



INSURANCE
STATE SUPERVISION
SERVICE OF GEORGIA

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SERVICE OF GEORGIA
ANNUAL REPORT
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Dear readers,

Insurance State Supervision Service of Georgia is a supervisory body of insurance business throughout the country and one of its main functions is the implementation of the insurance state policy. In 2019, significant amendments were made to the Law of Georgia on Insurance, and ten orders of the Chairman of ISSSG were issued. The amendments expanded the regulatory framework for insurance intermediaries and established the on- and off-site supervisory approaches for insurance brokers; To ensure their financial stability, the obligation has been determined to own capital/guarantee fund, reporting standards have been expanded; Insurance brokers have been required to submit annual audited financial reports of the previous year; eligibility criteria were established for the administrators and founders of insurance brokers, a sanctioning system was introduced, and approaches were determined for better customer protection. Apart from that, “a rule of margin ratio between the Insurer’s net exposure and regulatory capital” was approved, ensuring that major losses would not have a significant negative impact on the Insurers’ solvency.

2019 was notable for increasing international activities, which is vital to the development of the industry and serves to promote the implementation of international standards. To this end, ISSSG actively cooperated with international organizations, received a great amount of expert assistance, participated in international conferences and trainings, and was familiarized with modern approaches to supervision.

As a result of intensive work, ISSSG had the following achievements in international relations:

- ▶ First elected as a member of the Assessment and Implementation Committee (AIC) of the International Association of Insurance Supervisors (IAIS) during its membership;



- ▶ Participated by special invitation as a non-member country in the First Forum of Insurance Supervisors of the Western Balkans, organized by EIOPA;
- ▶ For the first time, joined the International Organization of Pension Supervisors (IOPS), preceded by intensive negotiations;
- ▶ ISSSG was first invited to various events within the Central, Eastern and South-Eastern Europe (CESEE) region;

The reporting period was also remarkable by other significant events:

- ▶ ISSSG participated in a number of meetings held by the IAIS, including the 26th Annual International Conference held in Abu Dhabi, United Arab Emirates, which, given its scale, played an important role in deepening of international relations.
- ▶ ISSSG launched the EU-funded 2-year TWINNING project, which aims to get closer to the

European insurance standards, in accordance with the Association Agreement signed with the EU;

- ▶ For the first time in our region, the conference was held in Tbilisi under the auspices of the International Actuarial Association (ASTIN); within the framework of the program “Governing for Growth (G4G) in Georgia” carried out by the United States Agency for International Development (USAID), acting actuaries/future actuaries have been re-trained/certified in accordance with the European standards.

- ▶ As a result of close cooperation with XPRIMM (Reinsurance and Insurance Market Media Promotion), an international insurance conference took place in Tbilisi;
- ▶ Being invited by ISSSG, the international experts from Northern Macedonia and the Slovak Republic visited Tbilisi and conducted a seminar for the employees on current issues in insurance industry.

I am pleased to present the detailed report of 2019 on the activities carried out by the LEPL Insurance State Supervision Service of Georgia.

David Onoprishvili

Chairman



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1. Licensing/Registration

According to the 2019 data, out of 17 licensed insurance companies operating in Georgia, 16 possess both non-life and life insurance licenses and 1 – only non-life insurance license.

Under the law of Georgia “On Insurance”, the appointment/replacement of the Insurer’s Administrator (Supervisory Board member, Director) and internal audit is a subject of preliminary approval by ISSSG in order to ensure the candidate’s compliance with eligibility criteria established by the law. In 2019, ISSSG reviewed 13 candidates nominated for the position of administrator, with 11 of them approved and 2 rejected, based on the documents/information examined to ensure compliance with eligibility criteria. Also, one candidate for an internal audit position was reviewed and the appointment was approved.

According to the Law of Georgia “on Insurance”, a change of shareholders with a significant share in an insurance company is also subject to prior review by ISSSG. In 2019, ISSSG reviewed the changes to be made in the shareholding of JSC “Insurance Company Euroins Georgia” and approved them. As of 2019, there were 4 non-state pension schemes registered in ISSSG - 3 of them founded by insurance companies, and one - by a non-insurance legal entity for its own employees. These are:

1. JSC Insurance Company ALDAGI;
2. JSC Insurance Company GPI Holding;
3. JSC International Insurance Company IRAO;
4. Sakaeronavigatsia LLC.

In order to expand the regulatory framework for insurance intermediary activities, on September

3, 2019, the Parliament of Georgia amended the Law of Georgia “on Insurance”. The amendments clarified the basic distinguishing principles of insurance broker’s and insurance agent’s activities, defining the scope of brokerage activities in the field of insurance, conditions for registration as an insurance broker, provision of mandatory information to the customers, instruments for financial stability, sanctions system. Also, to use the phrase “insurance broker” or other combination of those words in brokers brand name was determined as necessary, in order to identify the activity of the entity from its name. Therefore in 2019, 15 insurance brokers changed their names, and ISSSG carried out relevant administrative procedures concerning these changes in the individual legal acts on registration. Relevant changes were also made in the register of insurance brokers.

During 2019, the registration of the following 8 insurance brokers was cancelled:

- ▶ MMA GEORGIA LLC;
- ▶ TRUST BROKER LLC;
- ▶ Financial Risks Resolution LLC;
- ▶ Insurance Broker Wise LLC;
- ▶ London Prime International Brokers LLC;
- ▶ Global Insurance Broker LLC;
- ▶ DGLab LLC;
- ▶ Darabi LLC.

3 new insurance brokers were registered during the reporting period:

- ▶ “Insurance Broker Compare” LLC;
- ▶ “Insurance Broker Brokers Hub” LLC;
- ▶ “Insurance brokerage firm Geo Ins” LLC.



Considering the above changes, by the end of 2019, the following 20 insurance brokers were listed in the register of insurance brokers:

1. Insurance Broker MAI Georgia LLC.
2. Resolution Insurance Brokers Georgia LLC
3. Insurance Broker G.S. LLC
4. Georgian Reinsurance Brokers LLC
5. Insurance Broker Capital Garant LLC
6. Insurance Broker Respect LLC
7. Insurance Broker CIB Georgia LLC
8. Insurance Broker Nikoloz Group LLC
9. Insurance Broker Geotrust LLC
10. Insurance Broker Wise LLC
11. Magnus Insurance Broker LLC
12. Insurance Brokerage company IBC Georgia LLC
13. Insurance Brokerage company Calma LLC
14. Insurance and Reinsurance Broker Arriba LLC
15. Insurance and Reinsurance Brokers House Georgia LLC

16. Insurance Brokerage IG Company LLC
17. Georgian Insurance Alliance – Insurance Broker LLC
18. Insurance Broker Compare LLC
19. Insurance brokerage firm Geo Ins LLC
20. Insurance Broker Brokers Hub LLC

As of January 1st 2020, according to the amendments to the Law of Georgia “on Insurance”, the insurance brokers are required to have financial stability instruments - minimum capital/guarantee fund and professional indemnity insurance. ISSSG studied the documents submitted by the insurance brokers in order to confirm the due performance of their obligations under the law, in particular, bank documents certifying owning of the minimum capital/guarantee fund, and professional indemnity insurance policy/agreement.

2. Legislative process

During 2019, significant legislative changes were made to regulate the issues within the competence of the Insurance State Supervision Service of Georgia. The draft law “On Amendments to the Law of Georgia On Insurance” and corresponding draft laws had been prepared, and ten orders of the ISSSG Chairman were published in the “Legislative Herald of Georgia”.

On September 3, 2019, several amendments were made to the Law of Georgia “on Insurance”, concerning the regulation of insurance intermediaries aiming to create a legislative instrument of state control and supervision that would enable to regulate the industry more efficiently. At this stage, considering the priority of the issue, the amendments were addressed to the insurance brokers only and regulation of insurance agents’ activities was planned for the next stage of the reform.

The changes made during the reporting period in respect of insurance brokers established a regulatory framework and empowered ISSSG to introduce the rules fully regulating the changes provided by law. A mechanism of supervision and both on-site and off-site supervisory approaches for insurance brokers have been established, the basics of securing their financial stability have been determined, reporting standards expanded; the insurance brokers were required to submit audited financial statements annually; eligibility criteria have been established for the administrators and founders of insurance brokers, a sanctioning system has been introduced, terms of registration and approaches for better protection of the consumers’ rights have been adjusted. In order to ensure their financial soundness, the obligation

to own a capital/guarantee fund has been established for the brokers.

Based on the amendments to the Law, ISSSG, within its own competencies issued the following by-laws:

- ▶ “Rules for determining the minimum capital/guarantee fund for insurance brokers at each stage of intermediary activities and corresponding requirements” (Order # 34 of the chairman of ISSSG, dated 25.09.2019) - The document states that insurance brokers at all stages of their intermediary activities must have a minimum capital/guarantee fund determined by ISSSG, in the amount of GEL 30,000, 100% in cash, continuously deposited at a special account with a licensed banking institution.
- ▶ “Professional indemnity insurance for insurance brokers” (Order # 38 of the chairman of ISSSG, dated 27.09.2019) – The document establishes the liability of insurance brokers to maintain professional indemnity insurance at all stages of their intermediary activities, under the terms and conditions provided by the same Order. This is the basis for ensuring the financial soundness of a broker and serves to compensate material damage caused to a third party in the course of intermediary activities.
- ▶ “Rules for determining and imposing a fine on an insurance broker and/or administrator” (Order # 35th Chairman of ISSSG, 25.09.2019) – This document provides the fines/financial

sanctions of insurance brokers for different types of violations. The corresponding by-law empowers ISSSG to impose a fine on the insurance broker and/or administrator in case of non-compliance by the latter with the requirements established by the law. The document also introduces the rules of enforcing a corresponding administrative-legal act.

- ▶ “Internal accounting requirements for insurance brokers” (Order # 36 of the Chairman of ISSSG, dated 25.09.2019) determines the data related to insurance intermediary activities, subject to accounting, systematization, registration, storage and updating. This requirement is the basis for proper functioning of insurance intermediary business.
- ▶ “Rules for registration and cancellation of registration of insurance brokers; eligibility criteria of founders and administrators of insurance brokers” (Order # 40 of the Chairman of ISSSG, dated 24.12.2019) expands the conditions of registration and the basis for cancellation of registration of insurance brokers, adjusts the corresponding procedures, and establishes eligibility criteria of founders and administrators of insurance brokers. It also states that insurance intermediary services must be stated in the insurance broker’s charter as its main entrepreneurial activity. The applicant will be held responsible for the correctness of the documentation submitted for registration. With the legislative changes, the grounds for the cancellation of insurance broker’s registration were broadened. The requirements of the insurance brokers register, including forms and register data, have been clarified. Information on registration, as well as cancellation and changes in registration of insurance brokers, shall be published in the Legislative Herald of Georgia, and information on cancellations shall be published on the official website of ISSSG.

In addition to the above-mentioned, on September 3, 2019, the Law of Georgia “on Insurance” was amended in relation to the Insurers, requiring the disclosure of information about their shareholders and beneficial owners, which also contributes to increased transparency and confidence in the financial sector. During the reporting period, ISSSG started drafting the relevant by-law.

Amendments were made to the “Rules for maintenance of statistical reporting forms by the Insurers and submitting them to LEPL Insurance State Supervision Service of Georgia” approved by the Order 303 of the Chairman of ISSSG of December 24, 2013 (Order # 39 of the Chairman of ISSSG, dated 03.10.2019). According to these changes, information on agricultural insurance (including state-subsidized) shall be provided to ISSSG on a quarterly basis, on separate forms. The previous order provided the submission of monthly, quarterly and annual statistical reports to ISSSG, in accordance with the accompanying forms. Data on agricultural insurance was presented within the total data on property insurance, which did not allow it to be separated and properly systematized. The above-mentioned amendment will help to receive systematized information from the Insurers participating in the agricultural insurance program and to properly and timely process the corresponding statistical data.

On December 20, 2019, amendments were made to the Law of Georgia “on Insurance”, clarifying some approaches provided by the Law of Georgia on Financial Collateral, Offsetting and Derivatives. In particular, they define clearly the issue of the decision on temporary administration and revocation of an insurance license coming into force. In both cases, the individual administrative legal act comes into force from the moment of its publication on ISSSG website. In addition, the amendments clarify the right of preemptive and unconditional satisfaction of the claims, secured by financial collateral, in relation to the Insurer’s

other creditors, and add a new article on offsetting and final offsetting.

“Margin ratio between the Insurer’s net exposure and regulatory capital was approved by the Order #33 of the Chairman of ISSSG, on 06.08.2019. This normative act had been recommended within the Financial Sector Assessment Program (FSAP) carried out by the World Bank/Monetary Fund in 2014. It ensures that a single loss shall not have a significant negative impact on the Insurer’s solvency and regulatory capital. There are different approaches adopted in international practice to mitigate such risks, including setting the limit of net exposure under one risk in relation to the Insurer’s regulatory capital, meaning that the risk exceeding that limit must be reinsured. The limit of the Insurer’s retention was defined as 15% of the regulatory capital. ISSSG also established the criteria of Reinsurers that are eligible to accept the excess risk. Considering the high level of reliability, 2 criteria were defined - adequate credit rating applied by the selected credit agencies and the ratio corresponding to SOLVENCY II.

Amendments have been made to the “Rules of determining the solvency margin by the Insurers in the course of insurance operations”, approved by the Order #15 of 2016 (Order of the Head of ISSSG # 41 of 30.12.2019). The existing rules provide for the loss-based method as one of the possible methods for calculating the solvency margin. Since in practice some insurance policies are 100% reinsured, and therefore, in case of a loss, full reimbursement shall be provided by Reinsurers, it was considered inappropriate to take such losses into account when calculating the Insurer’s solvency margin. Based on the above-mentioned, the amendments to the existing rules stipulate calculating the amount of gross and net incurred losses, the losses 100% reimbursable by Reinsurers with adequate credit rating, will not be taken into account (shall be deducted).

Amendments were made to the “Rules for determining, imposing and enforcing fines on Insurers” approved by the Order of the Chairman of the Insurance State Supervision Service of Georgia of March 17, 2015 (Order # 32 of the Chairman of ISSSG, 08.02.2019).

Amendments were also made to the “Instruction on the protection of consumers’ rights in providing insurance services” approved by the Head of the Insurance State Supervision Service of Georgia of April 3, 2017 (Order # 37 of the Chairman of ISSSG, 25.09.2019).

The draft law prepared by ISSSG “On compulsory civil liability insurance for the owners of motor vehicles registered in Georgia” and submitted to the Parliament of Georgia in 2018, is still being reviewed by the parliamentary committee, with the participation of the insurance industry and other stakeholders. Different stakeholders appeared to have different approaches to the issue, so the discussions around the draft law continued during the reporting period.

The draft resolution of the Government of Georgia “On terms and conditions for identifying the mass gathering objects and compulsory third-party liability insurance for their owners” has been prepared.

To ensure the proper enforcement of the “Terms and conditions for identifying the mass gathering objects and compulsory third-party liability insurance for their owners” approved by the Resolution #177 of the Government of Georgia, of March 29, 2019, ISSSG obtained information about the Insurers involved in the above-mentioned compulsory insurance and submitted this information to the LEPL Social Service Agency. Also, on the basis of the request of the LEPL Social Service Agency, ISSSG, within its competence, provided by the Law of Georgia “On Insurance”, reviewed and shared

considerations on the draft agreement prepared by the Agency. Since the participating insurance companies are the parties to this agreement, the draft was also sent to them for consideration and response.

During the reporting period, ISSSG reviewed the questions brought up by the Revenue Service concerning the “Terms and conditions for identifying the mass gathering objects and compulsory third-party liability insurance for their owners” approved by the Resolution #177 of the Government of Georgia.

A framework project has been prepared on the main stages of the claims management process, based on the relevant OECD recommendations and the standards set out in the Insurance Core Principles (ICP).

In 2019, ISSSG continued to work on the challenges of digitalization in the insurance industry. During the reporting period “Digital Future and Insurance Sector” presentation was held. The presentation focused on the following issues: the challenges and trends in the digitalization process of the insurance sector, the need to develop new supervisory approaches and frameworks; creation of a solid legal basis for regulation of electronic data exchange, innovations in the supply chain man-

agement, cybersecurity of insurance organizations and specific measures regarding “Suptech” (supervision by regulatory authorities using innovative technologies). The presentation, as well as the changes regarding electronic sales made in 2019 to the “Instruction on the protection of consumers’ rights in providing insurance services”, approved by order of the Head of ISSSG # 18 dated April 3, 2017, reflects the latest information on digitalization from the Vienna Conference on Motor Insurance and the Property Insurance Forum.

A working group on digitalization processes was established within ISSSG and studied the written information submitted by the Insurers about the state of their cybersecurity and information systems. Related Meetings were held with 14 insurance companies. The group reviewed IT outsourcing agreements presented by 11 insurance companies and prepared a brief description of outsourcing practices adopted in this area.

In order to create a regulatory framework for the digitalization process based on the principle of proportionality, 5 draft documents were prepared during the reporting year on e-sales, minimum requirements for information systems, internal accounting, requirements for outsourcing agreements in the field of information technology and cybersecurity.

3. International relations

In 2019, ISSSG significantly increased cooperation with international organizations, received a great deal of expert assistance to improve the existing regulatory and legal system in the field of insurance, participated in international conferences and trainings, got acquainted with modern trends. As a result of intensive work, ISSSG became a member of the International Organization of Pension Supervisors (IOPS) and also, as a member of the International Association of Insurance Supervisors (IAIS), ISSSG was first elected as a member of the Assessment and Implementation Committee of the Association.

In 2019, ISSSG continued cooperation with the International Association of Insurance Supervisors (IAIS), an umbrella organization representing more than 150 regulatory bodies. IAIS is an international authority establishing insurance supervisory standards and thus Georgian insurance system/legislation should be gradually in compliance with their insurance core principles (ICPs), which is also envisaged in the EU-Georgia Association Agreement.

Like the previous years, in 2019, ISSSG was involved in the Association's online self-assessment program aimed to determine compliance with various Insurance Core Principles (ICPs).

In 2019, an online training course (FIRST ONE PROGRAM), based on the Insurance Core Principles (ICP), was held again under the auspices of the International Association of Insurance Supervisors and the Financial Stability Institute (FSI). As previously, the employees of ISSSG took part in the program, which allowed them to improve their professional level and qualifications.

In 2019 ISSSG participated in the following global events arranged by the Association:

- ▶ 26th international conference held in Abu Dhabi, UAE. This is a large-scale event attended by insurance supervisors and regulators (members of the Association), as well as by business representatives and other stakeholders, which makes the conference important in terms of deepening international relations. Considering the factors influencing digital technology in the modern world, the main topic of this year's conference was "Supervision in the digital era". Among other topics discussed at the conference, were the issues of artificial intelligence in insurance, its role in insurance supervision and the latest approaches to big data systematization, digital technologies in the rapidly developing global insurance sector and their impact on the market structure and efficient supervisory approaches, relation of the data collection, analytical capabilities and artificial intelligence to the insurance sector, cybersecurity and challenges related to digital technologies in insurance. Special attention was brought to the cyber risks in the developing business, and underwriting approaches and challenges.

One of the important outcomes of this annual conference was ISSSG being elected as a member of the Association's Evaluation and Implementation Committee for the first time, to be represented by the ISSSG Chairman, in voting and other activities. Committee membership provides an opportunity for ISSSG to be more actively involved in the work of the organization and is an important step for-

ward, both in acquiring new visions and approaches and in strengthening international involvement.

- ▶ 12th annual global workshop in Buenos Aires, Argentina. Participation in this event was important for the development of international supervising standards and the strengthening of cooperation. The discussion at the meeting raised many important issues, including the strategic plan of the Association for 2020-2024, the holistic framework of systemic risk in the insurance sector, the role of insurance in economic development and sustainable investments in infrastructure.

In 2019, cooperation with the World Bank continued. In particular, working on the “Strengthening and Involvement of the Georgian Financial Sector” project was completed and cooperation continued within the framework of the three-year (2019-2022) EU-funded project “Economic governance and fiscal accountability”. The EU-funded project provides technical assistance to ISSSG, and the development/implementation of new insurance products, such as compulsory medical malpractice insurance, compulsory professional indemnity insurance for architects and engineers, as well as preparatory works for the development of life insurance products and index-based agricultural insurance. Within the framework of this project, on December 20, 2019, a Memorandum of Understanding was signed between the LEPL Insurance State Supervision Service of Georgia and the NNLP Agricultural and Rural Development Agency, which envisages reviewing the existing agricultural insurance program and developing relevant recommendations, sharing knowledge and international experience related to the development perspective of index-based agricultural insurance, reviewing of the current legislation, development of the new laws and offering alternative agricultural insurance products. ISSSG, as the main party of the insurance component defined by the Memorandum,

will ensure the development of the agricultural insurance sector following the best practices and international experience in the field of insurance.

Georgia is a member of the Regional Committee for Central, Eastern Europe and Transcaucasian Region (CEET), which mainly deals with current insurance sector issues in a regional context. Another significant development in 2019 was Georgia expressing readiness to host an international meeting to be held in 2021 within the framework of this committee.

In 2019, in order to improve the commercial (non-state) pension regulatory framework and conduct the relevant processes following internationally recognized standards, ISSSG decided to join the International Organization of Pension Supervisors (IOPS) and started relevant negotiations. As a result, at the end of 2019, the Executive Committee of IOPS decided to grant the Insurance State Supervision Service of Georgia membership. This organization is an independent body established in 2004 at the initiative of the Organization for Economic Co-operation and Development (OECD) and the International Network of Pension Regulators and Supervisors (INPRS) (headquartered in Paris, France). Currently, the organization has 87 members, including our neighboring Armenia, Turkey, Russia, Ukraine, Kazakhstan and others. The organization works closely with international organizations in many countries around the world and is involved in the development of pension supervision policies. It is noteworthy that the organization sets international standards for pension supervision, and also provides assistance to pension supervision authorities, especially in countries with emerging economies. Membership in the organization allows the ISSSG to establish a partnership with similar authorities around the world, share their experiences and practices, participate in international events, and apply for assistance in resolving specific issues.

In 2019, ISSSG was for the first time invited to the following events held within the region of Central, Eastern and South-Eastern Europe (CESEE):

- ▶ “Insurance Supervisors Initiative” (17th event) – held in Skopje, North Macedonia, attended by insurance supervisors from the countries in the region. The meeting discussed the latest trends in the insurance market and the challenges of supervisory authorities. It was mainly designed to discuss the measures of supervision in the insurance market and exchange information on the process of harmonization of legislation;
- ▶ “Insurance Supervisors Initiative” (18th event) – held in Prague, Czech Republic, and similarly to the previous event, it was attended by the supervisors of the region to discuss the current challenges. As most of the countries in the region are candidates for EU membership, the meeting shared experiences on the steps taken towards European integration, which is a major challenge for Georgia;
- ▶ “New insurance trends and their impact on the Central Eastern and Southern region” - held in Vienna, Austria. The conference, like the above events, was attended by representatives of the relevant regional insurance supervisors and insurance associations, where they spoke about the challenges in the CESEE countries, which are different from the rest of Europe. The main risks discussed at the event were: mandatory pension funds, pricing in motor owner’s compulsory third-party liability insurance, anti-money laundering measures, fight against insurance fraud, implementation of the current legislation, risk-based supervision approaches and Solvency II.

In 2019, international experts from North Macedonia and the Slovak Republic were invited to Tbilisi to conduct a seminar for the employees of ISSSG

on key issues in the field of insurance. The meeting discussed modern approaches to supervision and the related issues, a new digital age in the financial sector, new approaches to motor vehicle owner’s compulsory liability insurance. The meeting discussed the issues of term life insurance, as well as the practices in different countries, in particular, the insurance sector of the Western Balkans, and practical examples of these countries on the path to European integration. It is important for ISSSG to share the experience of such countries, and to consider them in fulfilling the commitments of European integration.

In 2019, as part of strengthening of international cooperation, ISSSG with a special invitation, as a non-member country, participated in the first forum of insurance supervisors of Western Balkan, organized by the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt, Germany. This event was very important for Georgia on its path to European integration. (EIOPA was established in 2007-2008 at the initiative of the European Union - in view of financial crisis, for better supervision of insurance and pension funds, in order to better integrate the financial market within the EU and mitigate the risks).

In 2019, close collaboration was established between ISSSG and the Media Agency and Public Relations Organization (XPRIMM - Promoting the Reinsurance & Insurance Market by Media), which specializes in insurance/reinsurance, insurance intermediation and private pension funds. In particular:

- ▶ An international insurance conference, the first in its scale, was held in Tbilisi, with the official support of the Insurance State Supervision Service of Georgia. The official partners of the event were insurance companies operating in the Georgian market. The conference was attended by representatives of the insurance industry, Georgian Association of Insur-

ance Companies, international reinsurance companies, Council of the Green Card Bureau, regulators and guests from the financial/insurance sector of different countries.

In 2019, to support the development of the actuarial profession, the following activities were carried out:

- ▶ For the first time in our region, the conference under the auspices of the International Actuarial Association (ASTIN) was held in Tbilisi. This event is important for the Georgian insurance industry, as ISSSG is currently working on the implementation of an institutional reform in the insurance system, such as the establishment of a certified actuaries' body and determining the basics of regulations for the actuarial business. Actuaries are experts in mathematical statistics/insurance mathematics, who are responsible for defining the methods of calculating insurance rates and, in general, have the knowledge of actuarial calculation theories. This directly relates to the modernization of the pricing process both in compulsory and voluntary lines of business. The conference discussed: solvency systems and management risks, practical issues of motor owners' civil liability insurance, approaches to reimbursement in agricultural insurance, and actuarial valuation models.
- ▶ As it was planned in 2018, acting actuaries/aspirants were trained/certified in accordance with the European standards. This became possible within the USAID program „Governance for growth (G4G) in Georgia”, approved in 2018 in favor of the Association of Actuaries and Financial Analysts, with the support of ISSSG, and will finally help to establish an internationally accepted Certified Actuarial Analyst (CAA) group in Georgia, allowing to develop the role of actuaries, create a corresponding legal framework in accordance with

EU standards, after which it will be possible to mandatorily implement the actuarial function in the insurance sector.

In 2019, the cooperation between the National Bank of the Kingdom of Netherlands and ISSSG continued, within the framework of which the representatives of ISSSG participated in the following conferences held at different times in Amsterdam:

- ▶ “Financial Involvement” - which was attended by representatives of both EU member states and countries where financial education is considered a challenge. The conference highlighted the importance of technological and digital tools development as the means of increasing access to financial products.
- ▶ “Supervision of Pension Funds in a Changing Environment” - which discussed the methods of obtaining and processing information required for the supervision of pension funds in the participating countries. The conference discussed the pension system in the Netherlands and focused on the process of investing the assets managed by pension funds, as well as the associated risks. The discussion also covered cyber risks, current challenges associated with them and the importance of cybersecurity of pension funds.

In 2019, ISSSG participated in a working meeting between the Financial Stability Institute (FSI) and the International Monetary Fund (IMF) held in Basel, Switzerland, where they discussed the problems associated with the introduction of the new International Financial Reporting Standard (IFRS17) and their possible solutions. The main discussion was the process of transition from IFRS 4 to IFRS 17 and the importance of its introduction. The meeting was attended by representatives of supervisory authorities, insurance groups, rating agencies, large audit companies and unions of actuaries from Europe, the USA, Canada and other

regions. The results of the meeting showed that prior to the introduction of any new standards, the Standards Foundation, supervisory authorities and rating agencies of various countries actively communicate with market representatives, especially with global insurance groups that operate in both life and non-life insurance sectors.

In 2019, ISSSG participated in the seminar on the prevention of money laundering and terrorism financing (intermediate/advanced level AML & CTF), organized by euTHOR - Compliance Services in Limassol, Republic of Cyprus. The seminar presented the modern approaches and technologies related to money laundering and terrorism financing, planned changes to the Directive (EU) 2015/849 on the prevention of money laundering and terrorism financing, the joint approach of the European Financial Sector Supervisors on ML/TF issues etc.

3.1. Twinning project

In 2019, the EU-funded Twinning project “Strengthening Capacity of the Insurance State Supervision Service of Georgia” was launched, which aims to bring insurance legislation closer to European standards, according to the Association Agreement between Georgia and EU. The project is biennial and provides the harmonization of Georgian legislation with the Directive of the European Parliament and the Council of Europe 25/2009/138 / EC of November 25, 2009, on the initiation and implementation of insurance and reinsurance activities (SOLVENCY II); the total budget is EUR 1,200,000. Within the framework of the project, a grant agreement was signed in October 2019, according to it, a similar public administrative body in the EU Member State, Kingdom of Spain - The

Directorate-General for Insurance and Pension Funds (DGSFP) under the Ministry of Economic Affairs and Digital Transformation (MINECO) - will assist ISSSG with long- and short-term expert groups with the introduction of the new solvency standard of insurance companies and the related processes.

The overall objective of the project is to facilitate the fulfilment of Georgia’s obligations under the EU-Georgia Association Agreement to increase the accountability, safety and efficiency of the financial (insurance) sector; while **the specific goal** is institutional strengthening and capacity building of ISSSG, which will ensure an increase in the efficiency of the insurance sector, improve accountability to ISSSG and financial security of the industry, as well as develop a legal framework for the implementation of SOLVENCY II standard;

Solvency II is a risk-based system operating in the territory of the European Union, which regulates all stages of the insurance business and its supervision. It is dynamic and changes with the risk profile. Solvency II mainly refers to the ability of Insurers to efficiently fulfil their obligations to the Insured and helps to strengthen the financial stability of the companies, proper risk identification and management, the implementation of internal management standards, protection of consumers’ rights, proper and timely supervision by ISSSG, which ultimately ensures the flawless functioning of the system and increases its reliability.

The project consists of two components: the development of a new legislative/regulatory framework and strengthening the capacity of institutional and human resources.

Components of the project					
I Component Development of a new legislative framework for implementation of SOLVENCY II			II Component Capacity building For implementation of SOLVENCY II		
Changes in the current legislation/ elaboration of a new legislation following SOLVENCY II standard	implementation of the risk-based supervision	The transition of the insurance system and supervising approaches to SOLVENCY II	capacity building of ISSSG staff	Raising Insurers' awareness	Institutional cooperation between stakeholders

The first component primarily intended to familiarize the Georgian side with this system, since Solvency II as comprehensive approach unifies all stages of the insurance business and its supervision. It is not static but a risk-based, dynamic system that changes with the risk profile and requires a completely new understanding and appropriate regulation.

The project involves an introductory/training activity. The seminars on each issue are going to be sequentially planned by EU experts, with the involvement of representatives of relevant depart-

ments of ISSSG and EU experts, both long- and short-term, based on the specifics of the issue.

In parallel, the existing legislative framework will be analyzed and further measures will be designed to develop it in a new form. Since, as mentioned, the system provides a completely different approach, it will be necessary to create a new legislative framework so that the Spanish experts will be directly involved.

In general, this system consists of the following three pillars:

Pillar 1 Capital requirements	Pillar 2 Governance and Supervision	Pillar 3 Reporting and transparency (disclosure)
<ul style="list-style-type: none"> ▶ Solvency capital requirements (SCR) ▶ Minimum capital requirements (MCR) ▶ Assessment of assets and liabilities; ▶ Calculation of technical provisions; ▶ Calculation of own funds; ▶ Internal models; 	<p>Corporate governance:</p> <ul style="list-style-type: none"> ▶ Actuarial function; ▶ Compliance function; ▶ Internal audit function; ▶ Internal control function; ▶ Outsourcing; ▶ Risk management, implementation of the Own Risk and Solvency Assessment (ORSA) process; ▶ Process of supervision. 	<p>Reporting:</p> <ul style="list-style-type: none"> ▶ Solvency/ Financial Condition Reporting (SFCR); ▶ Regular Supervising Reporting (RSR); ▶ Quantitative Reporting Templates (QRT); ▶ Own Risk and Solvency Assessment (ORSA); <p>Transparency:</p> <ul style="list-style-type: none"> ▶ Public reporting (including interim, quarterly and annual audited financial statements, financial condition reporting)

The first component includes financial requirements to Insurers, such as minimum capital, solvency, assessment of assets and liabilities, technical provisions, own funds, as well as approaches, standard formulas, specific parameters and internal models used in calculations of the above. Implementation of this component is quite a big challenge for the insurance sector (as it was previously with EU countries), therefore, in future, the stages of implementation, possibilities and existing (local) environment shall be analyzed in detail. The second component is based on the governance system and supervision issues and includes quality requirements, such as internal governance system of insurance undertakings and its main functions – actuarial, internal audit, internal control and compliance, risk management, which includes implementation of Own Risk and Solvency Assessment (ORSA) process, which is a completely new approach, and finally a full supervising framework for the process. This is also a challenge both for the industry, as the companies should implement a totally new governance system, and for the Supervision, as the new system requires new supervising approaches.

The third component includes the Insurer's accountability in the above 2 components, including various reporting forms, public reporting, enforcement of market discipline, transparency and publicity.

Licensing approaches in SOLVENCY II are also different from the current Georgian legislation. In particular:

- ▶ **Current Georgian legislation** provides three types of license:
 - Life insurance,
 - Non-life insurance,
 - Reinsurance.
- ▶ **Harmonization** requires licensing according to classes (groups of classes):

- Non-life insurance - 18 classes
- Life insurance - 9 classes
- Reinsurance.

All the above-mentioned requires accurate approaches (step-by-step, unified), maximum mobilization of resources, proper planning of the relevant legislative process, with proper analysis of its implementation periods (if necessary, transitional), which is fully realized by both European and Georgian sides.

The second component of the project is related to the creation of an appropriate human and institutional base for the implementation of the above-mentioned system. Stakeholders (including both private and public institutions) involvement will be necessary to assess the readiness of the market/Insurers and to study the essential basics for the implementation process. It will also be necessary to agree on certain issues with the insurance market and analyze possible scenarios, to make the process smooth and at the same time not interfere with the European integration process.

It should also be noted that the above-mentioned project involves working meetings with the insurance industry and all stakeholders. Educational programs and training activities are planned both within the country and abroad. During the reporting period, a Steering Committee meeting was held as part of the project, during which a plan of future activities, a work plan and a project budget were approved and signed. Strengthening the institutional and human capacity of ISSSG will increase the efficiency of the insurance sector, and improve accountability to ISSSG and the financial security of the industry.

Within the framework of the project, and with the participation of the EU experts, the possible scenarios for implementation of the above-mentioned new approaches were reviewed, with

consideration of both step-by-step and unified approach. The benefits and challenges of each scenario were thoroughly analyzed. The review of the possible scenarios showed that:

- ▶ Implementation of the Directive will take several years;
- ▶ It requires the development of a new legislative base corresponding to SOLVENCY II;
- ▶ According to the above-mentioned Directive, it may happen that not all the companies will need to implement the new system. In such case, different regulatory approaches will be needed;

- ▶ The transitional process will be carried out step-by-step. At an initial stage the priority will be given to Pillar-2 and Pillar-3;
- ▶ Prior to implementing Pillar-1, it will be necessary to assess the market and the Insurers' readiness.

Training programs that are planned to improve the knowledge and experience of the staff are described in detail in the contract and work plan signed by the parties and includes topics, schedule and methodology.

4. Consumers' rights

ISSSG supervises compliance of the Insurers activities with the requirements established for consumers rights protection, issues regulations, reviews consumers' claims and participates in the processes directly related to consumers' rights protection or indirectly help to improve the consumer market.

During the reporting period, ISSSG took intensive measures in order to efficiently implement the amendments made in 2018 to the "Instruction on the protection of consumers' rights in providing insurance services" approved by the Order #18 of Head of ISSSG of Georgia on April 3, 2017, as well as to support the amendments to the Law of Georgia "on Insurance". In particular:

1. Based on the remarks issued in 2018, ISSSG cooperated with the Insurers and completed a revision of the procedures for receiving and reviewing insurers' claims;
2. An amendment was made to the procedure for imposing a fine on the Insurer in case of violation of the consumer's rights;
3. Amendments to the "Instruction on the protection of consumers' rights while providing insurance services" was elaborated and came into force insuring the compliance with the amendments made to the law of Georgia "On Insurance", adjustment of the information to be provided to consumers at a pre-contractual and contractual stages and its forms, regulation of the use of digital technologies in insurance relations, publication of consumers' claims settlement procedures entered in force. ISSSG worked closely with insurance undertakings and presented the essence and purpose of these changes.

ISSSG has participated in litigation related to the fine imposed on an Insurer within the framework of off-site monitoring, concerning the protection of consumers rights. The dispute ended in favor of ISSSG and the Insurer fulfilled the order of the ISSSG Chairman and paid the imposed fine.

Within the consumer rights protection activities, in 2019, ISSSG carried out an on-site inspection of one insurance undertaking. The inspection did not reveal any violations being a danger to consumers' interests. Relevant recommendations were issued.

ISSSG actively cooperated with the National Bank of Georgia to identify the problems in the field of banking insurance products and the ways to solve them. ISSSG participated in finalizing the amendment initiated by the National Bank of Georgia. At the next stage, a number of meetings were held between the institutions, with the participation of working groups, as well as the managers of ISSSG and the National Bank of Georgia. In order to improve the consumer market in terms of banking and insurance products, it was decided that the National Bank of Georgia will ensure that the amendments initiated by ISSSG would be reflected in the supervisory normative acts. Therefore, the National Bank prepared a new version of the relevant legal drafts. Work between the agencies is still ongoing.

Considering its functions, ISSSG took part in the preparation of amendments to the draft law "On Consumers Rights Protection" initiated by the Parliament of Georgia.

According to the Law of Georgia "On Insurance", at the end of November 2019, the Insurers submit-

ted to ISSSG their internal policies on consumers rights protection. The revision of these policies was planned accordingly.

In 2019, 61 claims were submitted to ISSSG. ISSSG reviewed and finalized 48 claims and 13 claims are still being processed.

Within the framework of the agricultural insurance project, ISSSG actively participated in the process of reimbursement for the damage in Gori area. Five consumers applied to ISSSG directly, but the issue was studied in relation to the entire region and as a result, 672 out of 723 claims were fully settled.

Throughout the reporting period, ISSSG received monthly reports from Insurers on consumers' claims and audited them.

During off-site monitoring of consumers rights protection, various types of violations were detected, and, considering their severity, 19 (nineteen) sanctions were applied, in particular, 6 (six) written notice, 7 (seven) written instructions and 6 (six) fines.

During the reporting period, ISSSG website did not contain information intended for consumers, so a lot of work was done to collect information for the website that would greatly help the consumers to easily find the necessary information.

ISSSG participated in the meetings on financial education, held at the National Bank of Georgia, and, as planned, prepared comprehensive information on insurance for the Special Financial Education website and provided it to the National Bank of Georgia.

In 2019, ISSSG took part in high-profile international conferences and working groups held in cooperation with the Ministry of Finance of the Kingdom of the Netherlands and the International Network for Financial Education at the Organization for Economic Cooperation and Development (OECD / INFE). ISSSG also participated in the session of the Committee for National Strategy of Financial Education, where ISSSG Chairman gave a presentation.

In 2019 ISSSG actively worked on the promotion of financial education. For this purpose, ISSSG:

1. Translated and prepared the "Consumer Guide", which is planned to be published in the first half of 2020;
2. Prepared material for the board game - "More fun and less risk", which aims to encourage young people to start a business, contributes to their knowledge, and at the same time, helps them to identify and assess the possible risks, avoid or efficiently resolve them.

By 2020 ISSSG plans to inspect the way the consumers' rights are protected by the Insurers through mystery shoppers, for that reason in 2019 ISSSG studied the corresponding local and international practices in this area. ISSSG also met with a representative of the Savings Bank Fund for International Cooperation (SBFIC) to ensure their support in the projects of mystery shopping, board game and publication of the brochure. Cooperation in the field of financial education will continue in 2020.



5. Supervisory activities

One of the main objectives of ISSSG is to ensure and oversight the financial stability/solvency of Insurers, founders of non-state pension schemes and insurance brokers, as well as monitoring anti-money laundering and counter-terrorism financing activities.

Direct supervision of undertakings is carried out by studying/analyzing their monthly and quarterly reporting forms approved by ISSSG, additional information, documents and other detailed data obtained during off-site or on-site inspections.

Annual supervisory reports submitted by undertakings are reviewed in combination with the audited annual financial statements prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). It should be noted that only auditors of the first and second categories issued by the Accounting, Reporting and Audit Supervision Service of Georgia (SARAS), are entitled to audit financial statements of the Insurers, which are considered as Public Interest Entities, and this guarantees preparation of high-quality audited reports and contributes to the transparency of the sector.

Certain differences between the audited and supervisory reports are due to more conservative and clearly defined supervisory approaches. But those logical differences are taken into account by the Financial Reporting and Analysis Division of ISSSG during the review of the annual reports.

In addition to financial and statistical reports, Insurers also submit monthly reports from bank-

ing institutions and account statements, thereby confirming that there is sufficient available cash to cover capital and reserve requirements. Due to this approach, currently, the largest part of Insurers' non-insurance assets are available in cash, receivables from banking institutions and other highly liquid assets.

In addition, in order to continuously improve efficient supervision and regulatory processes, coordinated cooperation is maintained with relevant public and private entities and international organizations in Georgia and abroad, for timely exchange of experience and important information.

In 2019, ISSSG carried out the following activities for the improvement of supervisory processes:

- ▶ Based on the recommendation and materials provided by the World Bank, a new analytical system was implemented, enabling to compare the financial performance of Insurers with the similar data of the previous periods, and to automatically calculate multiple ratios;
- ▶ As a result of joint work with the World Bank Mission, guidelines were developed for the supervision of reserves and reinsurance in non-health and non-life products;
- ▶ In order to develop a digital supervision strategy in the insurance sector, a working group was created, meetings were organized with companies and according to their results, elaboration of several by-laws was initiated;
- ▶ ISSSG started to work on the introduction of modern supervising technologies (SupTech), including reporting portal and an integrated analytical system.



To increase the efficiency of supervisory processes and to meet modern requirements, the introduction of appropriate technological infrastructure and software is becoming increasingly important. In order to get efficient and prompt results in this direction, in 2019 ISSSG also hired a dedicated supervising technologies (SupTech) specialist. In future, it is planned to strengthen the direction of supervisory technologies in order to gradually increase the efficiency of supervisory processes and integrate them into a unified system.

In the area of financial reporting and analysis, during 2019, ISSSG reviewed financial and statistical reporting forms and other additional information received from insurance undertakings.

The information provided by insurance companies from the banking institutions about their bank accounts and any collateral measures applied to such accounts (if any), was compared with the data submitted in the financial and statistical reporting forms for the same period.

Within the regular supervisory process, ISSSG also receives and processes reporting forms submitted by insurance brokers.

Audited reports for 2018 were compared with the financial reporting data provided by the insurance companies.

On the basis of the reporting forms submitted to ISSSG by the insurance companies and founders of the non-state pension scheme, ISSSG prepared statistical and financial reports of the insurance market, which are published on the official website of ISSSG.

Part of insurance market statistical, financial and other information is subject to information exchange across various organizations (including relevant international organizations, National Bank of Georgia, National Statistics Office, Competition Agency, Accounting, Reporting and Auditing Supervision Service, Social Service Agency).

The approval of the margin ratio between the Insurer's net exposure and regulatory capital and the corresponding annexes/reporting forms made it possible to obtain better information on the largest risks accepted by the Insurers and corresponding reinsurance contracts.

6. Anti-money laundering activities

The fulfilment of obligations under the law by insurance companies and non-state pension schemes concerning anti-money laundering and terrorism financing is carried out by a special structural unit of ISSSG (Division) through on-site and off-site inspections. In order to determine the type and frequency of inspections, the Division estimates the nature and scope of operations of the undertaking, and the related risk of money laundering and terrorism financing. At the same time, the Division develops appropriate instructions and guidelines for the undertakings.

During the reporting period, the new Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing came into force. The purpose of the law is to bring the legislation in line with the recommendations of the Financial Action Task Force on Money Laundering (FATF) and bringing the Georgian Legislation closer to the current EU legislation on anti-money laundering and terrorism financing. ISSSG actively participated in the development of the draft law, held numerous meetings with representatives of the insurance sector, other supervisory authorities and the Financial Monitoring Service of Georgia. As a result, in the near future, following the recommendations of ISSSG, the Financial Monitoring Service of Georgia plans to issue by-laws, which will ensure the implementation of regulations proportional to the level of money laundering and terrorism financing risks in the insurance sector of Georgia.

It should be noted that in 2019, the fifth-round evaluation mission of the Moneyval Committee of the Council of Europe visited Georgia and held meetings with representatives of ISSSG and assessed the efficacy of ISSSG in combating money laundering and terrorism financing. ISSSG made

substantial efforts at the preparatory phase of the visit, which included several meetings, completing the questionnaire, or providing additional information to the representatives of the evaluation mission.

As for the National Money Laundering and Terrorism Financing Risk Assessment, it should be noted that during the reporting period ISSSG was actively involved in the preparation of the National Money Laundering and Terrorism Financing Risk Assessment (NRA) report. ISSSG representatives participated in a number of working meetings on this topic and successfully completed the identification of money laundering and terrorism financing risks in the insurance sector, which contributed to the preparation of the National Money Laundering and Terrorism Financing Risk Assessment Report. As a result, on November 30, 2019, the Government of Georgia approved the Action Plan for 2019-2020, which aimed the achieving priority goals. One of the priorities was to strengthen the supervision of accountable subjects defined by the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing, including:

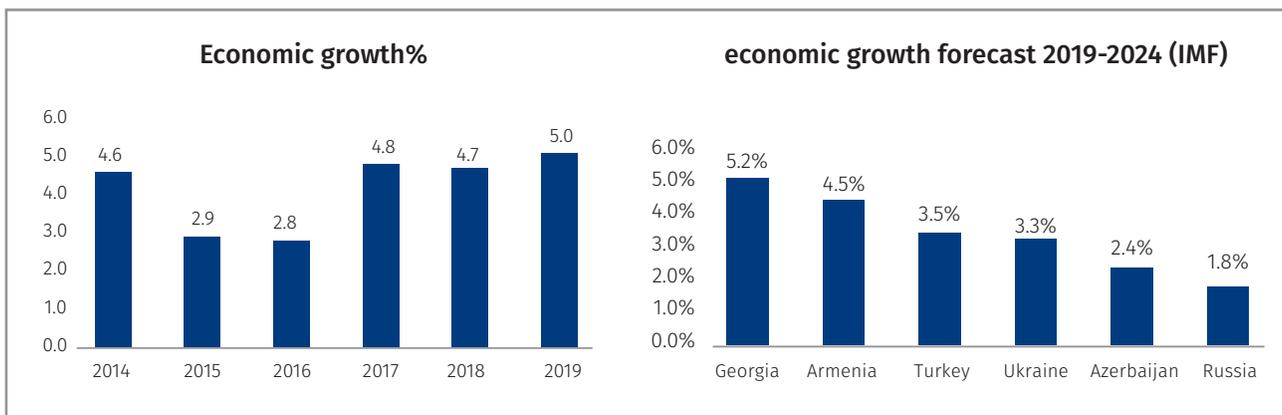
- ▶ Updating the existing remote reporting forms and/or developing new forms for the above-mentioned entities;
- ▶ Increasing fines for violation of the law and appropriate by-laws;
- ▶ Developing guidelines and recommendations for raising awareness and improving practical skills of accountable entities, in order to facilitate proper fulfillment of their obligations set by the legislation of Georgia in the field of prevention, detection and suppression of money laundering and terrorism financing.

7. Economy of Georgia and the insurance sector

The Georgian economy continues to grow steadily, and by 2019 the economic growth of the country was 5.0%.

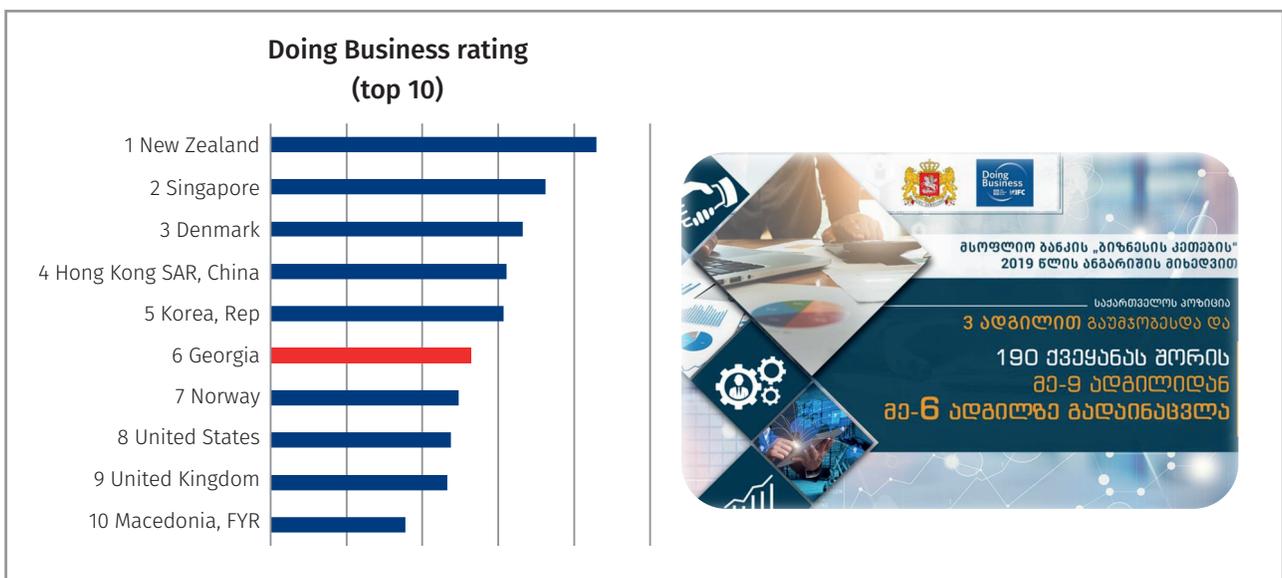
Maintaining growth is the top priority for the country. Constant efforts are made to develop,

diversify, and promote direct foreign investment in various sectors of the economy and stimulate exports. The goal is fast integration with the EU and global economic system, which in turn shall secure stable development of the country in the medium and long-term perspective.



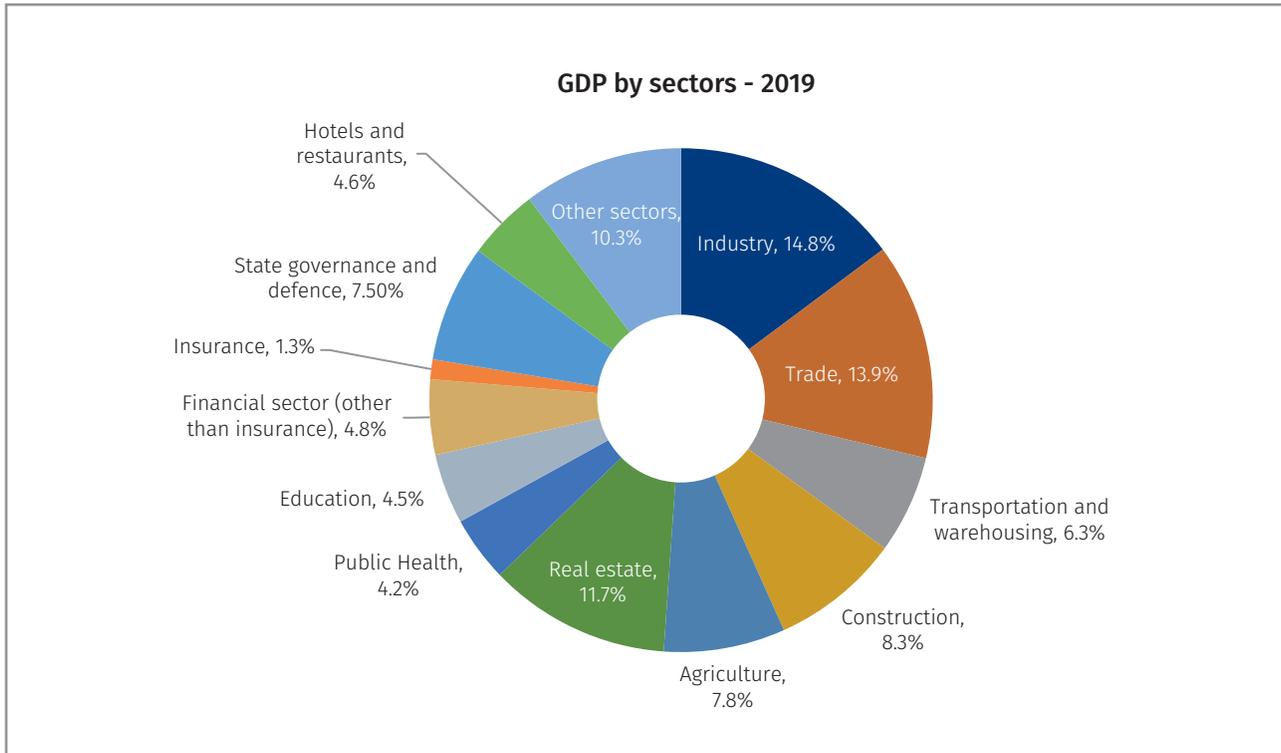
According to the reports of the International Monetary Fund, in the coming years, the Georgian economy will maintain the economic growth rate and in 2019-2024 it will remain 5% on average, which is significantly higher than other countries in the region.

As a result of successful economic, fiscal, political and social reforms carried out in recent years, Georgia with its sixth place is among the top ten successful countries in the World Bank Doing Business rating.



One of the important contributing factors to the above-mentioned is the fact that Georgia is participating in many international treaties. The association with the European Union and visa lib-

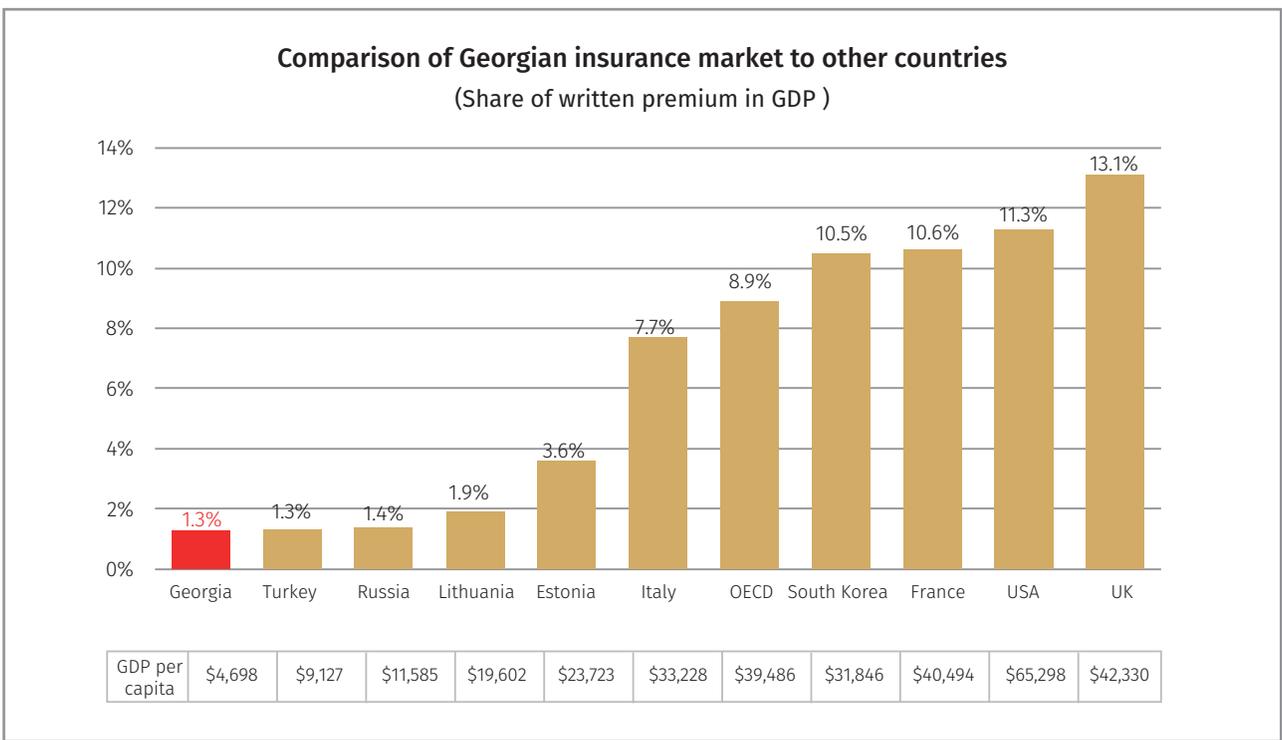
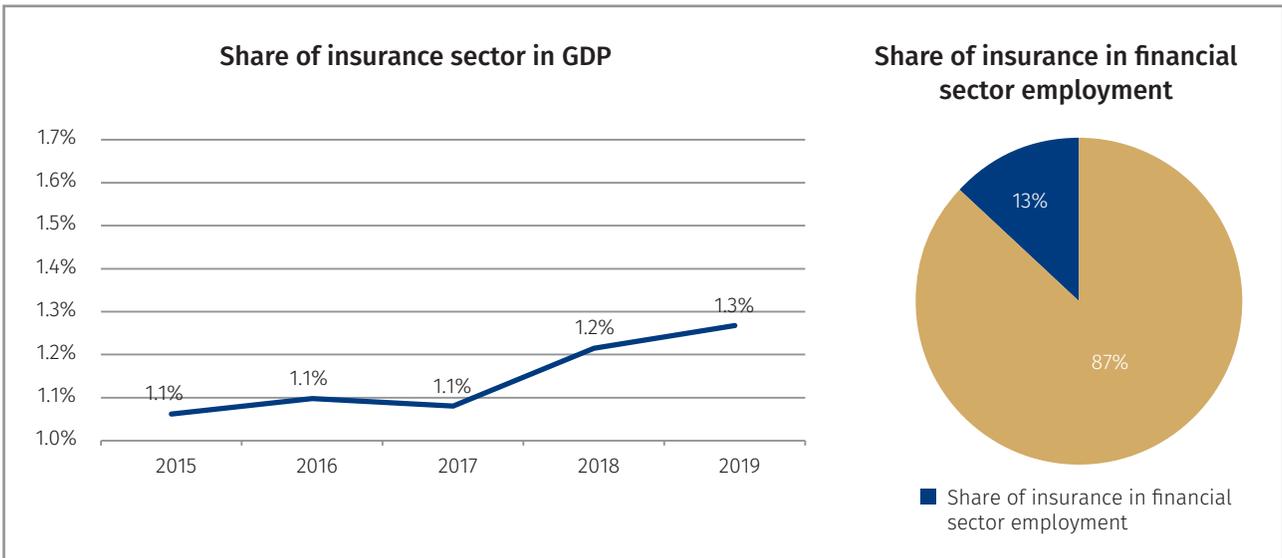
eralization with the Schengen area have created great prospects for tourism, business and foreign relations in general, including sharing of international knowledge and experience.



Despite the fact that the insurance industry represents a small share of the total economy in Georgia, it covers almost all sectors, and its importance becomes much more remarkable in the event of large-scale and catastrophic events. In addition, there is a great potential for the development of the insurance sector, especially by implementing compulsory insurance products, as well as long-term life insurance and annuities. It should be noted that a number of compulsory insurance products, which have been long ago introduced in the EU and many other countries, are still not developed in Georgia. This is especially relevant for motor vehicle owner's third-party liability and professional indemnity insurance.

Despite the above-mentioned, even under the current conditions, the share of insurance in the country's GDP in recent years still showed a small growth tendency. However, the share of property, liability and life insurance in GDP stays significantly behind in comparison to the standard performance of similar classes in the EU and other developed countries.

At the same time, the insurance sector is constantly increasing the variety and quality of products and, despite its small share in GDP, plays an important role in the financial sector employment.



Main factors contributing to the development of the insurance market:

- ▶ Compulsory insurance products
- ▶ GDP per capita
- ▶ Highly developed capital markets
- ▶ Long-term life insurance products



Share of insurance in GDP	1.30%	0.85%	0.75%
GDP per capita	\$4,698	\$4,794	\$4,623

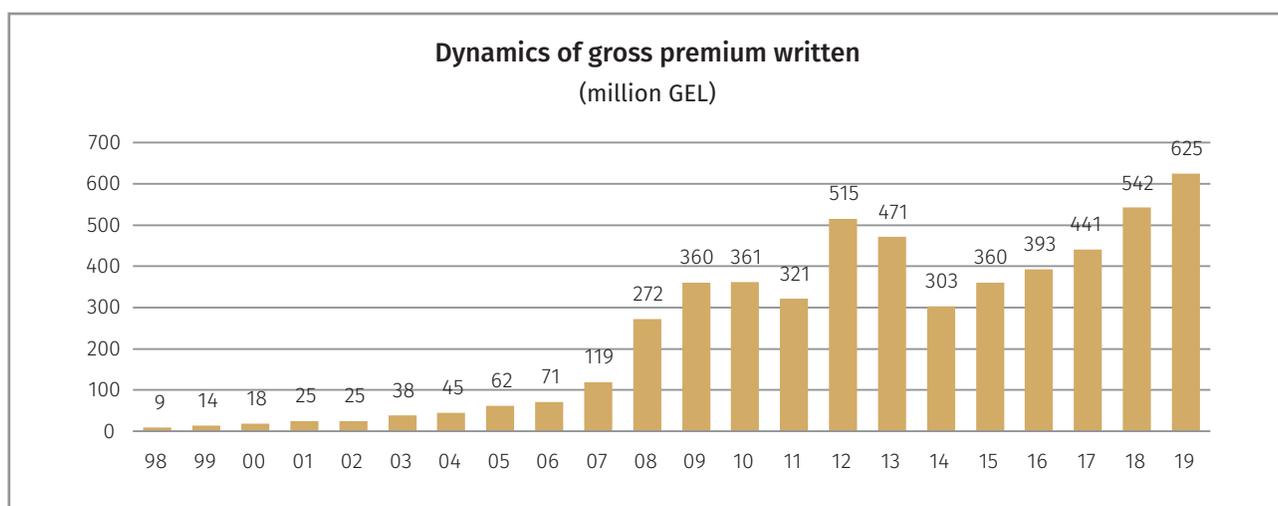
It should also be noted that considering GDP per capita and the lack of compulsory insurance, the insurance sector in Georgia is significantly ahead of the other countries in the region in terms of

market development. There are, of course, objective reasons for this, more detailed information on which can be found in the next chapter of this report.

8. Georgian insurance market and supervisory system

The gross premium written during 2019 amounted to GEL 625 million, which is 15% more than in 2018. Georgian insurance sector works mostly in the field of non-life insurance; however, the market is

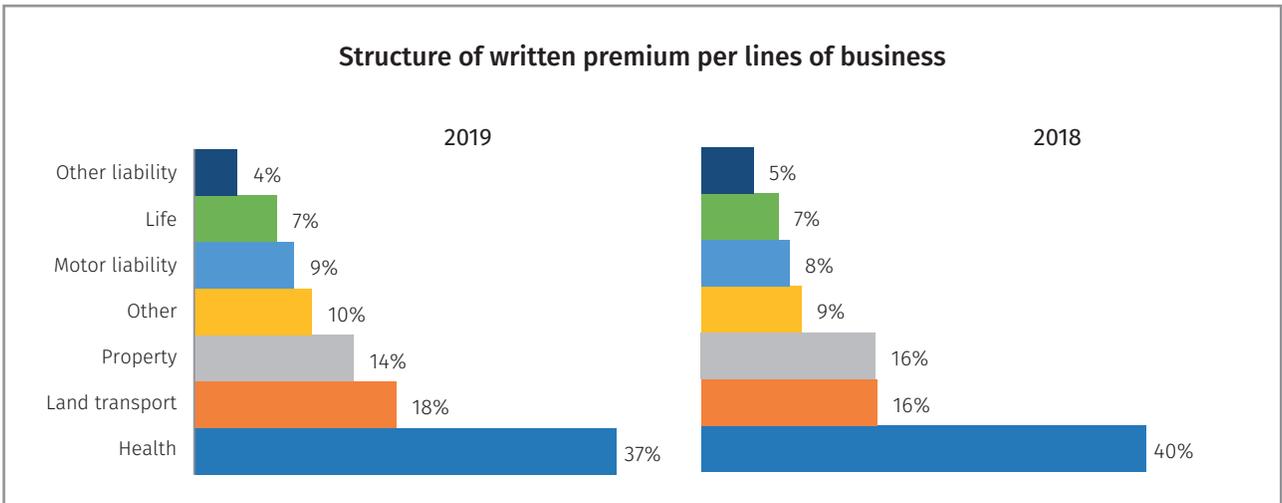
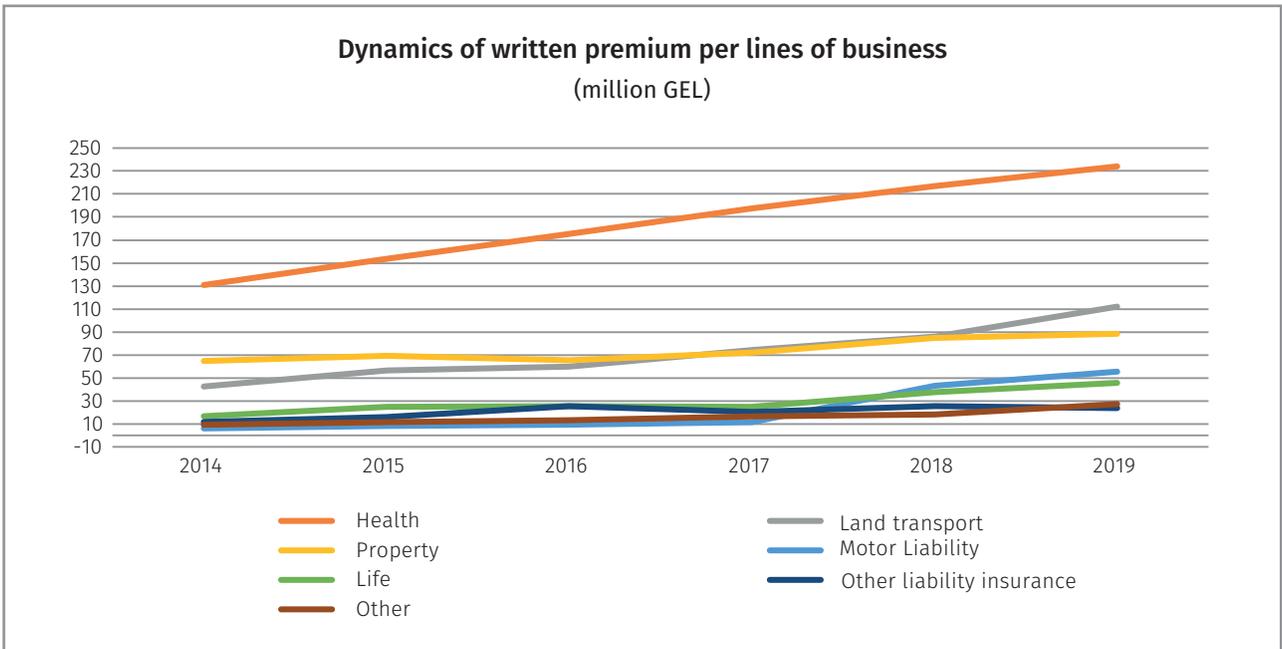
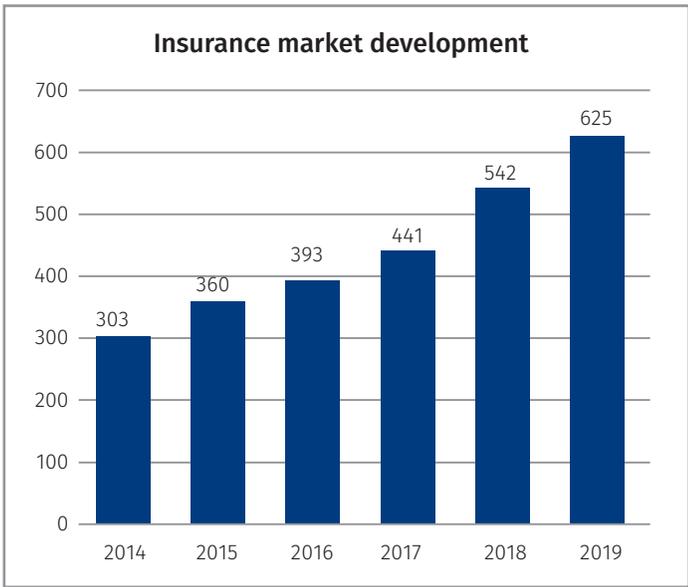
also actively developing short-term life insurance, which is often one of the components of health insurance and banking products.



This diagram above shows the history of the last 22 years of insurance market development. Of course, there were both an increase and a sharp decrease in the written premium, although these events have a relevant explanation. Significant growth in 2007-2008 was related to the implementation of social health insurance programs, which were fully funded by the state. There was a decrease in 2011, which was a result of a reduction in the financing of certain social programs. Later, in 2012, the number of beneficiaries of social programs increased significantly (retired persons and

children under 5 included), however, due to high social significance, the management of these programs was transferred to a specialized state agency (Social Service Agency).

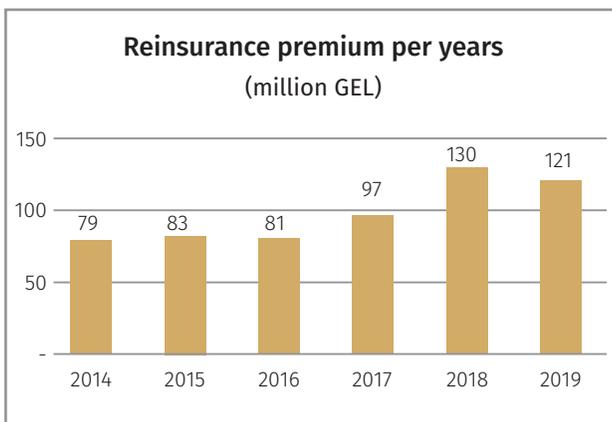
At the same time, the popularity of corporate health insurance programs was growing, and over time, undertakings developed comprehensive insurance products, which was immediately reflected in premiums written since 2014. Health insurance has the largest share in the Georgian insurance market today.



Health insurance still is the most popular product on the Georgian market. However, it is also the least profitable for Insurers, since the frequency of claims is much higher compared to other classes of insurance. Over time, there has also been some growth in the insurance of land transport and related liability.

NOTE 1: “Other liability insurance” includes professional indemnity, employers’ liability and general third-party liability not related to insurance of road or any other kind of transport.

NOTE 2: “Other” mainly includes cargo, travel, marine, aviation, suretyships and financial risks insurance.

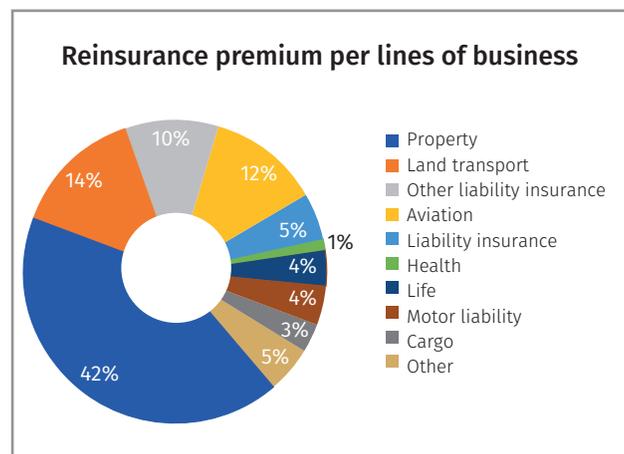


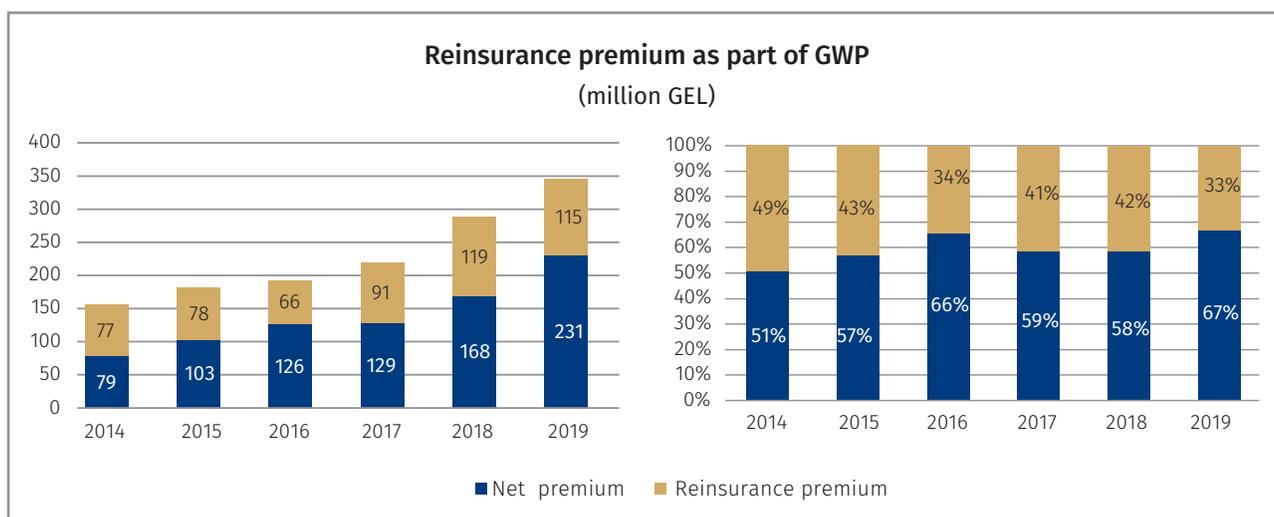
Reinsurance is one of the most important components of the Insurer’s daily activities and an important tool to maintain financial stability.

As we can see, reinsurance naturally follows the development of the insurance business. In most

lines, the Reinsurers’ share remains stable, especially in property and liability insurance classes. In 2019, there was a decrease in property and motor reinsurance premium. In the case of motor insurance this is explained by a relatively small per risk exposure, while with property insurance, the reason is that one of the major international investment projects was completed, which, in turn, resulted in the reduction of subsequent reinsurance premium.

NOTE: Health and life reinsurance premium is not included. The main reason is that life insurance is mainly incorporated in health insurance products, as single-year term life insurance cover with specified limit, or is written separately as credit life insurance. This is why reinsurance in these lines is not as frequent as in property and liability lines. It should also be noted that complex reinsurance treaties are becoming increasingly popular, as insurers are trying to reduce the number of facultative arrangements.





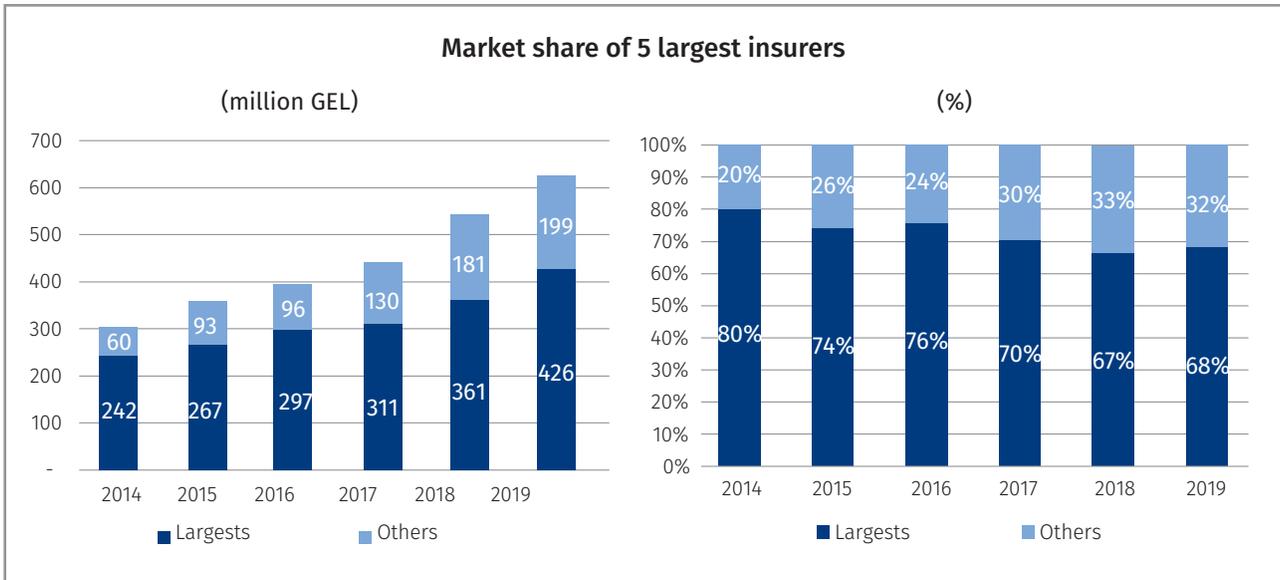
Due to objective circumstances, the health insurance and reinsurance premium are not included in the above-mentioned data.

Business Lines	2014	2015	2016	2017	2018	2019
Health	0%	0%	6%	0%	3%	0%
Land transport	4%	6%	3%	17%	26%	15%
Property	80%	71%	60%	63%	66%	58%
Motor Liability	8%	12%	7%	16%	10%	8%
Life	16%	19%	17%	20%	13%	12%
Other liability insurance	62%	60%	42%	61%	53%	53%
Aviation	96%	90%	75%	87%	90%	88%
Liability insurance	58%	60%	54%	60%	62%	52%
Cargo	54%	29%	28%	29%	33%	34%
Other	11%	16%	21%	16%	17%	21%
Total	26%	23%	21%	22%	24%	19%

The table above shows the percentage of reinsurance premium in the total premium for main lines of insurance. Reinsurance practices are most common in property, other liability, aviation, and cargo insurance. Larger risks and limits of these

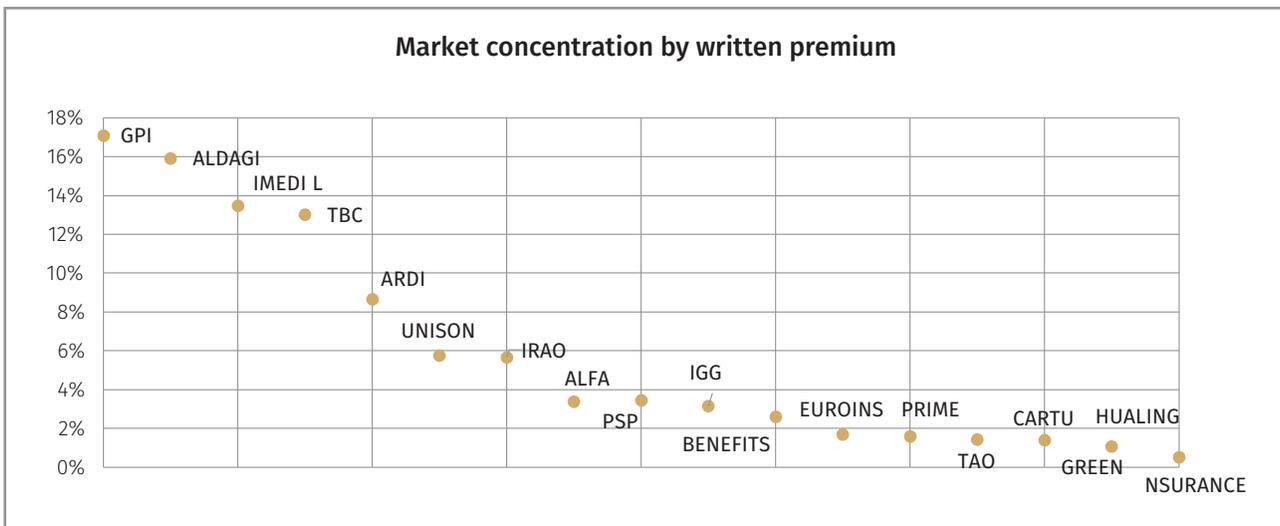
classes are diversified and distributed through reinsurance. Obviously, the role of reinsurance is insufficient in health insurance, as the per risk exposure is much less in this class, despite much higher frequency.

8.1 Market concentration



In recent years, several strong players have appeared on the Georgian insurance market and in turn, it has affected the redistribution of the largest players in the market. Even though the market

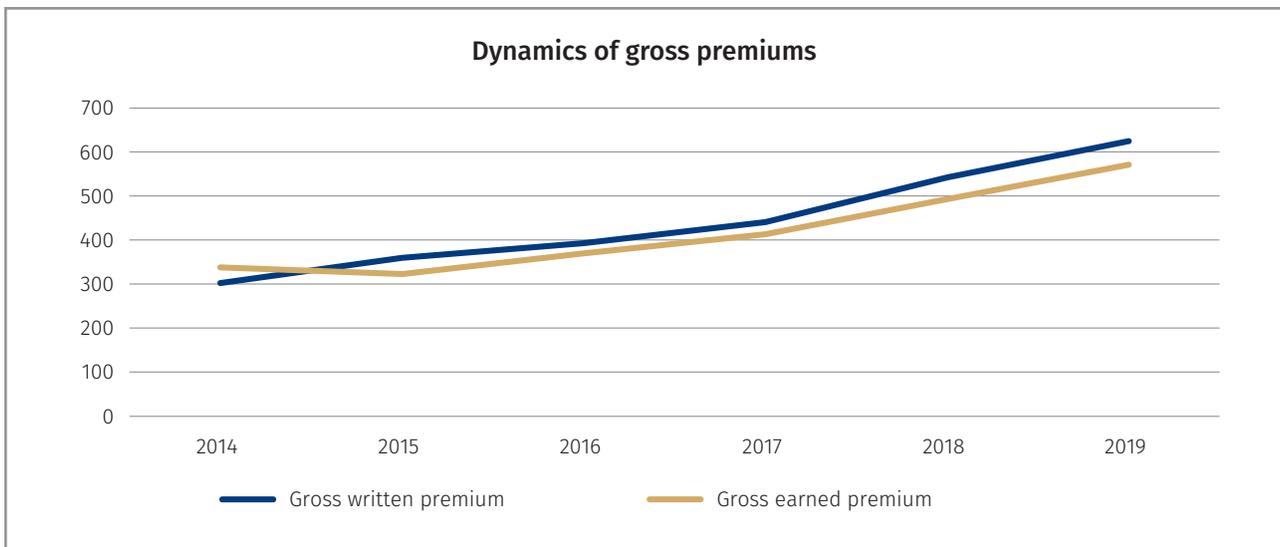
share of the top five insurers remains high, there are also positive trends showing that the share of other relatively small insurers has increased from 20% to 32% since 2014.



It is also noteworthy that over the years the number of companies with a market share exceeding 10% has decreased and now the risks are more redistributed among insurers. ISSSG closely monitors the

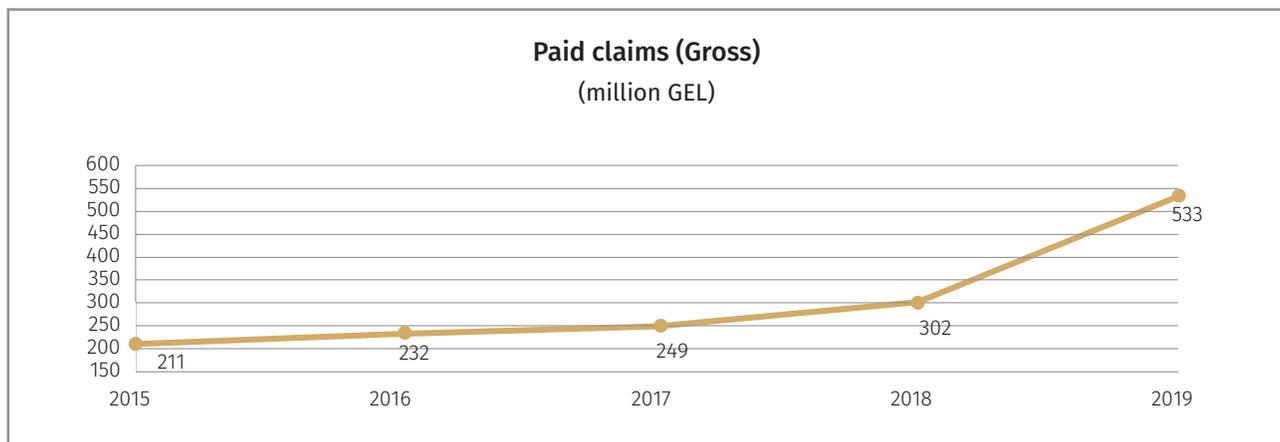
concentration, transparency and risk management quality of major players in order to ensure market systemic stability.

8.2. საქმიანობის დინამიკა

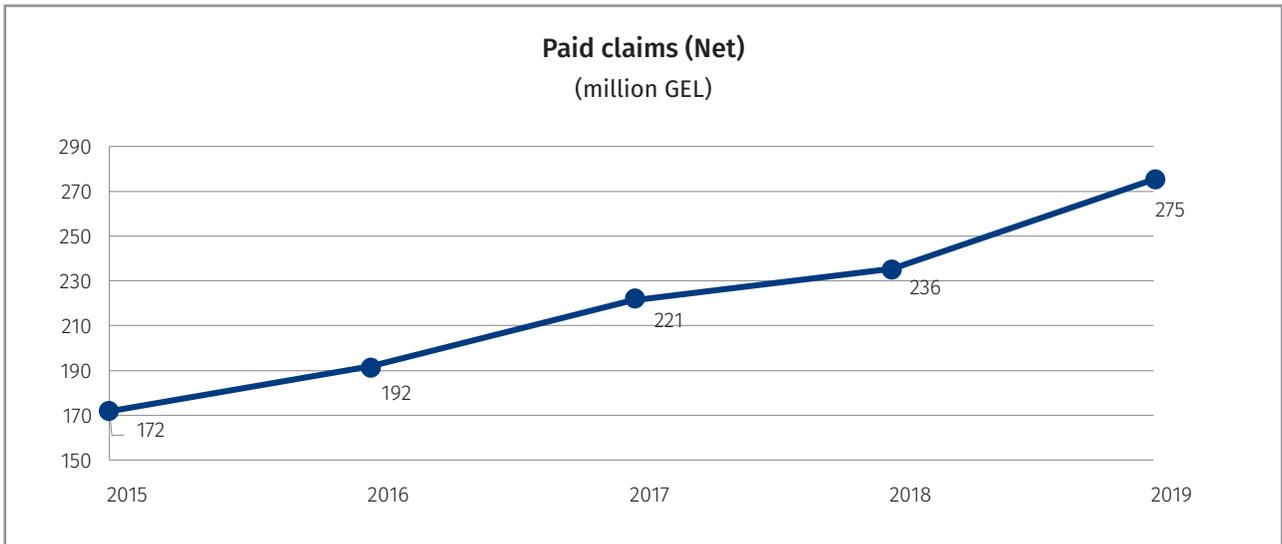


In 2014, with the movement of the overall health insurance program to the Social Service Agency, the premiums from health insurance have reduced, but the losses have also decreased. Since

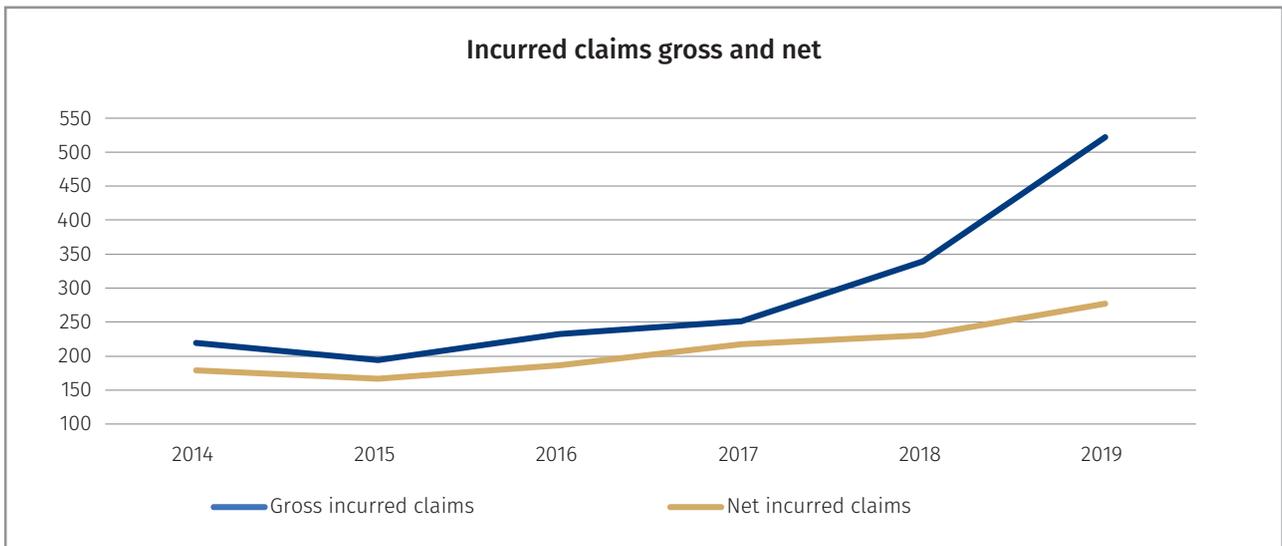
2015, both written and earned premiums have been growing steadily and almost simultaneously, showing stable development of the market.



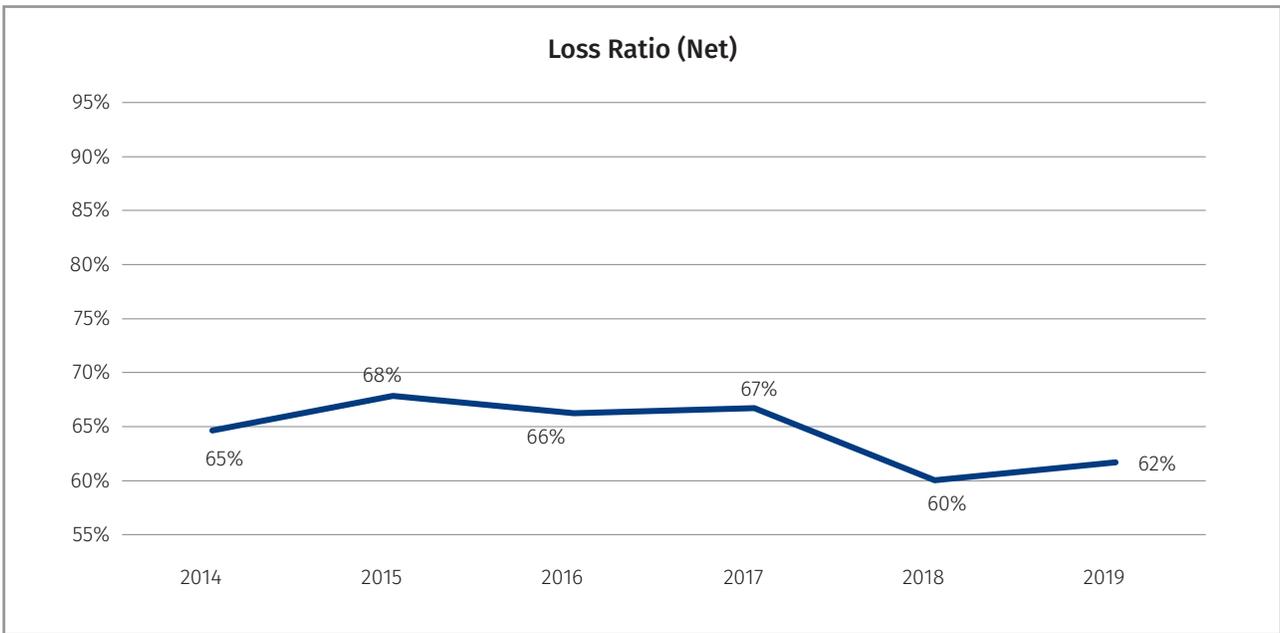
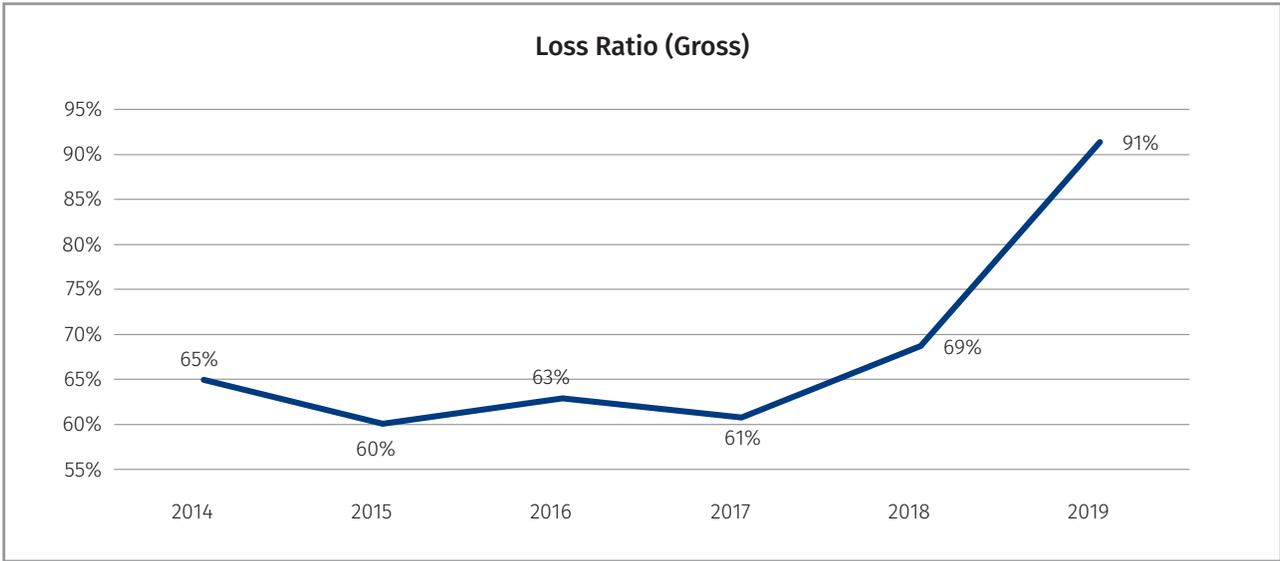
	2014	2015	2016	2017	2018	2019
Paid Claims (Gross)	219	211	232	249	302	533



	2014	2015	2016	2017	2018	2019
Paid claims (Net)	208	172	192	221	236	275



The tables and charts above show the importance of high-quality reinsurance.

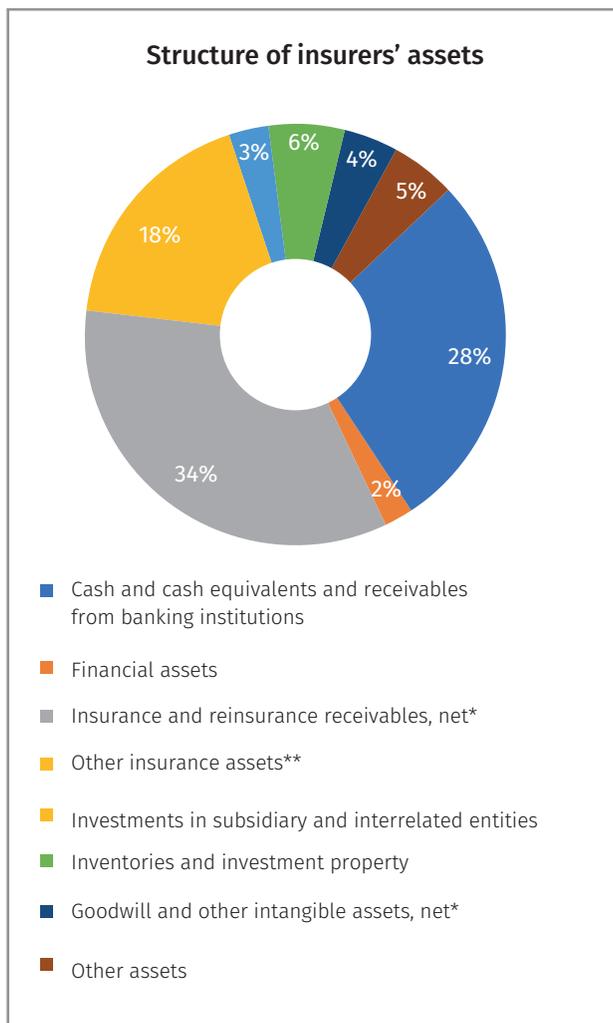


Due to the complex reinsurance contracts, the net loss ratio decreases over time, which also indicates

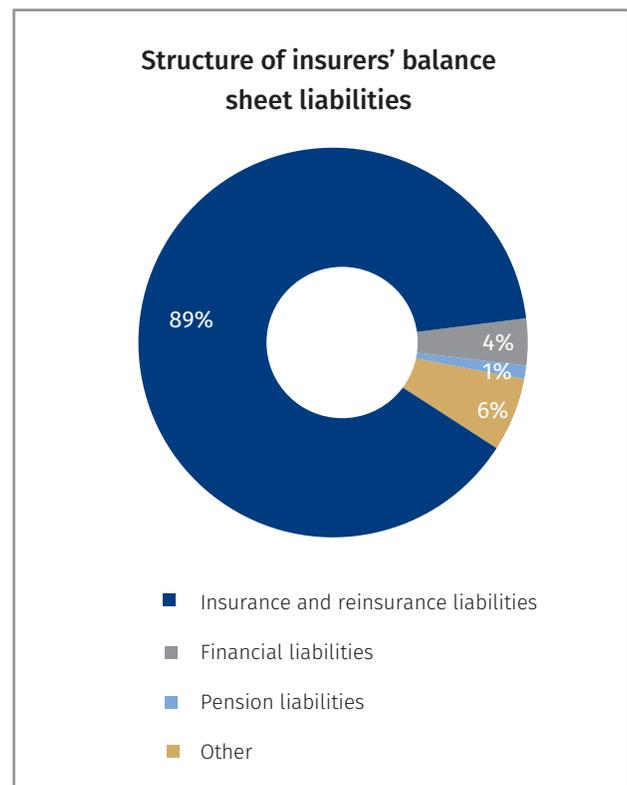
that insurers are mainly using effective reinsurance programs.

8.3. The structure of insurers' assets and liabilities

Asset name	Amount (million GEL)
Cash and cash equivalents and receivables from banking institutions	226
Financial assets	17
Insurance and reinsurance receivables, net*	274
Other insurance assets**	146
Investments in subsidiary and interrelated entities	20
Inventories and investment property	48
Goodwill and other intangible assets, net*	29
Other assets	39
Total	799



The structure of total assets of insurers indicates that their largest share is concentrated in liquid directions and is mainly related to insurance activities. It also shows that cash and cash equivalents compose 1/3 of liquid assets.



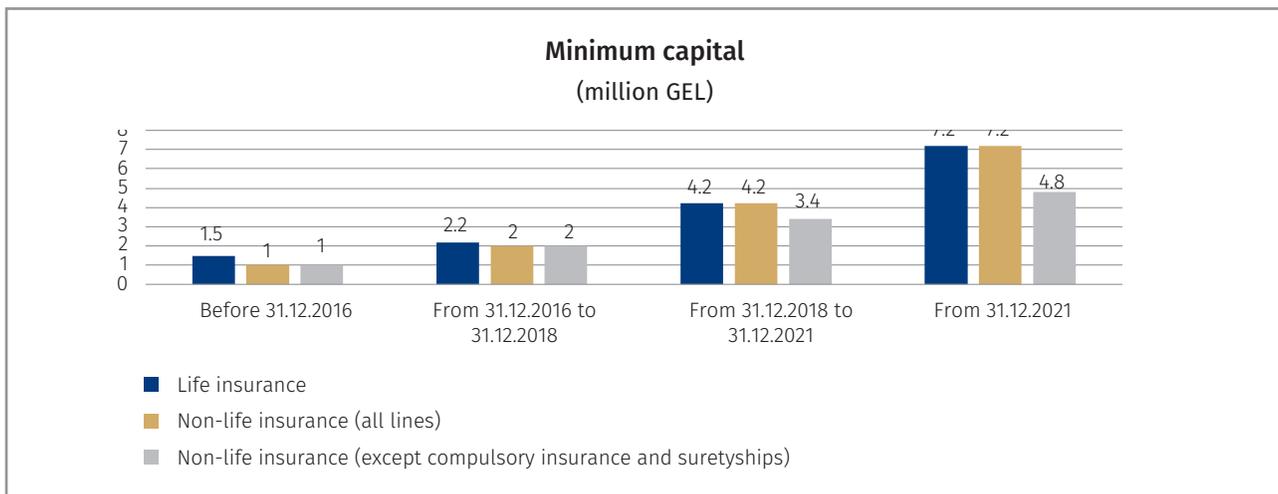
* **Note 1:** Insurance and reinsurance claims are reduced by the provision for bad debts as required by relevant supervisory regulation;

** **Note 2:** Other insurance assets mainly consist of the reinsurer shares in provisions.

As reflected in the structure of balance sheet liabilities, 89% of them are directly related to insurance and pension activities. Insurance reserves are mainly covered by cash. An insignificant portion of reserves

is invested in real estate or financial assets. However, it should be noted that ISSSG closely monitors the quality of financial assets as well.

8.4. Ensuring the financial soundness of the sector



According to the legislation, the minimum amount of the insurer's capital must be GEL4.2 million in cash for carrying out all the following lines of business:

- ▶ Life insurance;
- ▶ Non-life insurance;
- ▶ Reinsurance;
- ▶ Compulsory insurance classes;
- ▶ Suretyships.

In case the insurer carries out only non-life insurance activities, except compulsory insurance and suretyship, then the minimum capital requirement is GEL 3.4 million.

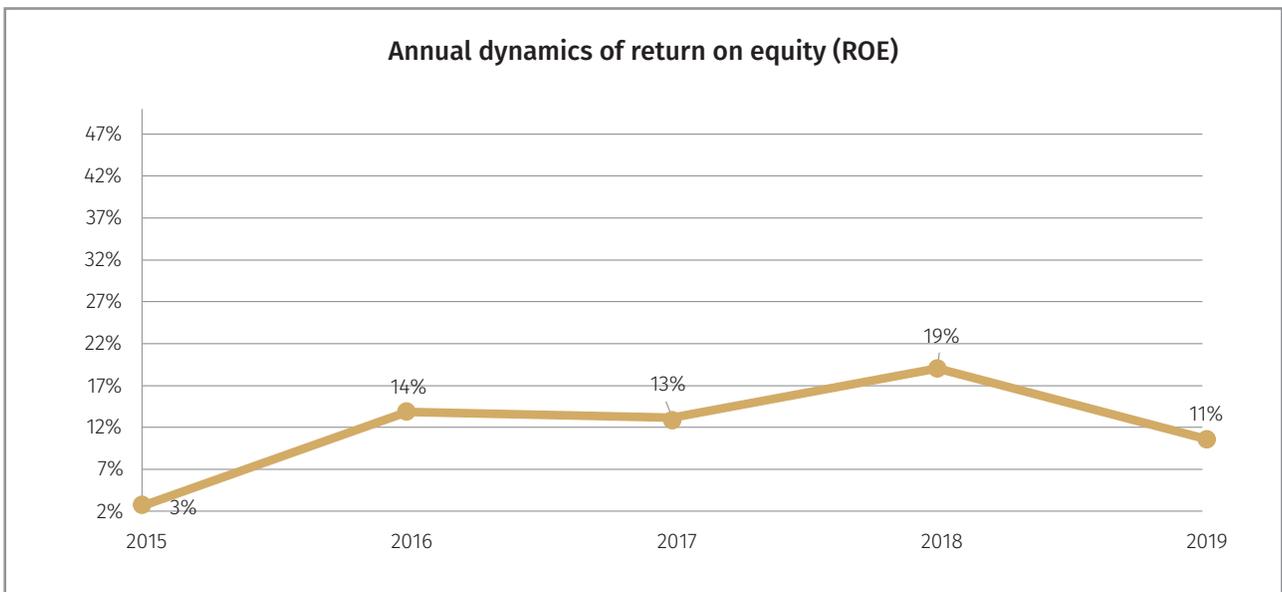
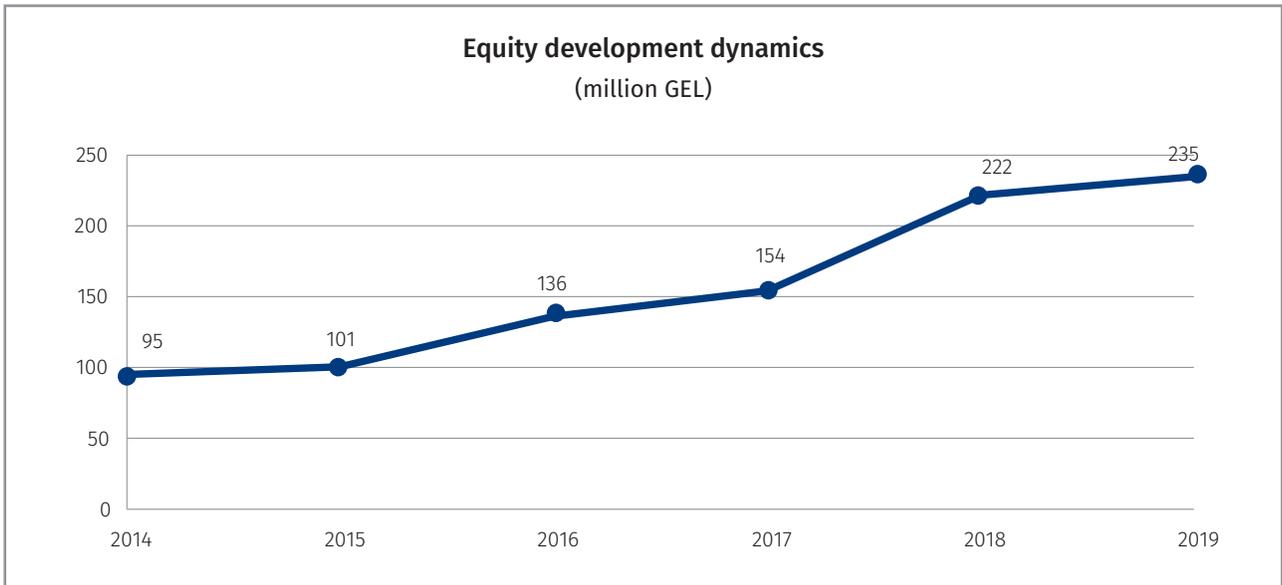
From December 31, 2020, the minimum capital requirements shall be increased to GEL7.2 million, if the insurers operating in all the following lines of business:

- ▶ Life insurance;
- ▶ Non-life insurance;
- ▶ Reinsurance;
- ▶ Compulsory insurance classes;
- ▶ Suretyships.

And if the insurer carries out activities only in the non-life, except compulsory insurance and suretyships, from December 31, 2020, the minimum capital requirement for them shall be GEL4.8 million.

As it is illustrated in the charts above, all current insurers have some time to meet the capital increase requirements, however, license seekers are required to meet these requirements from the moment they apply to ISSSG for a license.

Despite the high loss ratio in some lines, the total market return on equity (ROE) in Georgia is higher than average compared to most of the EU and Eastern European countries.

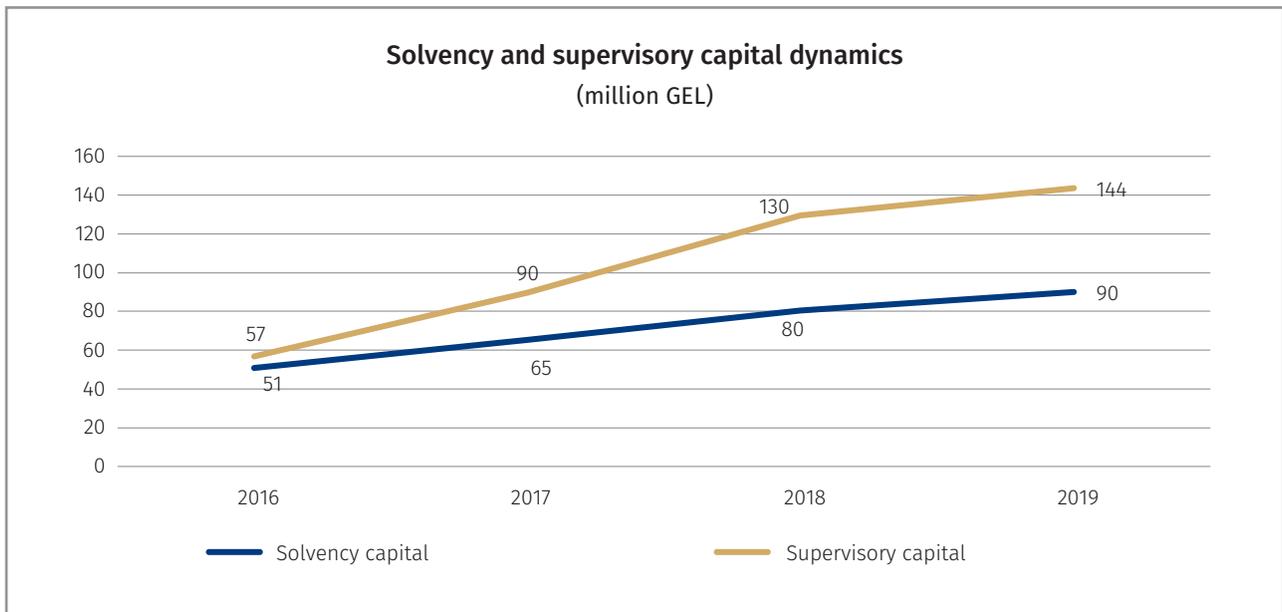


Taking into account the requirements of the Association Agreement and all relevant directives, in addition to the minimum capital requirements ISSSG has introduced regulatory capital requirements and implemented “Solvency I” supervisory regime.’

The implementation of solvency and supervisory capital requirements in 2016 played a crucial role in the gradual increase of the insurer’s capital.

While calculating the supervisory capital, some specified assets are deducted from the insurers’ balance sheet, since supervisory capital must form the part of the insurer’s capital, which mostly consists of liquid assets.

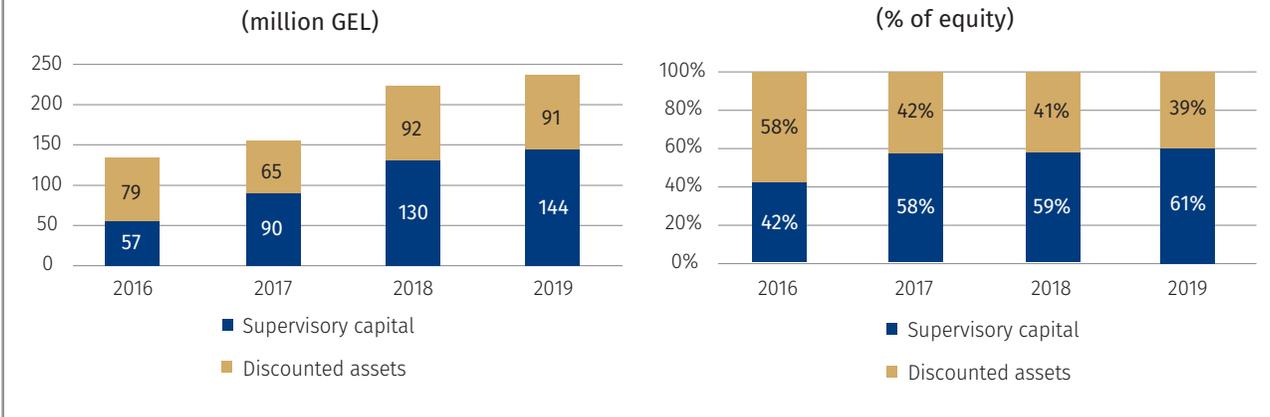
Due to the above-mentioned, some insurers had to make additional capital injections. However, at the same time, ISSSG steadily supported the profitability of insurers and the development of the insurance market in general.



As shown in the charts above the excess of regulatory capital over solvency ratio has improved significantly in recent years, indicating the improvement of market financial stability.

By the end of 2019, the surplus exceeded 60%, which is a much better result compared to the situation when the new requirements were introduced.

Share of supervisory capital in total equity of insurers



The share of discounted assets from the total assets of companies has significantly decreased from the moment of introducing the supervisory capital requirements (since 2016).

8.5. Insurance brokers

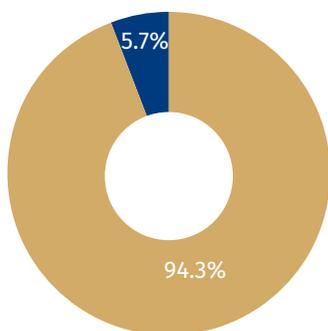
At the end of 2019, the half of existing 16 insurance brokers did not show significant activity.

Insurance brokers have the right to carry out intermediary activities simultaneously in line with insur-

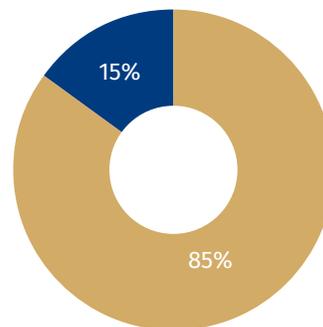
ance and reinsurance. However, from the available statistics, it is clear that a larger share of their activities comes from reinsurance activities.

Also, it should be noted that insurance brokers' activities represent quite an important part of the insurance business. It is a high-risk carrier in terms of customer funds and the quality of risk placement. Regarding the mentioned issues the supervisory framework of insurance intermediaries has been strengthened to ensure high quality of the services, professionalism and reliability in future.

Participation of brokers in direct insurance business



Participation of brokers in ceded reinsurance



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