



INSURANCE STATE SUPERVISION
SERVICE OF GEORGIA

ANNUAL REPORT 2021

Dear readers,

We are pleased to present to you the annual report of the Insurance State Supervision Service of Georgia for the year 2021.

Despite the COVID-19 pandemic and its challenges, the insurance sector continues to grow steadily. In 2021, the total insurance premium amounted to GEL 773 million, which is 16% more than the same data for the previous year. The increase in premiums is recorded for all leading types of insurance. At the end of 2021, the losses paid by Insurers amounted to GEL 436 million, which is 13% higher than the same data for the previous year. The insurance profit of the companies resulted in GEL 172 million, equal to the last year, while the net profit amounted to GEL 39.9 million, showing a 16% decrease. Given the unchanged level of insurance profit, the decrease in net profit was mainly due to the loss caused by the foreign exchange difference.

The year 2021 was quite active, including in terms of cooperation with international/donor organizations, which is vital for the development of the industry and serves to promote the implementation of international standards. The Service actively participated in international online conferences and various events.


Work proceeded within the framework of the EU-funded Public Service Twinning project (TWINNING), launched in 2019 and implemented with the active participation of experts of the Directorate-General for Insurance and Pension Funds (DGSFP) of the Ministry of Economic Affairs and Digital Transformation of the Kingdom of Spain. The project aims to bring the insurance industry closer to European standards, as provided by the Association Agreement between Georgia and the EU, which includes preparing the legal framework for SOLVENCY II. According to the previous year's plan, the Spanish experts prepared a primary framework for the new legislation, and a special group was created to further develop



it. The group consisted of the employees of the Service and also the invited experts to provide their opinions and conclusions. The group is operating in accordance with the action plan and working schedule approved by the Head of the Service.

Cooperation with the World Bank continued within the EU-funded project "Economic governance and fiscal accountability" (2019-2022), which provides technical assistance to the Service, and contributes to the development/implementation of new insurance products on the Georgian market. The experts prepared a report on the opportunities for the development of life insurance market in Georgia; The report was also prepared on medical malpractice insurance. The experts also started to study the questions related to the compulsory professional indemnity insurance for architects and engineers and to prepare the analysis; In accordance with the recommendations of the experts, changes were made to the "Agricultural Insurance Program"; Cooperation is also aimed at promoting the development of index-based agricultural insurance.

Cooperation continued between the Service and media agency XPRIMM (Promoting the Reinsurance & Insurance Market by Media), which specializes in insurance/reinsurance, insurance intermediation, and private pension insurance. As part of this cooperation, the 3rd international insurance conference, the most important event on the Georgian insurance market was held, which, in view of the pandemic, was conducted in digital



format. This event is a high-level platform, which, in addition to the insurance market of Georgia, was attended by representatives of the various insurance industries and international experts. During the reporting period, for the first time, the Media Agency published a separate profile journal on Georgia, with up to ten interviews, an overview

of the statistics of the Georgian insurance market, and information on how the insurance market was able to cope with the difficulties caused by the pandemic.

Please, find more about our activities in this and other areas in 2021 in the annual report.

**Head of the Insurance
State Supervision Service of Georgia
Davit Onoprishvili**



CONTENT

1	About us	5	6	Development of the legal framework/ legislative process	42
2	Licensing-registration	6	7	Inter-agency cooperation to develop a competitive environment	44
3	Georgian insurance market and supervisory process	8	8	Consumers' rights	45
	3.1. Insurance market overview	8	9	Financial education	46
	3.2. Insurance brokers	27	10	Other legal aspects	47
	3.3. Supervisory process	28			
4	Cooperation with international organizations	32			
5	Public services twinning project (TWINNING)	38			

1 About us

LEPL Insurance State Supervision Service of Georgia was established based on the changes and amendments to the Law of Georgia “On Insurance” adopted in March 20, 2013, and represents a legal successor of the National Bank of Georgia in the supervision of insurance (including insurance intermediation) and pension schemes.

The Service is independent in its activities and is accountable to the Government of Georgia. Its competencies are stipulated in the Law of Georgia “On Insurance” and the statute approved by the Ordinance #102 of the Government of Georgia as of May 2, 2013. The functions of the Service include:

- ✓ Pursuing the state policy in the insurance sector;
- ✓ Promoting financial stability of the insurance market;
- ✓ Protecting consumers’ rights within the scope of its competencies;
- ✓ Securing financial solvency of insurance companies;
- ✓ Creating a competitive environment, and for this purpose unifying insurance activities;
- ✓ Elaborating draft laws and by-laws, as well as methodological framework, and ensuring control over their implementation;
- ✓ Supervising non-state pension schemes within the scope of its competencies;
- ✓ Coordinating state, municipal, and industry insurance programs initiated by state and/or local authorities.

2 Licensing-registration

According to the data for 2021, there were 18 licensed insurance companies operating in Georgia, holding both non-life and life insurance licenses. These companies are:

1. JSC Insurance Company IMEDI L
2. JSC Insurance Company GPI Holding
3. JSC Insurance Company CARTU
4. JSC International Insurance Company IRAO
5. JSC ARDI INSURANCE
6. JSC Insurance Company ALPHA
7. JSC Insurance Company EUROINS GEORGIA
8. JSC PSP Insurance
9. JSC Insurance Company UNISON
10. JSC Insurance Company PRIME
11. JSC Insurance Company TAO
12. JSC Green Insurance Georgia
13. JSC TBC Insurance
14. JSC Insurance Company ALDAGI
15. JSC Risk Management and Insurance Company Global Benefits Georgia
16. Insurance Group of Georgia
17. JSC BB Insurance
18. JSC New Vision Insurance

In the reporting period, due to the change of the company name, a corresponding change was made to the license documents of JSC Hualing Insurance and the company continues its insurance activities under the brand name of JSC BB Insurance.

Pursuant to the Georgian law “On Insurance”, the candidacies of the Insurer’s Administrator (member of Supervisory Board, Director) and Internal Auditor are subject to a preliminary review by the Service in order to determine the candidate’s compliance with the eligibility criteria established by the law. In the reporting period, the Service reviewed the documents/information confirming the eligibility of 20 candidates for the Insurer’s Administrator’s position and issued 18 approvals (7 members of the Supervisory Board and 11 Directors). The Service also reviewed the compliance of 6 candidates for the Internal Auditor’s position with the requirements established by the law of Georgia “On Insurance”, and all of them were approved.

In the reporting period (as in the previous years), there were 4 non-state pension schemes registered with the Service, 3 of which were founded by insurance companies, and one - by a non-insurance legal entity for its own employees. These are:

- ✓ JSC Insurance Company ALDAGI;
- ✓ JSC Insurance Company GPI Holding;
- ✓ JSC International Insurance Company IRAO;
- ✓ Sakaeronavigatsia LTD.

At the beginning of 2021, there were 15 registered insurance brokers operating in the insurance market.

In the reporting period, due to the termination of activities and on the basis of a written application, the registration of Insurance and Reinsurance Broker SGA LTD was cancelled.

During the reporting period, the Service studied and reviewed the applications of 3 entities (including one foreign entity - a branch of an insurance broker registered in the Republic of Azerbaijan) for registration as an insurance broker. Totally 3 insurance brokers were registered (including one as a branch of a foreign enterprise), namely:

- ✓ Georgian Insurance Brokers GIB Ltd
- ✓ Branch of Foreign Enterprise Zaman insurance & Reinsurance broker branch
- ✓ Schutz re Insurance Broker Ltd.

As of December 2021, there were 17 insurance brokers operating on the market:

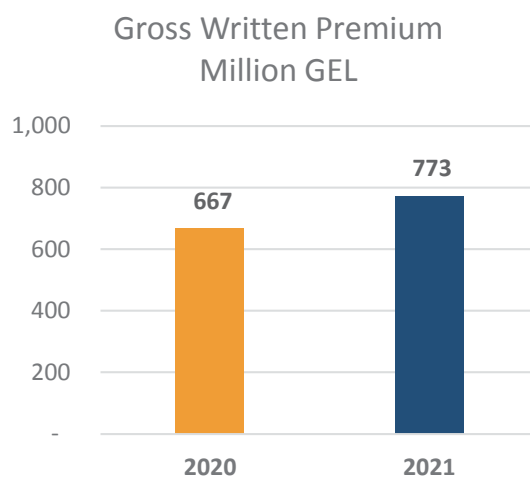
1. Insurance Broker MAI Georgia LTD
2. Resolution Insurance Brokers Georgia LTD
3. Insurance Broker GS LTD
4. GEORGIAN REINSURANCE BROKERS LTD
5. Insurance Broker Respect LTD
6. Insurance Broker SIB Georgia LTD
7. Insurance Broker Nikoloz Group LTD
8. Magnus Insurance Broker LTD
9. Insurance Broker IBC Georgia LTD
10. Insurance Brokerage Company Kalma LTD
11. Insurance and Reinsurance Broker Arriba LTD
12. Insurance and Reinsurance Broker Brokers House Georgia LTD
13. Insurance Broker IG LTD
14. Insurance Broker Brokers Hub LTD
15. Georgian Insurance Brokers GIB Ltd
16. Branch of Foreign Enterprise Zaman insurance & Reinsurance broker branch
17. Schutz re Insurance Broker Ltd.

3

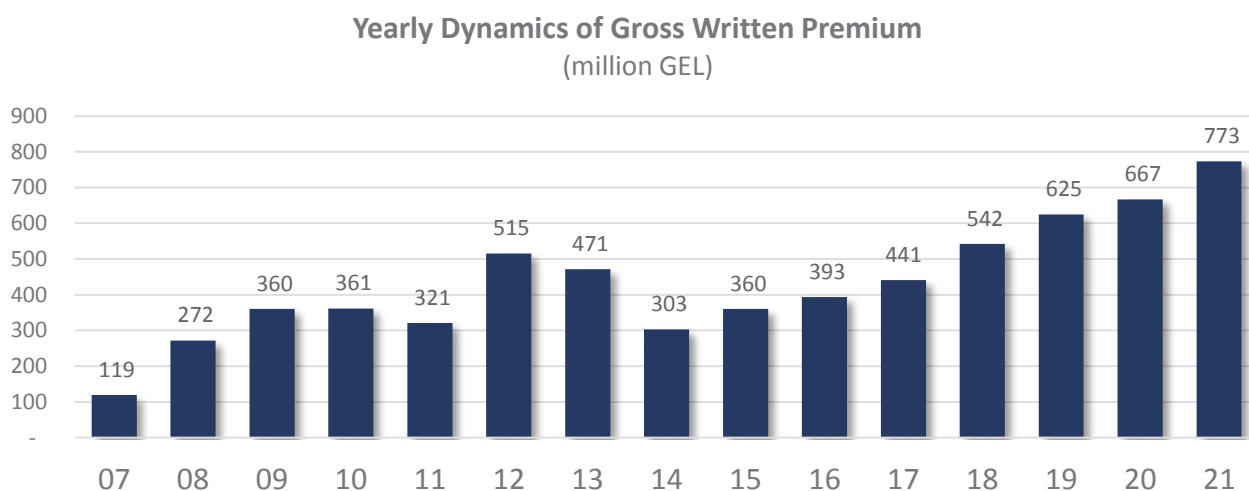
Georgian insurance market and supervisory process

3.1 Insurance market overview

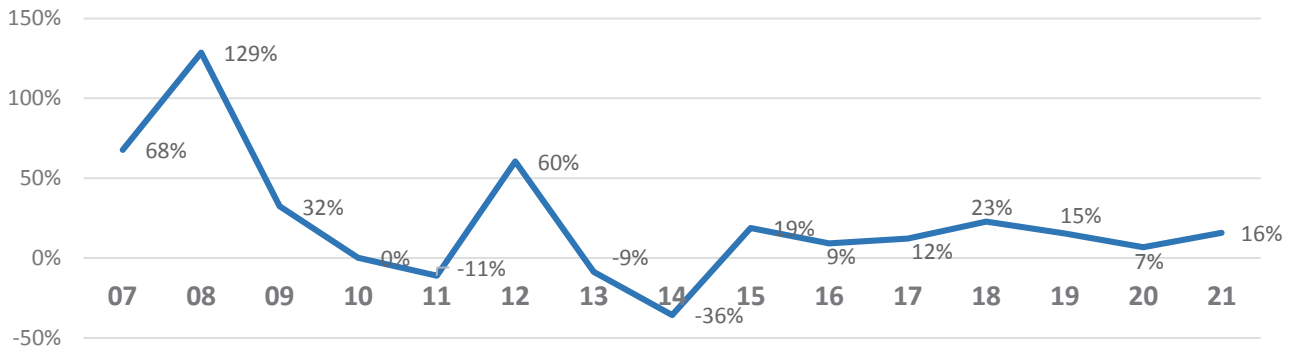
According to 2021 annual reports submitted by insurance undertakings, Gross Written Premium from direct insurance business amounted GEL 773 million, which is 16% more than the same data for the previous year.



Below is presented the dynamics of insurance market during the past 15 years:



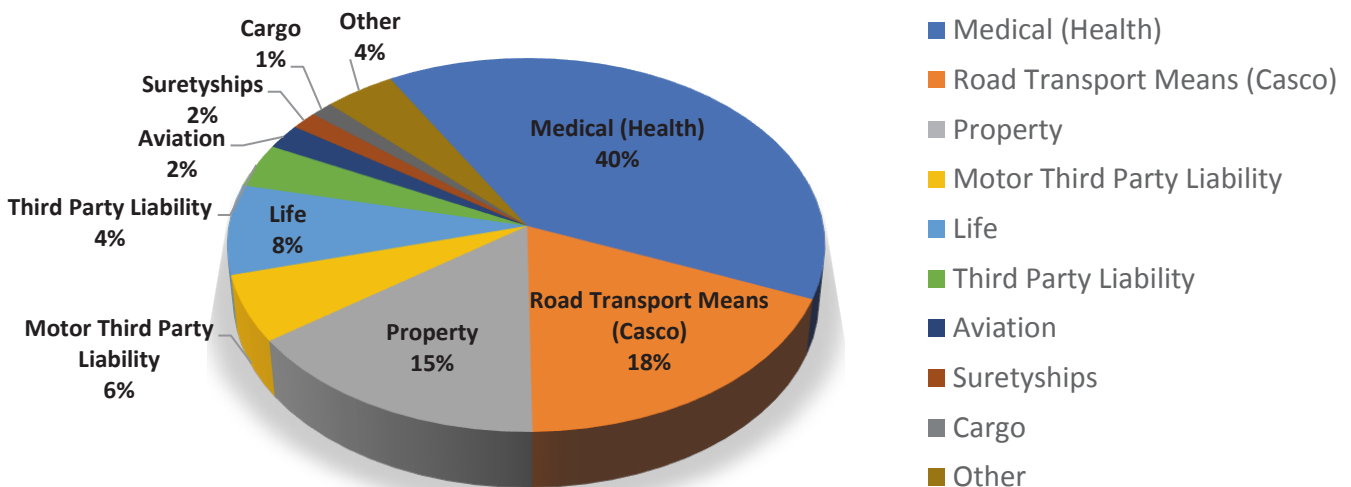
Market growth dynamics



The diagram above shows the past 15 years history of insurance market development. Significant growth in 2007-2008 was related to the introduction of the state funded health insurance social programs. The reduction of financing for certain programs caused a decline in 2011. Then, in 2012, the number of beneficiaries of social programs increased significantly (pensioners and children under 5 were included in the program), however,

due to the highly social importance, the management of these programs was passed to a specialized state body (to the Social Service Agency and later to the National Health Agency). Since 2014, the market has been developing more stably and independently. Corporate health insurance programs became more and more popular. Currently health insurance sector holds the largest share of the Georgian insurance market (40%).

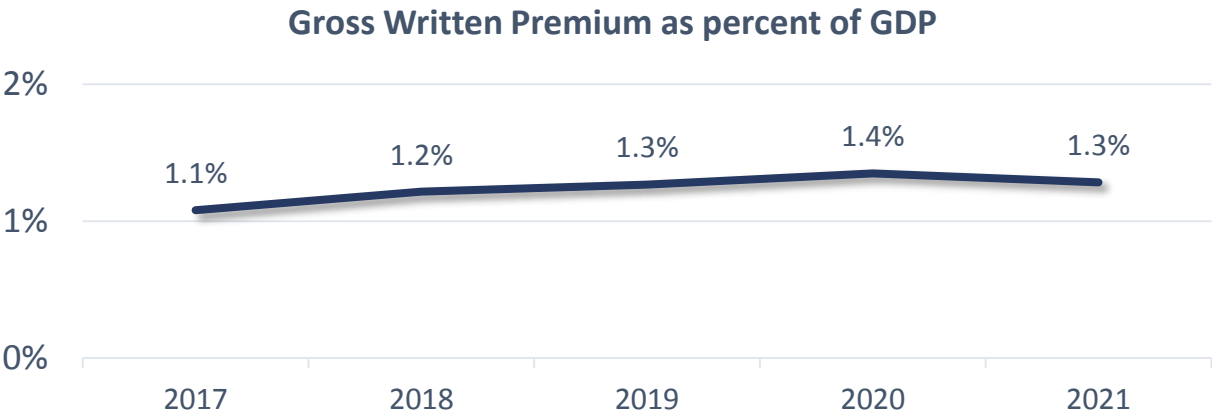
Market structure



During 2021, the premium written in medical (health) insurance business amounted to GEL 305.5 million, which is 40% of the total written premium, and motor casco – GEL 143.2 million, resulting in 18% of the total written premium. Premium in property insurance amounted to GEL 118.5 million (15%), life – GEL 60 million (8%), motor TPL and civil liability – GEL 44.4 million and GEL 29.3 million accordingly (6%

and 4%). Other lines in total amounted GEL 71.6 million (9%).

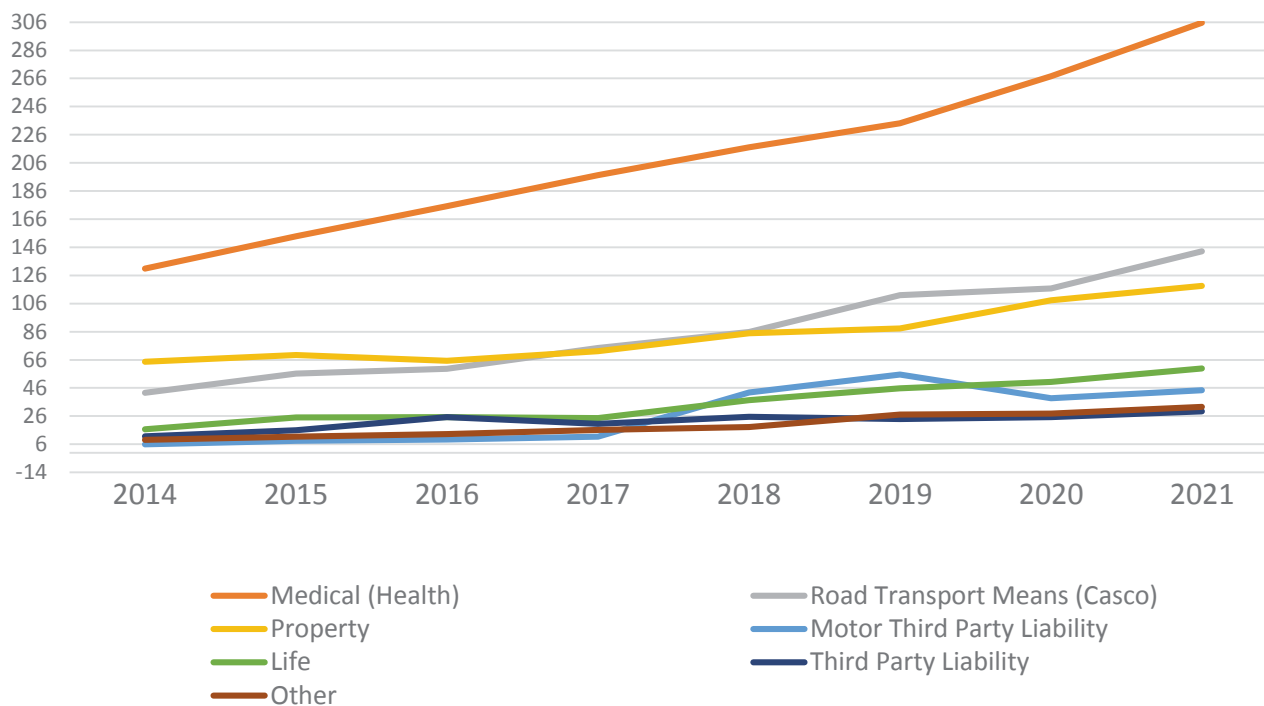
Life insurance is mainly related to banking products, however it is also often combined with health insurance. Motor third party liability insurance mainly includes compulsory and voluntary products for road transport and road carriers' liability products.



The reduction of the percentage in GDP is a consequence of the significant growth of GDP in 2021. The trading and manufac-

turing sectors have particularly increased, outpacing the growth of the insurance sector.

Dynamics of written premiums per lines of business (Million GEL)



NOTE 1:

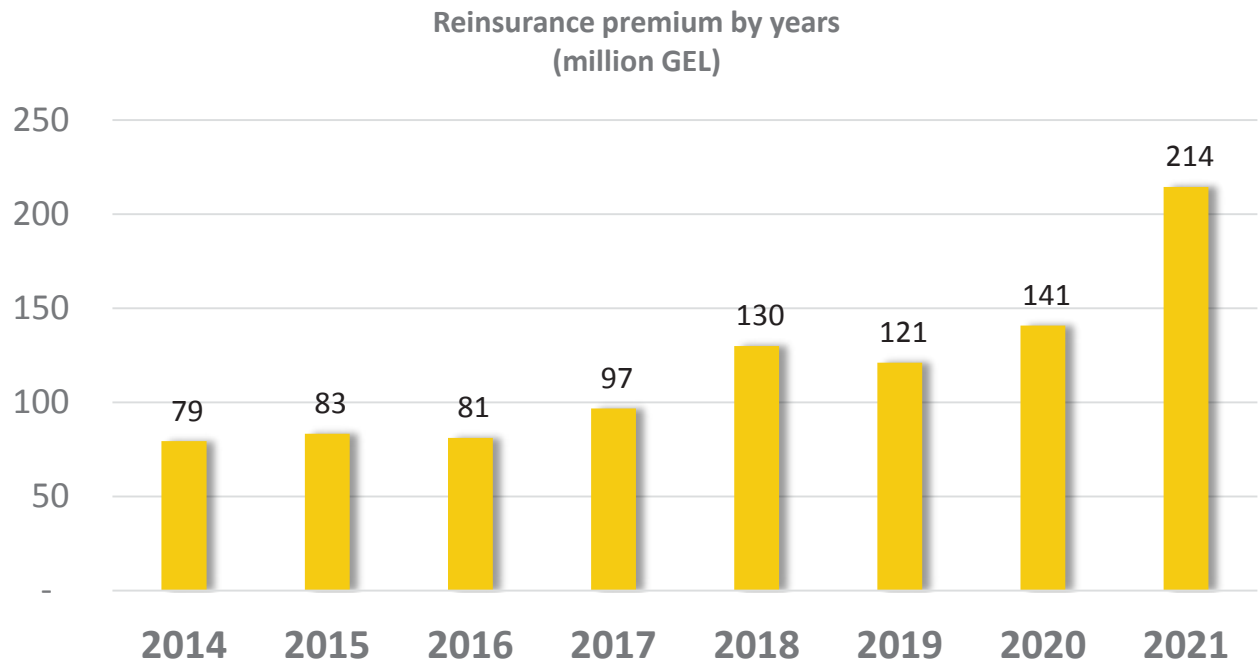
“Third Party Liability” includes professional indemnity, employer’s liability and general third party liability, not related to the road or other transport.

NOTE 2:

“Other” includes cargo, travel, marine, aviation, suretyships and miscellaneous financial loss insurance.

In 2020, amid the COVID-19 pandemic, a number of important areas of the insurance industry have been significantly affected. Activity in several lines of business has resumed in 2021, although, for example, the Motor TPL business has not yet

returned to pre-pandemic level. In the field of health insurance, on the contrary, activity has increased, as well as the number of medical referrals. Information on insurance claims is provided below.



NOTE:

The above figures do not include life and health insurance/reinsurance data, as life is most commonly a simple one-year product either combined with health or issued within a bank loan, which is why these products do not require reinsurance as often as property or liability products.

Reinsurance is one of the most important parts of the Insurer’s daily activities and an important tool for ensuring its financial stability.

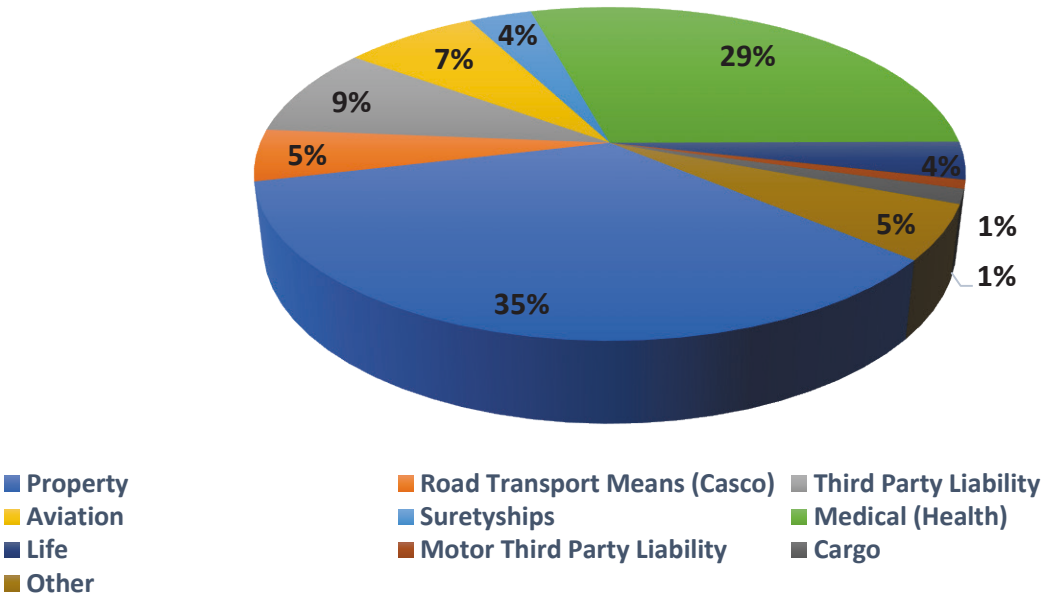
Statistical data shows that reinsurance naturally follows the development of the Insurers' activities. Participation of reinsurers remains stable in most lines, especially in property and liability insurance lines of business.

In 2019 property and motor reinsurance premium decreased, which in the case of motor insurance is since per risk exposure is relatively small, while

in the case of property insurance, the decrease in reinsurance premium was caused by the completion of one of the major international investment projects.

It should be noted that the practice of concluding high volume and complex reinsurance treaties is becoming increasingly popular and insurers are trying to minimize the number of facultative reinsurance contracts. Treaty reinsurance automatically covers a certain part of the insurance portfolio and significantly reduces operational risks and processes related to the facultative business.

Reinsurance premium per lines of business



The percentages indicated in this graph mainly refer to per risk exposures. In particular, the higher the sum insured (exposure) is, the greater is the need for reinsurance. That is why property insur-

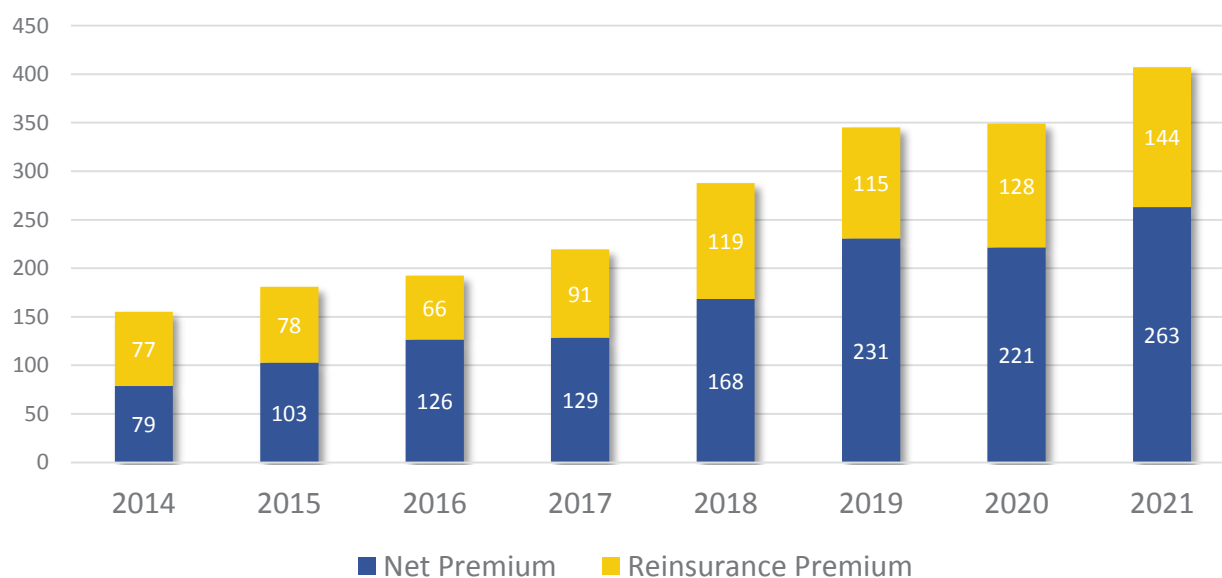
ance is the leader in terms of reinsurance, while in other lines, despite relatively less total reinsurance premiums, per risk exposure can be quite high.

Insurance Classes	2014	2015	2016	2017	2018	2019	2020	2021
Medical (Health)	0%	0%	6%	0%	3%	0%	2%	20%
Road Transport Means (Casco)	4%	6%	3%	17%	26%	15%	10%	8%
Property	80%	71%	60%	63%	66%	58%	63%	64%
Motor Third Party Liability	8%	12%	7%	16%	10%	8%	3%	4%
Life	16%	19%	17%	20%	13%	12%	13%	13%
Third Party Liability	62%	60%	42%	61%	53%	53%	62%	63%
Aviation	96%	90%	75%	87%	90%	88%	98%	93%
Suretyships	58%	60%	54%	60%	62%	52%	61%	61%
Cargo	54%	29%	28%	29%	33%	34%	33%	30%
Other	11%	16%	21%	16%	17%	21%	32%	35%
Total	26%	23%	21%	22%	24%	19%	21%	28%

The share of reinsurance premiums by lines in the total amount of premiums practically does not change significantly from year to year. Reinsurance is usually most needed in aviation, property, liability, suretyships and cargo. Those lines of business cover the larg-

est risks and the risk is diversified through reinsurance. It is obvious from the above Table that reinsurance plays a minimal role in health insurance with smaller amounts of losses but much higher frequency.

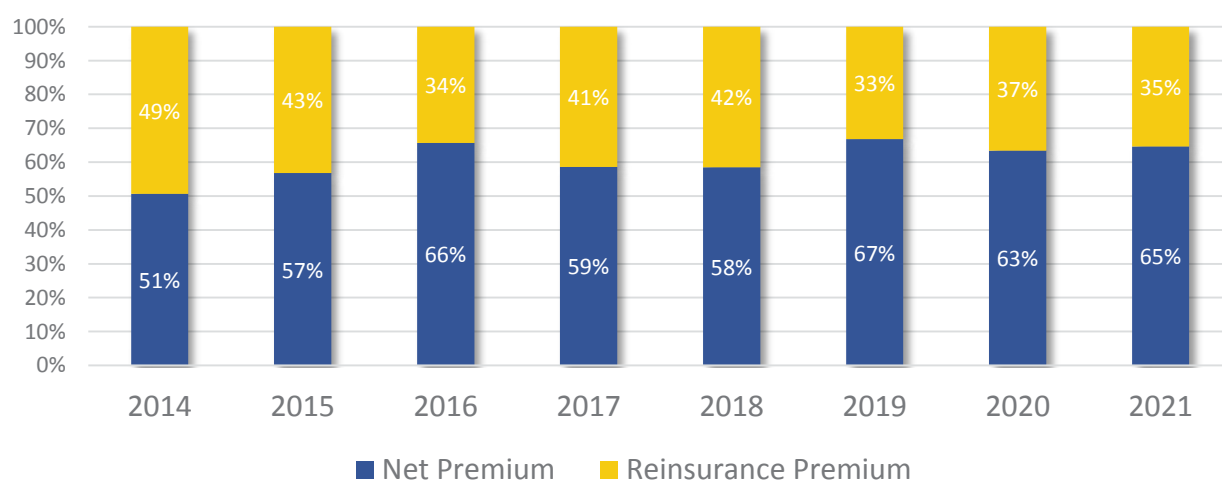
Reinsurance premium as part of GWP
(million GEL)



NOTE:

Life and health insurance data is not included.

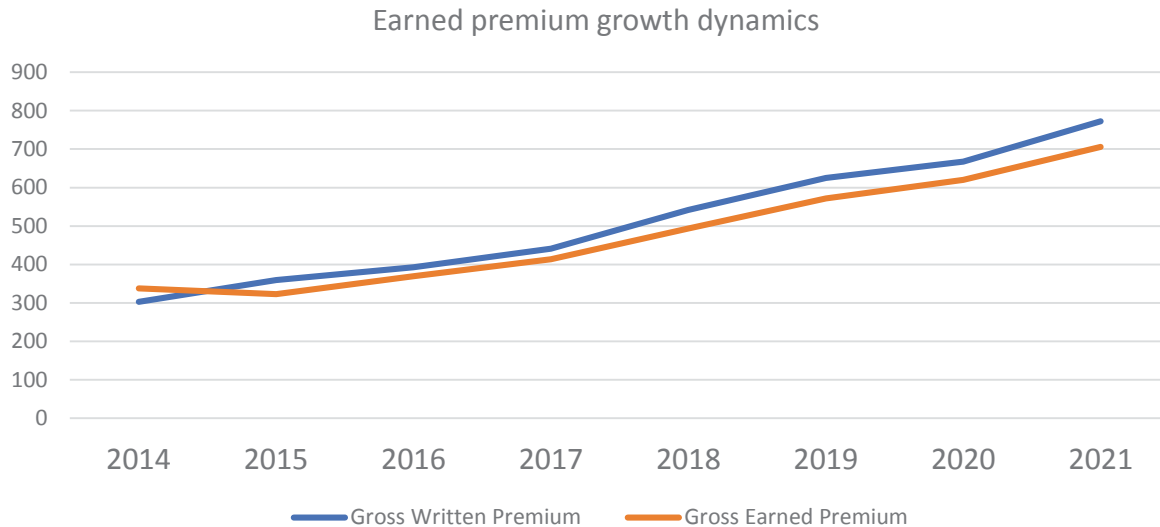
Reinsurance premium as part of GWP
(%)



NOTE:

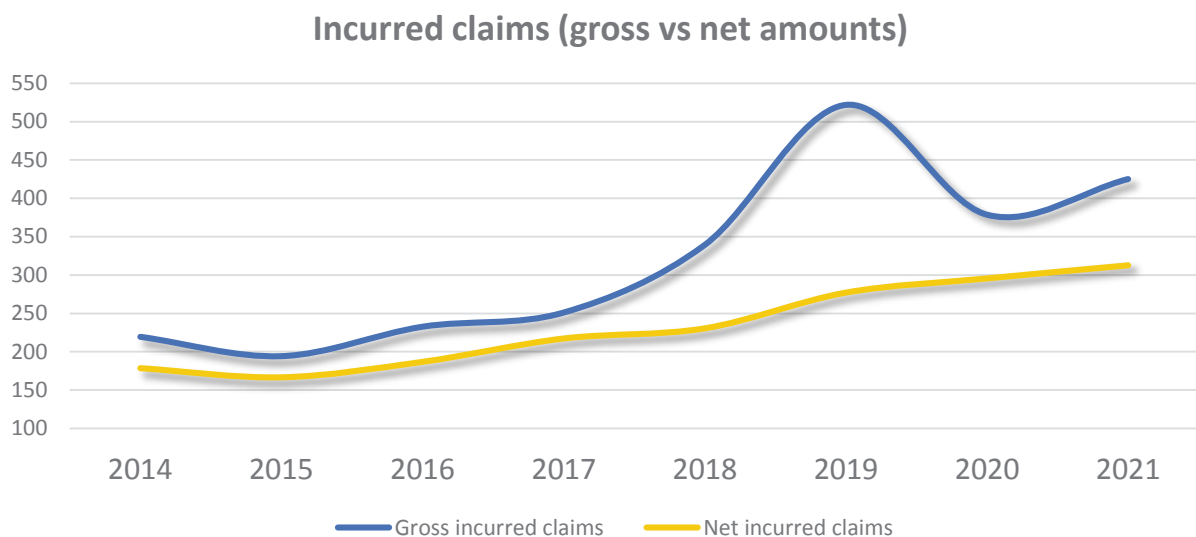
Life and health insurance data is not included.

Business dynamics



In 2014, following the transfer of state insurance programs to the Social Services Agency, the earned premium in health insurance decreased, but at the same time, this caused the decline in losses, and since 2015

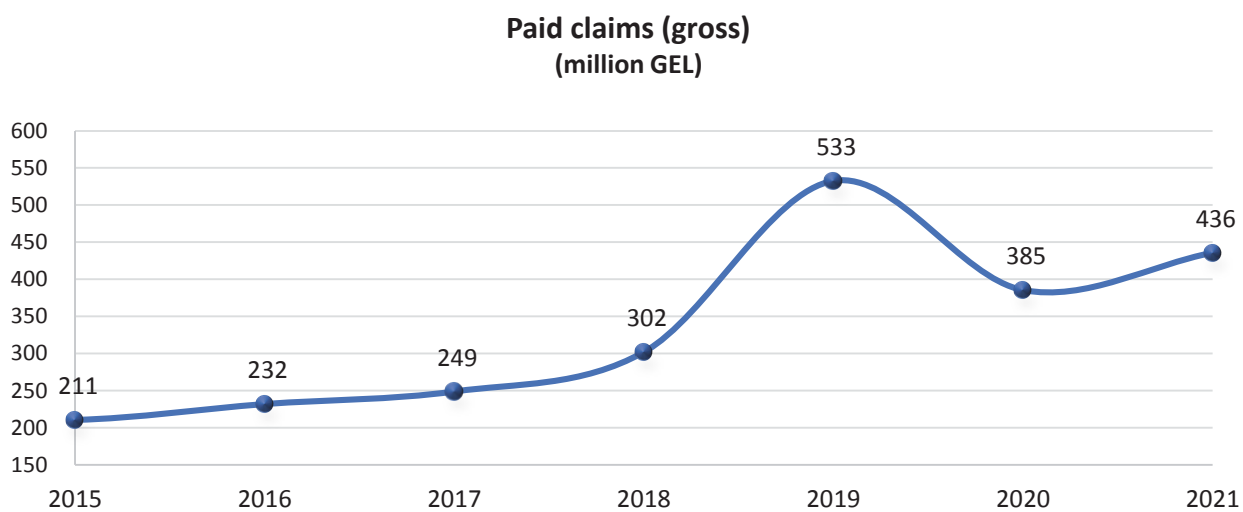
both written and earned premiums have been growing steadily and almost in parallel, which indicates a stable development of the market (no major policy cancellation trends).



	2014	2015	2016	2017	2018	2019	2020	2021
Incurred claims (gross)	219	194	233	251	339	522	379	425
Incurred claims (net)	179	167	187	217	230	277	296	313

Reinsurers' share in claims is the difference between gross and net figures. The table above shows the importance of reinsur-

ance for insurance business and financial stability of insurance companies.

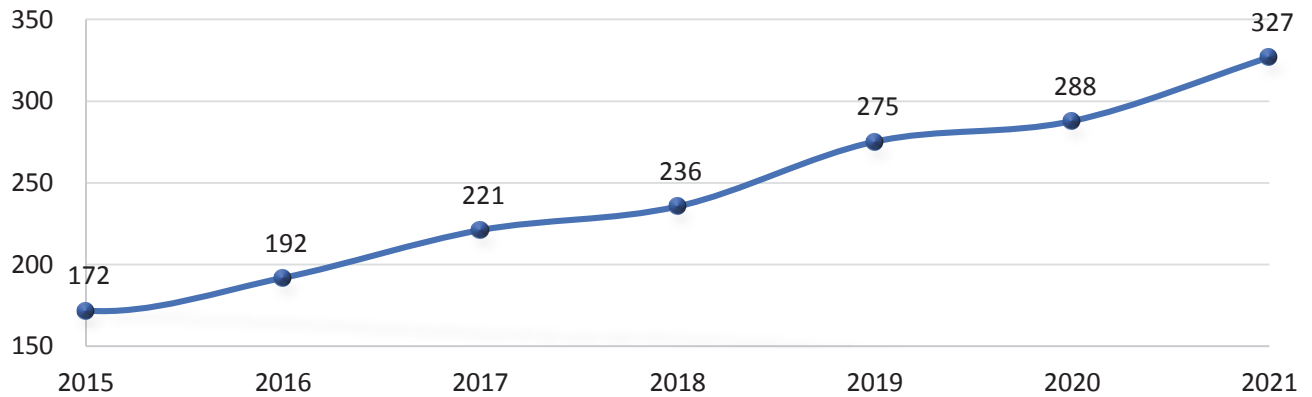


	2014	2015	2016	2017	2018	2019	2020	2021
Paid losses (gross)	219	211	232	249	302	533	385	436

Gross paid claims in direct insurance business amounted GEL 435.7 million,

resulting in 13% increase in comparison with 2020.

Paid claims (net)
(million GEL)



	2014	2015	2016	2017	2018	2019	2020	2021
Paid claims (net)	208	172	192	221	236	275	288	327

Net paid claims amounted GEL 326.9 million, resulting in 14% increase in comparison with the previous year.

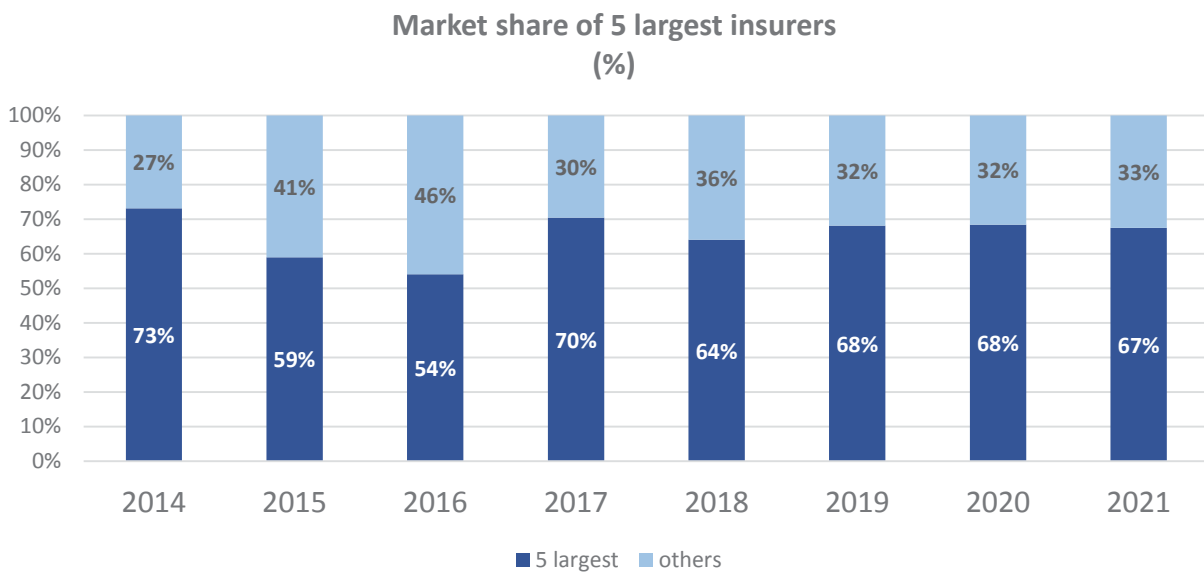
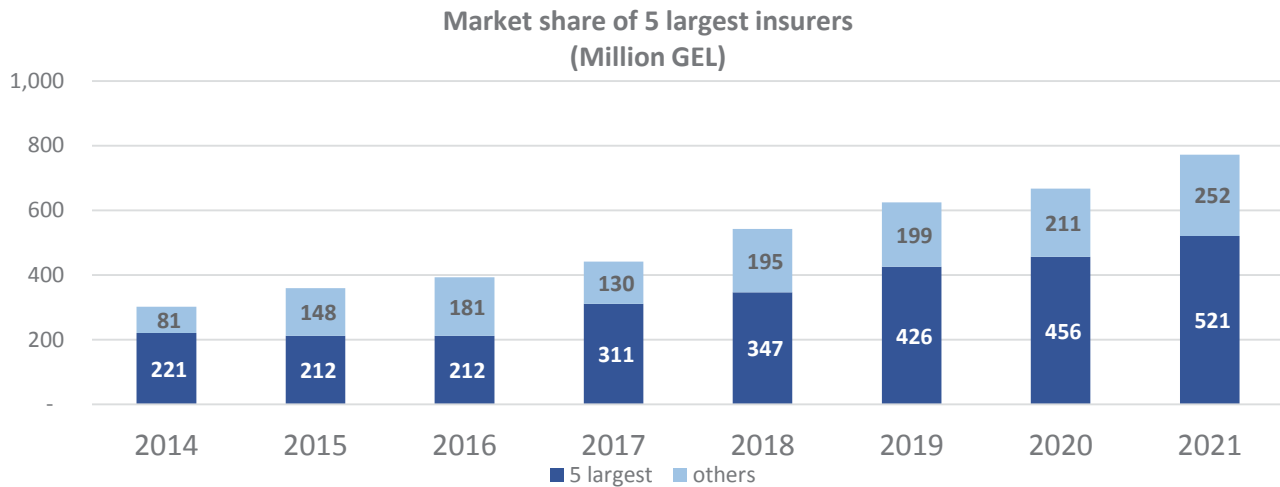
Through the use of complex reinsurance treaties, despite the increase in volume, the net loss ratio (i.e. the Insurer's share in the losses) remains stable. It should be noted that, for example, in 2019 a high loss ratio of 91% was due to major claims

in the portfolios of two insurance companies. Those claims were so big that in the absence of proper reinsurance it would be impossible for the insurers to cover it, which would lead to the insolvency of the Insurers. For the aim of mitigating such risks, the Service has issued a by-law regulating per risk net exposure, setting certain requirements for reinsurers and the quality of reinsurance.

	2014	2015	2016	2017	2018	2019	2020	2021
Loss ratio (gross)	65%	60%	63%	61%	69%	91%	61%	60%

	2014	2015	2016	2017	2018	2019	2020	2021
Loss ratio (net)	65%	68%	66%	67%	60%	62%	60%	62%

Market concentration

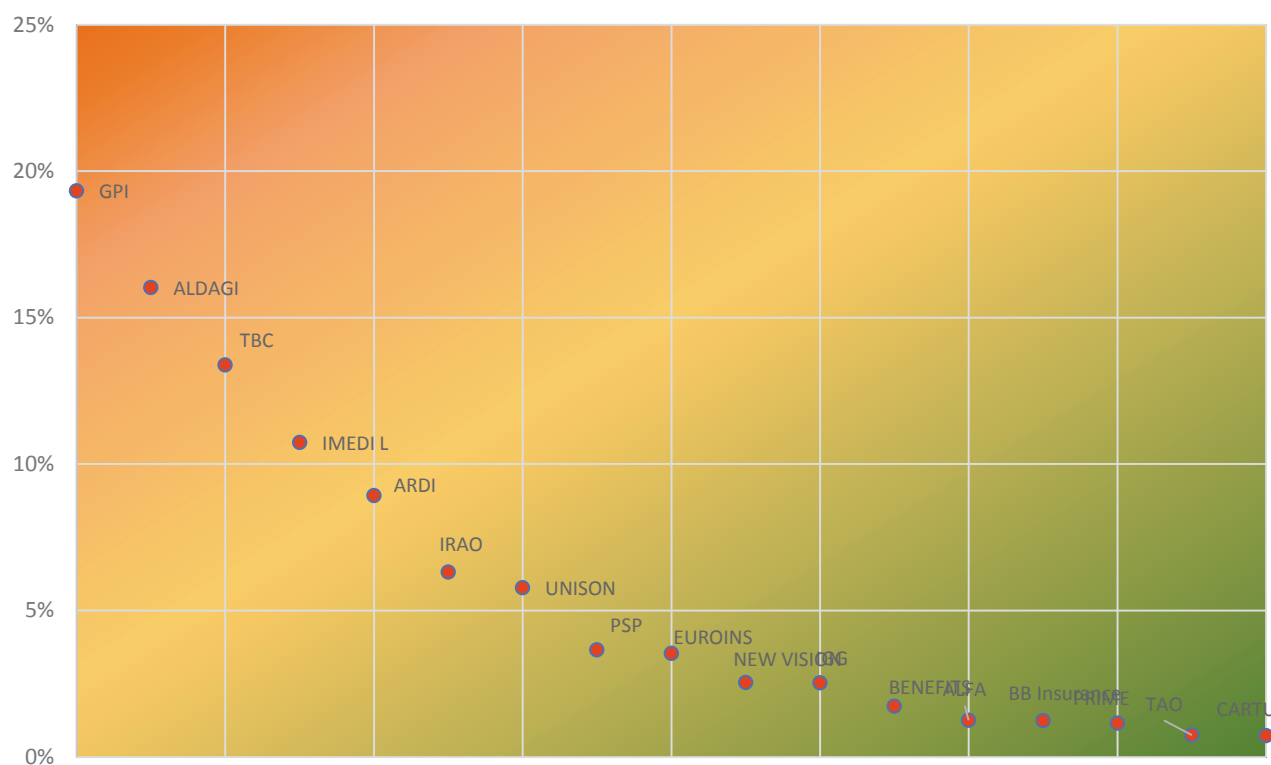


As shown in the above graphs, the market share of 5 largest Insurers, and hence, mar-

ket concentration tends to decline from year to year.

The graph below shows the distribution of individual shares of Insurers in the market.

Market concentration by gross written premiums



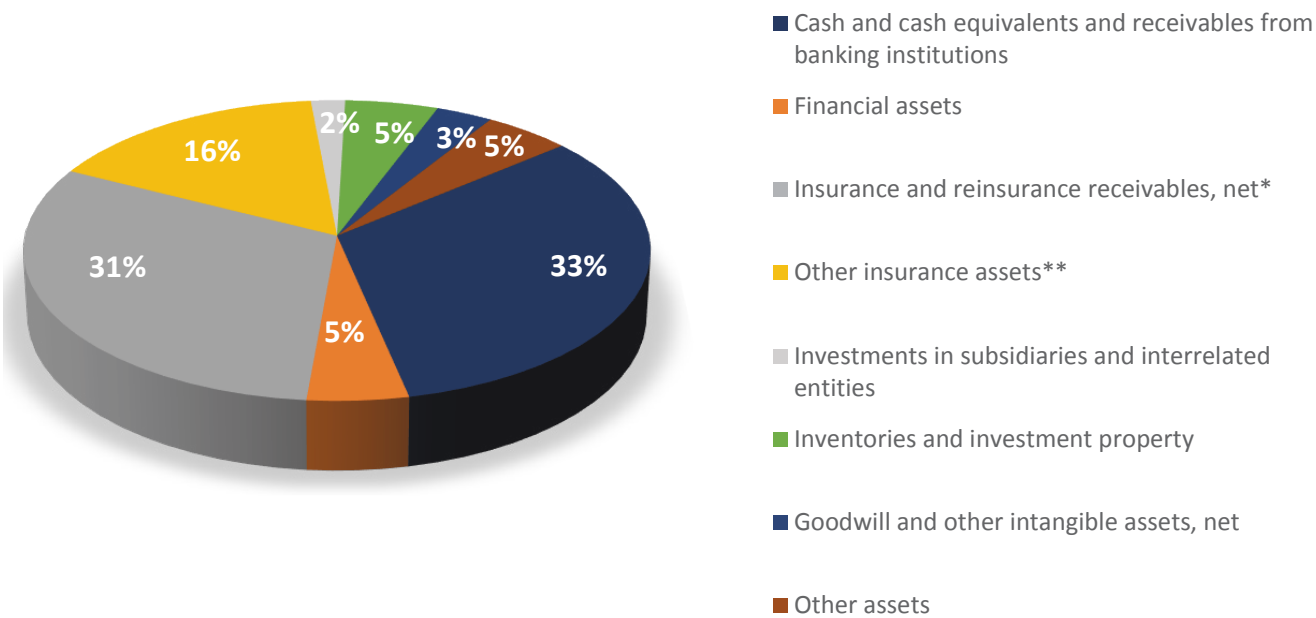
Structure of Insurers' Assets and Liabilities

Asset	Amount (million GEL)
Cash and cash equivalents and receivables from banking institutions	323
Financial assets	47
Insurance and reinsurance receivables, net*	306
Other insurance assets**	158
Investments in subsidiaries and interrelated entities	19
Inventories and investment property	52
Goodwill and other intangible assets, net	32
Other assets	49
TOTAL	985

As of December 31, the assets of insurance companies amounted GEL985.4 million, which is 8% higher in comparison with the previous year. The equity has increased by 16% and amounts to GEL 324.1 million.

One of the main reasons for the capital increase at the end of 2021 is the increase in minimum capital requirement, which is why several insurers have made additional investments in their capital.

Structure of Assets of Insurers



*** NOTE 1:**

Insurance and reinsurance receivables are reduced by the impairment reserve as provided by the law;

**** NOTE 2:**

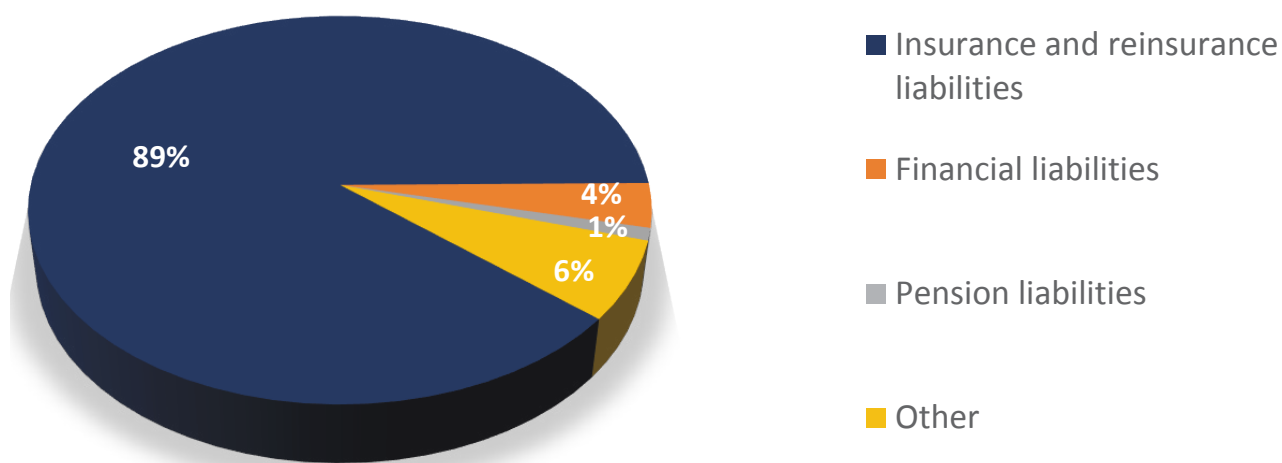
Other insurance assets mainly comprise of the Reinsurers' share in reserves.

Major part of the assets is represented by cash and insurance related assets. Cash and

cash equivalents account for 1/3 of liquid assets.

Structure of Insurers' Liabilities

Structure of Balance Sheet Liabilities of Insurers

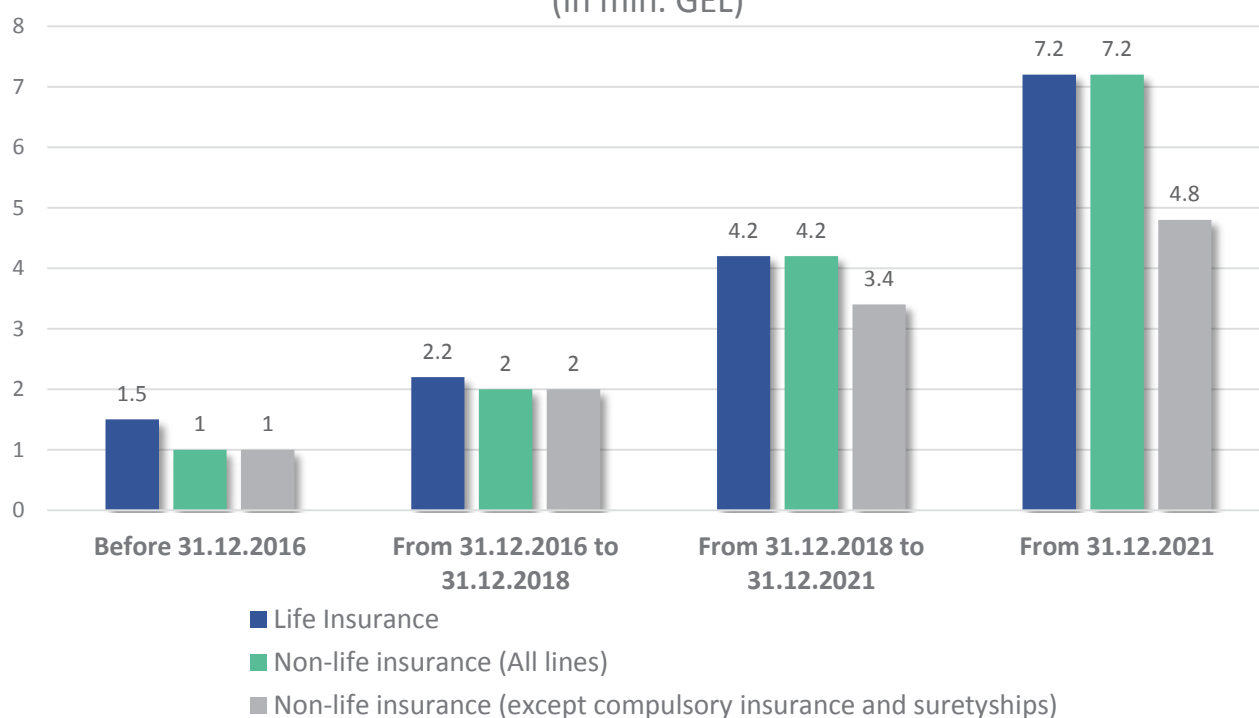


89% of insurers' liabilities are directly related to insurance and pension operations. Insurance reserves are covered mainly by monetary assets. Only a small part of tech-

nical provisions is covered by real estate or other assets. However, it should be noted that the quality of assets is closely monitored by the Service.

Financial stability of the sector

Minimum Capital Requirement (in mln. GEL)



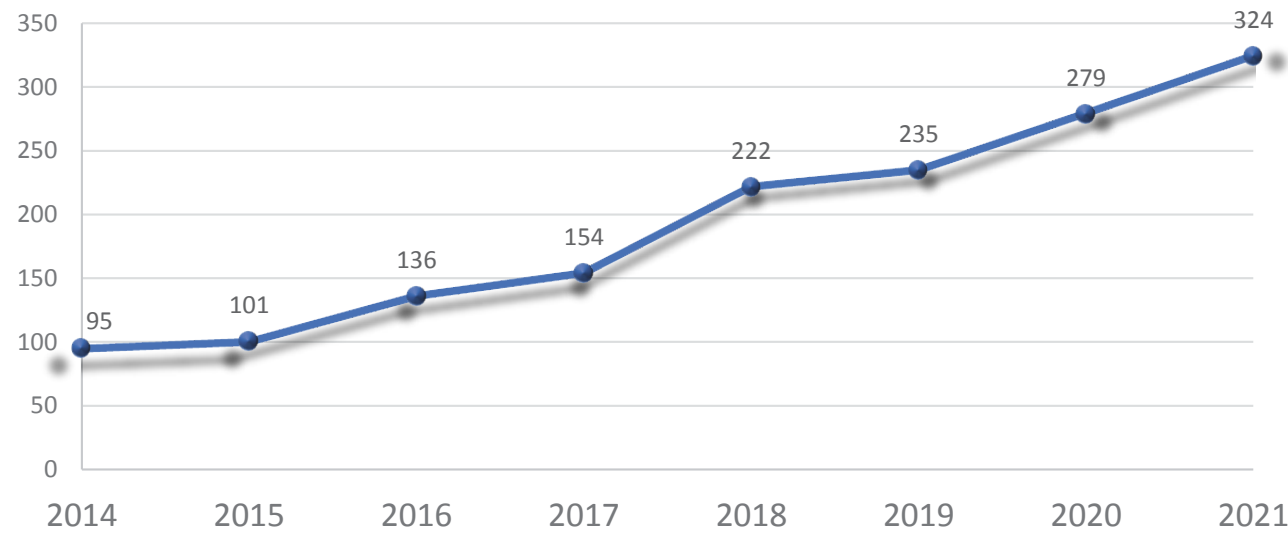
Through gradual increase in the minimum capital requirement, from 31.12.2021 the requirements for the minimum capital have increased to GEL 7.2 million in monetary form, if the Insurer operates in the following areas:

- Life insurance;
- Non-life insurance;
- Reinsurance;
- Compulsory lines of business;
- Suretyships.

If the insurer operates only in non-life business, except for compulsory insurance and suretyships, from December 31, 2021, the minimum capital requirement has increased to GEL 4.8 million.

Although most of the Insurers met the increased capital requirements, due to COVID-19 pandemic and the consequent reduction of premiums in several insurance classes, the increased requirements caused certain difficulties to some insurers, as retained earnings from insurance activities alone could not meet increased requirements. Therefore, several Insurers have approached their shareholders with a request to make additional capital injections.

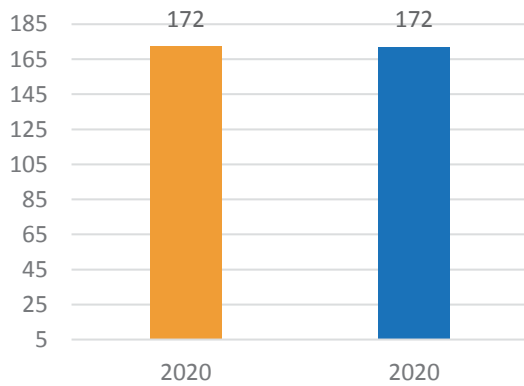
Total equity of Insurers
(million GEL)



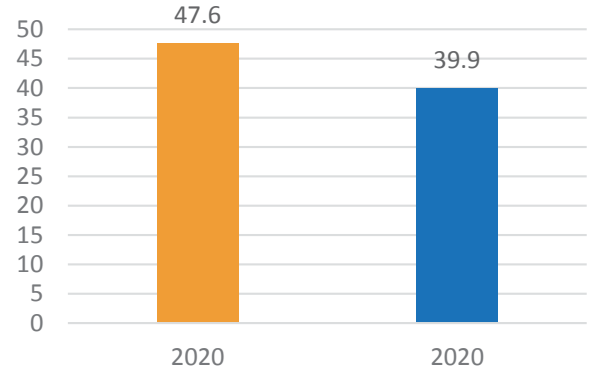
In 2021, total technical result amounted GEL 172 million, which equals to the data of the same period of the previous year. Net profit amounted to GEL 39.9 million showing a 16% reduction. The

decrease in net profit, with the unchanged level of insurance profit, is mainly caused by effect of decrease in foreign currency exchange rates after sharp increase in 2020

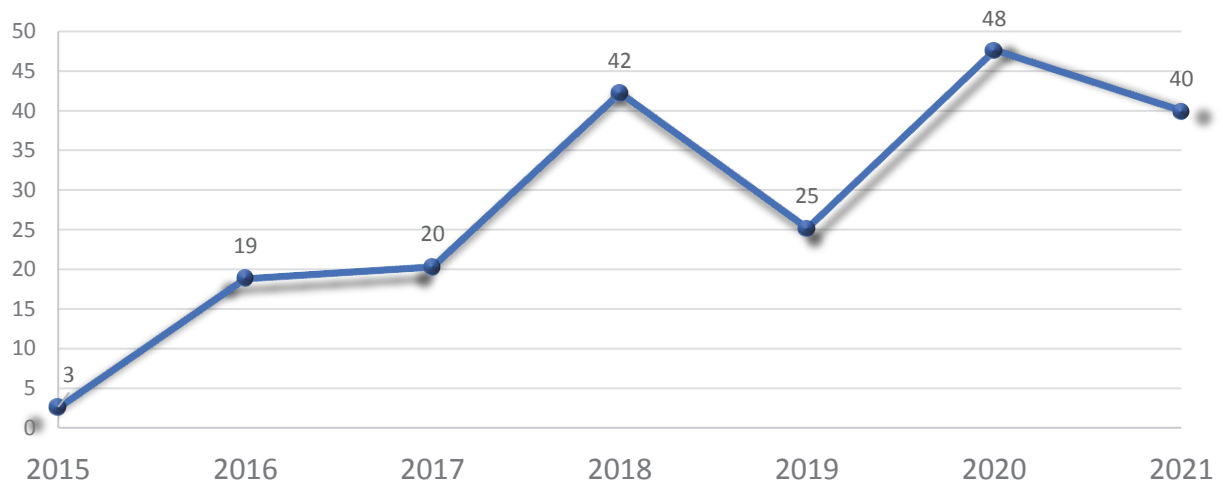
Insurance (technical) result
(million GEL)



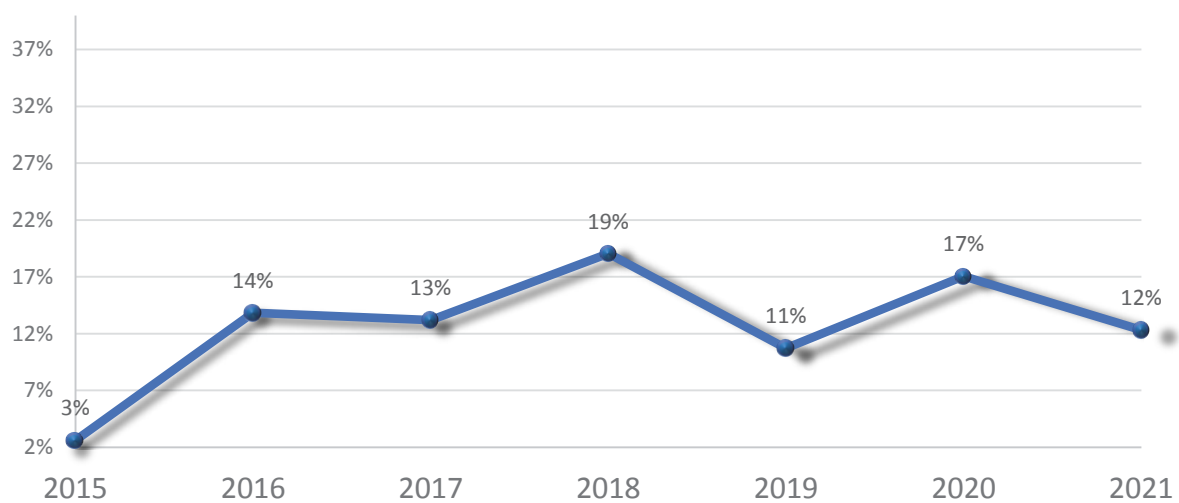
Net profit
(million GEL)



Annual Profit Dynamics
(million GEL)



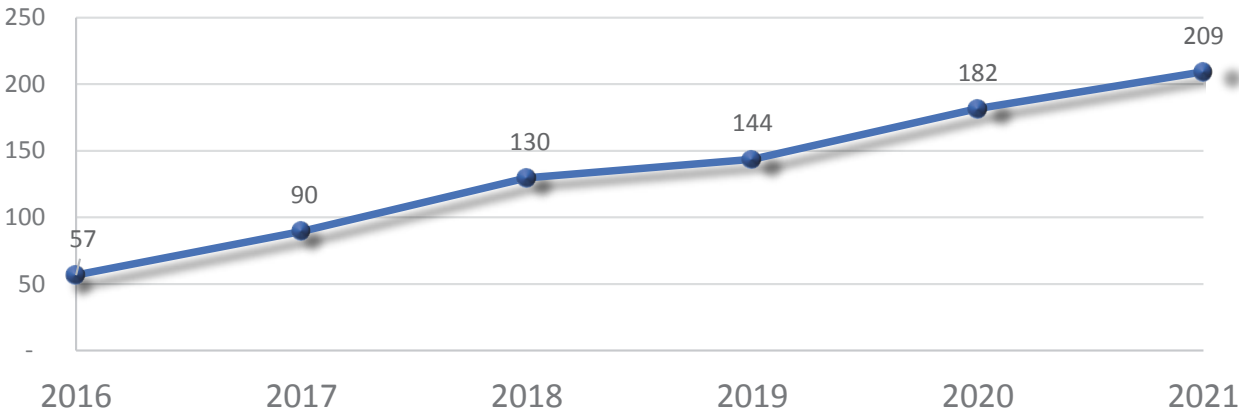
Dynamics of Return on Equity (ROE)



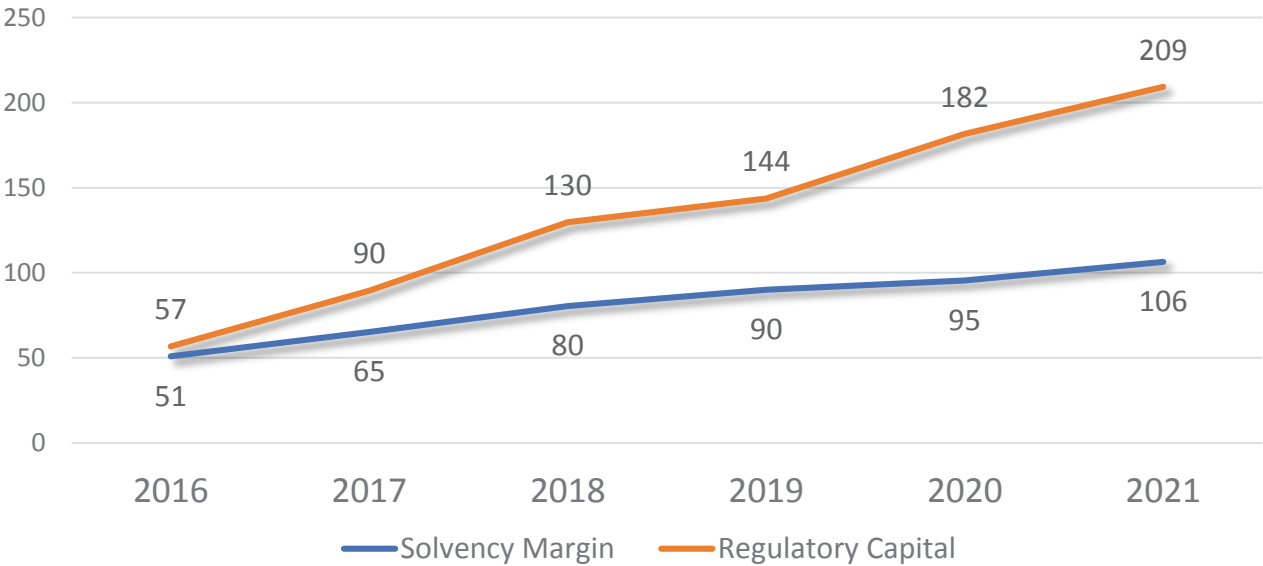
As already mentioned, changes in profitability were due to the pandemic and other related economic processes. However, the market maintained profitability, and the

Service set the requirements in a timely and consistent manner, which in turn ensured the stable growth of the regulatory capital.

Regulatory capital
(million GEL)



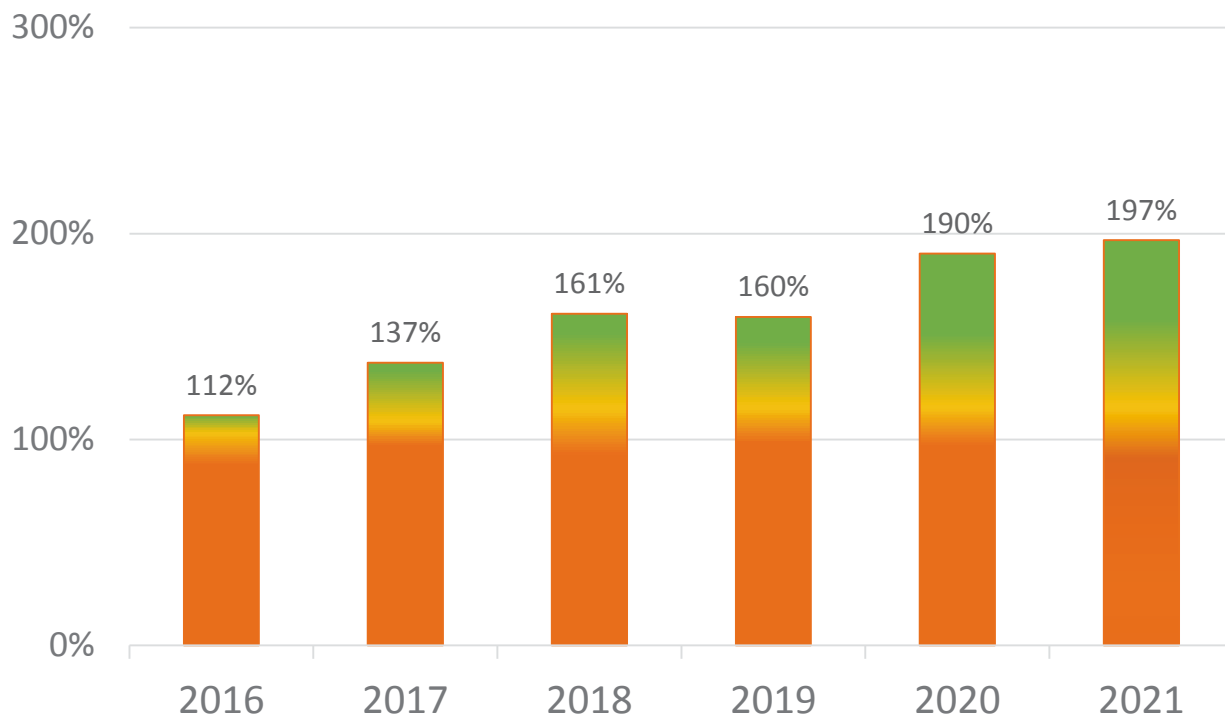
Solvency and regulatory capital dynamics
(million GEL)



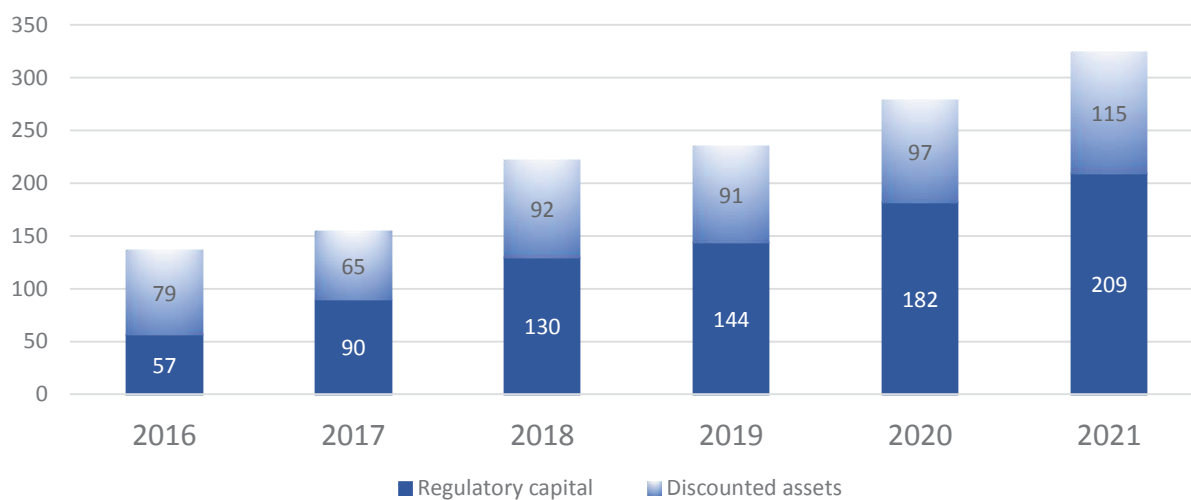
The solvency of the market also continues to improve and its

ratio to total regulatory capital is 197%.

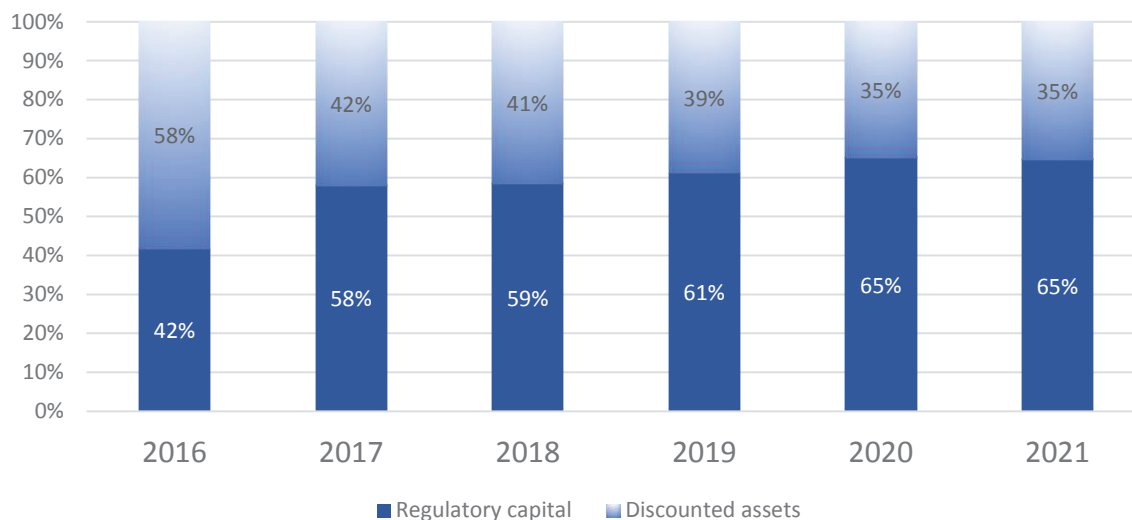
Development of regulatory capital in relation to Solvency margin



Share of Regulatory capital in total equity of insurers (million GEL)



**Share of Regulatory capital in total equity of insurers
(% of equity)**



The share of the discounted assets in the total assets of the companies has decreased

significantly since the introduction of regulatory capital requirements (since 2016).

3.2 Insurance brokers

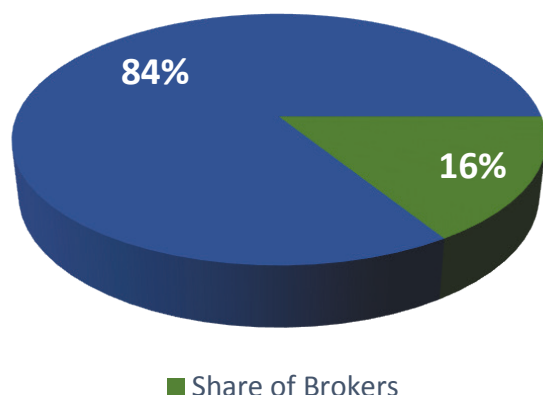
Insurance brokers represent a very important part of the insurance business. Brokers bear a significant risk in terms of the client money held and the quality of the risk placement. Due to above mentioned, the regulatory framework for the supervision of insurance intermediaries has been strengthened, which will further ensure high quality, professionalism and reliability of services.

In 2021, total insurance brokerage amounted GEL 6.6 million, which is 20% increase comparing to-

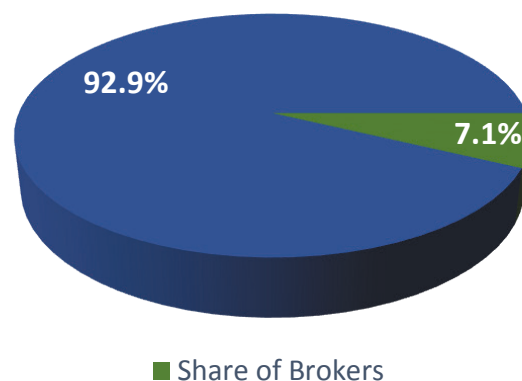
the previous year. Insurance brokers have the right to provide both insurance and reinsurance intermediary services. 68% of their commission revenues come from insurance and the remaining 32% - on reinsurance operations. In 2021 commissions growth was almost similar in both areas.

The charts below show the share of the registered brokers in total insurance and reinsurance premiums.

Participation of brokers in Reinsurance operations



Share of Brokers in Gross Written Premiums



3.3 Supervisory process

One of the main tasks of the Service is to control and maintain the financial stability/solvency of the Insurers and insurance brokers (hereinafter “Companies”), as well as to monitor their activities in the prevention of money laundering and terrorism financing.

Direct supervision of the Companies is carried out by studying/analyzing their monthly and quarterly reporting forms approved by the Service, additional information, documents, or other detailed data obtained during on-site inspections. Supervised entities may be fined only within the scope of competence and only to ensure that they comply with the legislation and by-laws.

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

During the year of 2021, the Service reviewed annual reports and financial and statistical reports for the IV quarter, December, I-III quarters, and

January-November of 2021, as well as regulatory capital and solvency margin calculation forms received from 18 Insurers.

Letters provided by the Insurers and insurance brokers from the banking institutions on the cash balances for the same period and also the funds and security measures provided for by the law were compared with the data in the submitted financial and statistical reporting forms.

The Service reviewed the annual reporting forms for 2020 and 6 months of 2021 submitted by insurance brokers.

The Service reviewed annual audited statements of insurance companies for 2020, which were compared with the data of financial reporting forms submitted by the same undertakings.

The Service also reviewed audited statements of insurance brokers for 2020.

Based on the reporting forms submitted by the Insurers and the founders of non-state pension schemes, the Service prepared the statistical and financial reports of the insurance market for the

2020 and I-III quarters of 2021. These reports were translated into English and published on the official website of the Service.

Based on the reporting forms submitted by the insurance brokers, the Service prepared the reports on brokers' activities in the 2020 and I-III quarters of 2021. These reports were also translated into English and published on the official website of the Service.

Insurance market statistical, financial and other information was prepared in response to the requests from various organizations (insurance organizations, insurance brokers, National Bank of Georgia, National Statistics Office, Service for Accounting, Reporting and Audit Supervision, National Health Agency, etc.).

Based on the reporting forms submitted by the Insurers, analytical reports were prepared on the financial position, solvency, liquidity, assets covering technical provisions and compliance with regulatory capital requirements of the Insurers.

The Service registered all deposit agreements with banking institutions to secure the minimum amount of capital of insurance companies and issued preliminary written consents on the transactions related to the allocation of minimum capital amount.

The information received from the Compulsory Insurance Center for December 2020 and January-November 2021 was processed and compared with the information provided by the insurance companies in the reporting forms.

The compliance with the ratio between net exposure and regulatory capital was reviewed together with the relevant attachments/reporting forms. The Service requested other ancillary information, including information on reinsurance contracts and, in some cases, copies of reinsurance contracts.

Additional financial analysis of the Insurers' reports for the IV quarter of 2020 and I-III quarters of 2021 was carried out through an analytical tool

implemented with the support of World Bank experts.

Based on the submitted reports and the ancillary information, in addition to standard inconsistencies and minor irregularities, the following significant issues were identified:

- ✓ Violation of the rules for establishing the insurance provisions. In particular, a reserve for the reported but not settled claims was not created for the insured event occurred in the relevant period;
- ✓ Violation of the rules for determining eligible assets and their structure to cover technical provisions. In particular, the violation concerned the ratio of the eligible assets to technical provisions;
- ✓ Violation of the law of Georgia "On Insurance", namely, failure to timely submit annual audited financial statements for the year 2020;
- ✓ Violation of the minimum capital requirement, in particular, failure to timely submit the letter issued by the banking institution(s) licensed in Georgia;
- ✓ Violation of the rules on the approval of financial reporting forms and their submission to the Insurance State Supervision Service of Georgia, in particular, failure to timely submit the explanatory notes according to IFRS;
- ✓ Violation of the ratio between net exposure and the regulatory capital, in particular:
 - ✓ Failure to timely submit the information on obligatory reinsurance treaty;
 - ✓ Failure to timely submit Annex 5 ("Information on the risks to be considered as a single risk, the amount of which exceeds 15% of the Insurer's regulatory capital").

It should also be noted that the Service actively controls the observance of the instructions issued by the Service after on-site inspections.

In 2021 the Service revealed 198 violations in total, based on which it issued written warnings and imposed penalties on the undertakings concerned.

A review of the reporting forms submitted by insurance brokers revealed certain types of inaccuracies, for which corresponding letters were prepared and the revised reporting forms were requested. In order to eliminate identified violations, the Service issued written warnings and imposed fines.

According to the reporting forms submitted by one of the insurance brokers, it was noted that the broker did not carry out intermediary activities to which an appropriate response was made.

As a result of reviewing audited statements for 2020, the Insurer's representatives were interviewed and additional clarifications were provided on the reasons for the discrepancy between the audited figures and the data presented in the supervisory financial reporting forms, after which Insurers resubmitted revised reporting forms to the Service in accordance with the audited statements, where relevant.

Communication with the National Health Agency and insurance organizations to clarify the lists of medical (health) insurance beneficiaries has largely contributed to the reduction of improper fulfillment of the requirements set by the Ordinance #36 of the government of Georgia "On certain measures to be taken for the transition to universal health care system" of February 21, 2013, and the Letter #210 of the LEPL State Insurance Supervision Service of Georgia of April 27, 2017, issued on the basis of the above ordinance.

The financial performance of Insurers was analyzed using the analytical tool implemented with the support of the World Bank experts. Financial condition, solvency, liquidity, assets covering technical provisions and adequacy of supervisory capital were shown in relevant reports. As a result, it became possible to identify the Insurers

whose regulatory capital insignificantly exceeded the minimum authorized capital. Given the increase in the minimum capital requirement for the Insurers planned for the end of 2021, there was a risk that these Insurers would not meet new requirement. The insurers were required to submit appropriate action plans. In some cases, additional investments were made.

During 2021, in the conditions of the COVID-19 pandemic, instead of on-site inspections, the major part of work was carried out remotely.

Despite the difficulties caused by the pandemic, one insurer was inspected on site. The inspection aimed to check the Reported but Not Settled Claims Reserve in medical (health) insurance, premium receivables and the impairment reserve.

The inspections revealed certain inaccuracies and breaches. The company was requested to significantly increase the amount of both the insurance reserves and the impairment reserve.

As a result of active communication with the management of the company during the above inspection process, significant additional investments were made in the company, and hence, the problem of solvency did not arise.

The Service also supervises insurance companies, founders of non-state pension schemes, and insurance brokers in fulfilling their legal obligations to facilitate the prevention of money laundering and terrorism financing.

In accordance with the supervising principles implemented in the Service, money laundering and terrorism financing risk reporting forms submitted by the insurance companies and founders of non-state pension schemes for the second half of 2020 and the first half of 2021 were reviewed during the reporting period. In accordance with the revealed violations, fines were imposed, and/or written warnings were given.

During the reporting period, the Service requested from the insurance companies and studied the documents related to the compliance control system developed/processed in accordance with the Law of Georgia on Facilitating the Suppres-

sion of Money Laundering and Terrorism Financing and issued relevant instructions/recommendations to eliminate deficiencies and comply with the legislation.

In the reporting period, the Service issued Recommendation No2 “On Money Laundering and Terrorism Financing Risk Assessment by the Reporting Entity Supervised by the State Insurance Supervision Service of Georgia”, aimed on the one hand, to assist the entities accountable to the Service in the development and effective implementation of the system for assessing and managing the risks of money laundering and terrorism financing, and on the other hand, to help the Service to carry out appropriate supervision. The document includes main principles and standards to be applied by a reporting entity in assessing and managing the risks of money laundering and terrorism financing.

During the reporting period, representatives of the Service participated in online meetings organized by the Steering Committee of the project “Enhancing the systems of prevention and combating corruption, money laundering, and terrorism financing in Georgia” conducted within the framework of the Partnership for Good Governance programme of the Council of Europe and the European Union.

In 2021, in addition to the work performed in the routine operations, other important tasks were also accomplished by the Service, namely:

- ✓ Based on the market research, potential vendors were identified who will be able to implement new, state-of-the-art supervising tools, using SupTech technologies, including reporting portal and analytical system;
- ✓ In collaboration with the World Bank and experts in various fields, a regular competition was held to identify the winning companies for the Best Annual Reporting and Transparency Award (BARTA).;

The supervisory process is implemented through the following structural units: Financial Report-

ing and Analysis Division; On-site Inspection Division and Anti Money Laundering Division. The department also has a SupTech specialist working on the implementation of a reporting portal and a supervisory analytical system.

4

Cooperation with international organizations

The pandemic of the new coronavirus (Covid-19) has significantly influenced the format and content of international relations. The International Relations of the Service also adopted the practices that have been introduced all over the world.

Despite this situation, in 2021, the Service actively cooperated with international/donor organizations to conduct ongoing/new projects, conferences, or other events, the main focus of which was providing expert assistance in improving the existing insurance regulatory and legal system, as well as sharing of international experience.

The Service is a member of the International Association of Insurance Supervisors (IAIS), the number of members of which as of the end of 2021 stands at 152. The Association works on the implementation of insurance supervision standards (Insurance Core Principles (ICPs)), to which, in accordance with the Association Agreement between Georgia and the EU, the Georgian insurance system/legislation must be gradually adapted.

As in the previous years, in 2021 the Service participated in the Association's online self-assessment program to determine compliance with various core insurance principles (ICPs), this time, "Supervisory Review and Reporting (ICP 9)" and "Preventive Measures, Corrective Measures and Sanctions (ICP 10)". The Service was assessed as partially compliant, which implies that some work in this direction has to be carried out in line with international practice.

Based on the self-assessment program, IAIS annually publishes on its own extranet an overall ICP compliance report, which provides examples of its supervision practices, with access to the members of the organization.

Within IAIS, since 2019, the Service has been a member of the Assessment and Implementation Committee (IAC), where the Service is represented by the Head of the Service who participates in the work process on behalf of the country. During the reporting period, despite the challenges, the meetings were held remotely with the active involvement of the Service. The meetings outlined the work plans, which will be implemented in the future activities of the association.

In the reporting period, the Service continued to work on the Multilateral Memorandum of Understanding (MMoU) with the Association formally applied for in the previous year. The application was uploaded to the special extranet of the Association, the Service gave answers to the questions and currently, the Association is processing the documents submitted by the Service. In order to review the application submitted by the Service, a special assessment team has been set up, consisting of supervisors from different countries/representatives of the insurance system. The application review process is quite lengthy and is based on a substantive study of the existing legislation/approaches in the country, in which the Service is actively involved.

The Memorandum of Understanding provides a framework for cooperation and exchange of information between insurance supervisors and enables them to exchange confidential information and freely assist member jurisdictions, thereby promoting the financial soundness and stability of cross-border insurance operations for the benefit of their customers. Within the framework of the Memorandum, a lot of information about the Insurers (licensing, eligibility criteria for managers, liquidation/bankruptcy, ongoing supervision of insurance operations, in-

insurance intermediaries, facilitation of anti-money laundering and anti-terrorism activities, etc.) is received and shared (upon request). MMoU currently unites a large number of supervisors in the global insurance market.

In the current year, the Service participated in the IAIS annual international conference, which as in the previous years, was held online. Apart from the review of the activities carried out in the previous year, the conference discussed the issues of climate change in relation to Insurers, and further steps to be implemented by the supervisors for the analysis of the situation, as the proper risk assessment tool for the Insurers and macroprudential analytical tool for the supervisors. The meeting also discussed the insurance sector financial stability report with consideration of climate change. Climate change may have far-reaching effects on the global economy and on the structure and functioning of the financial system in general, as well as on the sustainability of individual financial institutions, including insurance companies (it should be noted that insurance companies play an important role in climate risk management). Much of the meeting again focused on the fight against Covid-19 in the sector and the importance of insurance. Decisions to address the pandemic gap were discussed, with particular emphasis on the role of the supervisors.

In the current year, the Service remotely attended the IAIS global workshop, which unites the representatives of the insurance system from all over the world. The workshop was dedicated to the main global issues in the insurance industry: systemic risks, the current situation in the reinsurance market, and the effects of the pandemic.

In the reporting period, A2ii (Access to insurance initiative) (an IAIS-initiated inclusive insurance provider that contributes to establishing IAIS insurance standards) organized a distance learning course for supervisors, in which a representative of the Service participated through a competition process. The course covered the questions of inclusive insurance and the related challenges. Upon completion of the course, the participant received a certificate. This workshop is an

important platform in terms of studying modern approaches and improving knowledge.

During the reporting period, the Service participated in the International Fellows Online Program, a virtual training program organized by the National Association of Insurance Commissioners (NAIC), established and administered by insurance regulators of 50 states, which sets standards across the country. The training course covered the following key topics: United States Insurance Solvency Framework, Reporting, Reinsurance, Reserves, and Capital Adequacy, Licensing, Financial Regulation Standards, Market Analysis, Cyber Security, and Climate Risks. Upon completion of the training program, participants were awarded certificates.

Representatives of the Service also participated in another international insurance forum organized by NAIC in a virtual format. The meeting discussed future changes in insurance, new opportunities, obstacles to their implementation, challenges, and risks associated with climate change. The participants talked about IAIS priorities and future plans for the next decade, the introduction of innovative financial supervision technology (SupTech), and forecasting future data using artificial intelligence.

Within the framework of IAIS, Georgia is a member of the Central and Eastern EU and Transcaucasian Regional Committee (CEET), which is focused mainly on regional issues in the insurance industry. The Service participates in workshops and conferences held by the Committee.

During the reporting period, within the framework of CEET and in partnership with the IAIS and the Toronto Center, the Service took part in an A2ii Training Program for Supervisors on Inclusive Insurance Regulation. It is based on a document developed by the IAIS - "Regulation and Supervision to Support Inclusive Insurance Markets". The Inclusive Insurance training course focused on climate change and the technologies that have an effect on the insurance market and supervision. Upon completion of the course, participants were awarded certificates.

Within the framework of CEET, the representatives of the Service also attended the conference “Inclusive Insurance in the Region” organized by Munich Re Foundation and Microinsurance Network. The conference discussed the role, functions, and importance of inclusive insurance, also the challenges in agro-insurance and the general situation in this field, digital technologies and their role and impact on the industry. The conference was also attended by the representative of Georgian Insurance Association who spoke about the results of the agro-insurance program implemented in Georgia, the practice established over the years, and the investments made under the program.

The Central, Eastern and Southeastern European Insurance Supervision Initiative (CESEE ISI) brings together insurance supervising bodies of the region for cross-border cooperation. During the reporting period, the organization held a virtual meeting, which was also attended by the Service in the capacity of an invited guest. The meeting discussed the challenges and experiences that the EU candidate countries faced in implementing the Directive on the distribution of insurance services ((EU) 2016/97), as well as the first observations on a new framework for environmental, social and governance (ESG) factors. The meeting also discussed the motor owners’ third party liability insurance in the regional context.

As in the previous years, the Service continued to work with the European Insurance and Occupational Pensions Authority (EIOPA). This organization was set up in 2007-2008, in the condition of the financial crisis, at the initiative of the European Union, to supervise insurance and occupational pensions, in order to further integrate the financial market within the EU and mitigate risks. It monitors and assesses potential risks, and also analyzes existing insurance and non-state pension legislation in both EU and non-EU countries.

As part of its cooperation with the organization, during the reporting period, the Service attended the Sustainable Financial Development Conference, where they discussed current achieve-

ments and challenges in non-life insurance that may arise in the future due to climate change. The insurance products were widely discussed in view of environmental goals. The risk of climate change affecting financial stability was assessed and various scenarios were analyzed.

During the reporting period, representatives of the Service attended a conference organized by EIOPA together with the International Center for Insurance Regulation (ICIR) and the World Bank Group “On Global Insurance Supervision - Insurance Sector after the Covid-19 Pandemic”.

The conference was attended by representatives of leading insurance/reinsurance groups, supervisors, and scholars. Emphasis was made on global trends in risk-based supervision and the challenges associated with the introduction of the new standards. Discussions focused on the effects of COVID-19 on the insurance sector and the existing shortcomings, the insurance sector in the digital post-pandemic world, and insurance supervision.

During the reporting period, under the auspices of the aforementioned organization (EIOPA), the Service, also, took part in a meeting on consumer protection, which was dedicated to consumers in the digital world. The meeting discussed financial services and their security, improving consumer access to information, the design of retail investment products and the process of their sale, risks, and opportunities for accelerated digitalization of financial services.

During the reporting period, the Service participated in the remote meeting arranged by the Organization for Economic Co-operation and Development (OECD) on the “Opportunities of Financial Strength for Women”, dedicated to the publications prepared by the organization on the improvement of women's retirement schemes, financial knowledge, and economic strength. The meeting highlighted gender equality and the protection of women's rights in response to gender-based violence. The meeting made emphasis on the relevant gender solutions for financial education initiatives to improve women's financial stability and financial literacy, as well

as their access to finance and income-generating opportunities.

The Service continues to work with the International Organization of Pension Supervisors (IOPS), of which it has been a member since 2020. The organization was established at the initiative of the Organization for Economic Co-operation and Development (OECD) and the International Network of Pension Regulators and Supervisors (INPRS) and currently has 91 member states (including our neighbors: Armenia, Turkey, Russia, Kazakhstan, etc.). The organization works closely with international organizations such as the World Bank (WB), International Social Security Association (ISSA), International Insurance Supervisors Association (IAIS), International Monetary Fund (IMF), as well as with many countries around the world, and is involved in the development of pension supervision policies. The main goal of its activities is to improve the efficiency and quality of the supervisory link in the process of supervision of private pension schemes. The organization sets international standards for pension supervision, and provides assistance to pension supervisors, especially in emerging economies.

In 2021, the Service, together with the National Bank of Georgia (which is also a member of the IOPS under the Investment Regulation of Pensions (Pillar 2)), provided the organization with data on Georgia's non-state pension schemes for 2020 in a questionnaire format. The questionnaire included an overview of the legal framework in the country, macroeconomic and demographic data, with a detailed description of the types of non-state pensions, terms of payment, pension contributions, occupational pension schemes, pension schemes developed by insurance companies, asset management, special depositary, pension schemes for employers, etc. By sharing pension insurance data, the association studies the market of its member country and publishes the general information on its website.

During the reporting period, the Service also provided the IOPS with existing approaches to the collection of information and data related to non-state pension schemes, namely: eligibili-

ty of the required information, use of IT systems and modern technologies in the above process, data processing, analysis, quantitative, qualitative and statistical indicators.

During the reporting period, the Service attended the annual General Meeting of IOPS, which was dedicated to the pandemic situation and its implications for private pension relationships, early access to pension savings, related supervising approaches, liquidity, and financial stability issues, the role of pension assets, adjustment of supervising methodologies to the current environment, and supervising approaches in private pensions sector to increase cyber security. The meeting is an important platform in this field for sharing international practices and ensuring international involvement.

During the reporting period, the Service also attended the IOPS Technical Committee meetings to discuss the organization's future administrative and operational goals, supervisory approaches to enhance cyber security in the private pension sector, and risk-based supervision. The meeting reviewed the practice of the previous years, existing challenges, and their assessment. The Committee widely discussed the investment guarantees in private pension systems, new projects, and questions of international cooperation.

During the reporting period, the Service also attended an IOPS meeting on the introduction of supervisory guidelines developed by the IOPS and environmental, social, and governance (ESG) factors, which play an important role in the risk management process of pension funds. The meeting also discussed the investment and risk management of pension funds, the impact of the pandemic, and financial stability.

During the reporting period, representatives of the Service attended a joint meeting with the Asian Development Bank (ADB) arranged by the Government of Japan - "Insurance and Pension Savings in Asia", which discussed the key issues of the pension and insurance market, the experience of different Asian countries and the best practice of healthy market development.

During the reporting period, the Service attended an international conference arranged by the International Pension Research Association (IPRA) jointly with the OECD and the IOPS. The main topics of the meeting were long-term pension insurance, climate change, and the impact of COVID-19 on the retirement landscape.

During the reporting period, the Service and the representatives of the Georgian Association of Actuaries took part in the webinar "Risk Management in Enterprises and the Role of Actuaries", organized by the Montenegrin Association of Actuaries. The actuarial profession is directly related to the modernization of the insurance rate establishing process in both compulsory and voluntary insurance and plays an important part in the European harmonization of the insurance industry.

In 2021, the Service attended the Digital Insurance Forum organized by the International Center for Insurance Regulation (ICIR). As the question is topical, especially in light of recent global developments, the Service continues to learn about the practices and challenges of other countries in the field of digital transformation and digitalization. To this end, in 2019, by order of the Head of the Service, a special working group was set up in the Service to develop a digital supervision strategy for the insurance sector.

During the reporting period, as in the previous years, close cooperation continued between the Service and media agency XPRIMM (Promoting the Reinsurance & Insurance Market by Media), which specializes in insurance/reinsurance, insurance intermediation, and private pension insurance. Within the framework of this cooperation, an international insurance conference, the most important event in the Georgian market was held.

This time, the 3rd International Annual Conference, due to the pandemic, was held in digital format with the support of the Georgian State Insurance Supervision Service, the Administration of the Kingdom of Spain, International and Ibero-American Foundation for Administration and Public Policies (FIIAPP), and the Georgian insur-

ance market. Together with the representatives of the Georgian insurance market, the conference was attended by representatives of various insurance industries and international experts. The event analyzed the trends of the Georgian insurance market in 2020, its growth opportunities, challenges in the field of medical insurance, and the questions of risk-based supervision and preparatory work for the introduction of new technologies in the financial markets. This International Insurance Conference is a high-level platform for the insurance market and an effective way to exchange views with local and foreign insurance companies, brokers, IT providers, the public sector, financial institutions, and other organizations. This contributes to the future sustainable development and enhancement of the role of the insurance sector.

In 2021, the Service had an opportunity to participate remotely in a several-day summit "Data analysis in the banks and retail insurance systems" organized by Uniglobal Institution. At the meeting, professionals and top experts shared their experiences and views on the challenges of the banking and insurance retail sector. Discussions were also held on market expectations and future trends in forecast data analytics. Among other important issues, the session discussed the development of data analytics, industry challenges, and the growing importance of digital transformation.

Cooperation with the World Bank continued within the EU-funded project "Economic governance and fiscal accountability" (2019-2022), which provides technical assistance to the Service, and development/implementation of new insurance products on the Georgian market, such as compulsory medical malpractice insurance, professional indemnity insurance for architects and engineers, life insurance products, and index-based agricultural insurance.

In 2020, within the framework of the project, World Bank experts reviewed the Georgian life insurance market, system, and current challenges, and prepared a preliminary report. In 2021, the second (final) report was prepared, which highlighted the fact that today in Georgia there is only

a market for term life insurance and no space for long-term (savings) products, clearly outlining the reasons that are typical not only for Georgia but also for the majority of emerging economies. This is mainly due to the lack of long-term reliable investment instruments, low returns, lack of financial education and awareness, and long-term confidence factors. The report provided an in-depth analysis of the following topics: current legislation governing mathematical reserves in life insurance; Actuarial profession and the role of actuaries in life insurance. The report also provides a number of legislative recommendations, including the need for different tax treatment for long-term life insurance contracts, the importance of setting standard interest rates to calculate mathematical reserves and product prices, and requesting the technical basis for all life insurance products; introducing of standard conditions of life insurance; ensuring the need for healthy competition in the insurance distribution network.

It should be mentioned that the Service, jointly with insurance companies, arranged a remote meeting with the World Bank experts to discuss the report. The representatives of the insurance industry shared their views on the project. The market participants spoke about the areas in which the market can develop, gave a review of the state of life insurance, and exchanged their views on current industry practices, as well as on the prospects and expectations for the implementation of the recommendations outlined in the report.

Within the framework of this project, during the reporting period, with direct involvement of the Service and in-depth consultations and exchange of views with stakeholders, a Medical Malpractice Liability Insurance (MMLI) report was prepared to provide financial protection to health care providers. It reviews the current state of medical malpractice liability insurance in Georgia and identifies market and regulatory challenges in the way of growth and future development of this business. While this market segment is almost non-existent in Georgia, this report is significantly based on international best practices and standards, which will then be used

as a basis for sector-specific policy recommendations for the decision-makers of the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia, State Insurance Supervision Service, Georgian Insurance Association, the Agency for Regulation of Medical and Pharmaceutical Activities, and the Union of Georgian Medical Associations. The report includes the analysis of the Georgian legislative basis and market statistics. In order to better understand the current system of medical malpractice liability insurance in Georgia, a survey was conducted, and online meetings were held with relevant representatives of insurance companies to discuss business practices, Georgian regulatory frameworks, and potential challenges.

During the reporting period, within the framework of the above project, the World Bank specialists began to study the issues of professional indemnity insurance for architects and engineers, prepare its analysis, and plan future meetings with the involvement of interested parties.

Based on the reports prepared by the World Bank experts, practical capacity development workshops are planned for 2022, where all stakeholders will be actively involved. It should be emphasized that according to the World Bank, the insurance sector in Georgia is at a new stage and has a good potential for further development.

Public services twinning project (TWINNING)

In 2021, work proceeded within the framework of the EU-funded Public Service Twinning project (TWINNING) - “Strengthening the Capacity of the Insurance State Supervision Service of Georgia” launched in 2019, which aims to bring insurance legislation closer to European standards, as provided by the Association Agreement between Georgia and EU. The project provides for 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); its total budget is EUR 1,200,000. Within the framework of the project, a similar service of the EU Member State, the Kingdom of Spain - Directorate General of Insurance and Pension Funds under the Ministry of Economy and Business, will assist the Service with long- and short-term expert groups in the introduction of the new solvency standard for insurance companies and in the related processes. Initially, the project was planned to last for two years, however, due to the Covid-19 pandemic, corrections in the scenario were unavoidable, and the project was extended by several months within the total budget.

The overall objective of the project is to facilitate the fulfillment of Georgia's obligations under the Association Agreement signed with the European Union and to increase the accountability, safety, and efficiency of the financial (insurance) sector; while **the specific goal** is to strengthen the institutional and human potential of the Service, which will ensure an increase in the efficiency of the insurance sector, improve accountability to the Service and financial security of the industry, as well as to develop a legal framework for the implementation of SOLVENCY-2 standard provided by the EU regulations.

Solvency-2 is a risk-based system valid in the territory of the European Union, which regulates all stages of the insurance business and its supervision. It is a dynamic system and changes depending on the risk. Solvency-2 mainly refers to the ability of the Insurers to effectively fulfill their obligations to the Insureds and helps strengthen the financial stability of the companies, proper identification and management of risks, implementation of internal management standards, protection of consumers' rights, proper and timely supervision by the Service, which ultimately ensures the correct functioning of the system and increases its reliability.

The project consists of two components: development of a new legislative/regulatory framework in accordance with SOLVENCY-2, and strengthening of institutional and human resources capacity by means of enriching the knowledge and experience of the staff of the Service and increasing the awareness of the Insurers.

The system, in turn, consists of three components (so called pillars), each divided as follows: The **“first pillar”** 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. The **“second pillar”** is based on the governance system and supervising, and includes quality requirements, such as the internal governance system of the companies and its main functions – actuarial, internal audit, internal control and compliance, and risk management, which in turn includes implementation of Own Risk and Solvency Assessment (ORSA) process. The **“third pillar”** includes the Insurer's accountability in the above

2 pillars, including various reporting forms, public reporting, enforcement of market discipline, transparency, and openness.

Licensing approaches in SOLVENCY-2 are also different from the current Georgian legislation. In particular, the licenses must be issued according to the classes (groups of classes) of business.

All the above requires accurate approaches, proper planning, and conduction 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.

As in the previous year, in order to increase the knowledge and experience of the staff, the activities under the project were planned in detail, according to the specific topics, with consideration of the schedule and methodology to be used.

Due to the easing of international and local restrictions, training sessions have been partially shifted from the online (zoom) platform to real space, and some of them were conducted by EU experts on-site. In addition, the project took advantage of the stabilization of the pandemic situation and organized two visits to the Kingdom of Spain.

During their first visit to Madrid, the representatives of the Service got acquainted with the institutional structures of the Spanish regulator of the insurance sector and their supervisory approaches. Meetings were held with the leadership of the Directorate General for Insurance and Pension Funds, during which the parties exchanged their views, both through presentations and interactive discussions, about the experience and challenges of creating a supervision framework in accordance with Solvency 2 principles, and its implementation in practice.

One of the most interesting meetings was the meeting with the Spanish Insurance Compensation Consortium (CCS), during which the representatives of the Service got acquainted with the work model of the Consortium and the main directions of its activities. The activities of the Consortium include compensation for the losses

caused by extraordinary risks, partially within the motor owner's civil liability for uninsured unidentified or stolen vehicles, agricultural risks, and environmental risks (including forest fires). The organization also performs the functions of an information center in the above-mentioned area of insurance, which also includes receiving insurance claims and conducting expert assessments, insuring export credits, and carrying out large-scale preventive measures. Subject to special conditions, the Consortium is authorized to carry out the liquidation/rehabilitation process of certain types of insurance companies.

It should be noted that the representatives of the delegation got acquainted with the working model of the Spanish agricultural insurance ("Agroseguro"). This system was introduced in Spain in 1978 and is considered one of the most successful models in the world. The delegates also got acquainted with the Spanish agricultural insurance system and its structure, the model of catastrophic risks insurance and compensation for catastrophic losses. Importantly, this agro-insurance system also includes livestock, aquaculture, and forestry products. The process of agro-insurance includes insurance product design, pricing, and actuarial analysis to identify new risks based on the historical database and statistical information.

The advantage of the Spanish agro-insurance system lies in its high risk resilience, solvency, standardized statistical information, well-regulated commercial network in all regions of the country, and the uniform loss assessment system.

Within the framework of the visit, the Georgian delegation visited SANITAS, a member of the large British insurance group Bupa, one of the leading Spanish health insurance companies. The delegates listened to the presentation on both the state and private system of Spanish health insurance and visited a medical facility owned by the company, where they had an opportunity to get acquainted with the practice and principles of cooperation between the clinic and insurance companies.

During the second visit to the Kingdom of Spain, in addition to a general overview of the Spanish

insurance system, the Service was given the opportunity to get acquainted with the specifics and practices of the Basque Autonomy. The meeting was held directly with the representatives of the local authorities, during which, in addition to general introductory information, special attention was paid to the features of the private pension system (2nd pillar), which operates only locally, on a voluntary basis. The system is managed by the Federation of Local Non-Profit Voluntary Social Welfare Entities (EPSV) and consists of 113 subjects uniting about 70 voluntary organizations. The source of funding is membership fees and subsidies from the Basque Government. The Federation is supervised by the Department of Economy and Finance of the Government of the Basque Country, which controls its compliance with the law, financial situation, and market rules.

It was important for the Service to see the example of the European country and one of the successful models of international experience.

The representatives of the Service got acquainted with the activities of the actuaries of the Directorate General for Insurance and Pension Funds and their role within SOLVENCY II in calculating technical reserves, analyzing business models, and calculating liabilities under reinsurance contracts, solvency capital requirements, and other technical details.

During the visit, the delegates were introduced to the reported data analysis software. This is an advanced analytical program that represents an effective reporting model in terms of its comprehensive content and automatic validation mechanisms.

During the visit, the representatives of the Service also got acquainted with Mondragon Corporation established in the Basque Autonomy.

Mondragon Corporation is a union of local co-operatives – a corporation with a long history, founded in 1956, in Mondragon, the Basque Country, and representing one of the largest business groups not only in the Basque Country and the Kingdom of Spain (where it is the seventh largest

company) but also in Europe. The corporation includes 257 companies and operates in four main areas: financial sector, industry, retail, and education system. According to the latest data, the number of employees in the corporation has exceeded 80,000 people, and revenues amount to € 12 billion.

During the meeting, special attention was paid to the financial sector, in particular to the insurance company - Seguros Lagun Aro, its structure, specifics, and approaches to operating in the insurance market. The company operates in several areas (motor, property, life, and personal accident insurance), and its annual written premium is estimated at around €180 million.

During the visit, the representatives of the Service also met with the representatives of the insurance company IMQ, the leader of the health insurance sector in Basque Autonomy, where they got acquainted with the main financial and statistical indicators, and the specifics of the company.

As part of the project, representatives of the Service were also invited to the Accounting and Auditing Service (ICAC) of the Ministry of Economy and Digital Transformation of the Kingdom of Spain, where the focus was made on the activities of insurance companies and accountability to the Service.

During the visit, the Service paid a working visit to the Spanish Association of Insurers and Reinsurers - UNESPA. The association was founded in 1977 and represents more than 200 insurance companies, which is 96% of the Spanish insurance industry. During the meeting, the delegation got acquainted with the main activities of the organization and its structure, as well as the relationship and cooperation with the supervisory body.

In 2021, within the framework of the first component of the ongoing TWINNING project, 16 missions were arranged in Georgia, including 11 in Tbilisi and 5 remotely. The missions were dedicated to the following issues: anti-money laundering and anti-terrorism measures, risk-based supervision, licensing of insurance and reinsurance activities, governance system, insurance provisions in life

and non-life insurance, supervision, reinsurance, and cyber security.

In 2021, within the second component of the project, 9 meetings were held in Georgia, with the participation of the representatives of the insurance companies.

In the reporting year, the Spanish experts prepared the initial legal framework. In order to improve it and adapt to the legal framework of Georgia, a special working group was established by the order of the Head of the Service, which will work in accordance with the action plan and work schedule approved by the same order. The working group was comprised of the employees of the Service and invited experts, who were to present their conclusions and opinions. The working group met regularly throughout the year and discussed the issues outlined in the plan. During 2021, the working group held 38 meetings and drafted 75 of the 119 articles in the draft law submitted by the experts. The working group had to deal with many concepts and processes unknown to the Georgian insurance market. Consequently, extensive work was done and most of the draft law was revised. The requirements of the Directive are of a systemic nature, thus completely changing the insurance regulatory framework, as well as the approaches to the process of insurance operations. Consequently, its implementation is a lengthy process and will continue in the next year. It should be noted that following the trends in the EU and around the world, the Service has also been involved in the study of environmental, social, and governance factors (ESG). Spanish experts offered recommendations on how these factors could be reflected in the new approaches, and the Service started intense work in this direction.

The second component of the EU project is related to the creation of the appropriate human and institutional basis for the implementation of the above system. Strengthening of institutional and human resource capacity of the Service will in turn increase the efficiency of insurance companies, improve their accountability to the Service and contribute to the financial security of the sector. Thus, it was planned to involve stake-

holders, familiarize them with the new approaches, and discuss possible scenarios, in order to ensure implementation of all stages of the process. During the reporting period, the project meetings covered the following topics: Non-Life Insurance Reserves, Assessment of Non-Life Technical Reserves, Cyber Security, Key Aspects of Launching Insurance and Reinsurance operations, Confidentiality, Dispute Resolution, Insurance Supervision, Requirements for Governance and Supervision of Business Behavior, Key components of Solvency II standard requirements, Reinsurance, including key concepts, types, and recent trends.

In 2021, the Project Steering Committee held 4 scheduled meetings. The Committee is represented by the Beneficiary State (Georgia) and the Member State of the European Union (Kingdom of Spain) in the person of the officials of both parties, as defined in the project, and also by the representatives of the EU Delegation and the Program Administration Office (PAO) under the Ministry of Foreign Affairs. Each meeting of the Steering Committee reviewed and approved the quarterly reports for the respective periods, plans for future activities, and the project budget. Due to the pandemic, the Spanish side, in agreement with the Service, applied to the local EU representation with the request to extend the project.

6

Development of the legal framework/ legislative process

In 2021, the following significant legislative work was done to regulate the questions within the competence of the Service:

On August 2, 2021, an amendment was made to the Law of Georgia on Insurance and a new definition of the term "Indirect Participation" was introduced, which will come into force on January 1, 2022. The mentioned change was conditioned by the adoption of the new Law of Georgia on Entrepreneurs, due to which it became necessary to make a subsequent change in order to ensure the terminological consistency of these two laws.

In the reporting period, the Head of the Service issued the following Orders:

- ✓ Order #49 of February 11, 2021, approving the "Form and procedure for publishing information about the direct owner of 10 percent or more and the beneficial owner of a significant share". The necessity of issuing this order was caused by the amendments to the Law of Georgia on Insurance, which imposed the obligation on the Insurers to publish information about the direct owner of 10 percent or more and the beneficial owner of a significant share in the form and in the manner prescribed by the Service. Based on the above legislative changes, the Service established the form and procedure to be followed by the Insurers in publishing the above information.
- ✓ Order #51 of April 19, 2021, introducing changes to Order #11 of the Head of Service, of February 17, 2016, "On approval of the internal accounting requirements for insurance organizations". This order aimed to create a solid legislative basis for the Insurers to strictly observe their legal obligations in checking the personal data. In addition, after the adoption of the Georgian law "On facilitating the prevention of money laundering and the financing of terrorism," as well as the "Procedure of identification and verification of clients by the reporting entities" approved by the Order #2 of the Head of Financial Monitoring Service of June 5, 2020, it became necessary to reflect the legislative changes in the corresponding by-laws.
- ✓ Order #52 of April 21, 2021, introducing changes to the Order #33 of August 6, 2019 "On determining the marginal ratio between the Insurer's net exposure and the regulatory capital". The reason for this order was the need for formal separation of the reporting forms and mandatory information to be submitted to the Service by the insurance organizations within the framework of remote supervision and for clarification of the wording, with the aim of simplifying the relevant sanction in case of violation. In addition, the current version has been clarified for the purpose of a uniform interpretation of the norms related to the definition and specifics of reinsurance.
- ✓ Order #53 of June 30, 2021, introducing changes to the Order #02 of the Head of Insurance State Supervision Service of Georgia of March 17, 2015, "On approval of

the procedure for determining, imposing, and enforcing monetary penalties for the Insurers.”

In the reporting period, the Service developed a recommendation “On prevention and elimi-

nation of age discrimination by Insurers and/or insurance intermediaries in travel insurance”. The work has been started on the development of the personal data protection policy.

7

Inter-agency cooperation to develop a competitive environment

During the reporting period, in order to develop and support the competitive environment in the country, five market regulators/supervisors, namely, the Service, the Georgian National Competition Agency, the National Bank of Georgia, the Georgian National Energy and Water Supply

Regulatory Commission, and the Communications Commission of Georgia signed an agreement. The purpose of this document is to effec-

tively implement competition policy, strengthen inter-agency cooperation in this area, raise awareness of stakeholders and the public, and analyze the competitive environment in each area. Due to the importance of the question, the parties agreed to jointly organize an annual competition policy conference to reconcile the issues, analyze the implemented activities and discuss the challenges.

8 Consumers' rights

In the reporting period, cooperation with the Savings Bank Fund for International Cooperation (SBFIC) continued and the mystery shoppers report submitted by SBFIC in 2020 was reviewed, both in total and by individual Insurers. The results of the inspection were communicated to the management of the Insurers in the format of individual meetings, during which the parties discussed the results of the inspection, and the Service issued relevant recommendations.

In the process of remote monitoring, which includes the review of monthly reports on consumers' claims and the analysis and synthesis of the received information, the Service constantly monitors the Insurers' activities. Apart from the sanctions imposed for the proven violations, the Service arranged meetings with individual Insurers to discuss various issues in consumers' rights protection revealed during the reporting period.

The Service actively cooperated with the NNLP Agricultural and Rural Development Agency and participated in the meetings dedicated to the changes in the Ordinance of the government of Georgia of April 10, 2020, "On approval of agro-insurance program" regarding the improvement of the Insurers' performance and control practices, including the changes in the "Terms of insurance reimbursement" and determining the proper agencies for the control of the Insurers' obligations provided by the same article and the scope of their responsibility.

The Service also monitors the ongoing processes in the insurance market within the framework of the State Agro Insurance Program, and during the

reporting period, the Service personnel was sent to the meeting with farmers in the administration of the State Representative in the Kakheti Region to discuss the problems with the Agro Insurance Program. It should be noted that no violation by the Insurers was revealed during the meeting.

The Service closely cooperates with the National Bank in the area of consumers' rights protection and financial education. In the reporting period, the Service and the National Bank of Georgia jointly headed the workshop arranged for judges, "Supervision of the financial sector and the existing legislation on the consumers' rights protection".

During the reporting period, the Service continued to record the information on the received applications in the approved format. If necessary, statistical information on the applications is easily available and can be sorted by the number of applications, period of receipt, the identity of the applicant, type of insurance, Insurer, measures taken, results of the review, and the relevant case officer.

In 2021, 145 applications were submitted to the Service, in response to which an investigation was conducted; 108 reports (monthly) were audited in relation to customer complaints and relevant explanatory reports were prepared; different types of violations were detected during the remote monitoring and according to their seriousness and severity, appropriate sanctions were applied. In particular, the Service applied 19 sanctions: 5 written warnings, 3 written instructions, and 11 fines.

9 Financial education

The Service actively cooperates with the National Bank of Georgia in the field of financial education. During the reporting period, a joint publication on insurance was prepared and posted on the first website dedicated to financial education: <https://finedu.gov.ge/ge/tests>. Also, a 1-minute video film was created about the essence of insurance in general.

In the reporting period, the Service proceeded with the work on the board game - "More fun and less risk". The ready materials were sent to the Insurers for suggestions, and the Service started reviewing and processing these suggestions.

At the initiative of the Service, special calendars for the year 2022 were prepared for raising awareness about the insurance products and sent as gifts to the relevant employees of the Insurers.

During the reporting period, representatives of the relevant departments of the Service participated in numerous international conferences, webinars, and certification programs. In addition to the above, involvement in the following events is noteworthy:

- ✓ Meeting within the framework of the Financial Sector Assessment Program (FSAP) Mission on "Insurance State Supervision Service – competition between the banks and insur-

ance companies". The meeting discussed the following topics: competition in bank-insurance relationships; interrelated banks and Insurers and their challenges; standards of regulation of competition, and involvement of the Service to facilitate competition. The Service presented to the meeting the work carried out in the area of banking-insurance products;

- ✓ "Jean Monnet Project LFEU Law Training Cycle under the Association Agreement", within the EU-funded Erasmus+ program, namely, the following training modules: "EU Law and Association Agreement" and "Legal Framework for Personal Data Protection in the EU, the Council of Europe and Georgia";
- ✓ Webinar "Insurance for the Development" funded by the International Labor Organization Impact Insurance Academy;
- ✓ Training course „Promoting equality mainstreaming in policymaking“ organized by the European Network of Equality Bodies (Equinet). The course involved the review of the recommendation of the Service "On prevention and elimination of age discrimination by Insurers and/or insurance intermediaries in travel insurance". The Service participated in the working group discussions.

10 Other legal aspects

During the reporting period, the Service communicated with the Digital Governance Agency in order to implement the amendments to the Law of Georgia on Information Security, in particular, in the development of a list of issues to be discussed jointly.

A report on the release of public information in 2021 has been prepared and letters have been sent to the relevant authorities.

To ensure the transition to electronic communication with insurers and insurance brokers, draft agreements on the use of electronic communication have been prepared.

During the reporting period, the Service requested information from insurance companies about the challenges, and legal and technical risks faced by them because of the transition to internet sales during the period of the COVID-19 pandemic, and about the ways of dealing with them.

The Insurers were requested to present confidential/personal data protection policies. Information/documentation submitted by 18 insurance companies was studied and analyzed.

In 2021, the Service started working on a personal data protection policy.

In 2021, the Service monitored two bankrupt insurers. The relevant detailed reports have been submitted by the Bankruptcy Administrators.

In addition to the above, the activity strategy for 2022 has been established in the following areas:

- ✓ Development and implementation of supporting measures for financial education in the insurance field;

- ✓ Further support for the process of digitalization of the insurance sector and taking appropriate measures to ensure this process within the scope of competence;
- ✓ Full integration of the Service in the personal data protection policy.

In 2021, the representatives of the relevant fields took part in the following workshops and trainings:

- ✓ Workshop organized by the Georgian Law Institute, "New Regulation of Corporate Solvency 2021-2022";
- ✓ Workshop organized by Caucasus University - "Legal Framework for Personal Data Protection in the EU, the Council of Europe and Georgia";
- ✓ - Workshop organized by Caucasus University - "Association Agreement, EU Labor Directives and the Labor Code of Georgia";
- ✓ Workshop organized by Caucasus University - "Cybersafety, data protection, and cyber security";
- ✓ Training course organized by LEPL Civil Service Bureau on the new developments of the Labor Code;
- ✓ Training for the personal data protection officers.

