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## **The function and penetration of compulsory third-party liability insurance among liability insurances in Türkiye**

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### **Abstract**

Insurance activity holds a significant function in the financial markets. In insurance market, third-party liability insurance, a type of liability insurance and also a mandatory requirement, is one of the oldest insurance types in our country. Compulsory third-party liability insurance secures the legal liability that the operator of a vehicle may face for material and bodily damages that they may cause to third parties during the use of the vehicle. In other words, compulsory third-party liability insurance is a private law transaction that provides financial protection against the compensation obligation incurred by individuals due to their involvement in traffic accidents, and it is not in the nature of a tax. It is regulated in the form of a special law in the Highway Traffic Law No. 2918 and in the general law with provisions related to liability in the Turkish Commercial Code No. 6102. In the Turkish insurance market, the insurance has the highest share among liability insurances. As of the end of 2022, approximately 27.5% of the total premium production in the insurance sector is attributed to the third-party liability insurance. Its total share in liability insurances is approximately 86%. However, according to the transportation statistics announced by the Turkish Statistical Institute, as of the end of 2022, although the number of registered vehicles in Türkiye is approximately 26.5 million, the number of policies is 18.8 million. That is, the insurance rate in third-party liability insurance is 70%, which is quite high, and efforts should be made to increase its prevalence.

**Keywords:** liability insurance, insurance market, Third-Party, premium production, insurance rate,  
**Jel codes:** G20, G22, G28



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## 1. Introduction

Insurance is a contractual agreement between the insured and the insurer, established based on a specified premium, to cover the losses arising from certain risks within the provided coverage (Mazviona, Dube, and Sakahuhwa, 2017, p.11). The Turkish Commercial Code (TCC) provides a classification of insurance types in the sixth book. According to the TCC, insurance branches are fundamentally divided into two categories: damage insurances and life insurances. While damage insurances pertain to individuals' properties, life and health are the focus of life insurances (TCC, Book 6). Compulsory third-party liability insurance falls under the category of damage insurance in this book. Compulsory third-party liability insurance is a type of liability insurance, where the insurance company assumes the risk-related losses when individuals unintentionally cause damage to others through their actions (Alhan, 2023, p.811). Liability insurances are generally divided into four categories: land vehicles, aircraft, watercraft, and general liability. Among these, motor vehicle liability insurance, a sub-branch of liability insurances, holds the highest share, particularly within the compulsory third-party liability insurance branch.

This study evaluates the importance and prevalence of compulsory third-party liability insurance as a form of liability insurance. Furthermore, the technical information on third-party liability insurance, liability insurances, and general branches provided in this study is expected to serve as a foundation for future studies incorporating statistical data.

## 2. Third party liability insurance and its position in the insurance market

### 2.1. *Third-party liability insurance*

Third-party liability insurance aims to cover the liability of the operator of a motor vehicle operating on highways in the event of causing harm to any individual while in operation. It intends to cover the liability of the vehicle operator towards the affected party within specified limits. This insurance is made mandatory by the Highway Traffic Law No. 2918, and individuals failing to obtain it may face legal penalties. According to the conditions specified in Law No. 2918, the policyholder is obligated to cover the legal liability of the operator up to the limits stated in the policy contract. Any damage or loss within the coverage limits must be compensated within eight business days following a damage claim, except for special circumstances as stipulated by the law (Highway Traffic Law, 1983, Art. 18195/99).

The purpose of third-party liability insurance is to protect the insured (vehicle operator) up to the limits of third-party liability insurance in the event of an accident during the operation of the motor vehicle resulting in the death or injury of a third party or damage to another vehicle or object. In other words, third-party liability insurance aims to secure coverage for damages caused by a vehicle (Özen and Yurdakul, 2020, p.96). Thus, as a form of liability insurance, third-party liability insurance commits to compensate for damages to third parties or victims not directly related to the policy.

The coverage provided by compulsory third-party liability insurance includes material damages, health expenses, disability benefits, and loss of support (death) benefits. Detailed information about these coverages is outlined in the General Conditions of Compulsory Financial Liability Insurance for Motor Vehicles published in the Official Gazette dated May 14, 2015, and numbered 29355 (Insurance Association of Türkiye, 2019).

Material damages coverage ensures compensation for direct losses, including material damages to the affected party's vehicle and the resulting depreciation of the vehicle. Health coverage reimburses medical expenses for the injured party, covering treatment costs and prosthetic organ expenses to restore the individual's physical condition. Disability benefits, dependent on a temporary or permanent disability report from an authorized hospital, provide compensation tailored to the condition of the injured party. The last coverage is the death benefit, known in the literature and legal terminology as loss of support. In the event of the death of the affected party due to the accident, this coverage involves compensation payments to the surviving dependents based on actuarial calculations for the remaining lifespan of the deceased individual (Çelik, 2021, p.11).

### 2.2. *The significance of third-party liability insurance*

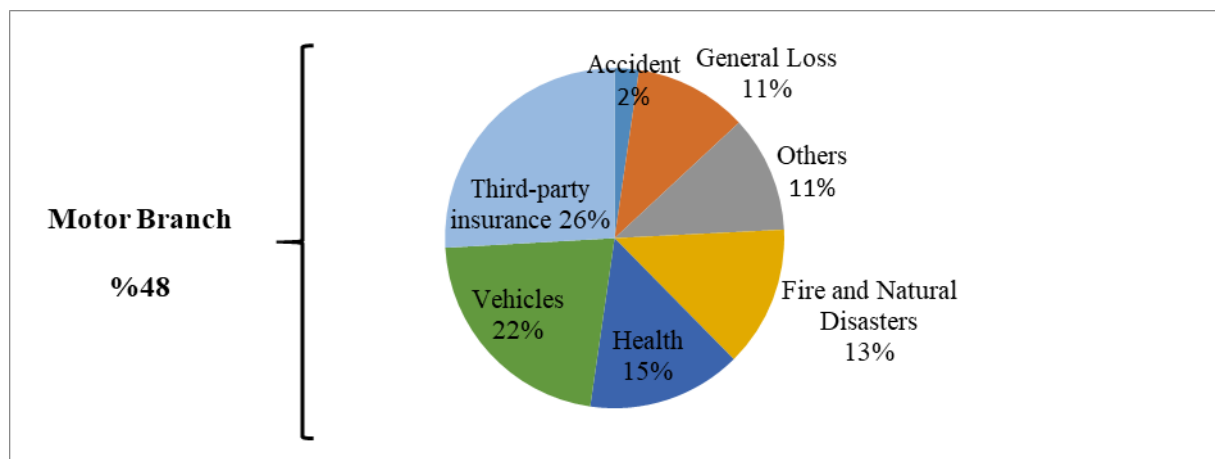
In Türkiye, third-party liability insurance holds significant importance for individuals, the public, and the insurance sector. The increasing need for assurance among individuals due to the rise in vehicle usage, coupled with the growing number of vehicle purchases, sales, and production in this field, has led to a continuous increase in the number of insured vehicles. In recent years, the escalation in the supply and values of vehicle components, coupled with the rising costs of medical treatments and additional expenses incurred after an individual becomes incapacitated, makes the compensation for potential damages increasingly challenging. According to data released by the Turkish Statistical Institute, as of December 2022, the number of registered vehicles in traffic is approximately 26 million 483 thousand (Insurance Association of Türkiye, Statistics). The

rapid growth in this number between 2013 and 2022 is significant for both policyholders and third parties who might face risks, as well as for insurance companies involved in third-party liability insurance contracts.

### 2.3. The position of third-party liability insurance in the Turkish Insurance Sector

Third-party liability insurance involves dual liability, requiring insurance companies to offer this coverage, while vehicle owners/operators are obligated to obtain it. Hence, approximately 26.5 million vehicle owners are required to have this insurance, making it a crucial component in the Turkish insurance sector in terms of prevalence. The insurance sector currently boasts the active presence of 74 insurance companies, with 50 engaged in non-life insurance, 19 in Pension and Life insurance, and the remaining 5 operating as reinsurance companies (Insurance Association of Türkiye, Statistics).

Upon examining sector data, the distribution of premium production among the operating companies at the end of 2022 is depicted in Figure 1. Notably, nearly half of the total premium production is attributed to the motor branch, with the third-party liability insurance branch constituting a significant portion, accounting for approximately 25.9% of the total premium.



**Figure 1:** Distribution of Premium Production by Branch (2022)

**Source:** Insurance Association of Türkiye, Statistics.

Considering the total premium capacity produced in the insurance sector on a branch basis, it is evident that the total premium amount for the motor vehicles branch holds the largest share in the insurance sector. Furthermore, due to the compulsory nature of third-party liability insurance, its position and significance within this share are clearly substantial.

The price of insurance and individuals' economic situations are among the primary factors directly affecting premium production. Consequently, based on individuals' perspectives on risks, the general behavior resulting from excessive increases in premiums can lead license holders to venture onto the roads without obtaining third-party liability insurance. The distribution of the number of vehicles without third-party liability insurance between 2013 and 2022 is provided in Table 1. As observed in this table, there is a significant increase in the number of vehicles without third-party liability insurance.

**Table 1:** Insurance Rates of Motor Vehicles (2013-2022)

Years	NUMBER OF INSURED VEHICLES	NUMBER OF MOTOR VEHICLES	NUMBER OF UNINSURED VEHICLES	RATIO OF UNINSURED VEHICLES
2013	14.234.963	17.939.447	3.704.484	% 20,64
2014	15.924.574	18.828.721	2.904.147	% 15,42
2015	16.238.117	19.994.472	3.756.355	% 18,78
2016	16.502.467	21.090.424	4.587.957	% 21,75
2017	17.524.112	22.218.945	4.694.833	% 21,12
2018	18.691.257	22.865.921	4.174.664	% 18,25
2019	19.197.674	23.156.975	3.959.301	% 17,09
2020	20.084.139	24.144.857	4.060.718	% 16,81
2021	20.729.249	25.249.119	4.519.870	% 17,90
2022	22.169.445	26.482.847	4.313.402	% 16,28

**Source:** TUIK (Turkish Statistical Institute), News Bulletin, Number of registered motor vehicles in traffic by years; Insurance Association of Türkiye, Official Third-party liability insurance Statistics.

Table 1 provides the insurance rates and numbers of vehicles throughout the years. Until 2016, there was a systematic increase in the percentage of uninsured vehicles; however, after 2017, these percentages exhibited the opposite trend and experienced a decline. The factors contributing to this shift can be attributed to legal changes implemented in 2016 and, subsequently, the introduction of the maximum price application and the establishment of the Risky Insurance Pool in 2017 (Özcan, 2018, p.332).

### 3. Increases in third-party liability insurance prices and measures taken in response to these increases

For compulsory insurances like third-party liability insurance, it is crucial that the premium amount remains at a reasonable level, benefiting both the insurance company and the policyholder/insured. The premium amount for third-party liability insurance should be determined in a way that does not disadvantage either the insurer or the insured party. It should neither be so low that it fails to cover the costs for the insurer nor so high that individuals seeking insurance refrain from obtaining policies due to difficulties in affording the high premium. This situation, particularly evident after the increase in policy prices in 2015, manifested itself with the surpassing of the accepted limit of increase. There are multiple reasons for the price increases that occurred after 2015, including the following (Umut, 2020, p.361-362):

- Due to unstable judicial decisions, insurance companies anticipate incurring more expenses than the premiums collected, thinking that in some cases, court decisions may result in them having to pay higher compensation amounts, leading to a weakening of their financial structure.
- The rise in foreign exchange rates, especially in recent years, and the consequent increase in the prices of vehicle parts.
- An increase in bodily injury compensation amounts, causing higher costs for companies, particularly in cases involving permanent disability.
- A regulation implemented by the government after 2015, requiring insurance companies to appoint assessors in response to claims for loss of value and to pay compensation accordingly.

It is known that price increases occurred due to the reasons mentioned above. In addition to the price increases in premium productions of third-party liability insurance, the technical profit/loss situation is also crucial. Table 2 provides the technical profit/loss situation in compulsory third-party liability insurance over the years.

**Table 2:** Technical Profit/Loss Situation in Compulsory Third-party liability insurance Over the Years

Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Premium (Million)</b>	4.294	5.085	6.810	12.470	12.498	15.301	18.018	19.571	22.045	54.410
<b>Technical Profit / Loss (Million)</b>	-654	-884	-2.384	18	-538	-808	-903	825	-2.706	-11.694
<b>Technical Profit / Loss Ratio</b>	-%13	-%20	-%51	%0,2	-%5	-%8	-%8	%6	-%19	-%50

**Source:** Insurance Association of Türkiye, Statistics.

As seen in Table 2, despite the various measures taken by the government for third-party liability insurance since 2016, losses have started to increase in the following years. The technical loss, which was 0.2% in 2016 and 5% in 2017, steadily increased each year, reaching 8% in 2019. Although there was an increase in premiums for third-party liability insurance in 2020 due to the global Covid-19 pandemic, the damage costs experienced a significant decrease due to the reduced number of vehicles on the roads during lockdowns, contributing positively to the technical profit/loss amount. However, by the year 2021, this situation changed, and the loss amount increased significantly, reaching 2,706 million TL, resulting in a loss ratio of 19%. By the year 2022, the situation has further escalated, with a loss of 11,694 million TL, surpassing a 50% loss ratio, marking the highest loss ratio in history. In light of these data, measures taken in third-party liability insurance, such as the pool and maximum premium application, have provided temporary benefits; however, considering the current data, an increasing loss trend is evident. Therefore, in the coming years, the loss is expected to further increase, and the anticipated effectiveness of the regulations may not be achieved.

The excessive increase in premiums since the second half of 2015 has caused discomfort both within the public authority and among policyholders. Consequently, in order to prevent being uninsured, maximum gross premium amounts were determined for policies issued after 28.10.2015 for various vehicle types, including trucks, vans, minibuses, buses (including the driver, with 18-30 seats), and buses (including the driver, with 31 seats and above).

Following this regulation, a change was made in the General Circular No. 2013/11 by the circular No. 2015/55 dated 28.12.2015, enabling the comparative display of price offers from all insurance companies issuing compulsory third-party liability insurance policies by entering identity numbers and plate information through the proposal screen created on the Insurance Information and Monitoring Center's website. This regulation transparently facilitated both the development of a competitive environment in the market and provided policyholders with transparent information.

Despite all the precautions taken by the public, the desired price stability could not be achieved. Therefore, more fundamental changes and developments became necessary. In light of these reasons, attempts have been made to achieve stability in prices through the following means:

- With the amendment published in the Official Gazette on May 3, 2017, the free tariff system was abandoned, and a ceiling (maximum) price application was introduced. Accordingly, the maximum third-party liability insurance premium that can be applied at each of the seven levels will be determined by the public authority. It was decided that insurance companies could increase these maximum amounts by 1% monthly. Discount rates of 15%, 30%, and 45% will be applied at the fifth, sixth, and seventh levels, respectively, while an increase rate of 50%, 100%, and 150% will be applied at the third, second, and first levels, respectively (Balkı and Göksu, 2022, p.32).
- After insurance companies implemented the maximum premium application, they started to avoid insuring driver and vehicle groups they considered risky. In this context, a pool system was initiated on 11.07.2017 for risky policyholders. According to the regulation for premium and damage sharing for policies within this scope, all insurance companies became members of the "Risky Policyholders Pool" (Regulation on Tariff Application Principles in Compulsory Third-Party Liability Insurance for Motor Vehicles, 2017). By transferring risky individuals to this pool, insurance companies gained advantages in selecting insured individuals. Through this practice, policyholders in the risky group found it easier to obtain third-party liability insurance from insurance companies (Özcan, Ökten, and Uzpeder, 2021,

p.83). During this process, it was observed that the premium production rate increased steadily and slowly from 2017 to 2021.

#### 4. Responsibility and importance of third-party liability insurance in liability Insurance

Responsibility refers to the liability of a debtor to the creditor regarding the payment of a debt with their assets. In other words, responsibility does not arise from the obligation to do, not do, or pay something. However, in the context of insurance, the concept of responsibility entails the proportional responsibility shares of individuals in the impact or influence ratios on the damage resulting from a certain risk (Çelik, 2021, p.3). Liability insurance assumes the responsibility to compensate for the damage that may occur coincidentally as a result of the insured's actions to a third party, depending on the coverage limits and in line with the premiums paid by the insured. The purpose of this insurance is to prevent the decrease in the insured's assets in the event of damage and to ensure the compensation of the third party's losses (Karasu, 2015, p.685).

In our country, there are 17 types of liability insurances. These include: Third-Party Liability Insurance in Elevator Accidents, Professional Liability Insurance for Independent Auditors, Environmental Pollution Liability Insurance, Compulsory Liability Insurance for Marine Vehicles, Professional Liability Insurance for Real Estate Valuation, Employer's Liability Insurance, Compulsory Financial Liability Insurance for Road Motor Vehicles (Third-party liability insurance), Compulsory Financial Liability Insurance for Coastal Facilities Marine Pollution, Professional Liability Insurance, Voluntary Financial Liability Insurance for Motor Vehicles, Mandatory Financial Liability Insurance for Private Security, Compulsory Financial Liability Insurance for Hazardous Substances and Dangerous Waste, Mandatory Financial Liability Insurance for Medical Malpractice, Mandatory Financial Liability Insurance for LPG Gas, Financial Liability Insurance Against Third Parties, Product Liability Insurance, and Mandatory Certificate Financial Liability Insurance (Insurance Association of Türkiye, General Conditions, <https://tsb.org.tr/tr/legislation/>).

Looking at the place of compulsory third-party liability insurance in liability insurances over the years, it is observed that it has increased. This situation is presented in Table 3.

**Table 3:** Premium Production of Liability Insurances (Million TL)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Ground Vehicles</b>	5.382	5.528	7.486	12.931	13.042	15.854	18.712	20.487	23.308	57.587
<b>Third-party liability</b>	4.294	5.085	6.810	12.470	12.498	15.301	18.018	19.571	22.045	54.410
<b>Aircrafts</b>	69	92	123	128	131	194	263	298	488	904
<b>Watercrafts</b>	1	9	16	22	26	31	44	57	88	237
<b>General Liability</b>	508	634	758	816	1.023	1.391	1.712	2.189	3.213	5.955
<b>TOTAL</b>	5.960	6.263	8.383	13.897	14.222	17.470	20.731	23.031	27.097	64.683

**Source:** Insurance Association of Türkiye, Statistics.

Table 3 provides the premium production of liability insurances over the years. When examined over the years, it is observed that the total premium production, which was 5.960 billion TL in 2013, has increased to 64.683 billion TL by the year 2022. The liability branch for road vehicles, where compulsory third-party liability insurance is present, has consistently maintained its top position every year, always ranking first. Within this branch, third-party liability insurance has consistently held the highest share in premium production each year. As of the year 2022, compulsory third-party liability insurance has generated a premium production of 52.923 billion TL.

**Table 4:** Share of Compulsory Third-Party Liability Insurance in Premium Production of Liability Insurances (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Ground Vehicles</b>	90.30	88.26	89.30	93.05	91.70	90.75	90.26	88.95	86.02	89.03
<b>Third-party liability</b>	72.04	81.19	81.23	89.73	87.87	87.58	86.91	84.97	81.35	84.11
<b>Aircrafts</b>	1.16	1.47	1.47	0.92	0.92	1.11	1.27	1.29	1.80	1.40
<b>Watercrafts</b>	0.02	0.14	0.19	0.16	0.18	0.18	0.21	0.25	0.32	0.37
<b>General Liability</b>	8.52	10.12	9.04	5.87	7.19	7.96	8.26	9.50	11.86	9.21
<b>TOTAL</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

**Source:** Insurance Association of Türkiye, Statistics.

Table 4 provides the premium production shares within liability insurances over the years. It can be observed that compulsory third-party liability insurance has accounted for nearly 80% of the share in liability branches almost every year. In other words, compared to other liability branches, compulsory third-party liability insurance consistently holds the highest share in premium production each year. The year with the highest share for third-party liability insurance is 2016, with a percentage of 89.73, while the year with the lowest share is 2013, with a percentage of 72.04. As of the year 2022, it holds a share of 84.11%. It is evident from this data that the position and importance of third-party liability insurance within the liability insurance branches are steadily increasing.

## 5. Conclusion and recommendations

Liability insurances aim to compensate the damage caused by operators to third parties. Among liability insurances, compulsory third-party liability insurance holds the highest share. In third-party liability insurance, which has the largest share, there is a mutual obligation; insurers are obliged to offer this insurance, and policyholders are required to obtain it. Approximately 26.5 million vehicle owners are required to have this insurance. Therefore, the price increases in this insurance directly impact every family that owns a vehicle. In this mentioned insurance, a pool was created by public authorities to control price increases. However, despite providing the expected results in the short term, the pool application is considered to be damaging to the insurance sector in terms of medium and long-term insurance techniques. It negatively affects the specialization of insurance companies. Moreover, as mentioned in the study, the losses in this insurance are constantly increasing. Furthermore, these losses cannot be compensated with the income generated from other branches. This situation puts significant pressure on insurance companies and, if the current situation persists, it may lead insurance companies to withdraw from this license or exit the Turkish market. This situation could create a negative perception in both the Turkish insurance sector and the international insurance market, reducing confidence in the sector.

Therefore, it is necessary to phase out the pool application in third-party liability insurance in the short term along with the maximum price regulation. In other words, allowing premiums to be determined in a free market is considered a fairer approach. Alternatively, transitioning to a person-based policy application, as seen in global practices, could also be a solution. Thus, pricing based on individuals' risks and operators' personal data is believed to result in a more equitable system.

Furthermore, by abandoning the pool application, insurance companies will return to their core tasks, such as appropriate pricing, claims payment, risk assumption and management, and managing the claims process in line with insurance techniques. This would lead to reduced losses in the mentioned branch, creating a more balanced pricing in the free market, which would be reasonable for all parties involved.

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