can predict total Turkish life insurance potential:

1. That U.S. percentages of life insurance coverage are applicable to Turkey.

2. That income distribution statistics are reliable.

TABLE 4-11 indicates a life insurance coverage of approximately 15,000,000,000 TL. The results are not unrealistic if we consider the results achieved by social insurance--734,000,000 TL. in premium receipts for 1963 for a total number of 710,820 people insured in the same year. This means approximately 1325 TL. of

insurance premiums per person a year. Assuming premiums to be 3% of total insurance coverage,<sup>1</sup> the same premiums paid by the 710,820 members each year could purchase private insurance worth approximately 24,000,000,000 TL. Of course, social insurance is compulsory. However, its magnitude is an indication of payment potential for people's ability to pay for insurance. It is possible, therefore, that 15,000,000,000 TL. is a realistic estimate of potential.

TABLE 4-11

TURKISH LIFE INSURANCE POTENTIAL ESTIMATES  
FOR 1963

Group	Mid-point Income	Life Ins. Cov. % of Midpt. Income	No. of Families	Total Life Ins. Cov. Potential(TL.)
1	15,000	12.7	5,693,911	10,846,900,455
2	40,000	15.9	113,949	724,715,640
3	62,500	18.2	29,674	337,541,750
4	90,000	21.5	23,249	449,868,150
5	125,000	23.8	1,876	55,711,000
6	575,000	27.0	16,150	2,507,287,500
7	1,500,000	21.5	101	32,572,500
Total Life Insurance Coverage Potential for 1963				14,954,596,995

<sup>a</sup>Compiled from: Table 4-10.

As can be seen from the prediction presented, the mid-point incomes for the brackets are used. The mid-point incomes

<sup>1</sup>This ratio is derived from approximately 30,000,000 TL. of premiums for 1,000,000,000 TL. of private life insurance coverage for 1964 and 1965.

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do not take into consideration the relative weight of incomes within each bracket. For example, in the Turkish case, the 0-29,999 TL. bracket which makes up 96.4% of all the families has roughly 78% of the families of this bracket with incomes 10,000 TL. and less. By directly comparing the Turkish 0-29,999 TL. bracket with the United States 0-2999 dollars bracket, we assume that similar distribution is evident in the United States bracket; i.e., 78% of the families in the 0-2,999 dollars bracket have incomes between 0-1000 dollars. This is an over-simplification and can not be shown realistically. However, no matter how small the brackets are sub-divided, still it is not possible to establish perfect percentage relationships with the United States and Turkish income distribution. A further subdivision of brackets would somewhat reduce the amount of bias but when compared to total bias involved in comparing income brackets between two countries, its correcting effect would be negligible.

## Price Levels

### The Concept

In the third chapter of this paper, three kinds of profit were identified for life insurance. They were:

1. Profits from the so-called safety margins.
2. Profits from the return on investment.
3. Profits from the changes in the value of money.

It was indicated that the third kind of profit should

result from the changes in price levels since the value of money shows itself in terms of general prices. In this section, we are going to consider the effects of price level changes on life insurance sales.

From the theoretical point of view, the third kind of profit for the company seems like an attractive one. If money keeps on losing value (assuming everything else remains constant), this should directly result in gains for life insurance companies in terms of something similar to the holding gains of a manufacturing concern. The following example will demonstrate this reasoning:

Let's assume a condition where prices change constantly and money loses value by 10% per annum. A company which sells an endowment insurance of 1000 TL. for ten years will have to pay 1000 TL. at the end of the period. If we suppose that the person who buys life insurance is twenty years old, the probability that he may die within ten years is negligibly small (1.9%). To make the situation simpler we can ignore the probability that he will receive payment before the end of ten years. For a ten-year endowment insurance for a twenty year old person, the Tam Hayat annual premium rate is: 92.99 TL.

With 10% inflation per year, the loss in the value of premiums payments is:

$$(92.99 \times 10) - (92.99 \times 6.145) = 929.90 - 571.42 = 358.48 \text{ TL}$$

The loss in value on the final payment:

$$1000 - (1000 \times .386) = 1000 - 386 = 614 \text{ TL.}$$

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Therefore, the profit to the company due to price increases is  
 $614.00 - 358.48 = 256.52$  TL.

If the rate of inflation is higher, the profit is higher. In cases where the rate of inflation increases at an increasing rate, the profit is the highest.

Based on the above reasoning alone, it should be expected that the general profits of life insurance companies should rise with the rises in price levels. The generalization might be true in terms of an individual policy already bought. However, in terms of the over-all profitability, this should not necessarily follow, because inflation is a factor which hurts life insurance benefits the most since they are based on pre-determined monetary amounts. It should be expected that to an individual a ten-year endowment insurance of 100,000 TL. should mean 74,409 TL. ( $100,000 \times .74409$ ) if the rate of inflation were 3% a year and should mean 55,839 TL. ( $100,000 \times .55839$ ) if the rate of inflation were 6% a year. In a period of inflation, future income is less valuable than the future income of the period of stable prices. Therefore, in such situations life insurance sales should experience a great decline since life insurance is a form of future income. Yearly fluctuations in prices in both directions should not be expected to hurt life insurance, or a constant price rise at a moderately low rate of 1-2% should not influence sales provided general income rises at least at the same rate. The experience of the United States has been so in the past ten years. Therefore, life insurance kept on growing.



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In Turkey, prices fluctuated considerably in the last five years. The movements of prices between 1960-1965 are shown in TABLE 4-12.

TABLE 4-12<sup>a</sup>

Year	Wholesale Price Index <sup>b</sup>	Point Increase	% Rise Over Previous yr.
1960	126	...	...
1961	130	6	4.8
1962	137	7	5.4
1963	143	6	4.4
1964	142	-1	-0.7
1965	155	13	9.1
Average			4.6%

Year	Cost of Living Index <sup>c</sup>	Point Increase	% Rise Over Previous yr.
1960	134	...	...
1961	137	3	2.2
1962	143	6	4.4
1963	153	10	7.0
1964	154	1	0.6
1965	162	8	5.2
Average			4.3%

<sup>a</sup>Compiled from: International Financial Statistics,  
January, 1967.

<sup>b</sup>1958 = 100.

<sup>c</sup>1958 = 100.

Both rates (wholesale prices and cost of living) show a slightly higher rate than 4 1/4%, the computational rate of Tam Hayat. Price stability, which depends upon many economic fac-

tors, is hard to predict in the future years. The averages for wholesale prices and cost of living, if assumed to continue in the future, indicate that individual investments in life insurance might deteriorate only slightly. If a greater degree of price stability is achieved in the future, it will make investment in life insurance more attractive, thus contributing to the increase in sales.

## Uncontrollable Aspects of Competition

In this section, we will deal with future competition that Tam Hayat will face in its struggle for expansion. This competition will be due to the following institutions:

1. Social insurance and government pensions.
2. Banks.

### Social Insurance and Government Pensions

In 1963, 710,820 people were covered by social insurance. It has within its scope all the labor force that works in establishments employing ten or more people and also establishments that employ four-nine workers situated in towns with populations of 50,000 or more. In 1963, there were seventeen such towns as shown in TABLE 4-13.

TABLE 4-13<sup>a</sup>

TOWNS WHOSE ESTABLISHMENTS WITH 4-9 WORKERS ARE  
COVERED BY SOCIAL INSURANCE (1963)

Town	No. of Establishments with 4-9 workers
Adana	1055

TABLE 4-13 continued.

Town	No. of Establishments with 4-9 workers
Ankara	3654
Bursa	997
Diyarbakır	168
Erzurum	450
Eskişehir	841
Gaziantep	376
Içel	511
Istanbul	8152
Izmir	1846
Kayseri	610
Kocaeli	402
Konya	817
Malatya	291
Sakarya	499
Samsun	432
Sivas	336
Total	21437

<sup>a</sup>Source: İşçi Sigorta Kurumu, 1963 Yılı İş ve Faaliyet İstatistikleri, Ankara: Ankara Basımevi ve Çiltevi, 1964.

The scope of social insurance is increasing with the increases in the labor force since new groups come under its scope with the growth in the sizes of establishments and increases in the number of workers in already covered establishments. (TABLE 4-14). Social insurance covers forty different branches of activity, the largest ones being coal mining (42,849 workers), food processing (76,320), tobacco processing (30,499), textiles (95,508), transport equipment (30,489), and construction (145,626).

The 710,820 members of the labor force covered by social insurance in 1963 had a total income of 3,734,714,000 TL.

TABLE 4-14

NUMBER OF PEOPLE COVERED BY SOCIAL INSURANCE<sup>a</sup>  
(1951-1963)

Year	Number Insured
1951	382,024
1952	447,953
1953	494,024
1954	510,344
1955	533,216
1956	543,554
1957	577,630
1958	611,730
1959	618,775
1960	620,900
1961	688,819
1962	680,125
1963	710,820

<sup>a</sup>Source: İşçi Sigorta Kurumu, 1963 Yılı İş ve Faaliyet İstatistikleri, Ankara: Ankara Basımevi ve Cilttevi, 1964.

Total premiums for the same year for social insurance amounted to 733,932,000 TL. Total indemnities amounted to 357,960,000 TL. The distributions of premium receipts and indemnities are classified in TABLE 4-15 for the years 1956-1963.

The size of social insurance is approximately seven times larger in terms of number of people covered and twenty-five times larger in terms of yearly premium receipts than existing private insurance. Due to the scope of coverage, it will be a competing rather than a complementary factor for the following reasons:

TABLE 4-15

SOCIAL INSURANCE: SOURCES OF PREMIUMS AND USES  
OF INDEMNITIES<sup>a</sup>  
(1000 TL.)

Years	Accident	Maternity	Disability old age death	Sickness	Total
PREMIUM RECEIPTS					
1956	27,456	3,300	106,116	38,904	175,776
1957	32,268	4,356	159,900	61,596	258,120
1958	40,680	2,580	226,872	88,236	358,368
1959	50,016	2,460	235,048	113,220	450,744
1960	55,692	2,364	326,040	132,120	516,216
1961	60,396	2,124	368,880	152,868	584,268
1962	64,757	1,755	409,223	171,984	647,719
1963	70,852	1,681	463,669	195,730	733,932
INDEMNITIES					
1956	10,452	3,180	4,296	40,872	58,800
1957	20,016	3,096	4,524	53,016	80,652
1958	22,020	2,568	20,004	75,984	120,576
1959	27,276	2,340	36,132	120,072	185,820
1960	31,128	2,148	45,228	149,580	228,084
1961	37,332	2,076	54,432	173,424	267,264
1962	39,935	2,051	63,195	193,516	298,697
1963	44,811	2,893	73,568	236,688	357,960

<sup>a</sup>Source: İşçi Sigorta Kurumu, 1963 Yılı İş ve Faaliyet İstatistikleri, Ankara: Ankara Basımevi ve cilttevi, 1964.

1. It is compulsory insurance, therefore giving no choice of selection between private and social insurance. Thus, the people covered by social insurance can only obtain private insurance at extra cost. It is a personal choice and no statement can be made as to social insurance being a prohibitive factor for private life insurance. However, up to

the present, the situation indicates no extra demand for private insurance among such groups.<sup>1</sup>

2. Its scope of coverage is very wide and provides most coverage necessary and in a few cases, even more than private life insurance. Sickness and maternity are the two fields not covered by private life insurance.

However, social insurance might be found inadequate or unsatisfactory in comparison with private insurance in certain respects. The contribution to social insurance depends upon the level of income and the benefits to be obtained from this insurance can not be increased or decreased at the person's own will. Private insurance, on the other hand, varies in accordance with the will of the insured, provided he pays for it. It offers different lengths of coverage depending upon the individual's need. Finally, it offers different varieties of insurance and clauses such as endowment, term, whole life, and double indemnity.

Social insurance, on the other hand, provides definite advantages over private insurance.

1. It forces individuals to get insurance protection who would probably not do so if left at their own discretion.

2. Since social insurance is not operated on a profit motive, as in the case of a private insurance company, the amount that should go to the owners is evaded. This lowers the cost of the insurance.

<sup>1</sup>There were a few exceptions to this case as was observed by the writer. Some members of the working force--generally belonging to the middle management groups--purchased private insurance in addition to their social insurance.

3. Since social insurance is compulsory, it does not have to pay commissions to life insurance salesmen and does not need to spend on advertising.

Pensions for government employees are provided through Retirement Fund ("Emekli Sandığı"). The fund provides old age pensions for retired government employees and provides disability income for disabled employees, pensions for widows, pensions for the parents of dead employees who are in need, and pensions for the orphans of the late employees. Pensions are also provided for the employees who were retired before the enactment of Law 5434 (Retirement Fund Law) by the Ministry of Finance.

In 1963, 82,618 people received 415,004,000 TL. from the Retirement Fund, and 98,554 people received 233,089,000 TL. from the Ministry of Finance.

The social insurance and pension funds cover the necessity of private life insurance for lower income groups. The average yearly income was 5245 TL. for all the labor force covered by social insurance.

In competing with social insurance and pensions, Tam Hayat should direct its efforts to two points:

1. Trying to sell life insurance to individuals covered by social insurance who are also in relatively higher income brackets.
2. Inducing establishments who are under social insurance to establish their own group insurance.

If the efforts are devoted to the preceding two objects, it

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should be expected that life insurance sales can be increased among those groups who move into higher income brackets due to rises in income. The picture looks quite optimistic in that respect since the income of the group is rising as indicated in TABLE 4-16.

TABLE 4-16.<sup>a</sup>

Year	Average Per Capita Income for All Branches (TL. per day)
1951	4.62
1952	5.17
1953	5.50
1954	6.24
1955	7.21
1956	8.24
1957	9.22
1958	10.90
1959	13.28
1960	14.46
1961	15.64
1962	16.52
1963	17.91

<sup>a</sup>Source: İşçi Sigorta Kurumu, 1963 Yılı İş ve Faaliyet İstatistikleri, Ankara: Ankara Basımevi ve Cilttevi, 1964.

## Banks

A second type of important competition for life insurance is banks. The banks in Turkey can be grouped into four main categories:

1. The banks established under special laws (11 banks).
2. National banks (23 banks).
3. Local banks (6 banks).



4. Foreign banks (5 banks).

Of deposits amounting to 15,200,000,000 TL. at the end of 1965, 68.5% was deposited in the largest three banks. Total deposits in banks doubled between 1960-1965 in monetary terms, rising from 7,864,000,000 TL. to 15,202,000,000 TL. However, the growth in savings deposits was more impressive, increasing from 4,366,000,000 TL. to 9,822,000,000 TL. during the same period.<sup>1</sup>

In Turkey, deposits are classified in four types:

1. Official.
2. Commercial.
3. Interbank.
4. Savings.

The so-called "official" deposits belong to different kinds of government organizations; the "commercial" deposits belong to a partnership of any kind, and to the firms and businesses of merchants, etc.; "interbank" deposits are deposits among banks. Savings deposits are all other deposits not belonging to Items 1, 2, and 3.

In actual practice, savings deposits might include deposits for commercial purposes and therefore, they do not totally represent individuals' savings deposits. However, it can be assumed that the majority of the bulk belongs to individual savings deposits, although statistics are not provided for the exact magnitude of individual savings deposits. A study by

<sup>1</sup>Namık Zeki Aral, "Deposits with Banks at the End of 1965", Turkish Economic Review, July-August, 1966.

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Namık Zeki Aral in the July-August 1966 issue of the Turkish Economic Review indicates that some of the commercial deposits are transferred into savings deposits due to higher interest and lottery participation considerations.<sup>1</sup>

Individuals' savings deposits deposited for non-commercial purposes compete with life insurance. The following comparison indicates the nature of this competition:

Tam Hayat's premium rate for a 1000 TL., 10-year endowment insurance at age 20 is 92.99 TL. per year. In other words, by paying 92.99 TL. per year the person or his beneficiaries get the right to receive 1000 TL. if death occurs within ten years or in case the policy holder stays alive to receive the 1000 TL. at the end of the 10-year period. On the other hand, if a person deposits 92.99 TL. in a bank each year in the form of time deposits at 6% interest<sup>2</sup> he can get at the end of ten years:

$$92.99 \times 13.1808 = 1225.682592, \text{ that is, } 1225.68 \text{ TL.}$$

The difference of  $1225.68 - 1000. = 225.68$  TL. is due to the following:

1. Tam Hayat uses 4 1/4% interest rate in computations, whereas the bank rate is 6%.
2. The premium payments for life insurance involve selling and administrative costs. The banks do not deduct these costs from their interest payments to the people with savings deposits.

<sup>1</sup>Ibid.

<sup>2</sup>Going rate of bank interest on time deposits deposited for periods between one and two years.

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3. The premium payments involve extra cost due to the probability that the policy holder may die within the 10-year period, and therefore, the 1000 TL. might have to be paid before the end of the period.

The probability of a twenty-year old person dying in the next ten years is 1.93% according to the CSO 1958 table. This means that there is a 1.93% chance that the man can not deposit his money in the bank during the next ten years. However, even when we take into consideration that small chance factor, bank deposits still seem more attractive than buying life insurance.

The above example might well be taken to show the unprofitability of buying life insurance. However, the example considers the probability of dying to occur in terms of a large number of cases. When it comes to a single individual, the probability of dying of 1.93% has no meaning. He might expect not to die in the next ten years; however, he can not be as sure as we can be in our consideration of a large number of cases. Individuals do not die in terms of percentages, i.e., there is no 1.93% death for an individual but he either stays alive or dies. Past experience tells us how many people will die within one year. However, it says nothing about who will die.

In the past, Turkish people preferred to keep savings deposits instead of buying life insurance. In a country where prices used to fluctuate considerably and where quick and large gains can be expected in short periods of time, it turns out to be more profitable to keep funds in cash form rather than as

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insurance assets. For people who are not interested in short-run gains, a cause of not buying life insurance might be the lack of being exposed to life insurance. Insurance companies in Turkey did not and do not possess as large funds as the banks have to invest in different forms of advertising media. It is not possible to determine exactly the cause and effect relationship, but it so happens that the bank with the largest deposits has the largest lottery expenses. In a market where each bank can offer similar returns on deposits, the attraction of the larger amount of deposits by the biggest lottery offerer can serve as an indication of the preference for quick gains and the importance of the prestige of the institution as the top lottery offerer on the part of the public. For that reason, the advertising campaigns of Tam Hayat are promising. A direct questioning by the author at Levent area showed that 76 people out of a sample of 100 had heard the name Tam Hayat and 55 knew that it sold life insurance. For Anadolu, the largest insurance company in Turkey, the numbers were 81 and 39 respectively.

The sharing of profits by the policy holders in the future years can serve to compensate for the lottery aspect of the banks. However, the public needs to see the magnitude of the gain to be expected. If the returns turn out to be handsome after the first sharing, a large advertising campaign will be needed to publicise the results. The reaction of the public towards life insurance will be favorable if the gains turn out to be more than  $1 \frac{3}{4}\%$  per annum equal to the difference between bank interest

rate and Tam Hayat computational rate plus a percent margin to cover other expenses included in gross premiums distributed over the life of the policy.

## Controllable Determinants

In the first section of this chapter, the uncontrollable determinants of life insurance sales were discussed. It was explained that the Tam Hayat management could have no direct influence on these determinants. However, the second class of determinants--the controllable ones--are largely under the control of the Tam Hayat management. Out of a pool of controllable determinants two groups were selected for discussion: They are the ones related to: (1) objectives and operational policy, and (2) personnel and advertising policy.

### Objectives and Operational Policy

In this section we will deal with some of the management policies presented in Chapter III in the light of the already existing operational policies, trying to show some advantages and shortcomings of these objectives and to determine in what ways they can influence the future growth of Tam Hayat. A summary of the main objectives was presented at the end of Chapter III. Out of these objectives, Number 8 will be discussed separately in the following part of this chapter.

1. Number one objective was to keep life insurance apart from other insurance practices. The justifications for this policy were presented in Chapters I and III. We do not

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need to repeat these self-justifying arguments. However, it was also indicated in the first section of Chapter II that from the operational point of view, the separation was not a clear-cut one. The Tam Hayat organization is basically covered within the overall organization of Tam Sigorta. It might be argued that from the organizational stand-point, this might have shortcomings. The top management in the future will find it impossible to separate their functions into two: that of life insurance and that of other types of insurance. It is questionable that enough attention and time could be devoted to life insurance, given the present organizational structure.

2. Fulfilling the necessities of the Turkish life insurance market was the second objective. This very broad objective in order to be fulfilled requires the determination of the necessities of the Turkish life insurance market. The management assumes that the necessities of the Turkish market will be satisfied through:

a. Offering life insurance combinations with a high savings component. This is due to the belief of the management that the following are true:

- i. The Turkish economy is not a developed money-economy.
- ii. The Turkish people in general are not concerned with the future of their beneficiaries after their own death.
- iii. People have no desire to remember and discuss the probabilities of their death.

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i. The Turkish economy is not a developed money-economy.

ii. The Turkish people in general are not concerned with the future of their beneficiaries after their own death.

iii. People have no desire to remember and discuss the probabilities of their death.

From the above generalizations, the management assumes that life insurance with a high component of savings is more suitable to the Turkish life insurance market than the one which has no savings component but offers only security.

The above reasoning is questionable and depends upon the form of interpretation. Can it be true that endowment insurance offers a better choice than term insurance supported by additional investments? To illustrate the case we shall present an example:

A 100,000 TL. 20-year Tam Hayat endowment insurance policy costs 3,880 TL. per year for a twenty-year old person. The term insurance of the same duration and amount, on the other hand, costs 487 TL. for the twenty-year old person. Both kinds of insurance pay 100,000 TL. in case of death within the twenty year period. Therefore, until the end of the twenty-year period, both types of insurance offer the same protection. It is the end of the period that makes the difference: In endowment insurance the policy holder gets 100,000 TL., but in the case of term insurance, "he gets nothing".

The cost of endowment insurance is very high if the person dies within the twenty-year period. We are going to assume the most probable, that is, he stays alive until the end of the period, since the probability of his death is very small within that period.

The difference of premiums between endowment and term insurance in this case is  $3880 - 497 = 3393$  TL. per annum.



Assuming 3393 TL. is put in saving deposits at  $6\frac{1}{2}\%$ <sup>1</sup> per year, this will accumulate to:<sup>2</sup>

$$3393 \text{ TL.} \times 38.8253 = 131,734 \text{ TL.}$$

$$\text{Endowment payment} = \underline{100,000 \text{ TL.}}$$

Difference 31,734 TL., approximately 32% more  
than the endowment.<sup>3</sup>

The availability of borrowing on endowment policies does not strengthen the argument for endowment insurance since it can be borrowed at a cost of 7%.

The cost of term insurance increases at a higher rate for older ages than does the cost of endowment. However, until age sixty, which is the age limit for purchasing life insurance, the above analysis results in higher savings in the case of term insurance combined with bank deposits. Therefore, satisfying the Turkish life insurance market better by offering endowment insurance is questionable. It might be true that the Turkish insurance buyer seems to be interested in the savings aspect of life insurance rather than the protection aspect. However, if

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<sup>1</sup>The İş Bank rate on savings deposits deposited for a period longer than twenty-four months.

<sup>2</sup>The 38.8253 used in calculations is the amount of annuity of 1 for twenty years at  $6\frac{1}{2}\%$ .

<sup>3</sup>The profit-sharing plan is not applicable to term insurance. There is the possibility that the profit-sharing plan might close the gap between the term insurance with bank deposits and endowment. However, due to the undeterminability of the future profit at present we left this concept outside the scope of our discussion.

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the situation were stated clearly to him by the salesman and comparisons were made, it is doubtful that he would not buy the term insurance.

It might be argued that some people could not save had they not bought life insurance, and that they consider life insurance as a form of compulsory payment once they have bought it. Bank deposits, on the other hand, are subject to distortion since individuals have nothing to force them to deposit their money regularly. This may have some validity, but it is open to question. If life insurance payments are not made when due, there is the danger of losing the contract. No such force exists in terms of bank deposits, since there is no existing contract to be broken. However, this is like saying that an individual can not save by his own will. The psychologists might know better whether or not this is true. Economic data indicates otherwise since insurance forms a smaller portion of the individual's total net worth (see TABLE 4-8).

b. The second policy to satisfy the needs of the Turkish life insurance market is selling life insurance to people within their limits of payment power. The fulfillment of this policy can be judged in the future based upon the cancellation rate of policies. If a large number of policies are cancelled due to inability to pay the premiums, then this will indicate that the policy could not be applied properly. For the moment, it is too early to make any judgement.

c. The third policy is to provide the free medical

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TABLE 4-17 continued.

Years	Savings Dep.	% Incr.	Years	Savings Dep.	% Incr.
1947	372	25%	1956	2254	32%
1948	428	15%	1957	3078	37%
1949	464	8%	1958	3352	9%
1950	576	24%	1959	4040	26%
1951	738	28%	1960	4366	8%
1952	872	19%	1961	4906	12%
1953	1151	31%	1962	5502	12%
1954	1409	22%	1963	6604	20%
1955	1713	22%	1964	7518	11%
			1965	9822	31%

Source: Turkish Economic Review, Vol. VII, No's 4 and 5, July-August 1966, p. 37.

As we can see from CHART 4-5, the saving deposits increase in a manner approximating a parabolic relationship. Using the 1960-1965 figures we get the following standard parabola:<sup>1</sup>

$$y = 218 (x-22)^2 + 4,366, \quad \text{where } y = \text{savings deposits in billions of TL.}$$

and  $x =$  number of years (1939 = 1, 1940 = 2, etc.)

The comparison of actual figures and the corresponding values are:

Year	Actual Amount	Fitted Amount	% Deviation from Actual
1960	4366	4366	0%
1961	4906	4584	-6.5%
1962	5502	5238	-4.8%
1963	6604	6328	-4.2%
1964	7518	7854	+4.5%
1965	9822	9822	0%

Average deviation per yr. basis -1.3%

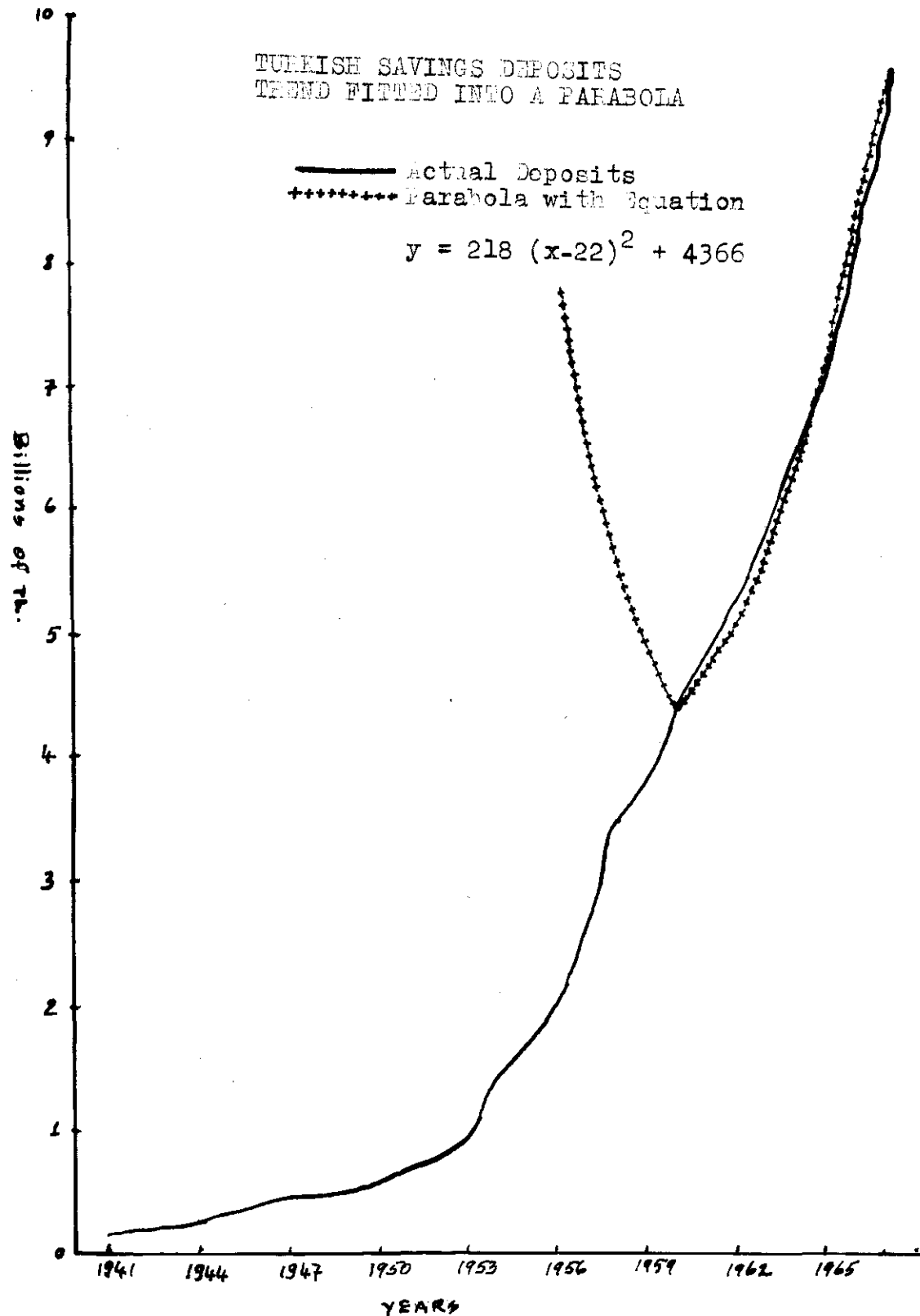
<sup>1</sup>The parabola is derived from equation  $x^2 = 4py$ .

CHART 4-5

TURKISH SAVINGS DEPOSITS  
TREND FITTED INTO A PARABOLA

— Actual Deposits  
+ + + + + Parabola with Equation

$$y = 218 (x-22)^2 + 4366$$



Source: Turkish Economic Review, Vol. VII, No's 4 and 5 p.37

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Extending the equation for the future years, we get the following amounts:

Year	Amount in Million TL.
1966	12,214
1967	15,048
1970	26,166
1975	53,416
1980	91,566
1985	140,616
1990	200,566
1995	271,416
1997	302,808

We do not need to reproduce the management's own estimations about the first ten years of Tam Hayat's operations (TABLE 3-11). According to the management's estimate, premiums for 1975 would be approximately 150,000,000 TL. Again using the 3% approximate ratio of premiums to total life insurance in force, we find that in the tenth year of operations total life insurance in force sold by Tam Hayat will be approximately 5,000,000,000 TL., whereas savings deposits for the same year will be, according to our estimates, approximately 53,500,000,000 TL., or eight times more.

This objective does not seem fulfillable in the foreseeable future. However, the Tam Hayat management considers their estimates moderate, i.e., somewhat understated. The results of the first eight months seem to favor this opinion since operations resulted in approximately three times the volume estimated for the first year. However, it is too early to generalize from the first eight months of operations that the future results

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will be three times in excess of those estimated.

4. The fourth objective of Tam Hayat is to offer lower premium rates than the ones prevailing. This objective has definitely been achieved through adopting the CSO 1958 Tables. The German mortality table (Abel) was presented in TABLE 3-9, the table with the lowest death rates used in Turkey, except for the CSO 1958. If compared with CSO 1958, Abel's mortality rates are much higher:

TABLE 4-18<sup>a</sup>  
Deaths per 1000

Age	Abel	CSO 1958	Diff.
20	3.27	1.79	1.48
25	3.34	1.93	1.41
30	3.69	2.13	1.56
35	5.17	2.51	2.66
40	7.59	3.53	4.06
45	10.61	5.35	5.24
50	15.52	8.32	7.20
55	22.67	13.00	9.67
60	33.63	20.34	13.29

<sup>a</sup>Compiled from: TABLE 2-7; and The Tam Hayat Project.

The table indicates that Abel has rates almost two times as high as that of CSO 1958.

The comparison of the Tam Hayat and the Anadolu Sigorta rates indicates that the Tam Hayat rates are significantly cheaper than Anadolu. For example, for a thirty-five year old person who will buy a 20 year endowment, the Tam Hayat rate is 11%

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cheaper. In addition, the Tam endowment offers a profit-sharing plan. If we consider the situation of the life insurance market where each company sells identical insurance, the cost differential of Tam Hayat allows no competition. Therefore, the management's opinion of capturing the total existing life insurance market makes sense and will be a natural consequence due to the existing difference in prices. The lowering of prices by other insurance companies is not to be expected in a market where life insurance is considered to be of secondary importance in comparison with other forms of insurance and where the cost of recalcu-  
lating the premium rates is very high.

TABLE 4-19

COMPARISON OF TAM HAYAT AND ANADOLU SIGORTA RATES  
10 and 20 YEAR ENDOWMENT INSURANCE<sup>a</sup>  
(per 100 TL. of endowment)

Age	Anadolu		Tam Hayat	
	10	20	10	20
20	9.28	4.24	9.09	3.88
25	9.27	4.27	9.10	3.90
30	9.33	4.35	9.11	3.94
35	9.40	4.48	9.15	4.01
40	9.53	4.68	9.23	4.15
45	9.72	4.99	9.36	4.37
50	....	....	9.58	4.73

<sup>a</sup>Compiled from: Tam Hayat Sigorta A.Ş., Tarife Kitabı;  
and Anadolu Anonim Türk Sigorta Şirketi, Acenteler Rehberi.

5. The fifth objective is to generate enough funds to

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fulfill an important position in the Turkish capital market. The fulfillment of this objective depends upon the future development of the Turkish capital market. Through its future expansion, Tam Hayat will generate additional demand for capital market instruments. What is required at the same time is the supply of these capital market instruments. It is not within the scope of this paper to analyze the future of the Turkish capital market.

It can be expected that the capital funds supplied by Tam Hayat in the future can create some of its own demand; i.e., it might be a factor to induce entrepreneurs to tap these sources and thus generate industrial and commercial activity. If this takes place, then, unlike other insurance companies in Turkey, Tam Hayat can establish itself as an important financial intermediary and thus contribute to the Turkish capital market.

6. Objective No. 6 was discussed in relation to social insurance. The seventh objective, which is to distribute 30% of the profits, was described in Chapter II. The magnitude of this profit is not estimable at present. It will depend upon the efficiency of Tam Hayat in its investment policy, which in turn will be influenced by:

A. Government policy in relation to the investment of life insurance funds. The existing policy was stated in Chapter III under the heading of the Investment Outlets for Tam Hayat funds. If a major change occurs in this policy, it will have an impact on Tam Hayat's profits.



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B. Availability of investment outlets and general market rates. The returns that the financial market can offer for Tam Hayat funds will effect the magnitude of the profit. If the rates offered for Tam Hayat funds turn out to be high, then the profits will be high.

At present it is not possible to estimate the magnitude of this profit. It requires an analysis of the present market situation and an estimation of future changes that can take place. Even for countries like the United States where ample amounts of historical data are provided, this is a very difficult task. For Turkey, with little available data, the writer of this paper preferred to exclude this analysis.

7. The last main objective of Tam Hayat is to invest in real estate, i.e., a large business center for Tam Hayat and houses for policy holders. It should be expected that a large business center for Tam Hayat might add to the prestige of the company. This kind of investment is a common practice with the life insurance companies in the United States, and it can be assumed that there is some kind of benefit derived from such a project. From the organizational point of view, it might offer efficiency since operations could be centralized and communication facilities among the departments could be improved. Tam Hayat expects advertising benefit from such a project. However, as is the case with other forms of advertising, it is difficult to determine the benefits that can be derived from it.

Investing in houses for policy holders involves an impor-

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tant "sales gimmick". According to the 1955 population census, there were 65,470 families living in urban centers that were paying rent of more than 100 TL. per month. In 1960, the number was 103,630 families paying more than 112 TL. per month.<sup>1</sup> As far as the totals are concerned, the aggregate rent payers increased from 454,770 families in 1955 to 590,748 families in 1960, which means approximately a 30% increase over 1955.

The writer's consultation with a civil engineer indicated that a 90 square meter apartment house could be built for approximately 190 TL. per square meter for large block apartments. It is expected that as the project gets larger, the cost could be reduced still further. On the average, we can say that a 90 square meter family apartment house could be built for 20,000 TL., including the cost of the land.

If houses are provided for policy holders, it can increase the attractiveness of life insurance. The plan can be worked out in two ways:

1. Giving houses for the purchasers of endowment insurance up to a certain amount at the end of the policy instead of the actual endowment payment.
2. Making houses available for policy holders on a long term payment basis.

The first plan would require an arrangement whereby the endowment insurance purchaser could immediately have his house when he makes the first premium payment. When his policy matures

<sup>1</sup>Prime Ministry Central Statistical Office, 1955, 1960 Population Census of Turkey.

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he would be entitled to the ownership of his house. If he died before the maturity, then his beneficiaries would be entitled to ownership.

In the second plan, the purchaser of insurance can be made to pay a monthly rent on the house for the same period as his policy is in force. At the end of the term, he is entitled to ownership.

The advantages of the housing plan are as follows:

1. It will enable the policy holder to live in a house during the time his policy is in force and then own the house with no lump-sum payment.
2. For Tam Hayat it will generate a large volume of business as far as insurance sales are concerned.

In addition, it will enable the company to find a sound investment outlet with a handsome return.

Let us give an example to illustrate the case: We estimated that an apartment of the kind described will cost 20,000 TL. If Tam Hayat wants to have an 8 1/2 % return on this investment over a ten-year period, they need to charge the policy holders<sup>1</sup>

$$\frac{20000}{6.6} = 3030 \text{ TL. or } 253 \text{ TL. per month.}$$

If the term is twenty years, the monthly payment is 176 TL. or 2106 TL. per year. The rate is lower for longer periods. If the family has more than one bread-winner, the insurance could

<sup>1</sup>The 6.6 used in calculations is the present value of an annuity of 1 per period for 10 periods.

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be applied to more than one person, thus reducing the cost per person still further. This plan can cover most of the 103,630 families paying rent more than 112 TL. per month according to the 1960 census. It can contribute a sound long-term investment for Tam Hayat as well.

If the construction activity could be made widespread, houses could be built according to the desires of the customers within certain specifications and the cost could be varied accordingly. It is natural to expect that some customers would be willing to pay more in order to have houses according to their own desires.

Life insurance reserves will be one of the major sources of housing investment funds. Another source of funds for this purpose is to raise the money through increasing the contributions of the owners to company capital. Finally, the company can be turned into a public company through offering common stock to the general public.

## Personnel and Advertising Policy

Creating a large, well-trained sales force is the major personnel policy of Tam Hayat. Up to now, the management has worked vigorously on this policy. More than fifty salesmen have been trained to work in connection with the headquarters. In addition, some of the Tam Sigorta agents had training in life insurance in order to be eligible for selling life insurance. Also, training courses were offered in Izmir and in Ankara to

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train salesmen for those branches. Mr. Bedi Yazıcı, the chairman of the Board of Directors of Tam Hayat, in the interview with the writer of this paper indicated that the efforts of the salesmen would have the biggest effect on future sales of Tam Hayat. The sales manager, Mr. Erkal Keymen, indicated that the sales force was the most important component of any business with a product or a service to offer to the market.

As was explained by the sales manager, Mr. Erkal Keymen, Tam Hayat has a determined policy of recruiting salesmen. The policy is as follows:

The future salesmen are attracted to the company through two channels:

1. Newspaper advertisements.

2. Personal invitation of the sales manager. The people attracted in terms of the second channel are people whom the sales manager, upon meeting them on some occasion, thinks of as people who can be useful to Tam Hayat as salesmen.

The people thus attracted through the above two channels are asked to fill out an application form which includes personal information. The application form is examined by the sales manager who particularly considers the following:

1. Business experience and age of the applicant. It is a policy to select people between ages twenty-five to forty. Having experience in salesmanship is another important factor.

2. Education. The minimum requirement is of lycée (high

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school) education. However, people with university education are more welcome.

3. Clarity of filling out the application. Too many erasings or vague answers to the application form can result in the rejection of the applicant.

Those applicants who pass the preliminary elimination stage are invited to the company for an interview by the sales manager. During the interview, the following receive the most attention?

1. Personal presentation of the applicant. If the person lacks convincing personal appearance and faces difficulty in answering questions and expressing opinions, he is rejected. The logic behind this is the fact that the life insurance salesman has to have good presentation and ease in expressing himself in order to make the customer trust him.

2. Speech ability. People with speech problems or bad pronunciation are rejected for the same reasons as in Item 1.

The people who succeed in interviews are asked to attend a training program for fifteen days. The people who succeed in the training courses are given a certificate of salesmanship. Those who receive the certificates of salesmanship are paid a certain sum of money each month for the first three months of their work with the company. The reason behind this is to provide the new salesmen with funds until they get adequate primary experience in their profession. In three months if they show a satisfactory performance, they are admitted as official salesmen

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of Tam Hayat.

After being admitted as official salesmen, they are expected to assume certain responsibilities:

1. They have to report the results of their work every week to the sales manager.
2. They are expected to attend a monthly meeting to discuss the general sales conditions. Those salesmen who fail to attend three consecutive meetings lose their certificates of salesmanship.
3. The salesmen are expected to know that their personal contacts with their customers are always subject to control.

This is achieved in the following ways:

In addition to the weekly reports presented to the sales manager, each salesman is expected to give an oral report to the sales manager every day. The oral report concerns the daily work of the salesman. If it seems necessary, the sales manager can check with the customer directly and ask if the customer received satisfactory service. If the customer complains, the customer and the salesman must have a direct confrontation, and if the sales manager forms the opinion that the salesman did not fulfill his responsibilities, the salesman might lose his job.

4. The salesmen are expected to deposit the amounts that they get from customers (in forms of advances for the first premium payment, or as first premium payment) within forty eight hours with the company.

It is hard to determine which selection procedure is the

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best for selecting salesmen. A selection policy can be considered successful if the selected salesmen's performances are satisfactory. In Tam Hayat, there are no general standards established in order to measure the salesmen's performances. It is the sales manager who has the judgement on the success of the performance of a salesman. In general, the performances of the salesmen in Tam Hayat vary greatly among themselves. The most successful salesman has a sales record of about twice as high as the second most successful, in terms of total insurance sold. Some salesmen have a very high insurance coverage in terms of per capita insurance sold, but their total sales are not high due to the small number of their customers. Therefore, since clearly defined performance standards are lacking, it is hard to judge which salesmen are successful and which are not.

The interviewing method employed in selecting the salesmen has some limitations. As Yoder indicates, some studies showed that:

...line managers often regarded their interviewers as prejudiced, with tendencies to favor candidates whose attitudes and viewpoints were similar to theirs. Other criticism of interviewers suggested that they lack effective interviewing techniques, do not know enough about job requirements, and show no genuine interest in people....Hazards are increased because so many managers take for granted their own ability to read the subtleties of character and personality from conversation with a candidate. They...are quite sure that they can tell the honest from the dishonest, the creative from routine, the mature from the immature--all on the basis of a half-hour interview.<sup>1</sup>

Other dangers of interviewing are due to the so-called

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<sup>1</sup>Dale Yoder, Personnel Management and Industrial Relations (Englewood Cliffs, N.J.: Prentice-Hall, 1964), p. 33.



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"halo effect" and stereotyping. One major characteristic of the candidate can dominate the appraisal of the entire personality ("halo effect"), or "the interviewer's experience may have created a close association between some particular trait and a distinctive type of personality".<sup>1</sup> Panel interviews can eliminate some of the shortcomings of one-man interviews.

In the future, Tam Hayat should consider testing as a part of its selection program. Achievement tests (testing what the applicant can do) and tests of emotional stability and personality can be used in selecting salesmen. Due to their objective nature, tests eliminate certain errors due to subjective estimations of an interviewer. However, due to the high costs, they are not economically feasible for use by Tam Hayat in the near future.

Direct control of salesmen by the sales manager offers some advantages. In the first place, it enables the sales manager to have up-to-date records of performances. Secondly, close control of salesmen induces them to put more effort into their sales activity. However, a more clear-cut definition of the authority and responsibility of the sales manager is required. Too much control of the salesmen might have an adverse effect on their performance. Also, direct contact with the customer to check if he is satisfied with the services of the salesman is not good for the prestige of the salesman or the company.

Since no job descriptions are provided by Tam Hayat, it

<sup>1</sup>Ibid, p. 334.

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is not possible to determine exactly all the job responsibilities of the salesmen. What is required from them is expressed to them in an informal manner during training programs. The general tendency of the salesmen in terms of their responsibilities is to sell as much insurance as possible within the given principles established in training courses and through their personal contacts with the sales manager.

After the first three months, a salesman's income is determined by the amount of insurance he can sell. Therefore, the more insurance he can sell, the higher his income will be. This has advantages both for the salesmen and for the company. It will induce the salesmen to sell more life insurance since each sale results in an immediate rise in income. It is beneficial to the company because additional sales will mean additional revenue to the company at no selling cost. Let us elaborate a little on this "at no selling cost" aspect. Once the initial investment in a salesman is made by the company (training expenses and salary for three months), they become sunk costs and even if the salesman does not sell any insurance it costs nothing to the company to retain him since he is paid nothing by the company. When he makes a sale, this results in gains for the company, since the commissions paid to him are already included in the calculation of the premiums. In one way it can be argued that sales commissions cost nothing to the company, since they are all compensated for by the buyer of insurance. On the other hand, however, it might be argued that sales commissions

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have a cost to the company since the company could establish lower premium rates if sales commissions did not exist. Therefore, sales commissions could be regarded as a factor that has a negative effect on the competitive advantage of the company.

The initial investment in an insurance salesman can be recovered quite rapidly. Let us illustrate this with an example. In a situation where the monthly compensation spent on a salesman is 1000 TL. and the amount spent on him during the training period is 500 TL.,<sup>1</sup>

$1000 \times 3 + 500 = 3500$  TL. Total cost outlay on the salesman. Thus, 3500 TL. is the present value of the amount spent on him. How much of the customers' funds does he need to bring into the company in order to cover his cost? Assuming this 3500 TL., if not invested in the salesman, would have been invested elsewhere at 10%,<sup>2</sup> at the end of ten years the amount spent on him would amount to 9079 TL. The interest accumulated over an annuity at 5% is 0.3130 TL. per 1 TL.<sup>3</sup> Therefore, the investing of funds

<sup>1</sup>Usually the salary is less than 1000 TL.

<sup>2</sup>Expected rate of return by the management.

<sup>3</sup>5% is the difference between 10% and 4 1/4% computational rate. 5% is used instead of 5 3/4% for computational ease. 0.3130 is obtained as follows:

$(1.00 \times 1.05) = 1.05$	$(5.74 + 1.00) \times 1.05 = 7.08$
$(1.05 + 1.00) \times 1.05 = 2.20$	$(7.08 + 1.00) \times 1.05 = 8.48$
$(2.20 + 1.00) \times 1.05 = 3.26$	$(8.48 + 1.00) \times 1.05 = 9.95$
$(3.26 + 1.00) \times 1.05 = 4.47$	$(9.95 + 1.00) \times 1.05 = 11.50$
$(4.47 + 1.00) \times 1.05 = 5.74$	$(11.50 + 1.00) \times 1.05 = 13.13$
$13.13 - 10.00 = 3.13$	
$3.13/10 = 0.3130$ per 1 TL.	

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provided for the salesman can give the company an excess return of 31.30% over the funds over a ten-year insurance. In order to cover his cost which we estimated to be 9079 TL. over the ten-year period, the salesman has to sell insurance that can bring in premiums of approximately 29,000 TL.  $\left(\frac{9079}{3130}\right)$  over a ten-year period or 2900 TL. per year. A 30,000 TL. ten-year endowment insurance for a twenty-year old person brings in premiums of 2789 TL. per year. A 20,000 TL. ten-year endowment with an additional endowment clause of the same amount brings in premiums of 3296.60 TL. per year. The illustrations show that the salesman can amortize his cost to the company by bringing in a medium-size endowment insurance.

Therefore, the policy of Tam Hayat of having more and more trained salesmen is a worthwhile policy since the cost of the salesman to the company is insignificantly small in relation to what he can bring in. In the first seven months of operations, the salesmen on the average sold more than 15 policies per salesman. Assuming equal productivity per salesman to be retained, Tam Hayat sales will turn out to be higher than the management's estimations.

It was indicated previously that training courses were offered to prospective salesmen. Originally, the management's intention was to offer training programs for a period of three months. This policy was changed afterwards. Now training programs last two weeks.

The training program has two major parts:

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1. Theoretical part.

2. Mechanical part.

The mechanical part includes learning about different kinds of insurance, related clauses, and insurance problem-solving. The theoretical part is concerned with the scope and importance of life insurance and methods to find out about customer psychology. Certain aspects in relation to appearance and talk of the salesmen are emphasized.

It is stated in the company booklet prepared for training programs that the most elementary things about the manners of a salesman are "a smiling face" and a "sweet tongue". The salesman has to believe himself in the benefits of life insurance before he sells it to other people.

The training method is lecturing with question and answer periods following. Salesmen who complete the training program learn the computational aspects of different life insurance combinations thoroughly. The training offers no practical experience and the salesman is expected to get experience through his personal selling activities.

## Advertising Policy

The benefits from advertising are not properly determinable in quantitative terms. However, it is generally accepted that advertising in the insurance business influences sales to some extent. The following passages illustrate the advertising policy of Aetna Life Company which is one of the largest of the life insurance companies in the United States.

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... 1963 was an exciting year for the Aetna Company. It sold 769 million dollars in individual life policies, a gain of 14% over 1962....It would be nice to report that all this impressive progress was due to the ad campaign entirely, but a number of other forces were present.... There is no question, however, that the advertising was a significant factor....Our first campaign stressed the point that since Aetna Life is experienced in advanced underwriting-estate planning, business life insurance, pension plans and so on--the Aetna Life agent is the businessman's agent and you should buy from him because life insurance is such an important business decision. Since the Aetna agent is accustomed to solving much bigger business problems, he can certainly handle yours....

...This year's theme is broader...listed five objectives of the all-print campaign. These consist of five reasons for buying life insurance:

1. Payment of a home mortgage.
2. Retirement income.
3. Educational expenses.
4. Family income protection.
5. To build a family estate.

The ads are intended as door-openers for the agent ....The mortgage protection ad, for instance, shows a snapshot of a new home pasted in a photo album. Handwritten, underneath are the words, "The day we moved in--June 9, 1964". The headline: "A house can change your whole outlook on life" and the body copy includes the line, "most families are tenants under their own roofs until the mortgage is paid".

The education fund ad shows a youngster of three or four leaning from the stern of a rowboat and sticking his forefinger tentatively into the water. "He is learning fast. Are you earning fast?" the head asks.<sup>1</sup>

The above quotation first of all indicates that Aetna found advertising important in increasing sales. However, they can not determine how much of the rise in sales was due to advertising itself.

The quotation also indicates that the Aetna advertising campaign has well-determined objectives.

The Tam Hayat advertising campaigns are undertaken by an

<sup>1</sup>"When AETNA gave ads another try", Printers' Ink, Vol. 287, No. 2 (April 10, 1964), p. 36.

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advertising agency. The three different advertising media used are newspapers, radio, and direct mailing of company brochures.

The newspaper advertising covers a full-page advertisement in a different newspaper every day for a few weeks. The same type of advertisement appears in each newspaper.

All advertisements emphasize that Tam Hayat shares profits with the policy holders. In addition to the profit concept they emphasize the responsibility of a family member towards the other members of the family. Advertisements usually contain a picture with high emotional element. One picture has a woman and a young girl with flowers in their hands, indicating a visit to the graveyard, most probably of the father's. Both the woman and the girl have deep distress in their faces. Beside the picture, in large letters it says, "We must not forget that we have responsibilities towards ourselves and people close to us." Another picture used includes a man holding a little baby sleeping in his arms with words appearing underneath, "Now, who is going to take care of them?", probably indicating the death of the mother.

Despite the management's opinion concerning the characteristics of the Turkish people, "having no desire to remember and discuss the probabilities of their deaths", the newspaper advertisements always remind the people of death. The article in Printers' Ink on the advertising policy of Aetna says that they sought real, rather than stimulated emotions in the advertisements' pictures since they found naturalness to be more effective than made-up emotions.

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"They are more spontaneous and you get spontaneity in, say, a baby picture without pinching the baby, if you know what I mean."<sup>1</sup>

The excess emotionality of Tam Hayat advertising illustrations might bring the question to one's mind: "Is it possible to eliminate the sorrow of death by receiving a certain amount of money from insurance?" The pictures are probably over-doing what they are supposed to do.

In addition to the pictures, Tam Hayat full-page newspaper advertisements include information as to how the salesmen can help the customer to select the most suitable insurance combination. At the bottom of the page there is a coupon which has two blank spaces to be initialed, one for calling a salesman and the other for being sent a free Tam Hayat brochure. A different type of full-page newspaper advertisement is the one which states that the first six months of operations of Tam Hayat resulted in life insurance sales twice as much as the life insurance sales of all other companies in 1965. This advertising was the most recent one.

The free brochure of Tam Hayat (one such brochure is provided in the appendix section of this paper) is a collection of the newspaper advertisements. On the first page the picture of the woman and the girl, described above, appears but this time on a color background. The inside pages include information on:

<sup>1</sup>Ibid, p. 38-39.



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1. The importance of life insurance, emphasizing that a Tam Hayat life insurance policy will be the most productive investment for the benefit of the family.

2. How to buy life insurance, emphasizing "you" attitude in relation to the services of the salesmen, "Tam Hayat salesmen at YOUR service...."

3. When life insurance is the most useful. It is said to be useful at (a) old age, (b) the death of the head of the family, and (c) at the death of the business partner.

4. The benefits to be obtained from Tam Hayat life insurance. Tam Hayat life insurance provides:

- a. A lump-sum endowment at a specified age or continuous income until death.
- b. Free physical check-up every year.
- c. A profit-sharing plan.

On the back pages pictures of the members of the Board of Directors and the President of the company are printed together with three pictures showing three large buildings, headquarters of three insurance companies belonging to the A. I. U. group. On the same page appears in red letters: "You can trust us."

Some people who were sent brochures wrote back to the company that it was inadequate as far as the life insurance information was concerned. However, the management holds the opinion that the purpose of such a brochure is not to explain all about Tam Hayat and life insurance but to create interest on the

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part of the recipients about life insurance and Tam Hayat, hoping that they will want to learn more about life insurance and thus get into contact with a salesman for detailed explanation.

The radio advertisements were one sentence announcements saying that Tam Hayat offers life insurance and a profit-sharing plan.

None of the advertisements include explicit cost comparisons. The cheapness of life insurance offered by Tam Hayat is not used for the purpose of advertising.

Life insurance companies in the United States find advertising more useful each day. Although they spend very little on advertising at present,<sup>1</sup> their advertising costs are increasing every year. Tam Hayat by large scale advertising might help to build up the company image and thus contribute to the increase in future sales.

<sup>1</sup>3/10 of 1% of total premium income is spent on advertising. (Advertising Age, May 30, 1966).

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## CHAPTER V

### CONCLUSIONS AND RECOMMENDATIONS

In this study the writer tried to describe the general objectives of Tam Hayat, followed by an attempt to analyze the probable contributions of this company to Turkish life insurance in the future within the light of the controllable and uncontrollable limitations of its operations. The general conclusion of this analysis is that the Turkish life insurance market offers a larger potential than the portion exploited at present. The writer expects Tam Hayat to utilize this potential to a greater extent than has been done up to the present.

It was shown in the study that countries with higher levels of income have a higher per capita insurance coverage than countries with lower levels of incomes. Life insurance is a savings component, that is, it is the least fluctuating over a period of time. Growth in life insurance is steady over the years.

Projections based on past data indicate that life insurance in force in Turkey can reach the approximate level of 20,000,000,000 TL. in the next thirty years. Another approximation based upon family income distribution in Turkey in 1963 indicates the capacity to be around 15,000,000,000 TL. for 1963. Some of this capacity is being absorbed by social insurance and

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pensions, the most important competitors of private insurance. This situation limits the private insurance to groups with higher incomes who find the coverage of social insurance inadequate and who need more protection.

Another big group of competitors to private insurance is banks which offer a higher return for funds than insurance companies. However, the banks are not able to provide security based upon life expectancies as in the case of term insurance. However, they are directly competitive to forms of insurance with high savings components, such as endowment insurance.

The operational, advertising, and personnel policies of Tam Hayat will make the biggest impact on future sales if handled properly, since they are within the direct control of the Tam Hayat management. Providing houses for customers at reasonable installment rates seems as if it would contribute the most to future sales.

The writer recommends the following in order for Tam Hayat to utilize the market potential in the best way possible:

1. The management of Tam Hayat and Tam Sigorta needs to be formed separately. Despite the successful top management of Tam Sigorta being able to handle the affairs of Tam Hayat at present, we do not find the same operational policy properly applicable in the future. If Tam Hayat does not have its own separate management team, a decline in management efficiency will be forthcoming as Tam Hayat expands its operations. The crowding of work and responsibility will create inability on the part of

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the present organizational structure in providing the management with adequate time to devote to the affairs of Tam Hayat. In order to avoid this bottleneck, separation of the management of Tam Hayat and Tam Sigorta is essential. However, the separation creates an important problem: Which members of the common management should undertake the responsibilities of Tam Hayat and which others that of Tam Sigorta? The writer's own opinion is that the present management should devote its attention fully to the affairs of Tam Hayat. The reason for this is two-fold:

a. Our estimations indicate that life insurance in the future will offer a larger growth potential than other forms of insurance. Therefore, it is more advisable to use qualified management capacity in a more promising field.

b. Tam Sigorta is a well-established company at present whose organization is beyond the formative stage. It can be managed properly by a new management team within the limits of operational principles already established. Tam Hayat, on the other hand, is still in the formation stage, needing a more experienced management team to handle its formation and growth and to establish its objectives and policies to attain these objectives firmly.

2. New departments within Tam Hayat need to be formed and the already existing structure should be divided into separate departments. Authority and responsibility of each position within the departments should be defined clearly.

3. More attention should be devoted to sales outside the

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Istanbul, Ankara, and Izmir areas.

4. Tam Hayat should assume the responsibility of educating the public in life insurance. Advertising should indicate the necessities of life insurance in more realistic terms than trying to get at the public's emotions. The salesmen should be trained to provide adequate financial advice to the customers on different matters when needed rather than trying to convince them to buy a given form of insurance.

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## APPENDIX I

### A. THE FINANCIAL POSITIONS OF THE U.S. INSURANCE COMPANIES BELONGING TO THE SO-CALLED A.I.U. GROUP<sup>a</sup>

(Figures for 1965 and 1964  
respectively)

1. AMERICAN HOME ASSURANCE CO. Founded in New York in 1899;  
Net premiums written: 39,751,676 (1965), 26,000,585 (1964);  
Net income after taxes: 2,082,959 (1965), 981,485 (1964);  
Total Assets: 82,123,590 (1965), 63,545,343 (1964);  
Includes every form of insurance; Common stock outstanding:  
336,237, par value: 2.50.  
Subsidiaries: Insurance Company of the State of Pennsylvania;  
American International Life Assurance Company.
2. BIRMINGHAM FIRE INSURANCE CO. OF PENN. Founded in Pittsburg  
in 1871; controlled by National Union Fire Insurance Co. of  
Pittsburg; Includes every form of insurance except life;  
Net premiums written: 7,495,361 (1965), 7,282,339 (1964);  
Net income after taxes: 249,032 (1965), -107,738 (1964);  
Total Assets: 16,016,611 (1965), 15,811,063 (1964);  
Common stock outstanding: 20,000; par value: 50.- (19,963  
shares held by National Union Fire Insurance Co. of Pittsburg.
3. COMMERCIAL INSURANCE CO. OF NEWARK. Founded in Newark in  
1909; Controlled by Firemen's Insurance Co. of Newark;  
Includes every form of insurance;  
Net premiums written: 26,033,466 (1965), 25,103,747 (1964);  
Net income after taxes: 1,431,177 (1965), 1,205,315 (1964);  
Total assets: 56,521,714 (1965), 56,547,877 (1964);  
Common stock outstanding: 100,000; par value: 30.- (over 99%  
owned by Firemen's Insurance Co. of Newark.
4. FIREMEN'S INSURANCE CO. OF NEWARK. Founded in Newark in 1855;  
Controlled by Continental Insurance Co.; Includes every form of  
insurance;  
Net premiums written: 100,483,388 (1965), 92,881,765 (1964);  
Net income after taxes: 5,570,726 (1965), 21,794,384 (1964);  
Total assets: 281,982,511 (1965), 265,640,293 (1964);  
Common stock outstanding: 2,000,000; par value: 7.50  
Subsidiaries: National Benjamin Franklin, Commercial Insurance,  
Royal General of Canada, Dominion Insurance, National Benjamin  
Franklin Life Insurance Co.

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## APPENDIX I A continued.

5. THE FULTON INSURANCE CO. Founded in New York in 1929; Controlled by Hanover Insurance Co.; Includes fire insurance and allied lines;  
Net premiums written: -----  
Net income after taxes: 112,526 (1965), 112,422 (1964);  
Total assets: 2,993,278 (1965), 2,991,530 (1964);  
Common stock outstanding: 20,000; par value: 60.- (all owned by Hanover Insurance Co.).
6. GRANITE STATE INSURANCE CO. Founded in Manchester in 1885;  
Net premium written: -----  
Net income after taxes: 187,000 (1965);  
Total assets: 4,947,000 (1965);
7. THE HANOVER INSURANCE CO. Founded in New York in 1852; Includes every form of insurance;  
Net written premiums: 100,280,598 (1965), 91,793,259 (1964);  
Net income after taxes: 4,248,036 (1965), -1,160,176 (1964);  
Total assets: 188,908,856 (1965), 182,054,038 (1964);  
Common stock outstanding: 1,240,312; par value: 10.-  
Subsidiaries: Fulton Insurance Co., Hanover Life Insurance Co., Mass. Bay Insurance Co.
8. THE INSURANCE CO. OF THE STATE OF PENNSYLVANIA. Founded in Philadelphia in 1794; Controlled by American Home Assurance Co. Includes every form of insurance;  
Net premiums written: 13,238,812 (1965), 8,666,862 (1964);  
Net income after taxes: 783,308 (1965), 525,048 (1964);  
Total assets: 28,300,938 (1965), 22,390,200 (1964);  
Common stock outstanding: 122,000; par value: 10.-
9. NATIONAL UNION FIRE INSURANCE CO. Founded in Pittsburg in 1901; Includes every form of insurance;  
Net premiums written: 59,562,891 (1965), 58,258,712 (1964);  
Net income after taxes: -1,793,706 (1965), -745,586 (1964);  
Total assets: 102,174,354 (1965), 105,388,424 (1964);  
Common stock outstanding: 879,500; par value: 5.-  
Subsidiaries: Birmingham Fire Insurance Co. of Pennsylvania, National Union Indemnity Co., National Union Life Insurance of Pittsburg, Lexington Insurance Co.



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## APPENDIX I A continued.

10. NEW HAMPSHIRE INSURANCE CO. Founded in Manchester in 1869; Includes every form of insurance;  
Net premiums written: 76,259,088 (1965), 56,463,655 (1964);  
Net income after taxes: 2,288,878 (1965), 1,917,715 (1964);  
Total assets: 128,593,779 (1965), 117,724,532 (1964);  
Common stock outstanding: 1,051,100; par value: 5.-  
Subsidiaries: American Fidelity Co., Granite State Insurance, Illinois National Insurance Co., New Hampshire Life Insurance Co., New Hampshire Indemnity Co.

11. SECURITY INSURANCE CO. OF NEW HAVEN. Founded in Hartford in 1841; Includes every forms of insurance;  
Net premiums written: 23,062,911 (1965), 19,247,770 (1964);  
Net income after taxes: 2,357,386 (1965), 3,806,530 (1964);  
Total assets: 95,493,688 (1965), 95,818,164 (1964);  
Common stock outstanding: 1,597,561; par value: 10.-  
Subsidiaries: Conn. Indemnity Co., Fire and Casualty Insurance Co. of Conn., New Amsterdam Casualty, Metropolitan Fire Assurance Co.

12. U.S. FIDELITY AND GUARANTEE CO. Founded in Baltimore in 1896; Includes every form of insurance;  
Net premiums written: 393,939,985 (1965), 362,991,197 (1964);  
Net income after taxes: 11,397,865 (1965), 10,044,762 (1964);  
Total Assets: 952,692,287 (1965), 877,425,450 (1964);  
Common stock outstanding: 7,649,584; par value 5.-  
Subsidiaries: Delaware Marine Co., Fidelity Insurance Co.-Toronto, Fidelity and Guaranty Insurance Co., Merchant Fire Assurance Corporation.

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<sup>a</sup>Companies whose international businesses are conducted by A.I.U.

Source: Tam Sigorta A. S. Dergisi, No. 1, August, 1965.

Moody's Bank and Finance Manual, April 1966.

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## B. FOUNDATIONS IN WHICH A.I.U. HAS A CONTROLLING INTEREST

Name	Location
C.V. Starr and Co. Inc.	New York
American International Underwriter's Corp.	"
American International Life Assurance Co. of N.Y.	"
Cevesco Services, Inc.	"
The American Home Assurance Group	"
American International Underwriter's Agency, Inc.	Chicago
American International Marine Agency (Calif)	San Francisco
American International Reinsurance Co. Inc.	Hamilton
American International Underwriter's Overseas Inc.	"
American Life Insurance Co.	"
American International Commercial Co., Inc.	"
Underwriters Adjustment Co., Inc.	"
The Underwriters Bank, Inc.	"
American International Underwriters para Represen- taciones y Mandatos en la Argentina, S.A.	Buenos Aires
l'Union Atlantique S. A. d'Assurances.	Brussels
American Asiatic Underwriters Inc.	Hong Kong
American International Assurance Co., Ltd.	"
Metropolitan Land Co., Ltd.	"
American International Underwriters, K. K.	Tokyo
Chiyoda Building Co., Ltd.	"
Japan Adjustment Co., Ltd.	"
American International Underwriters Mediterra- nean, Inc.	Beirut
Middle East Assurance and Reinsurance Co.	"
La Interamericana, S. A.	Mexico City
Philippine American Life Insurance Co.	Manila
Associated Assurance Agencies, Ltd.	"
Manila Adjustment Co.	"
Seguros Venezuela, C.A.	Caracas
Underwriters Adjustment Co. C. A.	"

Source: Tam Sigorta A. Ş. Dergisi, No. 1, August,

1965

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## APPENDIX II

### FINANCIAL POSITIONS OF TURKISH INSURANCE COMPANIES 1965 (In millions of TL.)

#### A. ASSETS

Name	Total Assets	Cash	Securities	Other
Ak.....	8.04	0.74	1.27	6.03
Anadolu.....	68.22	7.16	17.40	43.66
Ankara.....	26.31	1.71	3.00	21.59
Atlantik.....	2.56	0.30	0.87	1.39
Başak.....	46.45	6.96	1.92	37.56
Birlik.....	3.15	1.49	0.44	1.22
Dogan.....	70.34	2.14	19.97	48.24
Genel.....	41.54	4.27	11.07	26.21
Güneş.....	32.96	3.22	3.24	26.49
Güven.....	57.75	12.42	11.51	33.81
Halk.....	19.10	1.58	6.63	10.89
Inan.....	8.64	0.15	1.25	7.25
Istanbul Umum.....	24.53	2.62	6.21	15.69
İttihadı Milli.....	28.76	0.95	4.52	23.29
Ray.....	9.02	1.06	1.54	6.42
Şark.....	12.07	0.42	1.52	10.13
Şeker.....	37.63	7.31	7.34	22.97
TAM.....	15.12	4.19	1.08	9.84

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## B. PREMIUMS AND PROFITS

in million TL.

Name	Premium Receipts		Profit
	Life	Total	
Ak	0.16	4.54	0.51
Anadolu	8.69	34.74	2.39
Ankara	0.85	12.08	0.44
Atlantik	...	0.92	0.13
Başak	2.41	32.72	5.10
Birlik	0.92	2.09	0.20
Dogan	5.21	22.14	0.60
Genel	2.27	19.45	0.84
Güneş	1.27	13.20	1.55
Güven	1.54	26.48	2.82
Halk	1.43	4.57	0.33
Inan	0.22	1.58	(0.06)
Istanbul Umum	1.59	10.07	0.85
İttihadi Milli	1.43	14.57	1.05
Ray	0.11	3.04	0.66
Çark	0.73	7.63	0.21
Şeker	1.94	21.65	2.65
TAM	...	11.26	0.80

Source: Compiled from: Ticaret Bakanlığı Sigorta  
Mürakabe Kurulu, Türkiye'de Sigorta Faaliyeti Hakkında Rapor 1965  
(İstanbul: Kâğıt ve Basım İşleri A.Ş., 1966).

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Kendimize  
ve yakınlarımıza  
karşı  
mükellefiyetlerimiz  
olduğunu  
unutmalıyım...



**TAM HAYAT**

S I G O R T A



## Hayat sigortasının önemi

Huzur içinde mesut yaşamının ilk şartı, insanın kendi ve yakınlarının istikbalini teminat altına almasıyla başlar. **TAM HAYAT** Sigorta sizi bu manevi yükten kurtaracaktır. Bütçe imkânlarınız dahilinde muntazaman yapacağınız tasarruflar için, aile efradınızın menfaati bakımından en verimli yatırım **TAM HAYAT** Sigorta Poliçesi olacaktır. Çünkü, bu poliçe hastalık, kaza, ölüm, vesair felâket anlarında ailenin imdadına yetişecek, aile efradını teselli edecek, sizlere yardım elini uzatacak en güvenilir ve sadık dostunuz olacaktır.

## Nasıl hayat sigortası yaptırılır

1) İlk iş telefonla (47 00 40), telgrafla (Tamhayat - İstanbul), mektupla veya bizzat **TAM HAYAT** 'a başvurmaktır (Harbiye 276, Cumhuriyet Caddesi, İstanbul)

2) **TAM HAYAT** bu amaçla özel eğitim görmüş **Danışman**larından birini **sizin emrinize** verir ve

**Sizin** ihtiyaçlarınızı  
**Sizin** yüklenimlerinizi  
**Sizin** imkânlarınızı, kısaca  
**Sizin** özel durumunuzu

büyük bir ilgi ile incelemeğe memur eder

3) **Danışman** bu incelemeler sonucu, çeşitli sigorta kombinezonları içinden **size** ve **durumunuza** en iyi uyacak olamı seçip teklif eder. İcabında **sizin için** yeni kombinezonlar hazırlar.

4) **Danışman** sigorta kombinezonlarının özellikleri, mukavele şartları ve diğer çeşitli konularda **sizin** sorabileceğiniz sualleri cevaplandırır, bilgi verir, incelenmesini isteyeceğiniz diğer konuları **sizin adınız** olarak inceler, sonuçlarını **size** sunar.

5) **Danışman** teklifnamelerin doldurulması, doktor raporunun hazırlanması, işin **TAM HAYAT** tarafından sonuçlandırılması gibi çeşitli konularda **sizin elinizdir**.

## Hayat sigortasından ne zaman istifade edilir?

### **TAM HAYAT**

#### **Yaşlılıkta** ele

muhtaç olmadan yaşamınızı

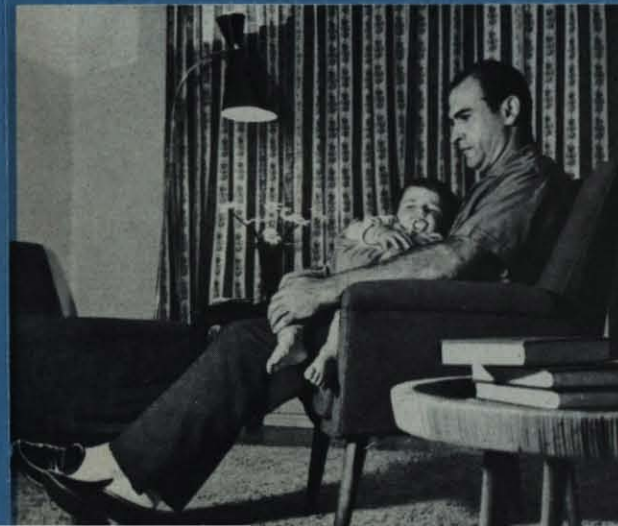
#### **Aile reisinin kaybında**

geride kalanların avuç açmamalarını, çocukların tahsillerini tamamlamalarını, iş tutmalarını, ipotek borcunun ödenmesini

#### **Ortağınızın kaybında**

işinizin sarsıntısız devamını, yabancıların işinizi bozmamalarını

**sağlar!**



## **TAM HAYAT** SIGORTANIN SİZE SAĞLIYACAĞI FAYDALAR NELERDİR:

**TAM HAYAT** poliçesi ailenize bırakacağınız varlıkların en önemlisi ve en verimli olacağıdır

**TAM HAYAT** poliçesi, muayyen bir yaştan sonra size toplu bir sermaye veya hayatınızın sonuna kadar devamlı bir irat sağlar

**TAM HAYAT** her yıl "tepeden tırnağa" bedava doktora muayene olmanızı mümkün kılar (sihhi check-up)

**TAM HAYAT** grup sigortası, kaza ve sağlık sigortası, ameliyat ve hastane masrafı sigortası, bedenî kaza sigortaları gibi beşer hayatı ile ilgili pek çok emniyet tedbirlerini önünüze sermektedir

**TAM HAYAT** en müsait yeni tarifeler uygulamaktadır...

ve üstelik **TAM HAYAT** sigortalılarını kârına ortak etmektedir

## Günde sadece 3 lira ile ne alınabilir demeyiniz:

35 yaşında bir kimse Hayatı Boyunca	{ 50,000 liralık hayat sigortası + 50,000 liralık kazaen ölüm sigortası 100,000
30 yaşında bir kimse Hayatı Boyunca	{ 60,000 liralık hayat sigortası + 60,000 liralık kazaen ölüm sigortası 120,000
35 yaşında bir kimse 20 sene müddetle	{ 125,000 liralık hayat sigortası + 125,000 liralık kazaen ölüm sigortası 250,000
30 yaşında bir kimse 20 sene müddetle	{ 150,000 liralık hayat sigortası + 150,000 liralık kazaen ölüm sigortası 300,000

**SİZİN YAŞINIZ VE SİZİN İHTİYAÇLARINIZ İÇİN  
EN UYGUN ŞEKLİ DANIŞMANLARIMIZA SORUNUZ**

## Üstelik **TAM HAYAT** sigortalılarını kârına ortak etmektedir

Sigortalılarının (yani **sizin**) ekonomik konjonktürden müteessir olmayıp her cihetle **tam** teminata sahip bulunmalarını isteyen **TAM HAYAT**, sigorta fonlarının olduğu gibi kendi öz sermayesinin yatırımından elde edilecek kazançları dahi sigortalılarıyla (**sizinle**) bölüşme kararını almış. Memlekette **TAM HAYAT** 'tan başka bunu yapan sigorta şirketi **yoktur!** Bu bölüşmenin hesabı, dağıtımı ve tahsisi **T.C. Ticaret Bakanlığınca** bu maksatla onanmış özel formül uyarınca yapılır. Böylece **sizin** sigortanız - ayı bir ücret ödemedi - yıldan yıla **artarak** devam eder. **TAM HAYAT** bunun kefili, **T.C. Ticaret Bakanlığı** devamlı deneticisidir.





**BİZE GÜVENE BİLİRSİNİZ**



REŞAT AKSAN  
(İdare Meclisi Azası)



AHMED DALLI  
(İdare Meclisi Azası)



NEJAT ECZACIBAŞI  
(İdare Meclisi Azası)



VEH Bİ KOÇ  
(İdare Meclisi Başkan Vekili)



ALİ NEYZİ  
(İdare Meclisi Başkanı)



BEDİ YAZICI  
(İdare Meclisi Başkanı)

**İMKÂN VE  
İHTİYAÇLARINIZA  
EN UYGUN  
SİGORTA  
KOMBİNEZONUNU  
DANIŞMANLARIMIZDAN  
ÖĞRENE BİLİRSİNİZ**

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