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Insurance business development trends in Georgia and its impact on the economy of the country

- Khatuna Kharkhelauri** Department of Business Administration, Georgian Technical University, 77 M. Kostava str., 0160 Tbilisi, Georgia
E-mail: kh.kharkhelauri@gtu.ge
- Tamari Kajaia** Department of Business Administration, Georgian Technical University, 77 M. Kostava str., 0160 Tbilisi, Georgia
E-mail: t.kajaia@gtu.ge
- Nino Maziashvili** Department of Business Administration, Georgian Technical University, 77 M. Kostava str., 0160 Tbilisi, Georgia
E-mail: n.maziashvili@gtu.ge

Reviewers:

- M. Bliadze**, Professor, Faculty of Transportation and Mechanical Engineering, GTU
E-mail: m.bliadze@gtu.ge
- T. Devidze**, Associate Professor, Faculty of Business Technology, GTU
E-mail: t.devidze@gtu.ge

Abstract. During the last ten years, the role of insurance business in Georgian economy and its connection with other financial sectors has increased significantly. It should be noted that there are numerous researches confirming causal link between bank lending, capital market development and economic growth. It also should be noted that insufficient attention is paid to the research of insurance sector in this regard. On the basis of statistical and financial data analysis, the article compares tendencies, which have emerged in Georgian insurance business development. It also discusses the factors, which assess the contribution of various fields to the development of the national economy and in particular the effect of insurance business on the growth of Georgian economy.

Key words: Attracted premiums; insurance business; investment activities; state insurance program.

Introduction

Theoretical studies and empirical data show that countries with more developed financial systems have an advantage of faster and more stable long-term development. Well-developed financial institutions, including insurance companies, through direct and indirect economic activities have a significant positive impact on the economy of a country. Insurance, as a means of avoiding loss and as an institutional investor in public or private sectors, may have a significant positive economic impact.

In the leading industrial countries, insurance companies are one of the main investors among the financial institutions represented in the financial markets. As of today, none of the 7 operating companies on the Georgian stock market represent an insurance company.

As a result of an above mentioned, it is urgent to improve the efficiency of Georgian insurance companies. The purpose of the research is to study the prospects of an insurance business, as an important aspect for the development of Georgian economy.

Main part

The stages of Georgian insurance market development

In 1997 the reform was enforced for the purpose of establishing and developing an insurance system based on market principles. It should be noted that in a short period of time, in Georgia, the necessary insurance legal framework was created, without which it is impossible to establish and function the insurance infrastructure similar to a modern.

The first private company on Georgian insurance market is Aldagi, established in 1990 with the Georgian Relief and Health fund, as an insurance medical firm. The first organization to be insured by the company was United Trade Unions, with a staff of 5,000 people. In 1991 Aldagi's total premium exceeded 1 million maneti. In 1992 it reorganized as a limited liability company and entered the international insurance market. [1]

Year by year new companies were entering an insurance market. In 1997 the insurance supervision service was established, the registration and licensing of insurance companies has begun, the laws on insurance were developed. As a result to the supervisory requirements, numerous mergers were made in the insurance market. Together with market development and the creation of new products, insurance relations and regulations have gradually improved.

In 2005, Georgia's State Insurance Supervision Service approved minimum statutory authorized capital requirements for insurance companies. Before, the minimum statutory authorized capital as per certain type of insurance varied from 500 000 to 1 000 000 GEL.

According to the decision, statutory minimum authorized capital was determined: for life insurance 600000, for non-life insurance – 1000000, for other legal entities – 2000000 GEL. [2]

Such an approach has accelerated the process of consolidating and merging the insurance companies, as a result, the number of insurance organizations has decreased, but the quality of the companies' activities have significantly increased.

An important milestone for the formation of the insurance system in Georgia began in 2007. State health insurance programs were implemented and enforced by private insurance companies, according to 2006-2007 data, 15 insurance companies were operating on the Georgian insurance market, during the same period 3 companies ceased to exist. According to the amount of premium attracted to the market during this period, leading positions were as follows: Insurance Company Aldagi-BCI JSC with 40 991 604 GEL, Georgian Pension and Insurance Holding JSC with 26 911 394 GEL, Irao International Insurance Company LLC with 15 382 862 GEL. [3]

By 2007, the companies offered 14 types of insurance on the stock market. Currently, medical insurance is the most demanded product on the market, which holds 38% of the market. Then the next are property insurance (with 17%) and land vehicle insurance (with 15%).

By 2010, 16 companies were operating on insurance market offering 18 types of products. According to the amount of attracted premium, medical (health) insurance is absolute leader with 68% of market share. Compared to 2007, this product's share (37.93%) has been almost doubled. This is partly related to the implementation and enforcement of health insurance state programs by private insurance companies. As for the property insurance, it is offered as a separate product: land vehicle insurance (excluding railroad vehicle), railroad vehicle insurance, air vehicle insurance (body insurance), water vehicle insurance (hull insurance), and cargo insurance. Property insurance, which is not included in this list, is on the second place (with 9.72%), while land vehicle insurance (excluding railroad vehicle) is on the third place (with 7.51%). [4]

The volume of premiums attracted to the insurance market from 2010 to 2016 is fluctuating. The maximum amount reached was 515 471 427 GEL in 2012 due to the inclusion of new beneficiaries in the state insurance program. In addition, in 2013-2014 these programs were substituted by state's universal health care program. In 2014, the government of Georgia abolished the participation of insurance companies in above mentioned programs, and instead of private companies, Social Service Agency was ordered to execute the programs.

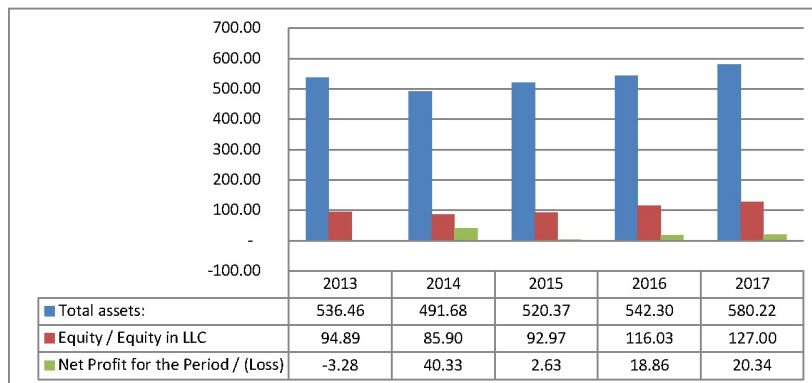
It is noteworthy that in the period of 2010-2017, not considering the state programs, there is a significant growth in the amount of attracted premiums in all types

of insurance on the market and in voluntary health insurance as well.

It is also important to analyze the financial performance of insurance companies. In 2008, the total assets of insurance companies on the market was 250 319 580 GEL, while at the end of the analysis period it amounted 580 219 624 GEL. For the year of 2010, investments in affiliates and subsidiaries amounted to 18,4 million GEL and had a steady growth trend until 2013, reaching a maximum of 105,31 million GEL at the end of above mentioned period. 51 million GEL on the following year and at the end of 2018 it decreased to 37 million GEL. [3]

Chart 1

The dynamics of financial data of insurance business



Source <http://insurance.gov.ge/Statistics.aspx>

Financial results of investment activities

Based on the financial data of Georgia's Insurance Supervision Service, the total income received through insurance companies' investment activities during the survey period (2008-2017) amounted to 116 637 146, 77 GEL. Based on the same data, the research reveals Georgian insurance market's investment activities' positive trend through steadily increasing revenue in 2008-2011 years. Even though the corresponding ratio significantly decreases in 2012 compared to the previous year's indicator (by 31%), the highest indicator of total income received through investment activity was 24 088 530 GEL in 2014, which is 8 times more than the base indicator in 2008.

Within the framework of the research, based on the financial data of the Georgian insurance market, a study of the income from pension activities was carried out, which revealed that it was characterized by an unstable development trend. Revenue through pension activities in 2010-2012 is negative, which increases from 2013 and reaches 608 794 GEL in 2017, meaning an increase by 196% throughout reporting period of the research (2008-2017).

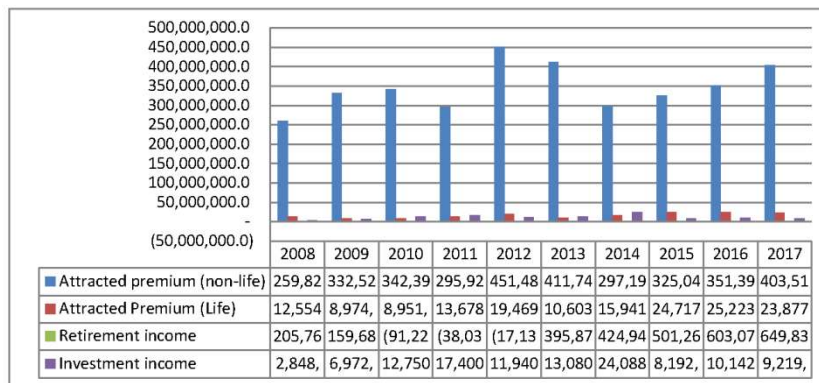
Investment in the insurance sector is important for the Georgian economy. As part of the Government of Georgia's Resolution No. 11 of January 26, 2007 regarding the general plan of development of hospital

sector, the Government has proposed insurance companies to engage in the construction project of 100 new hospitals. According to the researches conducted in Georgia, after embodying insurance companies into privatizing and hospital programs, as of 2012, 41% of hospitals operating in the country is owned by insurance

companies. Through analyzing the hospitals owned by insurance companies, their 80% is owned by 5 companies: Aldagi BCI, GPI Holding, Irao, IC Group and Alpha. [5]

Chart 2

Revenue Structure and Dynamics



Source <http://insurance.gov.ge/Statistics.aspx>

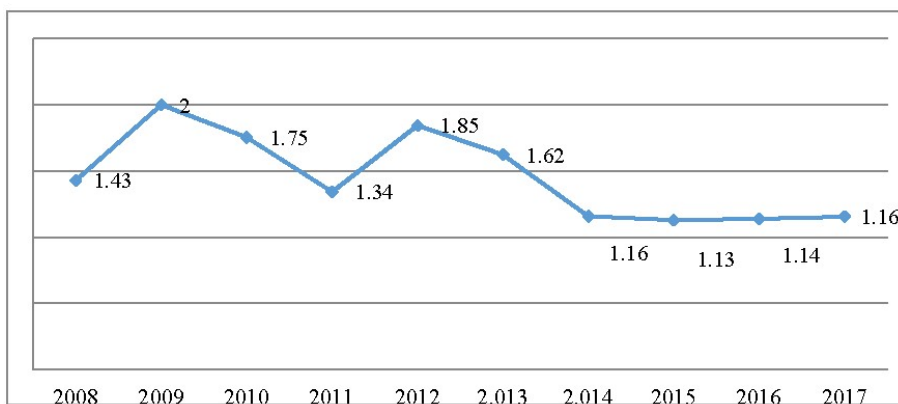
Social and economic efficiency of insurance

Just like for any other business, for insurance business, typical direct factor affecting the development of the country's economy is the share of the sector in GDP, employment and corporate taxes. Through Georgia's state Insurance Supervision Service's and National Statistics Office's data analysis throughout the research's reporting period (2007-2017) the following trends were identified.

The share of total premiums and other incomes in GDP varies from 1,13% to 2% (see chart 1). This index is significantly lower than the index in developed countries (8.7%) and in developing countries (2.8%). On the one hand this indicates the low development of the market, but on the other, the great potential for developing the untapped potential.

Chart 3

Attracted premiums and orders incomes share in GDP (2008-2017)



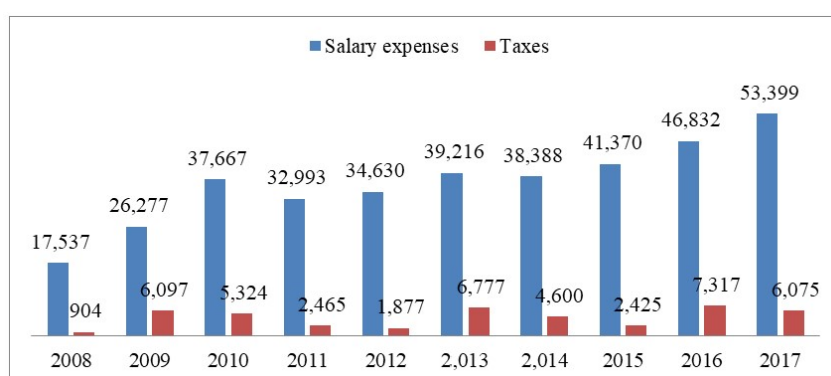
Source <http://insurance.gov.ge/Statistics.aspx>

We couldn't find a quantitative indicator for one of the direct effecting factors on the development of the economy. We can discuss this issue according to the total wage index in the sector (see chart 2). This indicator amounted 37 666 855 in 2010, during 2011-15 years the growth of an indicator is unstable, and in 2017 maximum amount was reached with 53 398 788 GEL. This may be due to two factors. First, the number of employees in the

field has increased, either the wage was increased, or both. It should be noted that in any case, this has a positive impact on country's economic development. The dynamics of tax payments to the state budget is also characterized by a similar trend from 2008 to 2017, which correspondingly increased from 904 028 GEL to 6 075 485 GEL, which undoubtedly contributes to the successful implementation of various budget-funded programs.

Chart 4

Dynamics of total salaries in the insurance business and paid taxes ('000 GEL)



Source <http://insurance.gov.ge/Statistics.aspx>

Conclusion

The insurance sector plays an important role in the country's economy. Taking into account the international experience, insurance companies, mainly, provide long-

term financing through the capital market. The research shows that Georgian insurance sector has a relatively small contribution to the efficiency of the country's economic.

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სადაზღვევო ბიზნესის განვითარების ტენდენციები საქართველოში და მისი გავლენა ქვეყნის ეკონომიკაზე

ხათუნა ხარხელაური	ბიზნესის ადმინისტრირების დეპარტამენტი, საქართველოს უნივერსიტეტი, საქართველო, 0160, თბილისი, მ. კოსტავას 77 E-mail: kh.kharkhelauri@gtu.ge	ტექნიკური
თამარი ქაჯაია	ბიზნესის ადმინისტრირების დეპარტამენტი, საქართველოს უნივერსიტეტი, საქართველო, 0160, თბილისი, მ. კოსტავას 77 E-mail: t.kajaia@gtu.ge	ტექნიკური
ნინო მაზიაშვილი	ბიზნესის ადმინისტრირების დეპარტამენტი, საქართველოს უნივერსიტეტი, საქართველო, 0160, თბილისი, მ. კოსტავას 77 E-mail: n.maziashvili@gtu.ge	ტექნიკური

რეცენზენტები:

მ. ბლიაძე, სტუ-ის სატრანსპორტო და მანქანათმშენებლობის ფაკულტეტის პროფესორი
E-mail: m.bliadze@gtu.ge

თ. დევიძე, სტუ-ის ბიზნესტექნოლოგიების ფაკულტეტის ასოცირებული პროფესორი
E-mail: t.devidze@gtu.ge

ანოტაცია. სადაზღვევო სექტორის როლი ეკონომიკაში და კავშირი სხვა ფინანსურ სექტორებთან მნიშვნელოვნად გაიზარდა. უნდა აღინიშნოს, რომ არსებობს არაერთი კვლევა, რომელიც ადასტურებს მიზეზშედეგობრივ კავშირს საბანკო დაკრედიტებას, კაპიტალის ბაზრის განვითარებასა და ეკონომიკურ ზრდას შორის. უნდა აღინიშნოს ისიც, რომ სადაზღვევო სექტორის კვლევას ამ კუთხით საკმარისი ყურადღება არ ეთმობა. სტატიაში სტატისტიკური და ფინანსური მონაცემების ანალიზის საფუძველზე შედარებულია ის ტენდენციები, რომელიც გამოიკვეთა საქართველოში სადაზღვევო ბიზნესის განვითარებაში. ასევე განხილულია ის ფაქტორები რომლითაც ფასდება ზოგადად ამა თუ იმ დარგის წვლილი ეროვნული ეკონომიკის განვითარებაში და კერძოდ დაზღვევის ეფექტიანობა ქართული ეკონომიკის ზრდაში.

საკვანძო სიტყვები: მოზიდული პრემია; სადაზღვევო ბიზნესი; საინვესტიციო საქმიანობა; სახელმწიფო დაზღვევის პროგრამა.

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Тенденции развития страхового бизнеса в Грузии и его влияние на экономику страны

- Хатуна Хархелаური** Департамент бизнес-администрирования, Грузинский технический университет,
Грузия, 0160, Тбилиси, ул. М. Костава 77
E-mail: kh.kharkhelauri@gtu.ge
- Тамари Каджия** Департамент бизнес-администрирования, Грузинский технический университет,
Грузия, 0160, Тбилиси, ул. М. Костава 77
E-mail: t.kajaia@gtu.ge
- Нино Мазишвили** Департамент бизнес-администрирования, Грузинский технический университет,
Грузия, 0160, Тбилиси, ул. М. Костава 77
E-mail: n.maziashvili@gtu.ge

Рецензенты:

М. Блиадзе, Профессор факультета транспорта и машиностроения ГТУ

E-mail: m.bliadze@gtu.ge

Т. Девидзе, асоц. профессор факультета транспорта и машиностроения ГТУ

E-mail: t.devidze@gtu.ge

Аннотация. Роль страхового сектора в экономике и его связь с другими финансовыми секторами значительно возросла. Следует отметить, что существуют многочисленные исследования, которые подтверждают причинно-следственную связь между банковским кредитованием, развитием рынка капитала и экономическим ростом. Следует также отметить, что недостаточно внимания уделяется исследованиям страхового сектора в этой области. В статье анализируются тенденции развития страхового бизнеса в Грузии на основе анализа статистических и финансовых данных. В нем также рассматриваются факторы, которые в целом способствуют развитию национальной экономики в целом, и, в частности, влияние страхования на рост экономики Грузии.

Ключевые слова: Государственная страховая программа; инвестиционная деятельность; привлеченные премии; страховой бизнес.

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