



Annual Report 2018  
Insurance State Supervision Service of Georgia

Tbilisi



**Dear readers,**

I am pleased to present the Annual Report of the Insurance State Supervision Service of Georgia for the year 2018.

In 2018 there were 17 insurance companies operating in Georgia, out of which 16 companies held both life and non-life insurance licenses, and 1 – only non-life insurance license. As for insurance brokers, by the end of 2018, there were 25 companies registered as insurance intermediaries in Georgia.

The year 2018 was quite successful for the insurance industry in Georgia. Total premium written and net profit, as well as equity and assets of the insurance companies increased significantly.

During the year 2018, there was an increase in almost all lines of business and the total premium written by the insurance companies through direct insurance business reached GEL 542.2 million, which shows the 22.84% growth in comparison with the previous year (gross premium written in 2017 was GEL 441.4 million).

As of December 31, 2018, the total equity of the industry amounted to GEL 221.64 million, which is 43.7% more than in the previous year, while the total assets increased by 28.1% and reached GEL 743.22 million. Significant growth was also seen in net profit, which in 2018 amounted to GEL 42.19 million – twice as much as in the previous year.

As the result of efforts by LEPL Insurance State Supervision Service of Georgia, the Law “On Compulsory Civil Liability Insurance for an Owner of a Motor Vehicle Registered in a Foreign Country Driven in the Territory of Georgia” entered into force from March 1, 2018. This Law enabled attracting additional GEL 30 million to the insurance industry.

In 2018 the insurance industry overcame a significant challenge and met the minimum capital requirement, which increased from December 31, 2017 and became GEL 4.2 million instead of GEL 2.2 million.

## CONTENT

1. About the ISSSG.....	3
2. Licensing/Registration .....	4
3. Legislative Process .....	6
4. International Relations .....	9
5. Consumer Rights and Financial Education .....	12
6. Anti Money Laundering Activities.....	13
7. Georgian Economy and Insurance Sector .....	14
8. Georgian Insurance Market and Supervisory System .....	18
9. Market Concentration .....	24
10. Structure of Insurers' Assets .....	28
11. Financial Stability .....	30
12. Insurance brokers .....	35

## 1. About the ISSSG

LEPL Insurance State Supervision Service of Georgia (hereinafter “ISSSG”) was established as an independent authority based on amendments to the Law of Georgia “on Insurance”, as of March 20, 2013, and represents a legal successor of the National Bank of Georgia in supervision of insurance and pension schemes.

### Functions

ISSSG 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 Regulations approved by the Decree #102 of the Government of Georgia on May 2, 2013. ISSSG functions include:

- Pursuing the state policy in the insurance sector;
- Promoting financial stability of the insurance market;
- Protecting consumer rights within its competencies;
- Securing financial solvency of the insurance companies;
- Creating 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 its competencies;
- Coordinating state, municipal and industry insurance programmes initiated by state and/or local authorities.

### Management

ISSSG is run by the Chareman, who is appointed and dismissed by the Governmant of Georgia. The Chariman is appointed for 5 years term, after being monimated by ISSSG Supervisory Board. The Supervisory Board consists of 7 members nominated by the Government of Georgia.

### Financing

Since January 1, 2018, ISSSG is not financed from the central budget; it is financially independent and the only source of finance is the supervision fee payable by the insurance companies.

The amount of supervision fee is defined based on gross premium accumulated by the Insurers during the calendar year and/or Insurers’ own profit generated from cumulative and refundable life insurance types. Supervision fee is as follows:

- 1 percent of gross premium accumulated by the Insurers annually;
- 1 percent of the Insurer’s own profit generated from cumulative and refundable life insurance types.

The purpose of the supervision fee is to enable ISSSG efficiently develop the insurance industry, protect interests of Insurers, Insureds and Consumers, and to cover ISSSG expenses. Supervision fee is transferred to a separate account to be fully used by ISSSG for its purposes.



## 2. Licensing/Registration

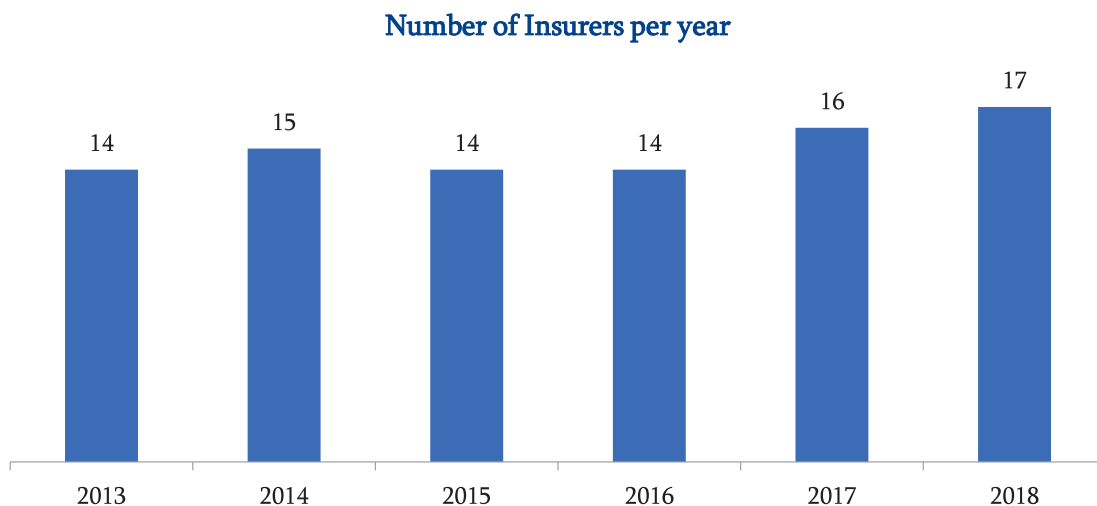
Subjects to be supervised by ISSSG are:

- Licensed insurance companies (Insurers);
- Registered insurance brokers;
- Registered founders of the non-state pension schemes.

### Insurers

In 2018 there were 17 insurance companies operating in Georgia, out of which 16 companies held both life and non-life insurance licenses, and 1 – only non-life insurance license. During the reporting period, the following insurance companies were operating in Georgia:

- JSC Insurance Company IMEDI L;
- JSC Insurance Company GPI Holding;
- JSC Insurance Company CARTU;
- JSC International Insurance Company IRAO;
- JSC ARDI INSURANCE;
- JSC Insurance Company ALPHA;
- JSC Insurance Company EUROINS GEORGIA;
- JSC PSP Insurance;
- JSC Insurance Company UNISON;
- JSC Insurance Company PRIME;
- JSC Insurance Company TAO;
- JSC International Insurance Company KAMARA;
- JSC TBC Insurance;
- JSC Insurance Company ALDAGI;
- JSC Risk Management and Insurance Company Global Benefits Georgia;
- JSC Insurance Group of Georgia;
- JSC Hualing Insurance.



Based on the „Association Agreement between Georgia, of the one part, and the European Union and the European Atomic Energy Community and their Member States, of the other part” (hereinafter “Association Agreement”), and the changes implemented for harmonization with the Directive 2009/138/EC of the European Parliament and of the Council, of November 25, 2009, “On the taking-up and pursuit of the business of insurance”, a uniform standard of organizational management system has been established for the insurance companies, based on the clearly distinguished and properly allocated responsibilities between the Directorate and the Supervisory Board, and subject to regular internal analysis and control. The introduction of personal and professional eligibility criteria for insurer administrators and the introduction of a pre-arrangement process with their nominees facilitated the recruitment of qualified and reputable staff.

In 2018, the next phase of the internal analysis and control of the insurers' activities has been completed. In particular, in accordance with legislative amendments, mandatory internal audit system has been introduced, according to which the Insurers' activities became subject to an internal audit for assessment of compliance of those activities with the Legislation of Georgia, their adequacy and efficacy, as well as observation of legal acts, control of internal procedures/rules and internal management systems. The nomination of the Insurer's internal auditor shall be subject to prior agreement with ISSSG to determine the candidate's compliance with the qualification requirements envisaged by the Law. ISSSG has examined the compliance of the Internal Audit candidates with the eligibility criteria established by ISSSG with all the licensed insurance companies and gave consent to their appointment.

All the above-mentioned aims to increase the transparency of insurance companies' activities and to improve the effectiveness of control systems, to protect consumer rights and increase trust in the system.

### **Non-state pension schemes**

According to the amendments to the Law of Georgia “on Insurance” adopted in 2013, and the Law “On the provision of non-state pensions and non-state pensions insurance”, non-state pension schemes are subject to supervision by ISSSG.

As of 2018, there were 4 non-state pension schemes registered in ISSSG, 3 of which were founded by insurance companies, and one was founded by a non-insurance legal entity for its own employees (occupational pension scheme). The companies - founders of non-state pension schemes, operating during the reporting period were as follows:

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

### **Insurance Brokers**

As of 2018, there were 25 insurance brokers registered in ISSSG, namely:

- Insurance Broker MAI Georgia LLC
- Resolution Insurance Brokers Georgia LLC
- MMA Georgia LLC
- Willis Towers Watson LLC
- GEORGIAN REINSURANCE BROKERS LLC

- I/E insurance brokerage shop – Valerian Gabelaia
- Capital Garant LLC
- Respect LLC
- SIB Georgia LLC
- Nikoloz Group LLC
- Financial Risks Resolution LLC
- Geotrust LLC
- Wise LLC
- Magnus Insurance Broker LLC
- London Prime International Brokers JSC
- Global Insurance Broker LLC
- IBC Georgia LLC
- DGlub LLC
- Darabi LLC
- Kalma LLC
- Arriba LLC
- Brokers House Georgia LLC
- IG Company LLC
- Alliance LLC
- TRUSTY BROKER LLC

### 3. Legislative Process

According to the international (including EU) standards, insurance mediation, as an integral part of financial industry, is subject to regulations, including registration, on site and off-site monitoring, compliance of administrators with eligibility criteria insuring reliable and fair information to the customers, sanctions system, and a number of other points, which create the base for reliability of the industry and proper functioning of the whole financial sector.

According to the Law of Georgia “On Insurance”, ISSSG is responsible for supervision of insurance intermediaries, although the system clearly lacked legislative instruments for state control and monitoring.

Within its competence, ISSSG has established minimum requirements in registration/reporting process of insurance brokers; by the end of 2018 the final amendments had been prepared to the Law of Georgia “On Insurance”, which established a regulatory framework for intermediary activity in the field of insurance, systemized insurance intermediaries, defined requirements for insurance brokers, including the financial stability instrument – minimum capital/guarantee fund and compulsory professional indemnity cover, established state control and on site and off-site monitoring mechanisms, as well as the form and terms of accountability to ISSSG, eligibility criteria for administrators, standards of fair and reliable information to be provided to the customers, audit reports to be mandatorily presented to ISSSG in accordance with international standards, defined the list of bylaws to be elaborated by ISSSG in order to implement corresponding regulations based on amendments in the Law, sanctions system (including fines) in case of non-performance by the brokers of their legal requirements (these requirements will fully enter in force in 2019-2020).

These amendments will contribute to the reliability, proper operations and strengthening of insurance intermediary business, as an integral part of financial sector. This will improve transparency of the intermediary segment and protection of Insureds/Policyholders rights.

The above-mentioned amendments have been prepared in accordance with the principles stipulated in the Directive 2002/92/EC of the European Parliament and of the Council of 9 November 2002 “On Insurance Mediation” (directly corresponds to the main approaches of the Directive to the insurance brokers), which currently is replaced by the Directive 2016/97/EC of 20 January 2016. Considering the dynamic approximation principle, as well as the general view of the country, it has been agreed with the corresponding EU authorities to start harmonization process with the new Directive (2016/97/EC, January 20, 2016), which involves implementation of totally new standards, with consideration of adequate timelines for this process.

These legislative amendments create the base for further stage of regulations.

The legislative amendments include the requirement of public disclosure of the information about the Insurers’ shareholders and beneficiary owners, which is a generally accepted principle in financial sector and contributes to improve transparency and reliability.

In accordance with the obligations under the Association Agreement between Georgia and EU, Georgia must implement the system of compulsory third-party liability insurance for motor vehicle owners. Considering the appropriateness of the gradual implementation, the process was initially divided in two stages. The Law „On compulsory civil liability insurance of an owner of the motor vehicle registered in a foreign country driven in the territory of Georgia” entered in force on 1 March 2018, thus completing the first stage of implementation. This Law covers only the motor vehicles registered in foreign countries arriving in Georgia. Insurance is based on equal distribution of the market between the Insurers, undertaking joint liability.

According to the transitional provisions of the Law of Georgia „On compulsory civil liability insurance of an owner of the motor vehicle registered in a foreign country driven in the territory of Georgia” of December 15, 2017, the Government of Georgia was assigned to prepare legislative amendments for compulsory civil liability insurance for the owners of motor vehicles registered in Georgia and submit it to the Parliament of Georgia by January 1, 2019 being a second stage of the process.

Considering the above-mentioned, in 2018 ISSSG prepared a draft law of Georgia “On compulsory civil liability insurance for the owners of motor vehicles registered in Georgia,” which was further discussed and agreed with the Government of Georgia and other stakeholders, and submitted to the Parliament of Georgia for adoption.

Within the reporting period, the Law of Georgia “on Labor Safety” has been adopted, according to which employers must at their own expenses provide Personal Accident cover for their employees for the entire period of employment, starting from January 1, 2019. The Law does not provide for insurance limits or any other specific terms and conditions of insurance, however, it gives classification of personal accidents occurring at the workplace, to be covered by insurance policy. By the time of preparing this Report, the above-mentioned Law was cancelled by the organic Law of Georgia “On Labor Safety”, adopted on February 19, 2019, which adjusted that insurance obligation is applied to heavy, hazardous and increased risk work places only. It was also defined that for the purpose of this Law, the rules and procedures of insurance shall be determined by the administrative-legal act issued by the Minister.

In 2018, ISSSG together with the whole insurance industry actively participated in the preliminary work to enable the enterprises meet the legal requirements within the fixed terms. At the first stage, the

preparatory works were based on the existing framework and free choice of the parties. It was also agreed to prepare a package of legislative amendments, stipulating insurance limits and other specific conditions, which will be a further step in improvement of labor safety.

In 2018, the Government of Georgia approved the “Terms and conditions for identifying the mass gathering objects and compulsory third-party liability insurance for their owners”. ISSSG provided relevant consultations to all the stakeholders. The list of participating insurance companies can be found on ISSSG web-site [www.insurance.gov.ge](http://www.insurance.gov.ge).

In the framework of obligations undertaken by the country for EU integration purposes, ISSSG closely cooperated with the National Bank of Georgia in harmonization with the Directive 2002/87/EC of the European Parliament and Council of December 16, 2002. The parties jointly reviewed the draft law providing additional regulations for the financial conglomerate, where together with the other participants of financial sector, insurance companies are considered subject to supervision by ISSSG. The project is designed to ensure stability of the financial sector and minimize the risks.

In 2018 ISSSG proceeded to work on establishing main and internationally acknowledged foundations for improvement of financial stability of insurance companies, as well as their supervision procedures.

From 2018, “Minimum capital requirement at each stage of insurance operations in the territory of Georgia” elaborated with direct participation of the World Bank experts, entered in force.

This document specified minimum capital requirement per each type of insurance (voluntary/compulsory) and lines of business (this was provided by the amendments to the Law of Georgia “On Insurance”). In particular, for those companies applying for insurance licenses:

- Life insurance - GEL 7,200,000;
- Insurance (non-life) other than compulsory liability insurance, credit and surety – GEL 4,800,000;
- Insurance (non-life) including compulsory liability insurance, credit and surety – GEL 7,200,000;
- Reinsurance - GEL 7,200,000.

In order to facilitate the process, the Insurers were offered a reasonable time schedule to meet the capital requirements. The first stage of capital increase started on December 31, 2018, and all the Insurers met the capital requirements in the amount of GEL 4,200,000 for life and non-life insurance including compulsory liability insurance, credit and suretyship, and GEL 3,400,000 for non-life insurance other than compulsory liability insurance, credit and suretyship.

Based on the above-mentioned, and on the standards for calculation of the Insurers’ Solvency Margin and Regulatory Capital established by ISSSG, the SOLVENCY 1 standards have been finalized, completing thus the main stage for securing the financial stability of insurance companies.

In order to support financial stability, solvency and consistent operations of the insurance system, ISSSG initiated elaboration of the rules of determining the margin ratio between the Insurer’s net exposure and regulatory capital, following the recommendation of the World Bank issued based on the financial sector assessment program (FSAP) conducted in 2014. The question was processed with the World Bank experts within the technical assistance program, and discussed with international experts.

The above-mentioned aims to avoid a significant negative impact on the Insurer’s solvency/regulatory capital by a single loss. There are different approaches accepted in international practice to mitigate such risk, including establishing the limit of net liability undertaken under one risk in relation to the Insurer’s regulatory capital, meaning that the risk exceeding that limit must be reinsured.

The limit of Insurer's own retention was defined as 15% of the regulatory capital. The amount of risk exceeding this value must be reinsured with the companies meeting the predefined criteria of adequate credit rating and the ratio corresponding to SOLVNECY-2.

This standard was finalized in 2018. The corresponding normative acts shall be issued in 2019 following the corresponding technical procedures.

## 4. International Relations

During the year 2018 ISSSG had extensive relations with international/donor organizations. This was mainly focused on expert assistance in the development of normative and regulatory system for proper functioning of insurance industry, as well as on sharing the experience through participation in various conferences/trainings.

ISSSG is a member of International Association of Insurance Supervisors (IAIS). Membership is voluntary, and the number of different regulating member authorities in 2018 amounted to 140. The Association is an international authority establishing insurance supervisory standards. Georgian insurance system is engaged in the process of harmonization with the insurance core principles (ICPs) elaborated by the Association (as required by the Association Agreement). ISSSG participates in self-assessment program (on-line), to establish consistency with the insurance core principles (ICPs), based on which the Association provides assessment report on the compatibility of the current legislation with the Association standards.

All members of International Association of Insurance Supervisors (IAIS) are divided in groups, according to the geographical regions (9 groups in total). Georgia is attributed to the Central Europe and Caucasus regional group. Each region/group has its representative in the executive committee of the Association, who participates in the meetings and decision-making processes.

In 2018, ISSSG further proceeded in planning of another institutional reform, namely establishing the certified actuaries' body and determining the basics of regulations for the actuarial business. This directly relates to modernization of pricing process both in compulsory and voluntary lines of business. With ISSSG support, the Association of Actuaries and Financial Analysts has been approved for the project of establishing the internationally accepted Certified Actuarial Analyst (CAA) group in Georgia within the USAID program „Governing for growth (G4G) in Georgia” financed by USAID.

Acting actuaries/future actuaries were trained in accordance with European standards, which gives the possibility to create a legal framework for actuarial business corresponding to the EU standards, after which it will be possible to require the Insurers to have certified actuaries in their staff.

For the purpose of harmonization and further integration with EU insurance standards, in 2018, the EU funded TWINNING project for ISSSG in the framework of the Association Agreement. The project covers multiple topics, based on the Directive 2009/138/EC “On the taking-up and pursuit of the business of Insurance” of 25 November 2009 of the European Parliament and of the Council, namely transmission to Solvency-2 standards, studying the experience of the EU member states, improvement of supervision and reporting procedures of the insurers. This standard was implemented in EU countries in 2016. The above project should be implemented within 2 years with participation of EU experts who will arrange both short and long-term visits to ISSSG. The project is large-scale and covers multiple activities (meetings, trainings) with participation of the various stakeholders (including representatives of the insurance industry).



### Cooperation with donor organisations

In 2018 the World Bank proceeded with the three-year Technical Assistance (TA) Project for the development and engagement of financial sector, targeted at strengthening ISSSG structural and legal framework. The insurance system was reviewed and analyzed, including compulsory insurance products. It was emphasized that the draft Law of Georgia “On compulsory civil liability insurance for the owners of motor vehicles registered in a foreign country driven in the territory of Georgia” was prepared within this project, with the support of the World Bank experts (entered in force on March 1, 2018). The draft Law of Georgia “On compulsory civil liability insurance for the owners of motor vehicles registered in Georgia” was also prepared within the framework of the same project.

“The rule of Margin ratio between the Insurer’s net exposure and regulatory capital undertaken by the insurer” to strengthen the solvency of insurance companies, was also elaborated within the project (this standard fully entered into force from 2020).

The project also provides elaboration of guidances for on site and off-site inspections for the purpose of efficient supervision of insurance companies (for example, early alert system, reinsurance, claims, etc.).

In 2018, the new EU financed project on “Economic governance and fiscal accountability” has been approved, with the World Bank being responsible for implementation of its insurance component. Insurance component includes elaboration of insurance products, such as compulsory medical malpractice insurance, compulsory professional indemnity insurance for architects and engineers, as well as preparatory works for the development of annuities, which includes studying of Insurers’ readiness, elaboration of recommendations and listing of activities necessary for the development of specific products.

The above-mentioned project also includes the review of the current state subsidized agro insurance programme approved by the Government, preparing recommendations, sharing international experience, reviewing of the current legislation, and if necessary, implementing of new regulations offering alternative agro insurance products in order to develop index-based insurance principles. In this part ISSSG will actively cooperate with Agricultural and Rural Development Agency (ARDA), manager of agro insurance project.

### Trainings/Conferences

Considering the existing worldwide challenges and mainstreams, ISSSG continues studying international practice and sharing experience through participation in various international activities.

Based on annual practice, in 2018, ISSSG employees participated in the on-line training course, conducted under the aegis of International Association of Insurance Supervisors (IAIS). The IAIS membership enables to improve professional level and qualification of the employees. Jointly with the FSI - Financial Stability Institute, IAIS conducted the full on-line training course based on insurance core principles (FIRST ONE PROGRAMM).

In 2018, ISSSG sent its representatives to the IAIS annual conference in Luxembourg, dedicated to the new concept of insurance based on new challenges (Re-imagining insurance). The topics covered significant changes that occurred in insurance industry based on economic, technological, social, ecological and political factors, the impact of new challenges in medium and long-term perspective, and the possibilities of avoiding their negative impact. The discussion included topics on artificial intelligence in insurance and its role in insurance supervision, new approaches in database (big data) systematization, long term investments

in stable economy, as well as insurance regulator's role and specific activities both in the developed and the developing markets. The conference was very important for further development of foreign relations, contributing to integration of Georgia in European Union. It is the world leading forum in insurance sector uniting insurance regulators/supervisors (IAIS members) as well as representatives of industry and other stakeholders of up to 200 jurisdictions being members of the association.

In 2018, ISSSG representatives attended the “Catastrophe risks financing strategies” conference in Bangkok, financed by the government of Japan and arranged by the Organization of Economic Co-operation and Development (OECD), Asian Development Bank (ADB) and Asian Disaster Preparedness Center (ADPC). The topics discussed at the Conference covered the models of collection and estimation of information on losses, international reinsurance experience of CAT risks, practical models of mitigating the results of global catastrophes implemented in different countries. The participants got acquainted with the experience of the Pacific Region, models of cooperation between the state and private sectors, insurance experience and practice of international reinsurance system to deal with given risks. Many countries made presentations and shared their experiences. ISSSG made presentation on the Georgian practice and experience, steps already made by the state, and the future plans on liabilities and financing strategies of CAT risks management.

In 2018, at the continuous support of the Bank of Netherlands, the ISSSG representatives participated in numerous meetings in Amsterdam, and discussed such topics as “Implementation of Solvency-2”, “Internal Audit – Keeping up with the progress”, and “Cyber Security in Financial Sector”.

Together with certain activities towards the protection of the consumer rights, the ISSSG representatives attended the 4<sup>th</sup> annual conference of Insurance Association (APPA) held in Prague, Czech Republic, on “Protection of Consumer Rights in Europe”. ISSSG had an opportunity to share experience, challenges, state regulations, and supervision practice in different countries.

As in the previous years, in 2018, ISSSG participated in the workshop “High quality financial information and economic integration”, held in Vienna, Austria, under the aegis and with the support of the World Bank Center for Financial Reporting Requirements (CFRR), International Financial Reporting Standards Foundation (IFRS Foundation) and the Ministry of Finance of Austria. The workshop was dedicated to the international financing reporting standards (IFRS) for the supervisors of financial markets, and was attended by the supervisors of banks and insurance companies.

In 2018, ISSSG participated in the international conference dedicated to the new directions in the insurance business, held in Baku, under the aegis of XPRIMM (Promoting the Reinsurance & Insurance Market by Media). The conference was attended by EU member and non-member states. The countries shared their experiences in new technologies used in compulsory (motor vehicle owners' civil liability, agroinsurance, etc.) a voluntary line of insurance.

In 2018, in its capacity of anti money laundering supervisor in the insurance industry, ISSSG participated in the certification programme held in Luxemburg by ATTF (Agence de Transfert de Technologie Financière), under the aegis of the government of Luxemburg, and partial financing of the Anti Drug Trade Fund: Anti Money Laundering and Counter Terrorism Financing. The programme covered current anti money laundering regulations, recommendations of international organizations, best practice of internal control systems, risk based supervising facilities, etc.

In 2018, Insurance Supervisor of Slovenia arranged a conference in Ljubljana “Insurance and Digital Future”. The conference was dedicated to the challenges in digital sales and the related supervisory regulations, main trends on the market and other topics. Considering our interest in the new trends, ISSSG also attended the conference.



## 5. Consumer Rights and Financial Education

Implementation of an effective system of consumer protection is a strategy and the main priority of ISSSG supervisory policy.

ISSSG continuously performs prudent supervision of the Insurers in order to maintain financial stability of the insurance market, solvency of the insurance organizations, and establishing competitive environment.

In order to achieve a high standard of consumer protection ISSSG gradually implements the set of requirements.

In 2018 a special structural unit – Consumer Protection Division was established in ISSSG. In order to develop a systemic approach in this direction, a series of meetings were conducted with the state bodies (National Bank of Georgia, Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia, Personal Data Protection Inspector) having direct role in the effective protection of the consumer rights in the field of insurance. In each instance a format for future cooperation was determined. A number of meetings were held with insurance organizations to discuss the current issues and existing challenges in relation to the consumer protection and to better define consumer protection by ISSSG.

In 2018 amendments to the consumer protection regulations were developed and implemented. The information to be provided to consumers at a pre-agreement stage, as well as the list of mandatory documents and the format thereof to be provided at the agreement stage was specified. It has become mandatory for the insurance organizations to establish a structural unit dealing with consumer complaints. The procedures of review of complaints by the Insurers have been strictly defined. Alternative means of communicating complaints by consumers to Insurers have been established along with the term and the format for a response.

In 2018 reporting requirement was introduced for the consumer complaints to Insurers. On a monthly basis Insurance organization are insuring accounting of the information on consumer complaints and its reporting to ISSSG. The reports must include type of a complaint, the result of the review and the time in which a response was provided to the consumer.

The above-mentioned amendments were entered into force in August 2018. November 2018 was defined as the first reporting date. To support the implementation of the new regulations ISSSG provided active cooperation and technical assistance to Insurers.

ISSSG supervises the compliance by Insurers with the new regulations as well as reviews the consumer complaints, provides appropriate response, carries out supervisory activities whenever necessary, defines general approach to practical cases, and develops relevant solutions to problems.

In 2018 ISSSG developed “Methodological Guidelines for off-site Monitoring of Compliance with the Consumer Protection Regulations in Provision of Insurance Services (manual)”. The manual aimed monitoring of compliance with the consumer protection regulations by insurance organizations, as well as meeting the obligations towards the European Commission within the frames of macro financial assistance programme (MFA).

In 2018, based on the Insurance Core Principles (ICP), ISSSG developed the methodology/standard of control over the consumer rights concept and complaints processing procedure. These standards helped identifying current deficiencies in the system, and in order to improve the situation, ISSSG conducted a number of working meetings with insurance organizations.

ISSSG is committed to implement an efficient system of consumer rights protection, and therefore, acknowledges that in some cases the regulations may be different and at the same time adequate. In order to ensure better penetration of compulsory insurance provided by the Law of Georgia “On compulsory civil liability insurance for the owners of motor vehicles registered in a foreign country driven in the territory of Georgia” and efficient procedure of reviewing complaints, ISSSG has implemented a number of changes. In the result the procedure of policy issuance and claims settlement was simplified. ISSSG has inspected the procedure of response to the consumers’ complaints implemented by the Compulsory Insurance Center and issued recommendations.

Considering the World Bank and European Union recommendations, and in order to create the regulation standards and prerequisites of on-site inspections, ISSSG has developed normative and methodological acts as well as recommendation similar to those used in the regulation of financial and other similar industries. In the result, the amendments to the Law of Georgia “On Insurance” were drafted. The draft emphasizes the obligation of the Insurer to adhere to the principles of good faith, honesty and prudence, and the inadmissibility of the use of business models by Insurers that are unsustainable and risky, which serves the need for fair and healthy competition.

The Consumer Rights Division of ISSSG has actively participated in the meetings on consumer rights within the World Bank missions. At the meeting with the World Bank representatives, held in June 2018, ISSSG made presentation on its past activities, purpose of the draft law, and short-term future plans.

Effective protection of consumer rights is inextricably linked to the financial education of consumers. In 2018, jointly with the National Bank of Georgia it was planned to participate in relevant projects in the field of financial education. To this end, ISSSG has participated in various meetings and projects to promote financial education (National Bank of Georgia, World Bank).

## 6. Anti Money Laundering Activities

Besides the supervision of insurance business, ISSSG carries out monitoring of compliance of the founders of the insurance organizations and non-state pension schemes to the law on antey money laundering through on-site and off-site inspections.

As part of a risk-based supervision in this area, during the reporting period, ISSSG received and processed reporting forms on “Monitoring of risk of illicit income legalization and terrorism financing by the founders of insurance organizations and non-state pension schemes” for the period of the last six months of 2017 and the first six months of 2018. Processing and dynamic monitoring of the reporting forms allows ISSSG remotely assess the risks of money laundering and terrorism financing in each insurance organization and plan on-site inspection or any other control activities. During the reporting period ISSSG insured on-site inspection of 3 insurance organizations in the area of compliance with the law on facilitating the prevention of illicit income legalization. The inspection revealed non-compliance with the requirements on recordkeeping and storing of the information (documents) related to the monitoring process, breaches of the rules of identification, etc. ISSSG has issued recommendations and imposed relevant fines.

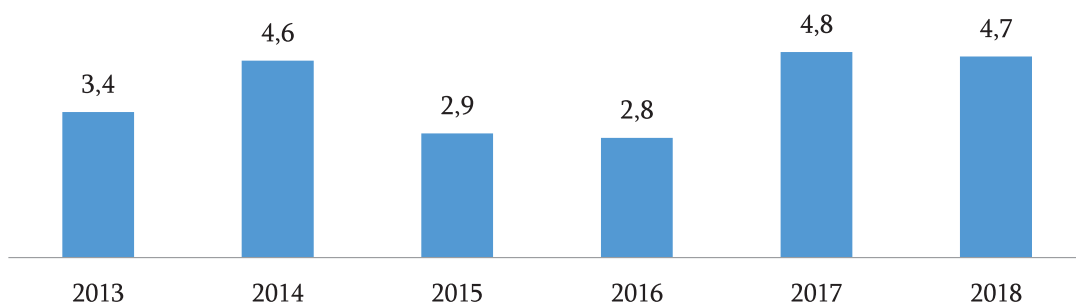
Within the framework of the Eastern Partnership cooperation program by the Council of Europe and the European Union, ISSSG is actively engaged in the project against money laundering and terrorism financing. During the reporting period ISSSG representatives participated in a number of workshops and trainings conducted within the framework of the above-mentioned project, including training sessions provided by the experts from the Council of Europe on “Beneficial ownership, use of offshore companies and legal entities, movement of funds from high-risk countries”; “Money laundering using new payment methods”.

## 7. Georgian Economy and Insurance Sector

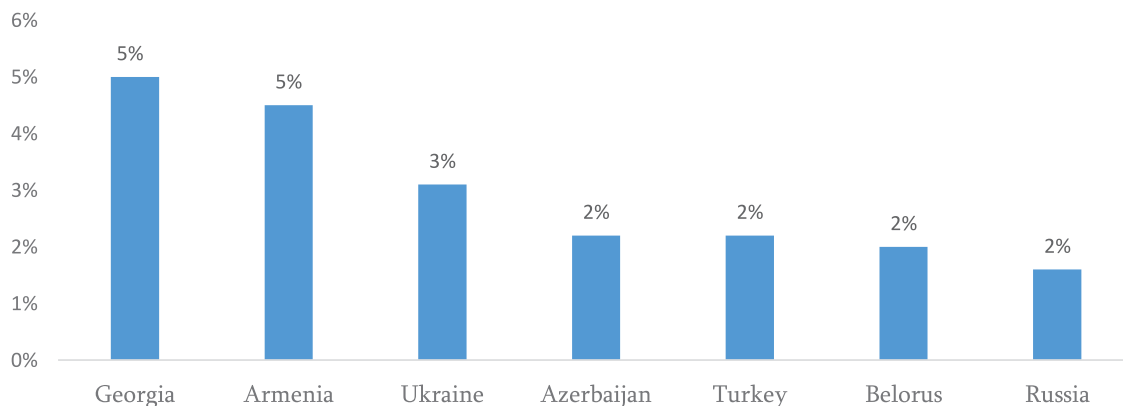
Despite the difficult geo-political situation in the region, the economic growth rate of Georgia has been maintained and in 2018 amounted 4.7%.

One of the highest priorities in maintaining the growth rate and a stable development is promoting various sectors of economy, diversification, supporting foreign direct investment and stimulating export, in order to get closer to the economic of the western Europe and other developed countries, and improve the standard of living of the country's population.

**ECONOMIC GROWTH (%)**



**Economy Growth Forecast 2019-2024 (IMF)**



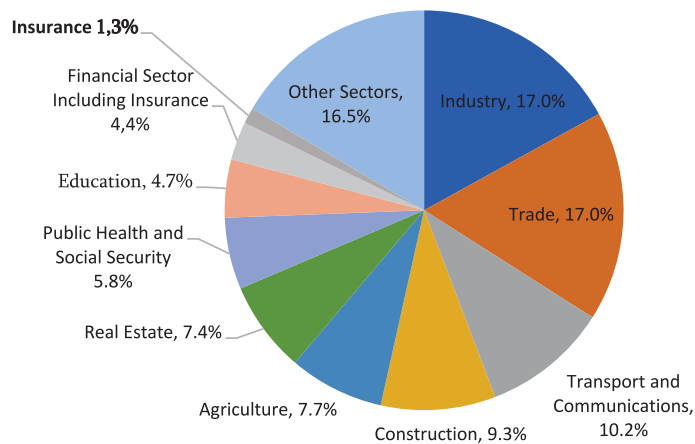
According to the report of the International Monetary Fund, the economy of Georgia will maintain the growth rate and in 2019-2024 will make on average 5%, which considerably exceeds the growth rate for other countries in the region.

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



One of the important factors for the above-mentioned is the fact that Georgia is a participant of many international treaties. The Association agreement with the European Union and visa liberalization with the Schengen zone created a vast perspective for the development of tourism, business and foreign relations in general and for sharing knowledge and expertise.

### GDP PER SECTORS - 2018

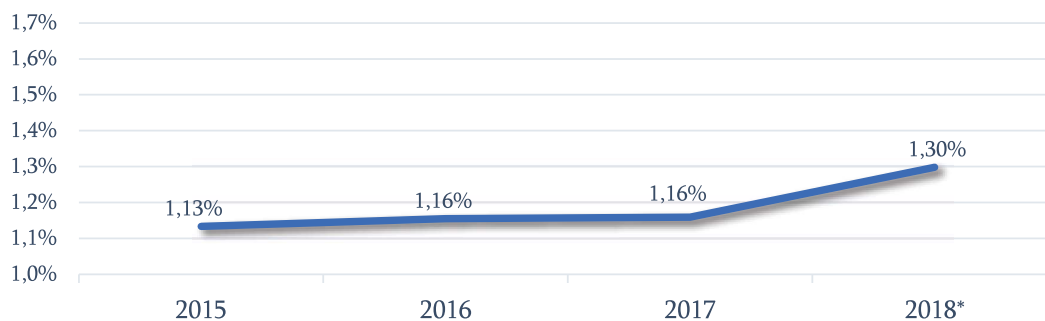


Despite the fact that the insurance industry represents a small share of Georgian economy, it covers all other sectors and its importance becomes much more remarkable in case of large and catastrophic events. Moreover, there is a vast potential for its development, especially by implementation of compulsory insurances, as well as long term and investment component bearing life insurance products. It should be noted that a number of compulsory insurances products, which have been long ago introduced in the EU, as well as in many other countries, have not been yet developed in Georgia. This is especially relevant in the areas of vehicle owners' liability and professional indemnity insurance.

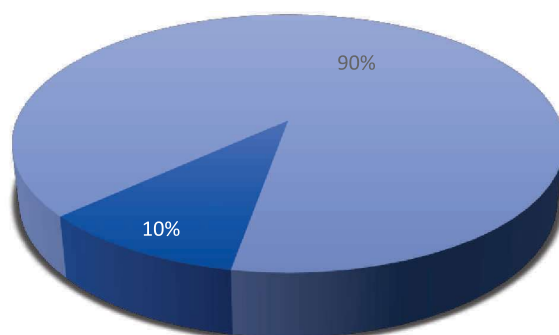
Despite the above-mentioned, the share of insurance in the country's GDP has been slightly but steadily increasing. But the share of property, liability and life insurance in the GDP is significantly lower than those existing in the EU and other developed countries.

At the same time, the insurance sector continuously improves the variety and quality of the insurance products and, despite the low share in GDP, holds an important role in the employment in the financial sector.

### Share of Insurance Sector in GDP



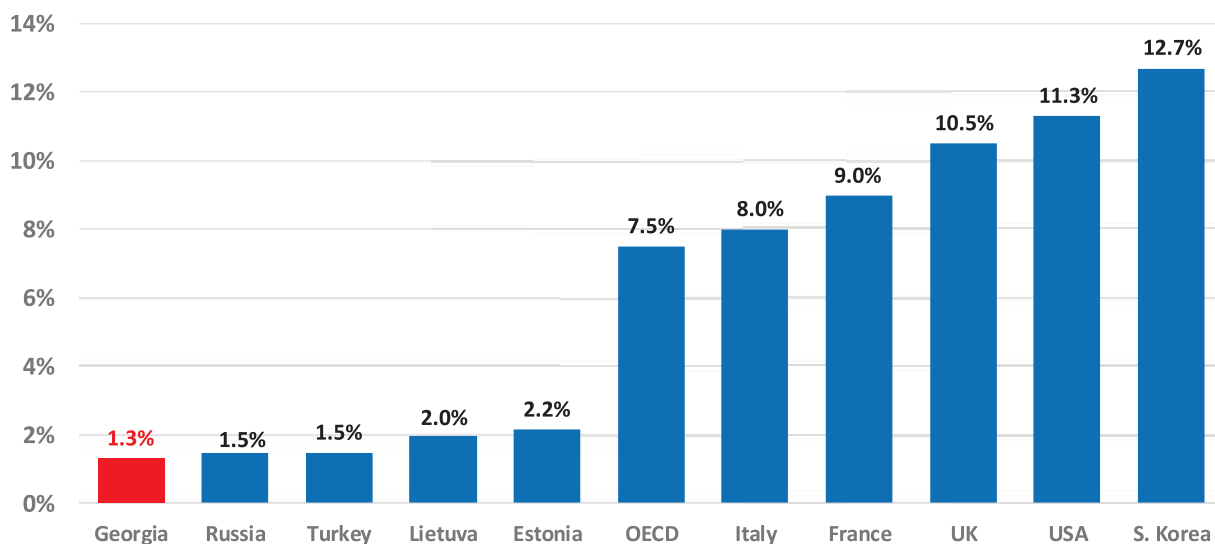
## Share of Insurance in Financial Sector Employment



■ Number of persons employed in Insurance industry    ■ Other Financial Sector Industries

### Comparison of Georgian insurance market to other countries

(share of gross written premiums in GDP)






GDP per capita	\$4,412	\$11,288	\$10,693	\$18,625	\$23,297
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\$34,489	\$41,287	\$42,506	\$59,484	\$31,363
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### Main factors contributing to insurance market development:

- Compulsory insurance products
- GDP per capita
- High development level of capital markets
- Long-term life insurance products

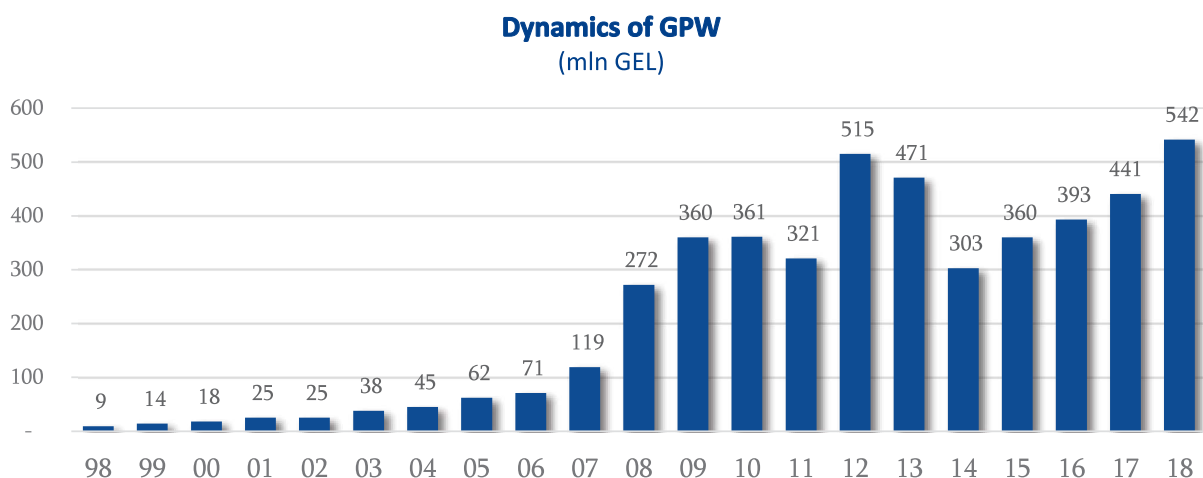
	Share in GDP	GDP per capita
	1,31%	\$4,412
	Share in GDP	GDP per capita
	0,94%	\$4,780
	Share in GDP	GDP per capita
	0,67%	\$4,193

## 8. Georgian Insurance Market and Supervisory System

Total premium written generated by the Insurers in 2018 reached GEL 542 mln.

The Georgian insurance sector is considered one of the most developed in the region, though it mainly refers to non-life insurance.

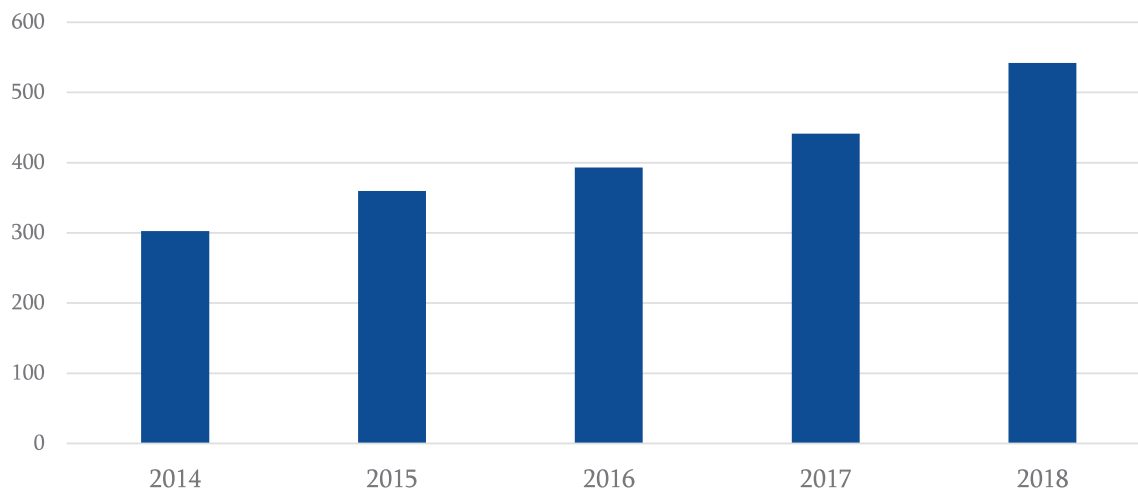
The sector still has a great potential, which is outlined in the overview below.



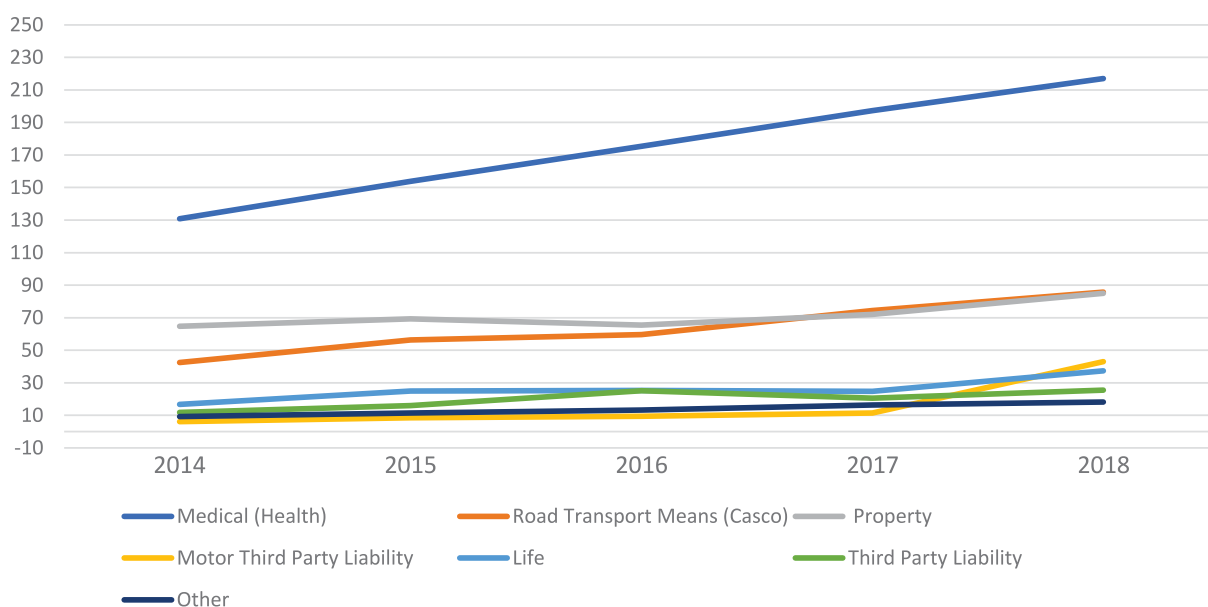
The diagram above shows past 20 years of the development of the insurance market. There were both increases and a sharp decrease in the written premium, but they have relevant reasons. A significant increase in the 2007-2008 is related to the implementation of health insurance social programs, fully funded by the state. There was also a decrease in 2011 which was a result of reduction in funding of certain programs by the state. In 2012 the number of beneficiaries of the social programs increased significantly (retirees and children below 5 years were included in the program). Due to the high social significance, the management of the above programs has been transferred to the specialised state agency (Social Service Agency).

At the same time, the popularity of corporate health insurance programs increased, Insurers developed complex insurance products and that in turn has immediately reflected on the written premium from 2014.

### Development of the Insurance Market

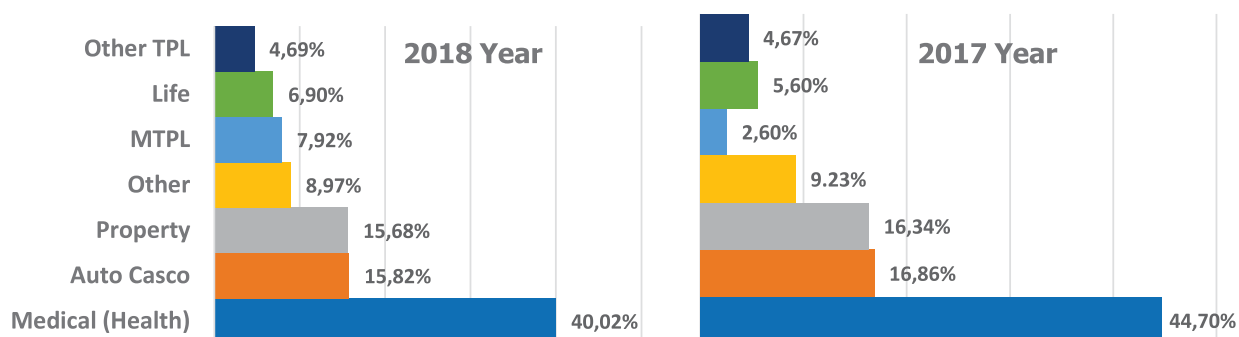


### Dynamics of GPW per lines (mln GEL)





### Structure of GPW per lines

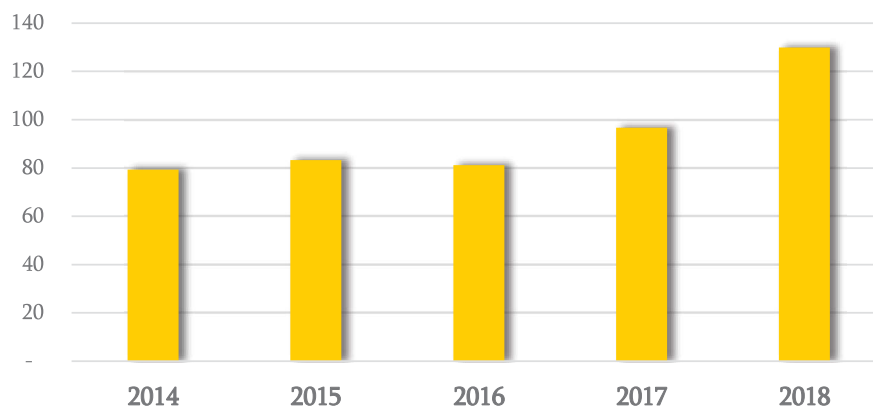


Health insurance still is the most popular insurance product on the market. At the same time, this insurance product is the most loss generating for the Insurers, as the frequency of claims is much higher compared to other classes of insurance. A growth trend has been noticed in the vehicle owners liability insurance, which is a result of the law entered into force in March 2018 on “Compulsory civil liability for an owner of a motor vehicle registered in a foreign country driven in the territory of Georgia.”

**Note 1:** “Other liability insurance” includes professional indemnity, employer’s liability and general civil liability insurance not related to the insurance of road transport or other transport categories.

**Note 2:** “Other” mainly includes cargo, travel, marine, aviation, suretyship and financial risks insurances.

Reinsurance premium per years  
(mln GEL)



Reinsurance represents one of the most important parts of the Insurers' daily activities. At the same time, it is an effective tool for ensuring Insurer's financial stability.

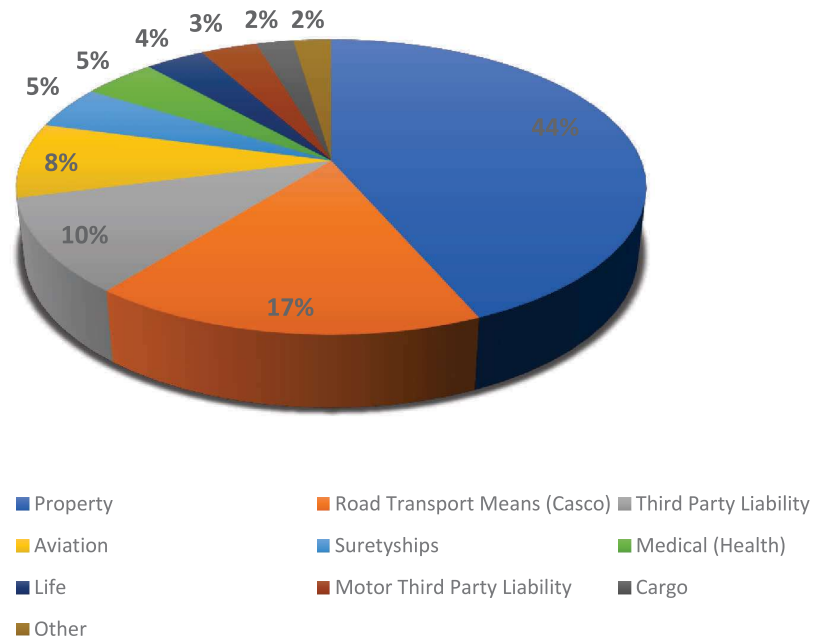
As we can see, reinsurance naturally follows the development of the Insurers' business activities. Reinsurers' participation remains stable in the major part of their liabilities, especially related to the property and liability insurance.

**Note:** Due to objective reasons, health and life insurance and reinsurance data are excluded from the presented figures. The main reason is that life insurance is in most cases included in health insurance products as a simple term life product, or is linked to bank loans. This is why reinsurance in these categories is not as frequent as with property and liability lines.

It should also be noted that complex reinsurance treaties have become quite popular on the market. They help the Insurers to reduce the number of facultative placements.

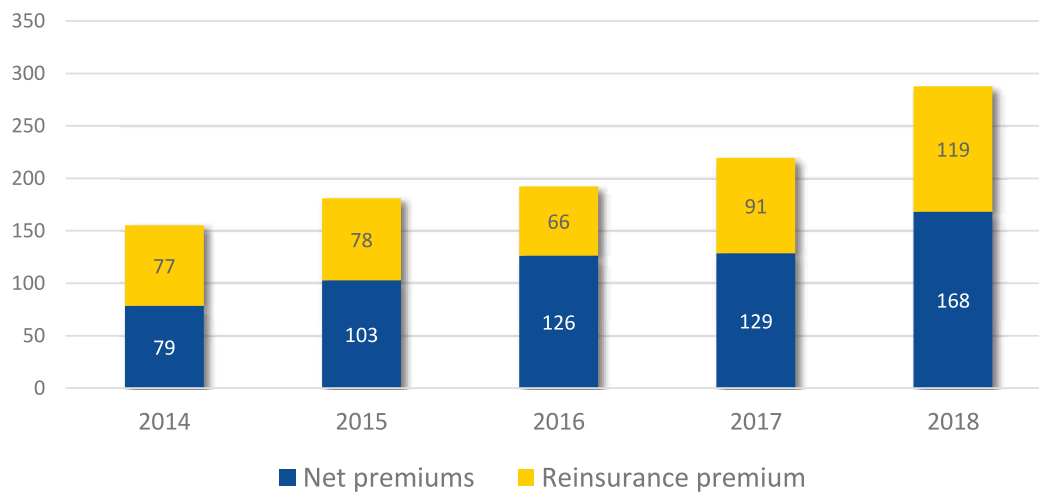
Georgian Insurers have certain capacity for inward reinsurance as well.

### Reinsurance Premium Per Main Lines

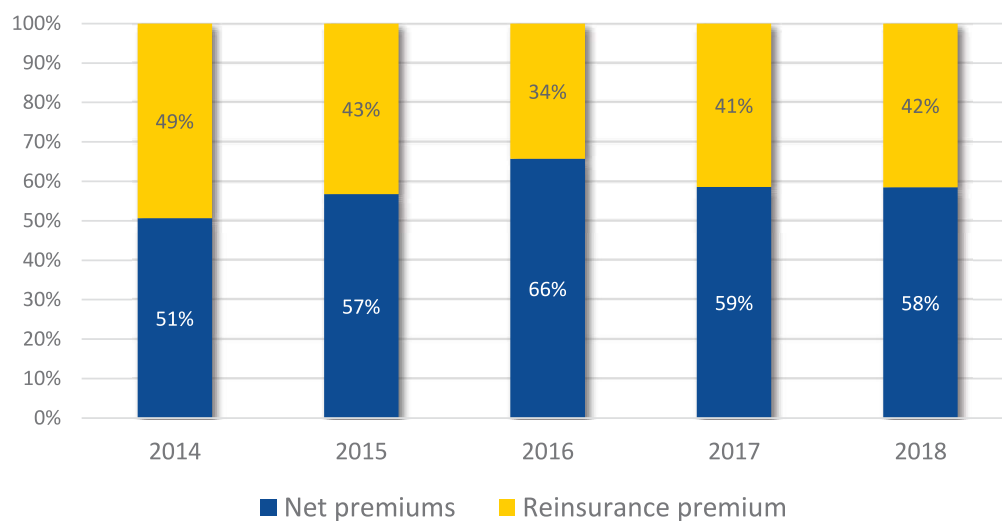


From year to year reinsurance share in written premium is maintained, particularly in property and liability lines of business.

### Reinsurance Premium as part of GPW (mln GEL)



### Reinsurance Premium as part of GPW (%)



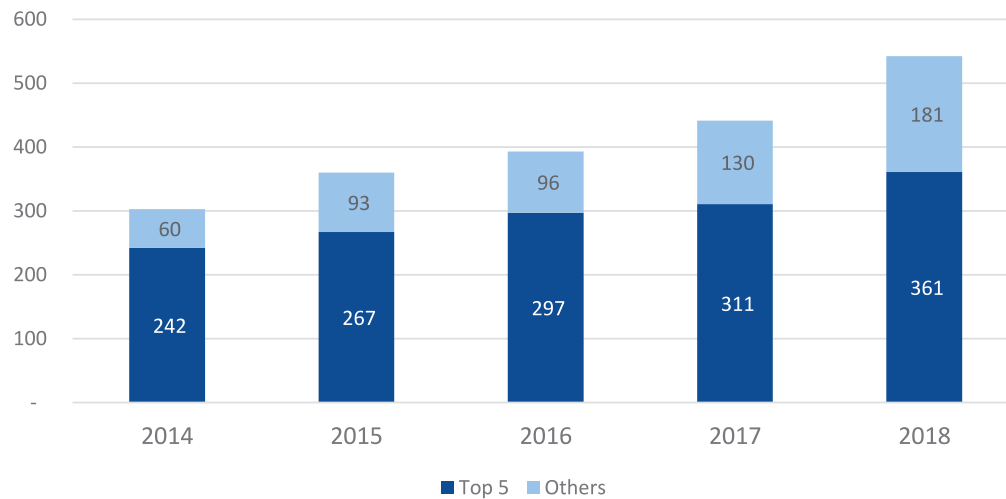
Due to objective reasons, health insurance and reinsurance premium is excluded from the above data.

Lines	2014	2015	2016	2017	2018
Health	0%	0%	6%	0%	3%
Land transport	4%	6%	3%	17%	26%
Property	80%	71%	60%	63%	66%
Motor liability	8%	12%	7%	16%	10%
Life	16%	19%	17%	20%	13%
Other liab. Insurance	62%	60%	42%	61%	53%
Aviation	96%	90%	75%	87%	90%
Surety	58%	60%	54%	60%	62%
Cargo	54%	29%	28%	29%	33%
Other	0%	0%	0%	0%	0%
<b>Total</b>	<b>26%</b>	<b>23%</b>	<b>20%</b>	<b>21%</b>	<b>23%</b>

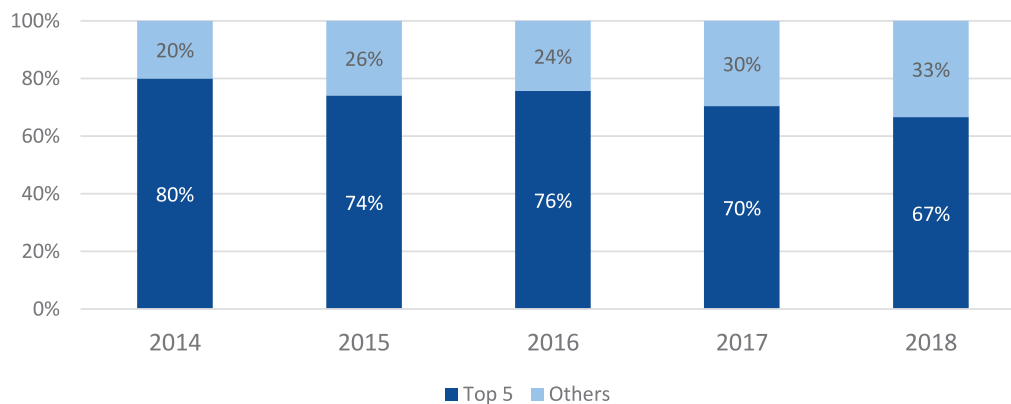
As shown in the above table, reinsurance is mostly used for aviation, property, liability, suretyship, and cargo business. Role of health reinsurance is minimal, as this line has high frequency and low severity loss pattern.

## 9. Market Concentration

**Top 5 Insurers  
Market Share  
(mln GEL)**

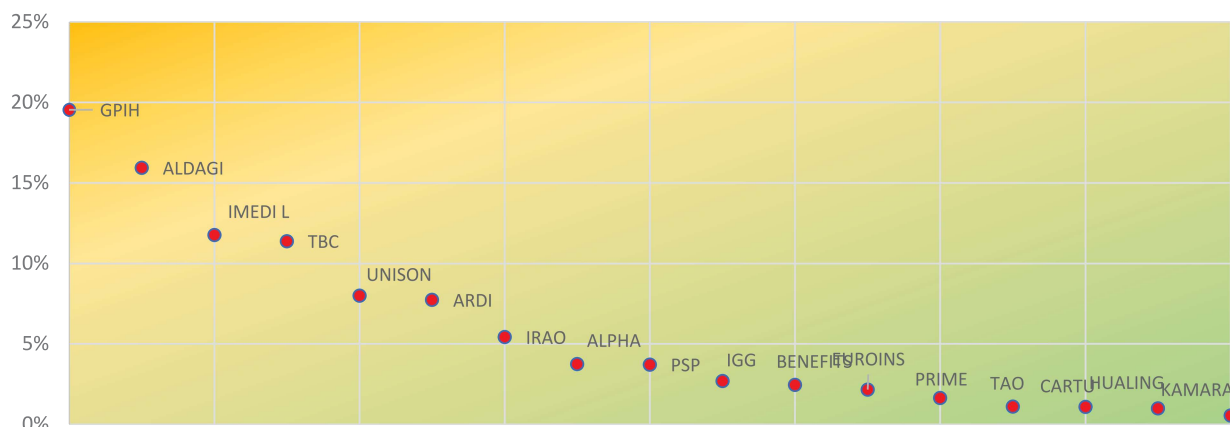


**Top 5 Insurers  
Market Share  
(%)**



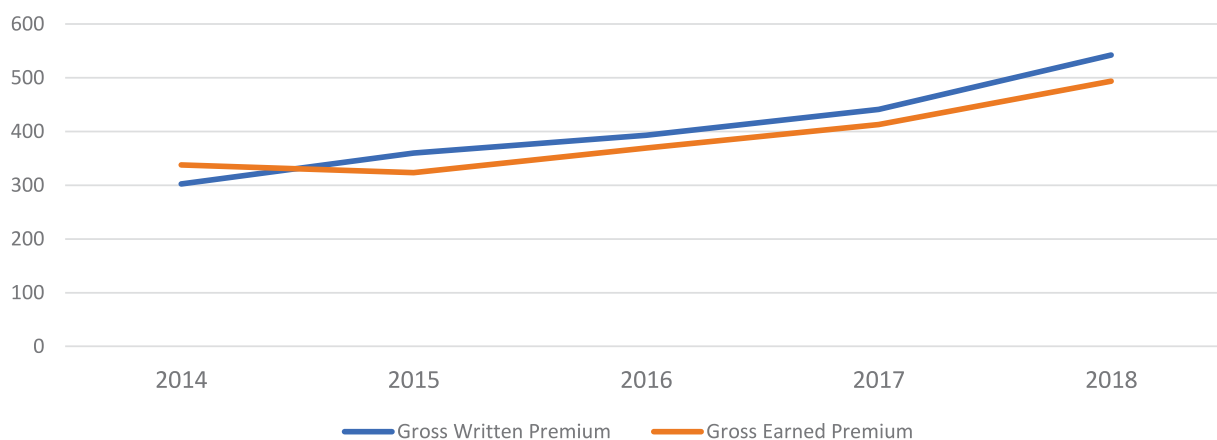
In the recent years several major players have appeared on the Georgian insurance market. As a result a re-distribution of market shares took place in recent years. Despite that the shares of top 5 insurers in GPW remains high, positive trends have also been appeared. For example, the share of relatively small players has increased from 20% in 2014 to 33% in 2018.

### Market Concentration according to GPW



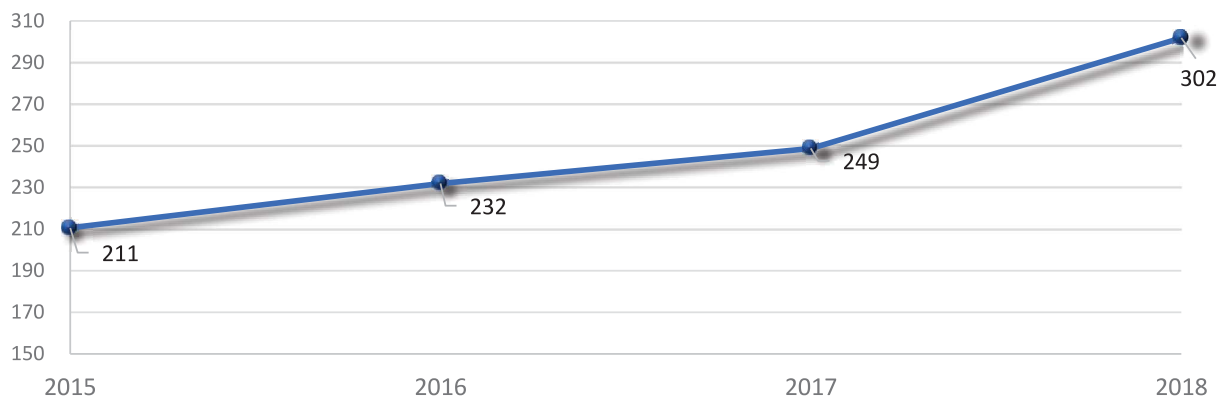
It should be noted as well that the number of companies with market share exceeding 10% is decreasing, and in the result the risks are better distributed among the Insurers. As for the top players, ISSSG pays special attention to their concentration, transparency and risk management quality, in order to ensure systemic stability of the market.

### Growth dynamics of the Earned Premium



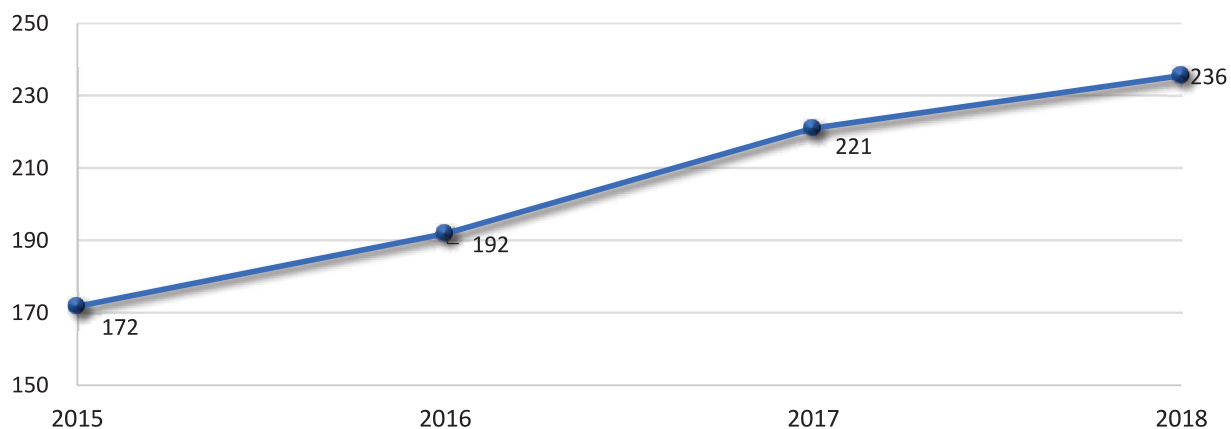
In 2014, due to the transfer of health programs to the Social Service Agency, the earned premium decreased. However, this caused also reduction of losses, and starting from the year 2015, both written and earned premiums have been stably and almost simultaneously increasing, thus showing the stable development of the market.

### Paid Losses (Gross) (mln GEL)



	2015	2016	2017	2018
Paid losses (Gross)	211	232	249	302

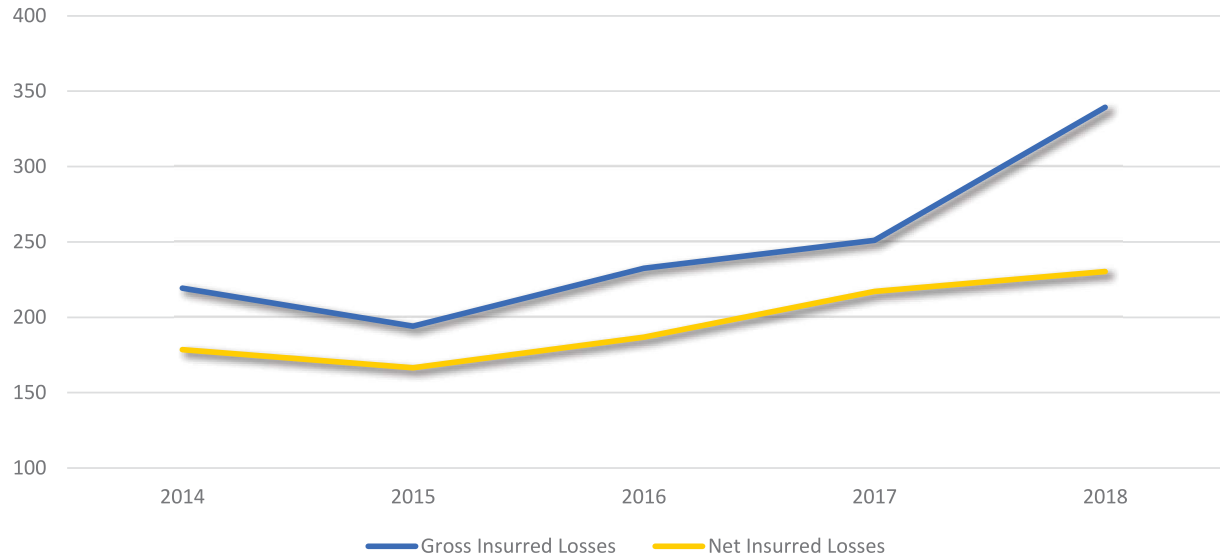
### Paid Losses (Net) (mln GEL)



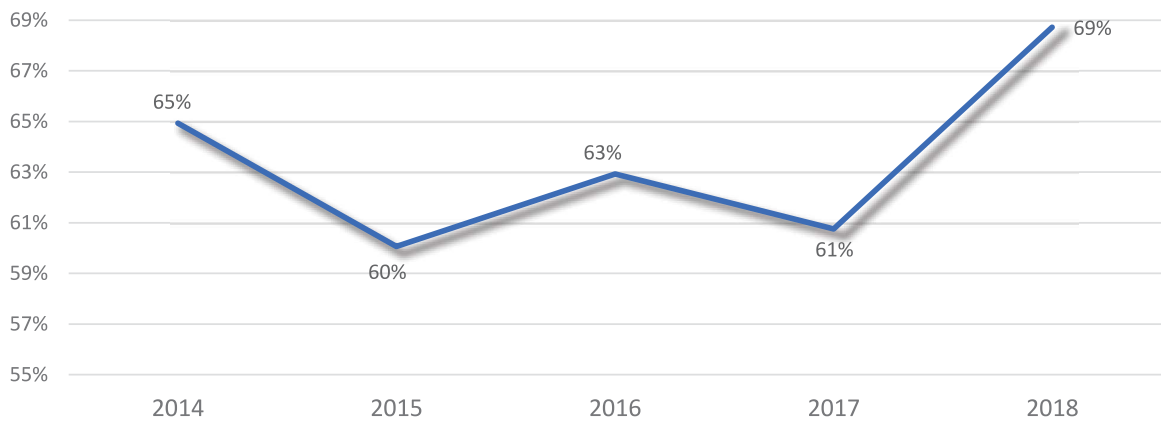
	2015	2016	2017	2018
Paid Losses (Net)	172	192	221	236

The above tables and figures show the importance of high quality reinsurance. Despite the big fluctuations in gross paid and incurred claims, reinsurance helped to maintain stability in the amounts of net claims.

### Gross and Net Insured Losses

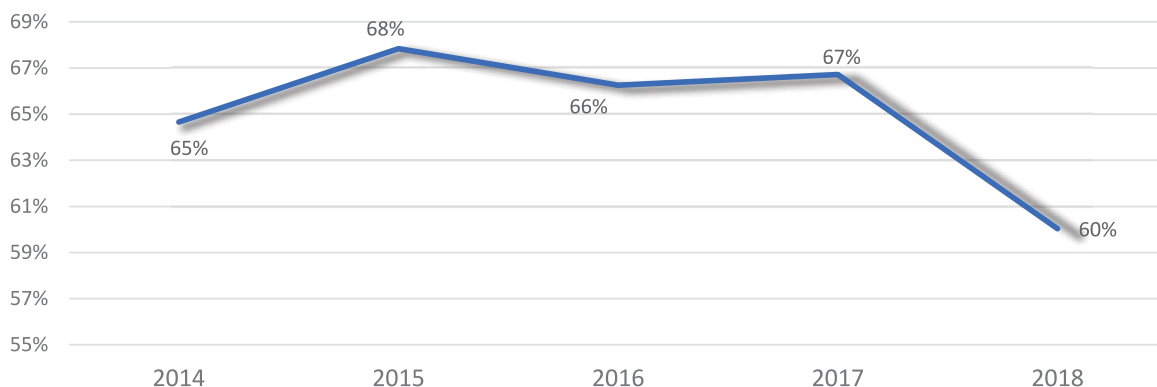


### Loss Ratio (Gross)





Loss Ratio (Net)

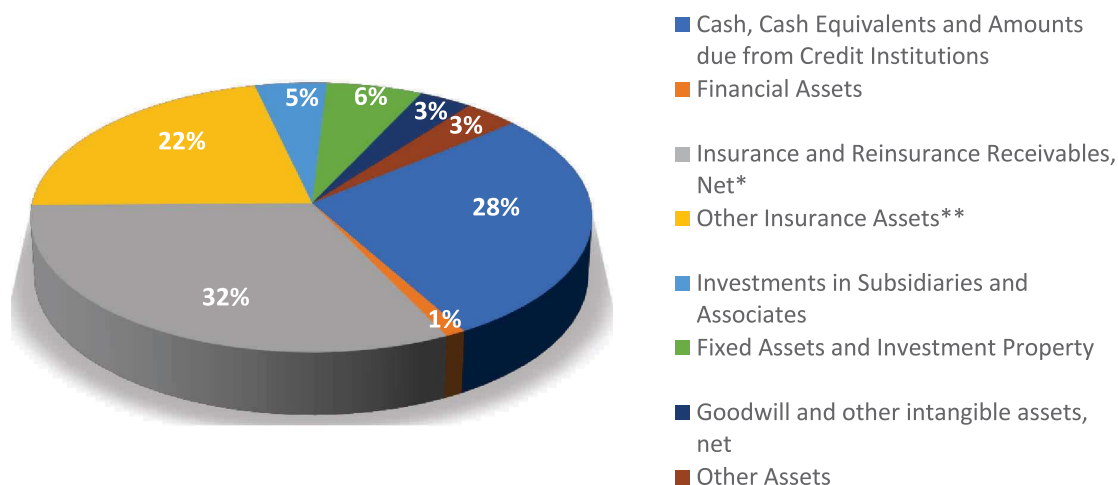


Based on complex reinsurance agreements and portfolio growth, the net loss ratio tends to decrease. It should also be noted that major property losses are mainly covered by fronting (100% reinsurance agreements).

## 10. Structure of Insurers' Assets

Assets	Amount mln GEL)
Cash and cash equivalents and amounts due from credit institutions	207
Financial assets	8
Insurance and reinsurance receivables, net*	237
Other insurance assets**	160
Investments in associates	34
Fixed assets and investment property	45
Goodwill and other intangible assets, net	25
Other assets	26
<b>TOTAL</b>	<b>743</b>

### Structure of Insurers' Assets

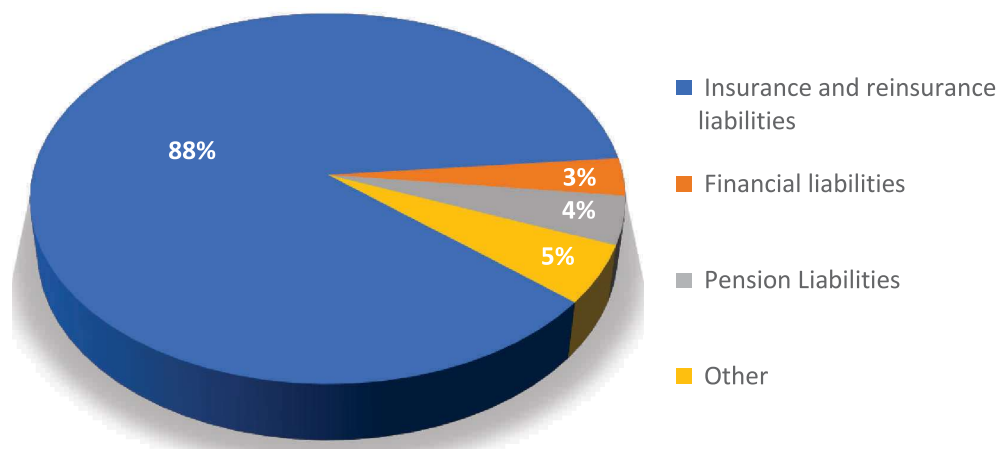


Structure of Insurers' Assets shows that the major part is concentrated in liquid assets and is associated with insurance business. It also shows that cash and cash equivalents make 1/3 of total assets.

\* **NOTE 1:** Insurance and reinsurance receivables are decreased by the impairment reserve;

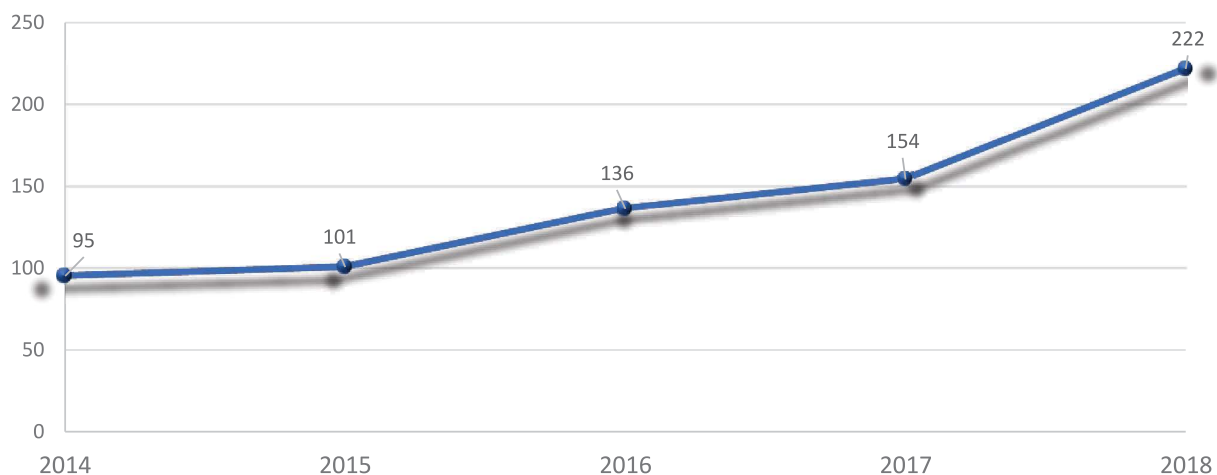
\*\* **NOTE 2:** Other insurance assets mainly comprise of reinsurers' share in the reserves.

### Structure of Insurers' Liabilities



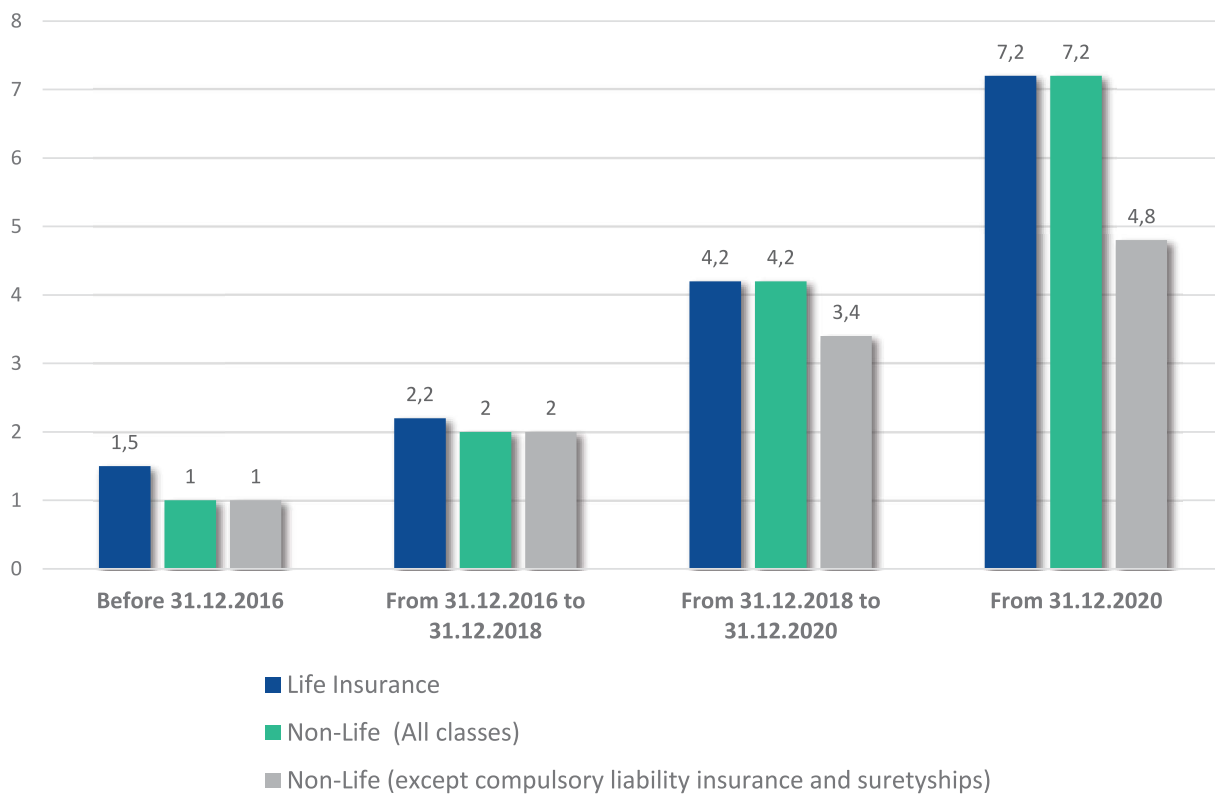
The structure of Insurers' liabilities shows even more clearly that 92% of Insurers' liabilities are directly related to insurance and pensions businesses. Insurance reserves are mainly placed in cash. Only a small part is placed in real estate or financial assets. However, it should be noted that ISSSG most thoroughly monitors the quality of financial assets.

### Dynamics of Equity (mln GEL)



## 11. Financial Stability

### Minimum Capital (mln. GEL)



According to the legislation minimum capital requirement for insurer is GEL 4.2 million to be placed in cash, for the following lines of business:

- Life insurance;
- Non-life insurance;
- Reinsurance;
- Compulsory insurances;
- Suretyship

GEL 3.4 mln for non-life insurance other than compulsory insurances and suretyship.

From 31.12.2020 minimum capital requirement shall be increased to GEL 7.2 mln to be placed in cash, for the following lines of business:

- Life insurance;
- Non-life insurance;
- Reinsurance;
- Compulsory insurances;
- Suretyship.

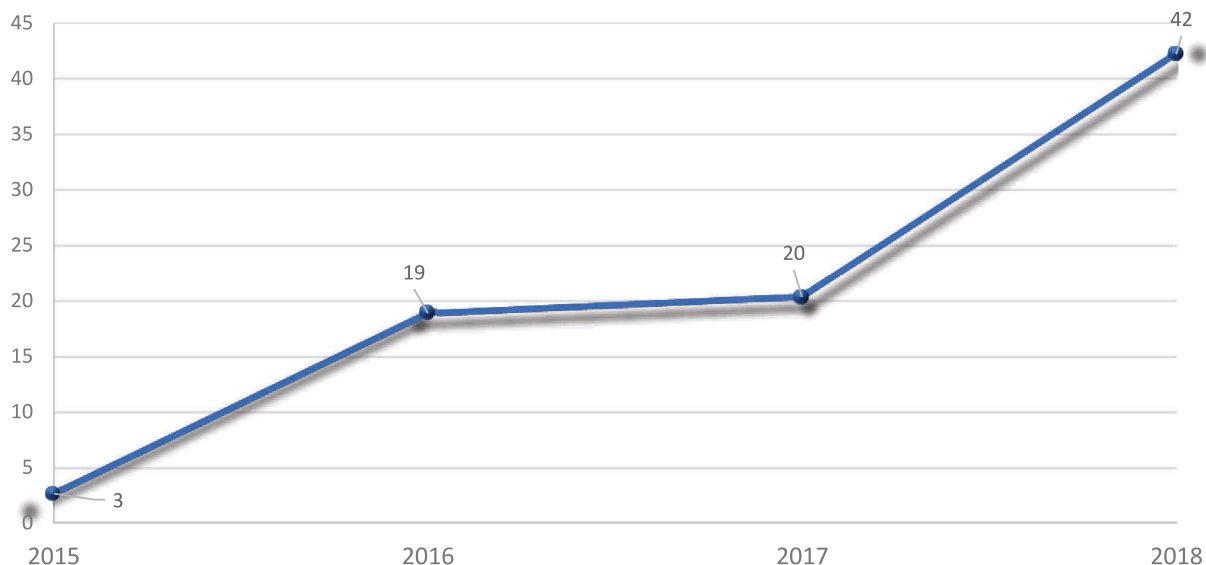
If the Insurer writes only non-life insurance other than compulsory products and surety, the minimum capital requirement from 31 December 2020 shall be GEL 4.8 mln.

As shown in the above figure, all the licensed Insurers are given sufficient time to meet the minimum capital requirement, while the license applicants are required to meet the new capital requirement at the moment of applying to ISSSG.

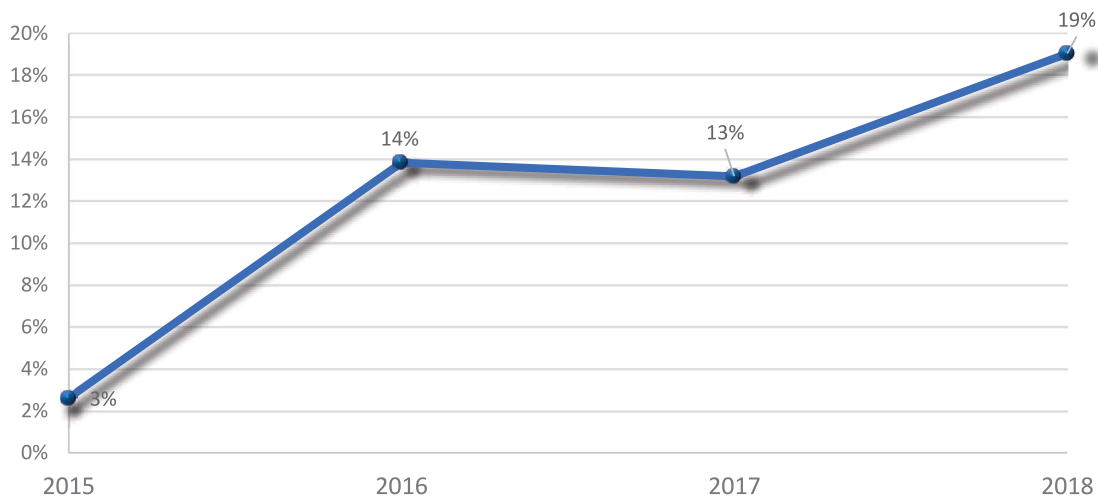
Despite quite high loss ratio, the total return on equity (ROE) of the Georgian market is higher than average, in comparison with the most countries of European Union and Eastern Europe.

The results of 2018 show 19%, and this figure is actually even higher due to the effect of active growth of the Insurers' equity by the end of the same year.

**Dynamics of annual profit  
(mln GEL)**



**Dynamics of the annual return on equity (ROE)**

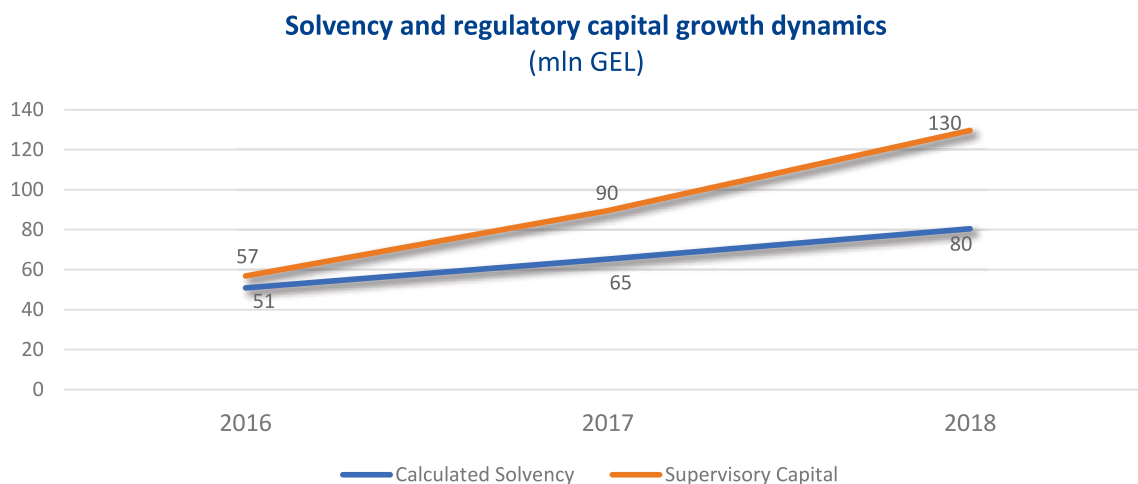
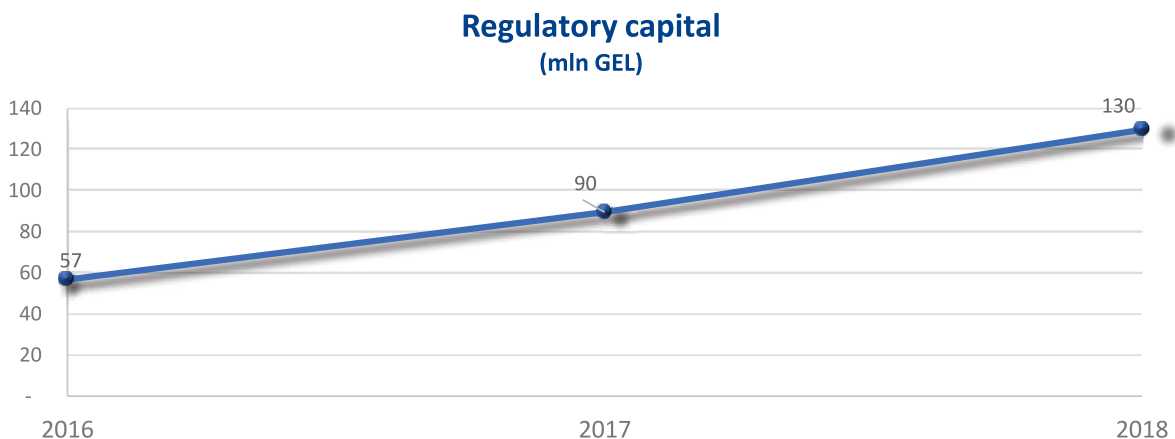


Considering Association Agreement and requirements of all the corresponding directives, in addition to the minimum capital requirements ISSSG has introduced regulatory capital requirements and implemented Solvency 1 supervisory regime.

Implementation of Solvency 1 and minimum capital requirements in 2016 has played a key role in gradual growth of the Insurers' equity.

Regulatory capital is calculated by deducting certain assets from the equity, as the regulatory capital is a part of equity, which mainly consists of liquid assets.

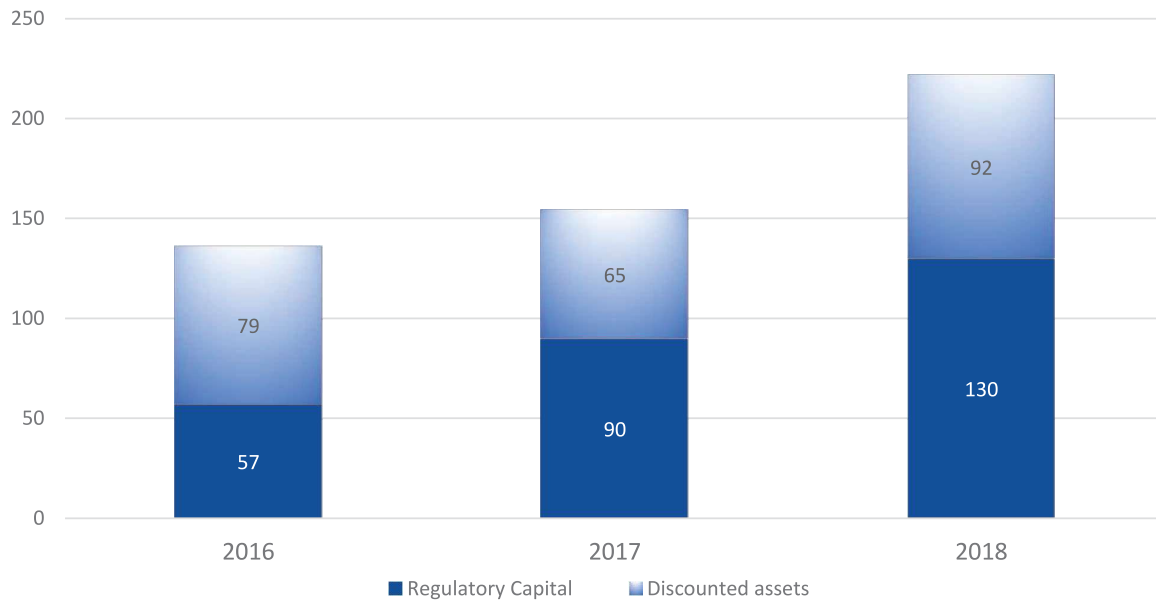
Due to the above-mentioned, some Insurers had to make additional capital injections, while ISSSG supported profitability of Insurers and development of the market.



As shown in the above figures, the excess of regulatory capital over solvency margin has significantly improved during the past years, which means improvement of financial stability of the market.

By the end of 2018 the excess exceeded 60%, which is a much better result than at the time when the new requirements were introduced.

**Regulatory capital as part of Insurers' equity**  
(mln GEL)



**Regulatory capital as part of Insurers' equity**  
(% of Equity)



From the time of implementing regulatory capital requirements in 2016, the share of discounted assets in total equity has significantly decreased.

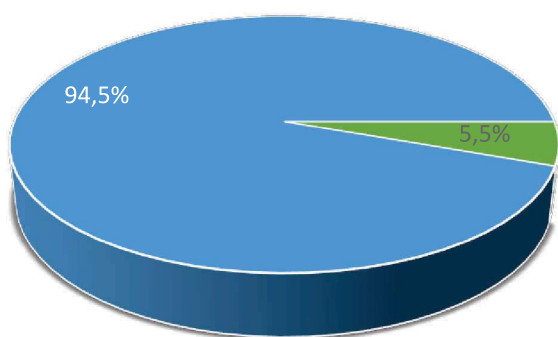
## 12. Insurance brokers

By the end of 2018, out of 25 insurance brokers more than a half were not very active.

Insurance brokers have a right to provide both insurance and reinsurance brokerage services. However, the statistics shows that the major part of their activities fall on reinsurance intermediary services.

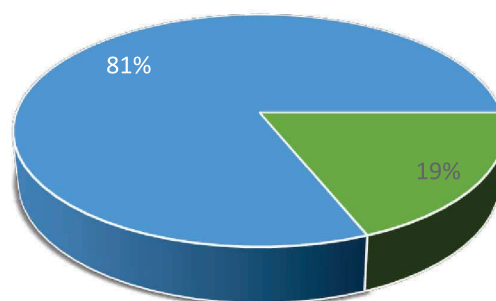
It should also be mentioned that insurance brokerage is a significant part of insurance business. Brokers are responsible for proper allocation of funds and placement of risks. For this reason, it was decided to enhance regulations for insurance intermediaries, which will in future ensure high quality services, professional approach and reliability.

**Brokers' share in GPW**



■ Broker's part

**Brokers' participation in reinsurance operations**



■ Broker's part





