



INSURANCE
STATE SUPERVISION
SERVICE OF GEORGIA

ANNUAL REPORT 2020





Dear readers,

I am pleased to provide with 2020 annual report of the Insurance State Supervision Service of Georgia.


2020 was one of the most disturbing years for most countries worldwide as well as for the Georgian economy, but local insurance undertakings managed to maintain their portfolios in the most lines of business. Some lines were affected immediately. In particular, travel and hospitality related insurance business has decreased by more than 50%, border MTPL - by 45%, some other classes have also shown signs of slow-down in most undertakings. Following the COVID-19 related lockdowns, some business owners and many individuals applied to the insurance undertakings asking to suspend or cancel insurance policies until they return to regular activities. Our joint consultations supported insurance undertakings to overcome some challenges.

Having in mind all the difficulties faced during 2020, the market has performed well. Gross Premiums Written have increased slightly, by around 7%, the summary technical result was positive and have even increased by 10%. In March 2020, we issued recommendations on distance

services and strengthening infrastructures to meet online service requirements while constantly communicating with the undertakings. Overall, the pandemic accelerated digitalization in the field of insurance.

Despite travel restrictions worldwide, in 2020 ISSSG continued active cooperation with international/donor organizations and participated in various conferences and activities online. This enabled us to get familiar with the experiences and new approaches of other countries, pandemic-related issues and the ways to manage the existing challenges.

During the reporting period, as in the previous years, close cooperation continued between ISSSG and media agency XPRIMM (Promoting the Reinsurance & Insurance Market by Media). With the support of ISSSG and the Georgian insurance market, an online international insurance conference was held with the participation of international experts. The main topics at the conference were the current situation and challenges in the health insurance industry in during the pandemic period and existing challenges as well as the urgency and importance of digitalization of the insurance system.



We continued implementing the TWINNING project funded by the EU launched in the previous year to ensure fulfilment of the obligations taken within the EU-Georgia Association Agreement. Due to the pandemic travel restrictions, project activities proceeded online. The project is implemented by experts representing the Spanish insurance regulatory authority. With the new EU system envisaging an entirely different approach,

the Spanish experts analyzing the existing legal framework of insurance in Georgia identified the need for a new legal framework for regulating the insurance sector.

For detailed information, please find below the full report on activities carried out by the Insurance State Supervision Service of Georgia.



David Onoprishvili
Chairman of the ISSSG

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1. About us

Legal Entity of Public Law Insurance State Supervision Service of Georgia (hereinafter "ISSSG") was established as an independent authority on March 20, 2013, based on the amendments to the Law of Georgia "On Insurance", and represents a legal successor of the National Bank of Georgia for the supervision of insurance and pension schemes.

ISSSG is independent in its activities and accountable to the Government of Georgia. Its competencies and powers are defined by the Law of Georgia "On Insurance" and the regulation approved by the Decree №102 of the Government of Georgia dated May 2, 2013. The functions of ISSSG 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 of 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 2020 data, 18 licensed insurance companies operated in Georgia, holding both non-life and life insurance licenses. These companies are:

1. JSC Insurance Company GPI Holding
2. JSC Insurance Company ALDAGI
3. JSC TBC Insurance
4. JSC Insurance Company IMEDI L
5. JSC Ardi Insurance
6. JSC Insurance Company UNISON
7. JSC International Insurance Company IRAO
8. JSC PSP Insurance
9. JSC Insurance Company EUROINS GEORGIA
10. JSC Risk Management and Insurance Company GLOBAL BENEFITS GEORGIA
11. JSC Insurance Company ALPHA
12. JSC Insurance Group of Georgia
13. JSC Insurance Company PRIME
14. JSC Insurance Company CARTU
15. JSC HUALING Insurance
16. JSC Insurance Company TAO
17. JSC NEW VISION Insurance
18. JSC Green Insurance Georgia

JSC “International Insurance Company Kamara” has changed its brand name to JSC “Green Insurance Georgia”.

ISSSG reviewed the license applications and issued a life insurance license to JSC “Green Insurance Georgia”, life and non-life insurance licenses to JSC “New Vision Insurance”.

For the reporting period (as in previous years), there were 4 non-state pension schemes registered by ISSSG, 3 of them 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 2020, there were 20 registered insurance brokers operating on the insurance market for mediation.

Based on the changes made in 2019 to the Law of Georgia “On Insurance”, the new regulatory framework for insurance brokers came into force from January 2020, including the mechanisms ensuring the financial stability of their operations, such as minimal capital / guarantee fund and mandatory professional indemnity policy. According to the above-mentioned, several (less active) insurance brokers decided to terminate their activities. Therefore, ISSSG cancelled the registration of the following 6 insurance brokers.

In 2020, one new insurance broker was registered – “Insurance and Reinsurance Broker CGA” LTD.

As of December 2020, there were 15 insurance brokers operating on the market.

1. Insurance Broker GS LLC
2. Insurance Broker MAI Georgia LLC
3. Resolution Insurance Brokers Georgia LLC
4. Insurance Broker IG LLC
5. Insurance and Reinsurance Broker Arriba LLC
6. Insurance Broker SIB Georgia LLC
7. Magnus Insurance Broker LLC
8. Insurance Broker Brokers Hub LLC
9. Insurance Brokerage Company Kalma LLC
10. Insurance Broker Nikoloz Group LLC
11. Insurance Broker IBC Georgia LLC
12. Insurance Broker Respect LLC
13. Insurance and Reinsurance Broker Brokers House Georgia LLC
14. GEORGIAN REINSURANCE BROKERS LLC
15. Insurance Broker CGA LLC

3. Development of legal basis / legislative process

In 2020, significant amendments were made to regulate the issues within the ISSSG competence. The draft amendment to the Law of Georgia “On Insurance”, and the draft Law “On Amendments to the Civil Code of Georgia” were prepared and submitted to the Government of Georgia for review. These draft laws address the issues of real-time monitoring and digitization of compliance of the insurance undertakings and insurance intermediaries with the requirements established in the field of consumer protection.

One of the amendments to the Law of Georgia “On Insurance” concerns the obligation of the Insurers to have an actuary, which is important for correct analysis of the Insurer’s ability to maintain solvency, the accuracy of its financial calculations and the ability to cope with obligations. Although some insurance undertakings in Georgia use actuary’s service in practice, it was considered to introduce an obligation to have an actuary at the legislative level, being one of the important directions of insurance activities. This is a prerequisite for the introduction of one of the 4 main functions established by international standards for insurance undertakings, and the basis for the introduction of actuarial function in the future.

The above-mentioned draft law also provides sanctions against insurance brokers for violating anti-money laundering and anti-terrorism legislation. Since November 2019, insurance brokers have been regulated in accordance with the Law of Georgia “on Facilitating the Suppression of Money Laundering and Terrorism Financing”. In this regard, insurance brokers are supervised by ISSSG, while to ensure effective supervision, it is important for ISSSG to be able

to apply the sanctions provided by the Law of Georgia “On Insurance” in case of breach of anti-money laundering and anti-terrorism legislation by the insurance brokers.

The amendment to the Law of Georgia “On Normative Acts” envisages, in some cases, the obligation to prepare a regulatory impact assessment when drafting a normative act. The Government of Georgia has determined the list of legislative acts for which it is mandatory to prepare a regulatory impact assessment report, including the Law of Georgia “On Insurance”. The preparation of this document requires a specific approach, in order to properly manage the process, with the financial support of the United States Agency for International Development (USAID) and with the organizational assistance of the Institute for Analytical Research of the International School of Economics (ISET) at the Ivane Javakishvili Tbilisi State University, a 7-week training was held for civil servants of various agencies (Considering the current situation with the pandemic, it took place online). The training covered the main approaches to the development of the Regulatory Impact Assessment (RIA) document and the process of its creation, in which the Supervision Service also participated. During the training, participants learned the general structure of the RIA document, specifics of its preparation and how the different stages are related to each other. The training included both theoretical and practical assignments.

In 2020, ISSSG developed and published:

1. Order №42 of April 2, 2020, amending the “Rule for Calculating the Amount of Insurer’s Regulatory Capital” approved by the Order

№16 of September 16, 2016. In particular, since 2019, according to the new international standard IFRS 16, both lease liabilities and the right to use assets must be reflected in the balance sheet, while their amount must correspond to the liabilities accrued over the entire lease term and the corresponding assets. According to the “Rule for calculating the amount of Insurer’s regulatory capital”, the deduction components also included “Other” assets, which automatically included the “Right to use assets” provided by the new standard. Considering that insurance undertakings often enter into long-term leases, the new “Right to use assets” unfairly reduced the number of Insurers’ regulatory capital. In addition to the above, regulatory capital also includes the full amount of the deferred commission expense in the deduction components. Given that the deferred commission expense is a part of the unearned premium, the latter being fully accounted for by the Insurers in the liabilities part, the deduction of the deferred commission had a double effect, which was an additional burden on the Insurer’s regulatory capital. In view of the above, it was decided to amend the above-mentioned normative act and to deduct the “right to use assets” from the “other” deductible assets, so as not to include it in the deduction components, and to include in the deduction component of the deferred commission expenses only the prepaid commission expenses. In addition, since December 31, 2018, the two deduction components of the regulatory capital, investments in associates (equity participation and loans issued) and investments in subsidiaries (equity participation and loans issued) had been fully deducted, by 100%. According to the amendment, the two components - investments in associates (equity participation and loans issued) and investments in subsidiaries (equity participation and loans issued) were required

- by 100% i.e., full deduction.
2. Order №43 of June 17, 2020, amending the “Instruction on Consumer Protection in Providing Insurance Services by the Insurer” approved by Order №18 of April 3, 2017. This amendment stipulates that an insurance product that includes a small list of insured risks and exceptions, and a simple and flexible procedure for obtaining insurance services, has no obligation to provide a newsletter and a headline. At the same time, in order to ensure the protection of consumers’ rights, it was established that before the delivery of an insurance product with the above characteristics, an insurance undertaking is obliged to inform ISSSG and provide a sample of the insurance contract (standard terms and conditions of insurance).
 3. Order №44 of September 16, 2020, amending “Insurers Financial Reporting Forms and terms of their submission to the LEPL Insurance State Supervision Service” approved by Order №03 of December 24, 2013. This amendment brought the terminology in the instruction of completing the reporting forms in line with the Order №33 of the Head of LEPL Insurance State Supervision Service of Georgia of August 6, 2019, “On approval of the Rule of Margin Ratio between Net Exposure and Regulatory Capital Undertaken by the Insurer”.
 4. Order №45 of September 28, 2020 amending Order №27 of December 25, 2017, “On Approval of the Rule for Determining the Minimum Amount of Capital at All Stages of Insurance Activities on the Territory of Georgia”, according to which the deadlines set by the normative act for the increase of the minimum amount of own capital for the Insurers licensed before January 1, 2018, were extended by one year - until December 31, 2021.
 5. Order #46 of September 28, 2020, amending Order №18 of April 2, 2017, “On Approval of the Instruction on Protection of Consumers Rights while Providing Insurance Services”.

This amendment simplifies the process of selling the product provided by the Resolution of the Government of Georgia №572 of September 10, 2020, “On Determining the Conditions and Rules of Health and Personal Accident Insurance for Foreign and Stateless Students on the Territory of Georgia” and releases the Insurers from the obligation to provide information leaflet.

6. Order №47 of December 29, 2020, “On Approval of Insurers` and Non-State Pension Scheme Founders` Money Laundering and Terrorism Financing Risk Surveillance Reporting Forms and Terms of Their Submission to ISSSG. The order was issued for the off-site assessment of the implementation of the Law of Georgia “On Facilitating the Suppression of Money Laundering and Terrorism Financing” and the new by-laws issued for its enforcement. The Insurers and founders of the pension schemes must provide their first reports presenting the data from January 1, 2021, to June 30, 2021, to the Insurance State Supervision Service of Georgia no later than July 31, 2021.
7. Order №48 of December 29, 2020, amending Order № 02 of March 17, 2015 “On approval of terms of establishing, imposing and applying financial penalties to the Insurers”, which enabled compliance with one of the important recommendations issued by MONEYVAL to increase the efficacy of financial penalties, based on the fifth round of assessment of compliance of Georgia with the recommendations of Financial Action Task Force (FATF). These changes introduced new provisions for violating the Law of Georgia “On Facilitating the Suppression of Money Laundering and the Terrorism Financing” and increased the number of penalties.

During the reporting period, amendments were made to the Statute “On the establishment of LEPL State Insurance Supervision Service of Georgia and the Supervisory Board existing hereto” approved by the Resolution №102 of the Government of Georgia of May 2, 2013, thus clarifying and expanding the powers of

ISSSG. The amendment of the Statute itself was following the amendments made to the Law of Georgia “On Insurance” by the Parliament of Georgia on September 3, 2019, which mainly concerns the regulation of insurance brokers, the establishment of an appropriate supervisory framework and regulation of consumers rights in the insurance industry.

In addition, one of the members of the ISSSG Supervisory Board with the advisory functions has resigned from the non-governmental sector (President of the Georgian Business Association), a corresponding change was made to the Supervisory Board of ISSSG, and in his place, the current President of the Georgian Business Association was appointed as a new member.

In 2020 ISSSG issued three recommendations:

1. Methodological Recommendation №1 of November 18, 2020, “Guidelines on the establishment of the structure of ownership/control and identification of the beneficial owner of the clients by the obliged persons supervised by the Insurance State Supervision Service of Georgia”, the purpose of which is to identify the risks associated with the ownership/control structure and beneficial owners of the clients, and to assist the Insurers, shareholders of non-state pension schemes and insurance/reinsurance brokers (hereinafter – „obliged persons“) in studying the ownership/control structure of their clients, identifying the beneficial owners, and taking the necessary measures to verify the received information.

The guidelines provide general standards for studying the client’s ownership/control structure and identifying a beneficial owner, by which the obliged person, taking a risk-based approach, develops its own detailed internal instruction for the establishment of the structure of ownership/control and the beneficial owner of its clients. However, the obliged person is entitled to introduce

stricter procedures than the standards set out in these guidelines.

2. Recommendation №2 of March 25, 2020, was issued to address the challenges posed by the new coronavirus pandemic (COVID-19) and to reduce the resulting negative consequences.
3. Recommendation №3 of October 27, 2020, “On insurance losses administration process”. The recommendation is based on the best international practice and seeks to introduce the main principles to the insurance sector that will improve consumers protection in practice, increase their satisfaction and raise trust in the insurance sector. It covers the main stages in the claims settlement process: a) notification of insured event (reporting of loss); b) Loss assessment; c) Loss settlement; d) Reimbursement; and the general rules of conduct for the insurance undertaking at each of these stages. It is noteworthy that some of the points mentioned in the recommendation can be qualified as “the Insurer’s liability to reimburse for the insurance loss - at the stage of fulfillment of the obligation under the insurance contract.” Based on the above, it is planned to prepare a draft by-law “On Amending the Order N18 of the Chairman of ISSSG of April 3, 2017, “On Approval of the Instruction on Protection of Consumers Rights while Providing Insurance Services”, ISSSG proceeds the preparation work together with the invited Spanish experts.

In 2020, ISSSG proceeded with the digitalization process and drafted 6 corresponding by-laws (“On the requirements regarding the process of online sale by the Insurers and insurance brokers”, “On the amendment to the Order #11 of the Head of Insurance State Supervision Service of Georgia of February 17, 2016, “On approval of internal accounting requirements for insurance organizations”, “On approval of video identification”, “Minimal supervisory requirements for the Insurer’s information technology system”, “On approval of cybersecurity management framework for the Insurers”, and “Minimum

requirements for full or partial outsourcing of the Insurer’s information technology function”), and 1 (one) recommendation (“Recommendation on the Insurer’s cybersecurity strategy and fundamental elements of the framework”). During the reporting period, 3 (three) draft orders (“On online sales, internal accounting and video identification”) were sent to the Insurers for their consideration and were processed according to their comments.

ISSSG actively participated in promoting and studying the implementation of the cooperation mechanism defined by the Resolution N177 of the Government of Georgia of March 29, 2019 “On terms and conditions for determining the mass gathering places and compulsory third-party liability insurance for their owners”. In particular, ISSSG participated in the preparation of the final draft of the agreement between the LEPL Social Service Agency and the Insurers “On determining of competencies in the financing of medical services provided to the victim following an insured event in a public gathering place”. ISSSG collected and processed the data on insurance premiums and losses under the contracts in this type of insurance during 2018-2019, both for each category of mass gathering objects and in the aggregate.

In 2020, ISSSG processed the draft resolution of the Georgian government “On Determining the Conditions and Rules of the health and Personal Accident Insurance for Foreign and Stateless Students on the Territory of Georgia”; in cooperation with the Ministry of Foreign Affairs, ISSSG drafted the “Rule for Defining and Implementing the Minimum Requirements for the health and Personal Accident Insurance for People Travelling Abroad”. Apart from that, ISSSG also developed the draft order of the Head of ISSSG for Accounting, Reporting and Auditing Supervision (“On the amendment to the Order #12 of the Head of ISSSG for Accounting, Reporting and Auditing Supervision, of October 17, 2016, “On approval of the main conditions and the rule of establishing the limit of liability for professional indemnity insurance of auditors/audit firms”).

4. Interagency cooperation for financial stability

In accordance with the amendments to the Organic Law of Georgia “On the National Bank of Georgia”, in order to promote the stable functioning of the financial system, an Interagency Committee on Financial Stability was established. The members of the Committee are the Minister of Finance, President of the National Bank, Head of LEPL Deposit Insurance Agency, and Chairman

of LEPL Insurance State Supervision Service of Georgia. The law required that the activities of the Committee must be regulated by a decree adopted by joint agreement of all members of the Committee, in the development of which ISSSG was actively involved. The decree of the Interagency Committee was signed by its members, including the ISSSG Chairman.

5. Measures to prevent the spread of Covid-19 and its consequences

To prevent the spread of Covid-19 and contribute to the fight against it, ISSSG closely monitored the ongoing processes in the insurance market. It ensured that the conditions of new insurance products developed by the undertakings in the challenging circumstances were as accurate and clear as possible, and at the same time, provided adequate cover based on proper risk assessment. For this purpose, ISSSG requested information from all insurance undertakings regarding the coverage of risks from Covid-19. The documents

submitted by the Insurers were reviewed and given corresponding remarks/recommendations.

With active involvement and participation of ISSSG, the insurance undertaking reviewed the legal issues arising from the insurance contracts with the Insureds in relation to Covid-19. Draft amendments to the insurance contracts were agreed upon with all undertakings, and the existing challenges arising from the legal aspects were overcome.

6. 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 ISSSG also adopted the practices that have been introduced and carried out all over the world, in order to reduce the risk of further spread of the virus, and considering the current situation, ISSSG switched to online mode to ensure the continuity of the workflow.

Despite the challenging situation, in 2020, ISSSG 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 international experience.

ISSSG is a member of the International Association of Insurance Supervisors (IAIS – hereinafter “Association”). The number of members increased in 2020 and currently consists of 153. The Association works on the implementation of insurance supervision standards (Insurance Core Principles (ICPs)), in accordance with the Association Agreement between Georgia and the EU, the Georgian insurance system / legislation must be gradually adapted.

In 2020, as in the previous years, ISSSG participated in the Association’s online self-assessment program to determine compliance with various core insurance principles (ICPs). In the reporting year, “ICP 19 - Business Conduct” was studied in terms of the business conduct of both Insurers and insurance intermediaries. It was assessed as partially compliant, which implies that some work in this direction has to be carried out in line with international practice.

The Association annually publishes an overall ICP compliance report on its own extranet, which provides examples of its supervision practices and is accessible only to the members of the organization.

Since 2019, ISSSG has been a member of the Assessment and Implementation Committee (IAC), where it is represented by the ISSSG Chairman, who participates in the work process on behalf of the country. During the reporting period, by an official invitation, the Chairman of ISSSG participated in the committee meeting in Basel. The main purpose of the meeting was to adopt the recommendations of the working group on the disclosure of financial information related to climate change and to review and approve the document on macroprudential supervision. Participation in the meeting by the committee members is important in terms of developing international supervision standards and strengthening cooperation between insurance supervisors.

The further process, considering pandemic-related difficulties, was carried out online. Meetings, where ISSSG was also actively involved, were held several times during the year. Despite the existing challenges, they allowed us to learn new insights and approaches with consideration of the new reality in the insurance industry caused by the pandemic, as well as to discuss management mechanisms and future plans.

In 2020, under the auspices of the International Association of Insurance Supervisors and Financial Stability Institute (FSI), an online training course (FIRST ONE PROGRAM) was conducted again, based on the Insurance Core Principles

(ICPs) of insurance supervising standards. Three employees of ISSSG took part in the program, which enabled them to improve their professional qualifications.

During the reporting period, ISSSG formally applied for signing the Multilateral Memorandum of Understanding (MMoU) with the Association. 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 insurance undertakings (licensing, eligibility criteria for managers, liquidation / bankruptcy, ongoing supervision of insurance operations, insurance intermediaries, promotion 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 order to review the application submitted by ISSSG, a special assessment team has been set up, consisting of supervisors from different countries/representatives of the insurance system. The application review process is rather long-lasting and based on fundamental research of the existing legislation / approaches in the country, in which ISSSG will be actively involved.

Despite the difficulties caused by the pandemic, in 2020, the Association still held the 27th annual international conference (remotely, online). ISSSG also participated in this event.

The main topic of the annual conference was sustainable insurance - insurance risks, discussion of new trends, opportunities and their application in the current situation. A significant part of the meeting was devoted to the means of fighting

the Covid-19 pandemic. Detailed discussions were held on climate change, which may have a broad impact on the structure and functioning of the global economy and financial system, as well as the sustainability of individual financial institutions, including insurance companies (insurance companies play an important role in climate-related risks management). It was noted that the Covid-19 pandemic enhanced the importance of insurance on a global scale, highlighting the weaknesses of life and non-life insurance protection, and the need for additional research into new risks related to cybersecurity, climate change and pandemics.

As noted at the conference, although the pandemic had some impact on the solvency of the companies, they still maintained efficiency/ financial sustainability.

Within the framework of the Association (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. ISSSG frequently participates in workshops and conferences held by the Committee.

In 2020, within the framework of the CEET Committee, ISSSG took part in an online special training course carried out under the auspices of the Insurance Supervision Agency of the Republic of Slovenia, by the "Katie School of Insurance and Risk Management" at the Illinois State University, which provided special workshops. Among other topics, the course included an overview of the general situation in conditions of the pandemic, identification of problem insurance companies, impact of COVID-19 on the solvency of insurance companies, review of the role and adequacy of legislation, reinsurance issues, including their emergence, evolution and impact on solvency, life insurance, activities of rating agencies in the field of insurance and many other topics that

were finally summed up at the final session. During the reporting period, ISSSG participated in a OECD sponsored online meeting on consumer protection in the financial sector amid COVID-19 challenges. Various countries (including Georgia) completed a questionnaire outlining the main issues in specific jurisdictions and activities/ measures taken in response to the COVID-19 outbreak, which were reviewed and analyzed. In this regard, future (long-term) approaches were discussed.

ISSSG has continued to work with the International Organization of Pension Supervisors (IOPS), as being 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 Association of Insurance Supervisors (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.

During the reporting period, ISSSG for the first time attended the technical committee meetings held by the Association and the annual General Meeting, which took place online due to the pandemic. Like most international forums, this one focused on 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, supervising approaches in private pensions sector to increase cybersecurity, and many other issues. The meeting is an important platform in this field for sharing international practice and ensuring international involvement.

In 2020, as in the previous years, close cooperation continued between ISSSG and media agency XPRIMM (Promoting the Reinsurance & Insurance Market by Media), which specializes in insurance / reinsurance, insurance intermediation and private pension insurance. With the support of ISSSG and the Georgian insurance market, an international conference on insurance was planned to take place in Georgia in April, but, unfortunately, it was impossible to hold it on site. Since the Georgian International Insurance Conference is the most important event for the insurance market, being a high-level platform and an effective way to exchange views on business between local and foreign insurance companies, brokers, IT providers, the public sector, financial institutions and other organizations, with the help of stakeholders, the conference was held at the end of November online and aroused considerable interest. Apart from the representatives of ISSSG and the Georgian insurance market, the Conference was attended by international experts, such as Karel van Hulle, Professor of the Goethe University Frankfurt and Leuven University (author of the EU Solvency-2 system), and Francisco Carrasco Bahamonde, the Deputy Director-General for Regulation and International Relations 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 main topics of the conference were the current situation and challenges in the health insurance industry of Europe and Georgia during the pandemic period, as well as the urgency and

importance of the digitalization of the insurance system. Future plans were discussed and hope for further, more fruitful cooperation was expressed. During the reporting period, in September, at the initiative of the media agency XPRIMM, an online meeting was held, attended by the representatives of many Georgian insurance undertakings and the Association of Georgian Insurance Companies. During the meeting, the participants discussed the difficulties caused by the new Covid-19 pandemic in the world and the insurance market of Georgia, as well as measures taken and mechanisms implemented by different countries and Services to overcome the crisis. During the discussion, the participants also reviewed the prospects for further development of the market with consideration of the current reality. It is noteworthy that the meeting positively assessed the measures taken by ISSSG, especially regarding the postponement of the deadline for the final stage of the capital increase by one year, as capital growth will be a heavy burden on the insurance industry.

In 2020, in cooperation with the Asian Development Bank (ADB) and the Ministry of Economy and Sustainable Development, ISSSG began to work on the Private Pension System (Pillar III). A group of international experts and representatives of the relevant structural unit of the Ministry were involved in the work together with ISSSG, which acted in the capacity of a supervisory agency in the given field. Preliminary work was carried out, gaps/deficiencies of the existing system and possible approaches were identified (the issue was also reviewed in the context of Directive 2003/41/EC of the European Parliament and the Council “On the activities and supervision of institutions for occupational retirement provision”), and the key issues reviewed, which needs to be further agreed upon with the involvement of stakeholders to plan further (including legislative) process.


Cooperation with the World Bank continued in 2020 within the framework of the EU-funded

project “Economic Governance and Fiscal Accountability” (2019-2022). The EU-financed project provides technical assistance to ISSSG, and the development/implementation of new insurance products, such as compulsory medical malpractice insurance, compulsory professional indemnity insurance for architects and engineers, life insurance products and development/promotion of index-based agricultural insurance.

During the reporting period, experts from the World Bank Insurance Group reviewed and prepared a report on the current scheme of agricultural insurance in Georgia, noted the challenges in this area, and gave recommendations for the development and improvement, as well as on implementing certain approaches. NNLP Agricultural and Rural Development Agency (ARDA) is actively involved in the work in the capacity of the direct executive branch of agro-insurance. Key recommendations were developed to improve the current agricultural program and create a successful system in this direction, in particular, setting tariffs based on actuarial calculations, finding alternative ways to increase the efficiency of risk distribution (for example, pooling), data processing, new forms of risk classification, development of new insurance products with the consideration of geographic region, and so on.

In order to get better acquainted with the report, a meeting was held by the World Bank experts with the representatives of the insurance industry of Georgia regarding the direct organization and participation of ISSSG. After the meeting, the opinions and comments about the insurance industry on the further development of the project were taken into account.

In 2020, within the framework of the same project, experts from the World Bank discussed the life insurance market, its system and existing challenges. A preliminary report was prepared, which aimed to review the life insurance sector in



Georgia at the current stage. Particular attention was paid to the fact that there is currently only a term life insurance market (no long-term (savings) products available) in Georgia that is typically caused, as in most developing countries, by the lack of long-term reliable investment instruments, low income, lack of financial education and awareness, issue of long-term confidence, etc. The first report covered existing practices, regulatory framework, market needs, and possible ways to develop new long-term (savings) annuity-type life insurance products. Initial measures were identified, including tax incentives, development of investment instruments, development of underwriting and actuarial business in this area, revision of methodology of establishing mortality tables, supervising structure (including investments, formation of reserves, classification of activities, etc.).

It should be noted that during the reporting period, at the initiative of the insurance industry, ISSSG organized a working meeting with the participation of the World Bank experts. At the meeting, the representatives of the industry expressed their opinions and comments regarding the project.

Market participants provided information on the areas in which the market could develop, an overview of the current situation with life insurance, industry practice, and prospects and expectations concerning the recommendations set out in the report. It was noted that this process was going to be long and required considerable efforts, complex approaches and consideration of multiple factors. The World Bank has already planned the next stage, which will focus on specific future plans.

7. Twinning project for public services (TWINNING)

In 2020, 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 approximation to European standards, according to the Association Agreement between Georgia and the EU. The project is biennial and provides the harmonization of Georgian legislation with the Directive of the European Parliament and the Council of Europe 25/2009/138 / EC of November 25, 2009, on “the initiation and implementation of insurance and reinsurance activities (SOLVENCY II)”; its total budget is EUR 1,200,000. Within the framework of the project, a similar service of the EU Member State, Spain - The Directorate-General for Insurance and Pension Funds (DGSPF) under the Ministry of Economic Affairs and Digital Transformation (MINECO), will assist ISSSG with long- and short-term expert groups to introduce a new solvency standard for insurance companies and in the related processes.

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 ISSSG, which will ensure an increase in the insurance sector efficiency, improve accountability to ISSSG and financial security of the industry, as well as the development of 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; it varies according to the risk change. Solvency-2 mainly refers to the ability of the undertakings to effectively fulfill their obligations to the Insureds and helps to strengthen the financial stability of the companies, identify and manage risks properly, implement internal management standards, protect consumers’ rights, as well as to the proper and timely supervision by ISSSG, 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 the institutional and human resources capacity by means of enriching the knowledge and experience of ISSSG staff and increasing the awareness of the insurance undertakings.

The system, in turn, consists of three components (so called pillars), each consisting of its own components:

The “first pillar” includes financial requirements to insurance undertakings, 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. Implementation of this component is quite a considerable challenge for the insurance sector (as it used to be in EU countries), therefore, in future, the stages of implementation, possibilities and existing (local) environment shall be analyzed in detail.

The **“second pillar”** is based on the governance system and supervising, and includes quality

requirements, such as the internal governance system of 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. This is also a challenge both for the industry, as companies will have to implement an entirely new governance system, and for the Supervision, as the new system requires new supervising approaches.

The **“third pillar”** includes the accountability of insurance undertakings in the above-mentioned 2 components, 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, licenses must be issued according to the classes (groups of classes) of business (18 classes in non-life insurance, 9 classes in life insurance, and reinsurance).

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

In order to increase the knowledge and experience of the staff, the activities under the project were planned in detail, regarding the specific topics, with an indication of the schedule and methodology. Trainings/workshops and meetings were planned both within the country and abroad.

At the beginning of 2020, given the global events associated with the new coronavirus (Covid-19) pandemic, certain adjustments to the planned scenario became inevitable in order to maintain the process of implementation and

its effectiveness, considering the importance of the project. Similarly to other areas, the current TWINNING project also encountered problems. Compared to the beginning of the reporting year, when everything went according to plan, in March and April, due to pandemic-related local and international restrictions, the project was temporarily suspended.

During the above-mentioned period of delay, with the efforts from both parties, it was negotiated to make the maximum adaptation to the existing environment and to use all the resources to enable the continuation of the project and its maximum efficiency. Thanks to the work of the parties, it was decided to conduct training of ISSSG staff online, rather than on-site. The planned program has been revised and adapted to the existing needs. Consequently, the training under the project has been resumed since May and transferred to the Zoom platform (holding meetings outside the country is entirely dependent on the stabilization of the pandemic situation).

During 2020, the trainings/meetings were held on a daily basis via Zoom (the Spanish experts visited Georgia in January-February), with ISSSG representatives and both long- and short-term Spanish experts from the EU, depending on the specifics of the discussed topic. During the accounting period, the meetings covered the following topics:

The Analysis of the existing legal framework for insurance - Spanish experts analyzed the existing legal framework in Georgia, and since the new EU system implies a completely different approach, the need to create a new legal framework for regulating the insurance sector was identified. Spanish experts were directly involved in this work, and following the missions carried out in 2020, an outline of the initial framework of the legislation was prepared, which requires multifaceted work in the future for its improvement and adaptation to

the legal framework of Georgia, with consideration of the existing reality (additional documents will be developed if needed).

The system of governance combining four functions: risk management, compliance, internal audit, and actuarial functions.

Transposition of Solvency 2, regulatory changes, principles of proportionality, exceptions, which mainly include the exceptions provided in the Solvency Directive for the companies with certain characteristics and imposition of proportional requirements on them, sequence of implementation stages and the content of the regulatory framework.

Questions of insurance distribution / business conduct covered by the European Parliament and the Council Directive 2016/97 of 20 January, 2016, on the distribution of insurance and its importance for the effective protection of consumer rights, as well as the interrelationships between this Directive and Solvency 2.

Analysis of freedom of establishment and services. The main objective of this activity was to analyze the basic principles of the EU, practical application of freedom of service and establishment on the example of the Kingdom of Spain, various mechanisms of cooperation between insurance supervisors, an overview of the regulatory framework, cross-border activities, and data exchange between the national supervising authorities.

International Financial Reporting Standards (IFRS) and their implementation in the EU and the Kingdom of Spain. International Financial Reporting Standards (IFRS) are high quality, globally accepted reporting standards. The purpose of this activity was to familiarize the participants with the goals and objectives of implementing the standards, as well as to

share the experience of Spain and the EU in the implementation process.

Analysis of the role of the regulator, which mainly includes the role, functions and approaches of supervisory services in the context of solvency 2, as well as sharing of the European experience.

In addition to the above, the meetings also discussed the valuation of assets/liabilities, establishment/valuation of life/non-life insurance technical provisions, equity valuation, reorganization/liquidation of insurance organizations, supervising approaches, accountability, the establishment of different forms of equity (solvency / minimum SCR/MCR), disclosure of information, prerequisites/requirements for the commencement of insurance activities, and other accompanying questions, which effectively covered the full framework.

At the beginning of 2020, within the second component of the project (which includes raising insurance undertakings' awareness as part of strengthening institutional and human resource capacity), a meeting was held with representatives of the insurance industry to introduce the Solvency 2 system to the Georgian side. While this is a completely new, comprehensive approach, which combines all stages of the insurance business and its supervision, it requires a completely new understanding and appropriate regulation. Therefore, it is critically important for insurance companies to be properly informed about these reforms from the outset. For this purpose, as part of the second component of the project, at the beginning of the year, a meeting was held with the participation of the insurance industry and European experts. The purpose of this meeting was to discuss the three phases of Solvency 2, so-called "Pillars", to provide information to the insurance companies about the transition from Solvency 1 to Solvency 2, and to review the perspectives of the insurance industry.

The second component of the project is directed towards the creation of the appropriate human and institutional basis for the implementation of the above-mentioned system. Strengthening institutional and human resource capacity of ISSSG will in turn increase the efficiency of insurance companies, improve their accountability to ISSSG and contribute to the financial security of the sector. Thus, it was planned to involve stakeholders (including both private and public institutions), assess the readiness of the market and study the basis necessary for the implementation, then familiarize with/agree on the questions with the insurance market and discuss possible implementation scenarios, in order to ensure the implementation of all stages of the process. Due to the pandemic, it was considered impossible to hold meetings of this extent / content with insurance companies. At the same time, given the specificity and complexity of the questions under discussion, it was considered inappropriate to hold these meetings, as it would be a mere formality with no actual outcomes; therefore, it would be impossible to fully achieve the goal. With all this in mind, the work plan was

revised by the Spanish experts and it was planned to adjust the 2nd component in accordance with the future reality.

It should be noted that in order to fully manage the process, and taking into account the existing challenges, the parties agreed to extend the project (given the support and readiness from the EU delegation) within the total budget of the project.

In addition to the above, during the reporting period, the Project Steering Committee held 3 scheduled meetings. The Committee was established by the Beneficiary State (Georgia) and the Member State of the European Union (Spain) from the leaders 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 of future activities and the project budget.

8. Consumers rights and financial education

Raising awareness of consumers rights in the insurance industry is an important goal, and in 2020, the function of financial education was added to the Consumers Rights Protection Division, and as a result, the department of Consumers Rights Protection and Financial Education was established. The purpose of the department is to supervise the requirements set for the Insurers and review consumers' claims, as well as to promote financial education and financial inclusion in the field of insurance.

During the reporting period, under the Law of Georgia "On Insurance", insurance companies submitted to ISSSG their internal policies on consumer rights protection. According to the "Instruction", as of January 1, 2020, the Insurers are obliged to place consumers' claims procedures on their websites. By the end of the first quarter, ISSSG completed the revision of the above-mentioned issue.

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

In 2020, 94 claims were submitted to ISSSG for review. ISSSG has completed the inspection of a total of 97 claims (including 13 claims received in 2019), while 10 claims were still pending by the end of the reporting period. ISSSG revised the

reports on 225 (monthly) claims and prepared corresponding internal reports.

In the process of off-site monitoring of consumers rights, different types of violations were detected and according to their severity, appropriate sanctions were applied. In particular, ISSSG applied 11 sanctions including 3 written warnings, 2 written notifications and 6 monetary penalties.

ISSSG actively cooperates with the NNLP Agricultural and Rural Development Agency. As a part of this cooperation, ISSSG was involved in the preparation of the resolution on the "Agricultural Insurance Program" for 2020, which came into force on April 10 of this year. Within the framework of the "State Agricultural Insurance Program," ISSSG monitors the ongoing processes in the insurance market. In order to study the conditions offered by the insurance undertaking to the customers, ISSSG requested and studied the relevant information from all the Insurers involved and submitted the results to the head of the program - NNLP Agricultural and Rural Development Agency.

From the insurance part, ISSSG actively participated in the development of the draft regulatory changes initiated by the National Bank of Georgia and in negotiations with the insurance sector. The changes are aimed at the promotion of competition in the banking and insurance sectors and ensuring free choice for consumers. The changes are scheduled to take effect in 2021.

While in the reporting period the website of ISSSG did not include any information for consumers, extensive work was carried out to gather and place such information on the updated website.

Financial education:

ISSSG issued the “Consumer Guide” - “Consumer Rights in Insurance Relations and Current News”. The Consumer Guide aims to raise consumers’ awareness and improve their access to information.

ISSSG participated in the meetings on financial education held at the National Bank of Georgia and prepared voluminous insurance materials that were placed on the first special information website dedicated to financial education: <https://finedu.gov.ge/ge/dazghveva-1>;

ISSSG prepared materials for the board game - “More fun and less risk”, which aims to encourage young people to enrich their knowledge, identify possible risks, effectively resolve them, and

increase self-confidence. The department is proceeding with the publishing of the board game.

ISSSG actively cooperates with the Savings Bank Fund for International Cooperation (SBFIC) in the field of financial education.

In addition, with the active involvement of ISSSG, and as the result of cooperation with the Savings Bank Fund for International Cooperation (SBFIC), the insurance undertakings were inspected through mystery shoppers. better to remove this, exactly the same is said in the beginning. In the reporting period, SBFIC presented the report on the inspection. ISSSG is processing the results of the inspection and in the first quarter of 2021, it is planned to introduce them to the Insurers in the format of individual meetings and, if necessary, make relevant recommendations.

9. Supervisory process

One of the main objectives of ISSSG is to control and maintain the financial stability / solvency of insurers, founders of non-state pension schemes and insurance brokers. Functions of ISSSG also include monitoring of money laundering activity risks of insurance undertakings.

The companies are directly supervised through monthly and quarterly reporting forms adopted by ISSSG; ad-hoc information, documentation and data obtained during on-site inspections of supervised entities. In case of violation of insurance legislation and regulations, the ISSSG imposes sanctions on companies.

Moreover, in order to continuously improve effective supervision and management, the ISSSG is in coordinated cooperation with other relevant state and international organizations in Georgia and abroad to exchange important information and experience.

In 2020, the global pandemic caused the introduction of certain restrictions in almost every country of the world. This had a significant impact on the activities of ISSSG and the insurance industry. From the very first day of the restrictions, there was a significant decrease in cross-border related insurance activities (just in 2 months, the capacity of border MTPL insurance decreased by 55%, and travel insurance business decreased by over 90%). The decrease was observed in other major lines of business as well (motor vehicle insurance, property insurance, etc.) as there was a reduction in income and mobility of individuals and several business sectors.

It is obvious that the insurance sector provides coverage of significant risks, has a high, but still increasing capitalization and covers all sectors of the economy. Therefore, to secure appropriate

protection of the interests of policyholders and beneficiaries, and the stability of the sector, also to reduce unemployment (at the time of the pandemic, up to 4,000 individuals worked in the sector, representing 12.9% of the financial sector employment), ISSSG introduced important preventive measures to respond in a timely manner to new realities. These activities included the rearrangement of internal organizational processes, as well as enhanced communication with the market. As a result, significant challenges have been identified and appropriate measures taken at an early stage. In particular, the following works were carried out:

- ▶ In March 2020, a special electronic questionnaire/report was distributed among insurance undertakings, reflecting current and potential pandemic-related problems and their short-term forecasts;
- ▶ Immediate analysis of identified potential problems and challenges were performed and appropriate necessary steps were planned for further proactive actions, based on initial communication;
- ▶ At the same time, ISSSG held one of the first video conference calls in Georgia with representatives of the insurance industry, discussed the most important issues concerning the pandemic and possible solutions.

Herewith, it should be noted that despite all the challenges of 2020, the year ended with the profits, most of them generated from currency exchange gain on assets of insurers, due to a certain increase in USD and EUR rates towards GEL.

As for the profit from insurance activities, there was a decrease in the growth rate. This is likely to

continue in 2021, especially when the accumulated demand for insured healthcare services are activated in 2021.

Taking into account the above-mentioned, ISSSG has decided to postpone the increase of the minimum capital requirement planned for the end of 2020 until the end of 2021, in order to stimulate the market.

Also, amendments were made to the rule of calculating supervisory capital, according to which the unpaid deferred commission expense was removed from the list of discounted assets.

The aforementioned supportive measures will enable insurers to reinvest working capital in the business, help them to maintain their operations and deal with the problems caused by the pandemic.

Despite the pandemic-related restrictions in 2020, ISSSG continued off-site supervision and, where possible, on-site supervision as well. In particular, during 2020, ISSSG in a partially remote mode but maintaining similar efficiency, continued its activities by reviewing financial and statistical reports for the last quarter and December of 2019, January-November of 2020, as well as the information provided by Insurers and insurance brokers from banking institutions about the cash balances on their bank accounts and legally binding means and measures on these accounts (if any). Generally, this information is being constantly reviewed and compared to the data of submitted financial and statistical reporting forms.

2019 (annual) and 2020 (6-month) reporting forms provided by insurance brokers were reviewed as well.

Within the standard activities, the appropriate off-site supervision team also reviewed 2019 external audit reports obtained by the insurers

and the data was compared to the data from the appropriate supervisory reporting forms.

The same procedure was performed for audited financial statements of insurance brokers and the founders of the non-state pension schemes, some of which were also published on the official web-site of the service in Georgian and English languages. Information on the 6-month reporting forms for 2019 and 2020 submitted by the insurance brokers was processed and published as well. It should be noted that the information on the activities of insurance brokers was partially disclosed for the first time in 2020.

The responses to enquiries and relevant reports on insurance market statistics, financial and other information were prepared for various organizations (insurers, insurance brokers, National Bank of Georgia, National Statistics Office, Georgian National Competition Agency, Service for Accounting, Reporting and Auditing Supervision, National Healthcare Agency etc.).

Analytical reports were prepared regarding the financial condition, solvency, liquidity, assets covering insurance reserves and adequacy of supervisory capital of insurers.

For the proper review of compliance with minimum capital requirements of insurance companies, agreements with banking institutions on deposits are also being systematically monitored.

The data (December 2019 and January-November 2020) received from the Compulsory Insurance Center was processed and compared to the supervisory reports.

Last year, the Service identified 354 breaches (including 21 from insurance brokers), for which ISSSG issued written warnings and imposed fines.

Due to personal safety considerations, in 2020, more focus was made on the off-site supervision process.

9.1 Development of Supervision Technologies (SupTech)

Supervision technologies are becoming increasingly important in recent years. Especially during 2020, the significant changes caused by the global pandemic in the working processes made the issue of strengthening off-site supervision even more important.

Existing technological solutions such as XBRL and DPM ensure effective implementation of international reporting standards and at the same time allow to fully automate the data quality control for received information.

ISSSG continues to process a large amount of information obtained from supervised undertakings in the process of reporting and off-site or on-site supervision using common office software (mainly MS Excel).

Together with the implementation of Solvency II, ISSSG needs to introduce the taxonomy and corresponding validation rules introduced by the European Insurance and Occupational Pensions Authority (EIOPA), which is impossible without an appropriate SupTech software solution.

In order to implement an online reporting and analysis platform, ISSSG studied several systems developed by some of the well-known and experienced EU companies. Based on the gathered information and the initial comparative analysis, functional requirements were developed for the new software, which should provide automation of the existing reporting process online and at the same time tools necessary to process Solvency II reporting.

Based on the developed tools, a market research will be carried out and an appropriate supplier/vendor will be identified.

Business Analytics (BI) software will be integrated

immediately after the introduction of the new system, allowing much faster and more efficient processing and analysis of new as well as and historical data.

9.2 Anti-money laundering Activities

ISSSG supervises insurance companies, founders of non-state pension schemes and insurance brokers in fulfilling their obligations under the Law of Georgia “On Facilitating the Suppression of Money Laundering and Terrorism Financing”.

In accordance with the principles of supervision implemented in ISSSG, during the reporting period (the second half of 2019 and the first half of 2020), the reporting forms of illicit income legalization and terrorism financing risk surveillance of the insurance organizations and founders of non-state pension schemes were processed. And, in accordance with the violations (including late submissions) identified during processing the mentioned reporting forms, fines were imposed on insurance companies.

During the reporting period, ISSSG participated intensively in the assessment process (completing questionnaires, providing experts with additional information, participating in meetings via video calls, and etc.) of the effectiveness of money laundering and terrorist financing suppression mechanisms and compliance with the recommendations of the Financial Action Task Force (FATF) conducted by the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing the Terrorism in the framework within the framework of the Fifth Round assessment of Georgia, and a relevant report was successfully approved at the 60th plenary session of Moneyval.

In the reporting period, in accordance with Georgia’s 5th mutual evaluation report on compliance with the Moneyval’s money laundering and terrorism financing suppression

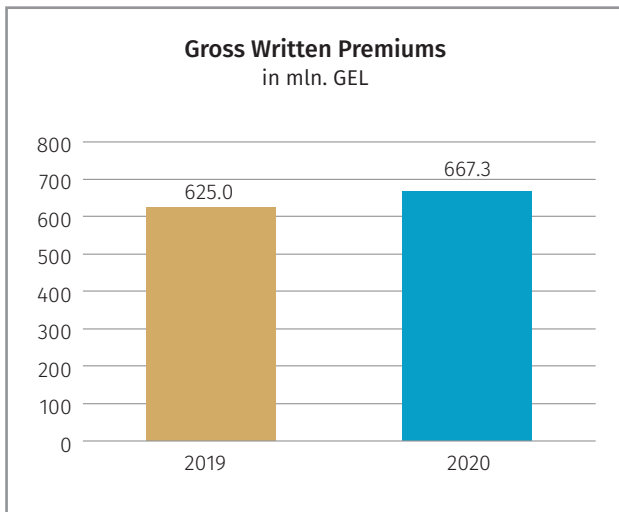
mechanisms and FATF's recommendations, ISSSG ensured implementation of one of the most important recommendations issued to increase the effectiveness of monetary sanctions, which was reflected in the amendments to the "Rules for Determining, Imposing and Enforcing Fines on Insurers" approved by the Order №02 of March 17, 2015, according to which new provisions were elaborated for violation of the Law of Georgia "On Facilitating the Suppression of Money Laundering and Terrorism Financing" and fines were increased.

In the reporting period, in accordance with the Law of Georgia "On Facilitating the Suppression of Money Laundering and Terrorism Financing", ISSSG issued new reporting templates for the founders of insurance companies and pensions schemes. The completed reporting forms will be submitted by the relevant organizations in July 2021. In addition, a methodological recommendation was published "On the structure of client ownership/ control and determination of the beneficial owner by the obliged persons supervised by the Service".

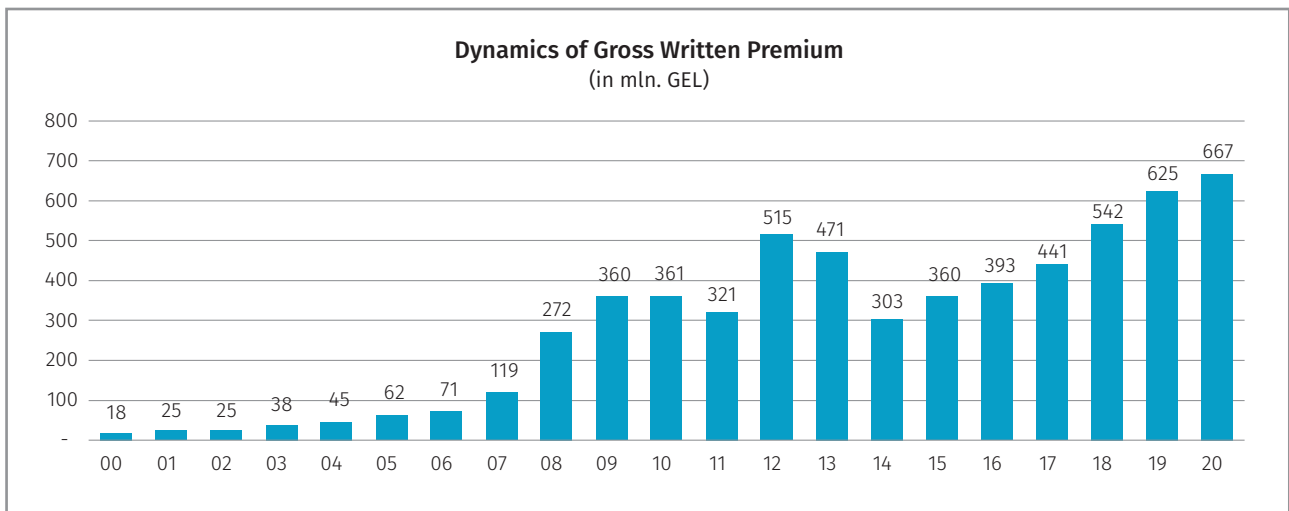
10. Insurance Market Overview

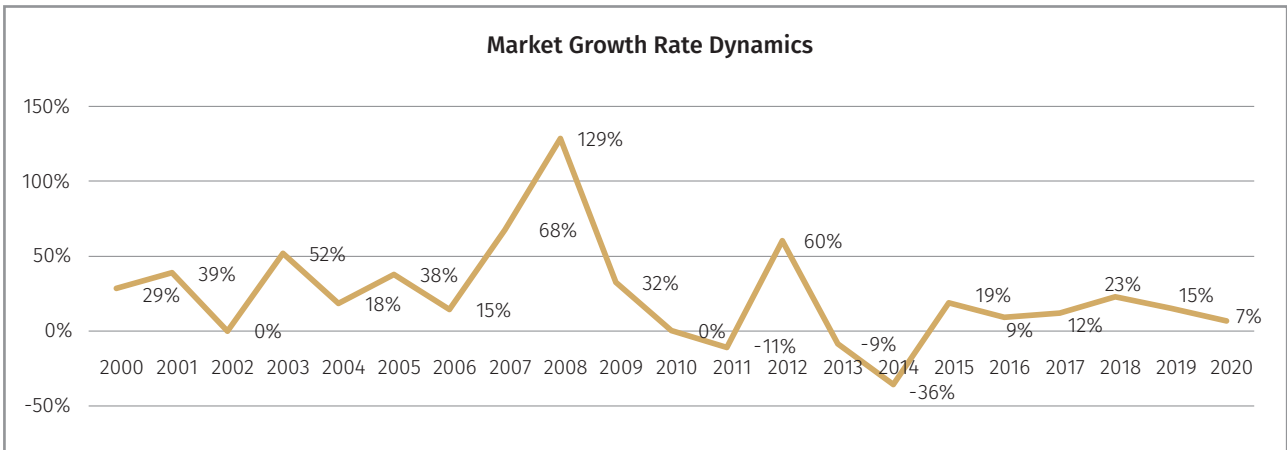
In 2020, the gross written premiums from direct insurance activities of the insurance undertakings

amounted to GEL 667 million, which is 7% more than in the same period of the previous year.



The dynamic of insurance market development during 20 years.

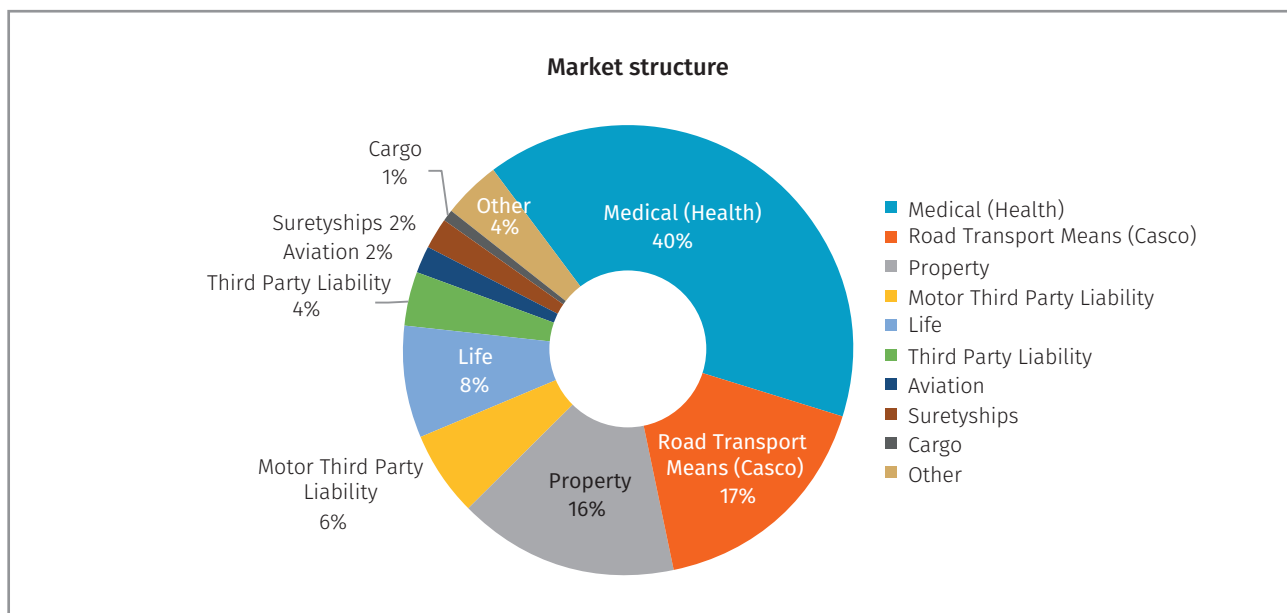




The diagram above shows the history of the last 20 years. Of course, there were both an increase and a sharp decrease in the written premium, although these events have a relevant explanation. Significant growth in 2007-2008 was related to the implementation of social health insurance programs, fully funded by the state. The decrease in 2011 was a result of a reduction in the financing of certain social programs. Later, in 2012, the number of beneficiaries of social programs increased significantly (retired persons and children under 5 were included in the program),

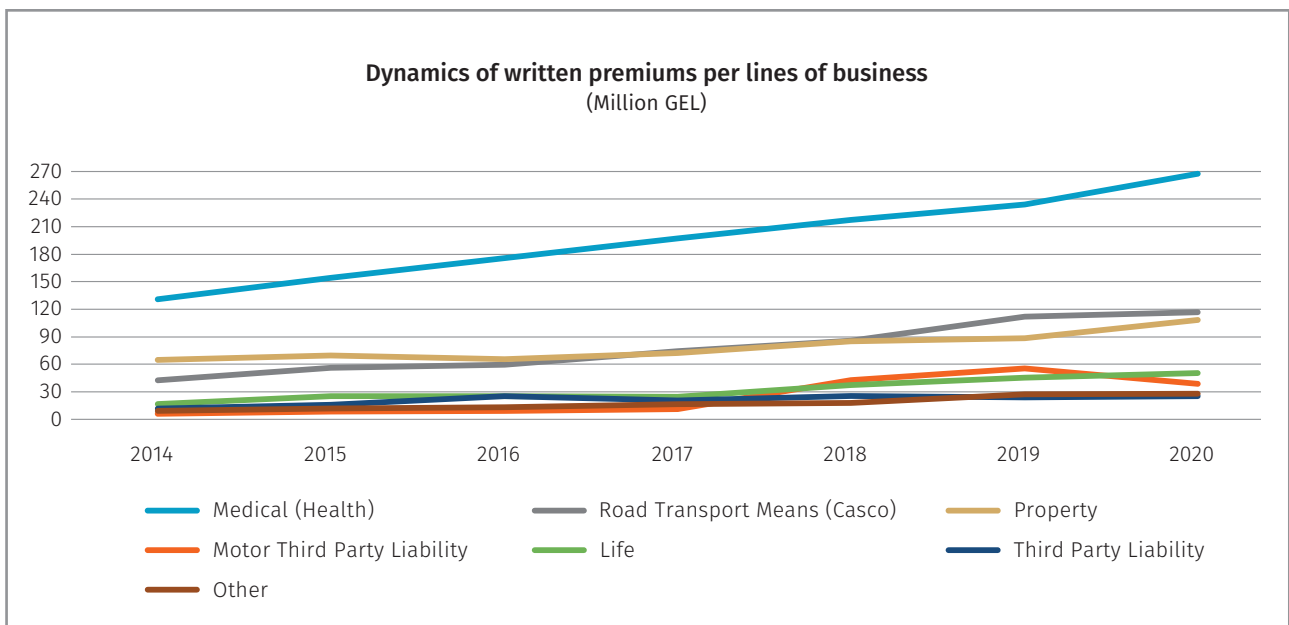
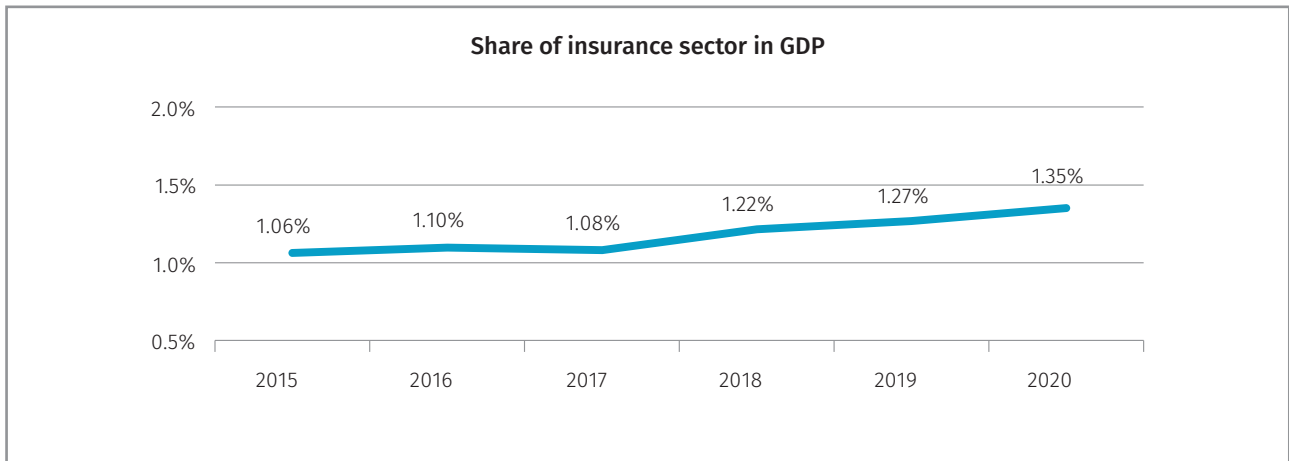
however, due to high social significance, the management of these programs was transferred to a specialized state agency (currently National Healthcare Agency).

At the same time, the popularity of corporate health insurance programs was growing, and over time, undertakings developed comprehensive insurance products, which was immediately reflected in premiums written since 2014. Health insurance has the largest share (40%) in the Georgian insurance market today.



After health insurance, next the most popular products are motor vehicle insurance (17%) and property insurance (16%). In recent years life insurance market is increasing, but long-term life insurance products are not common on the

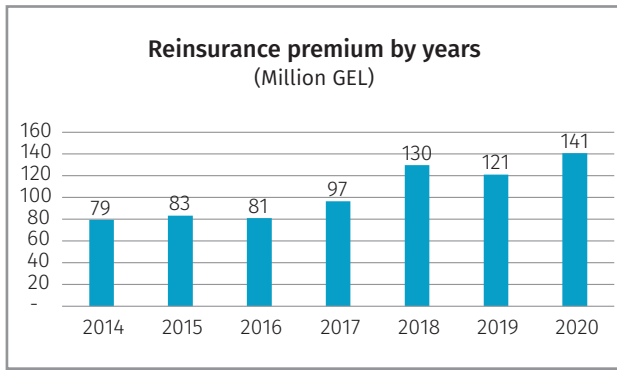
market yet. It should be noted as well that life insurance is one of the most popular products in western Europe, the USA and other developed countries and thus makes the insurance industry one of the major institutional investment sources.



As is shown above, in 2020, there was a significant reduction in several important insurance lines, mainly due to the COVID-19 pandemic and restrictions related to it, which led to a reduction in policyholders' mobility.

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

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

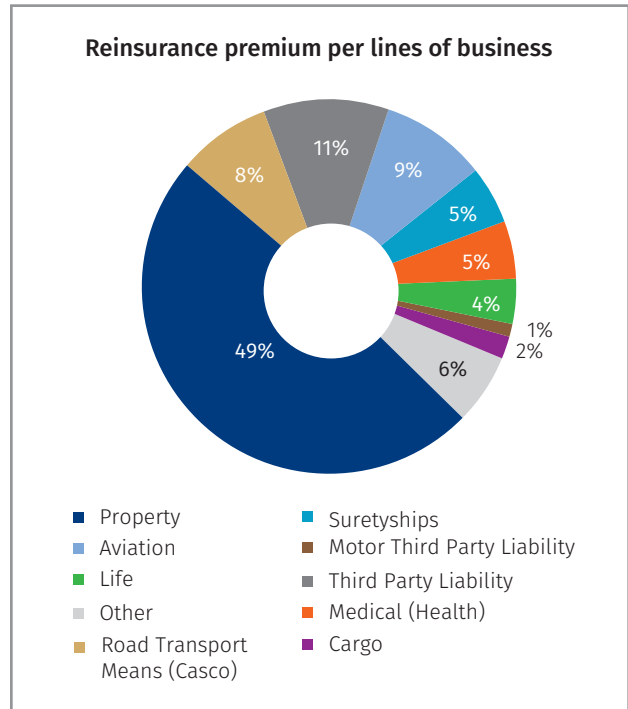


Reinsurance is one of the key components of the Insurer’s daily activities and an important tool to maintain financial stability. As we can see, reinsurance naturally follows the development of the insurance business. For the most part, the Reinsurers’ share remains stable, especially in property and liability insurance classes.

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

NOTE: Health and life reinsurance premiums are not included. The main reason is that life

insurance is mainly incorporated in health insurance products, as single-year term life insurance cover with specified limit, or is written separately as credit life insurance. Consequently, reinsurance in these lines is not as frequent as in property and liability lines.

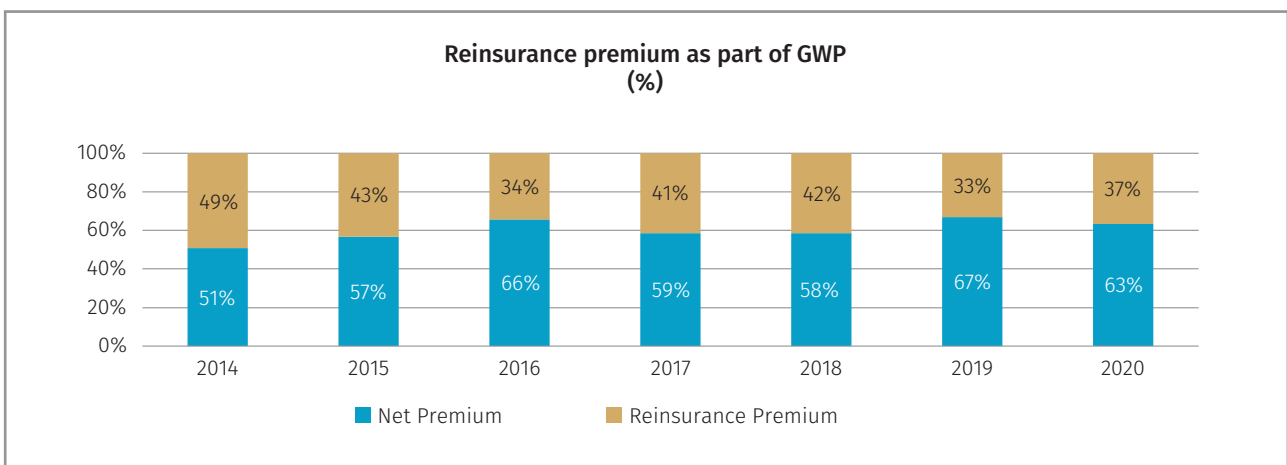
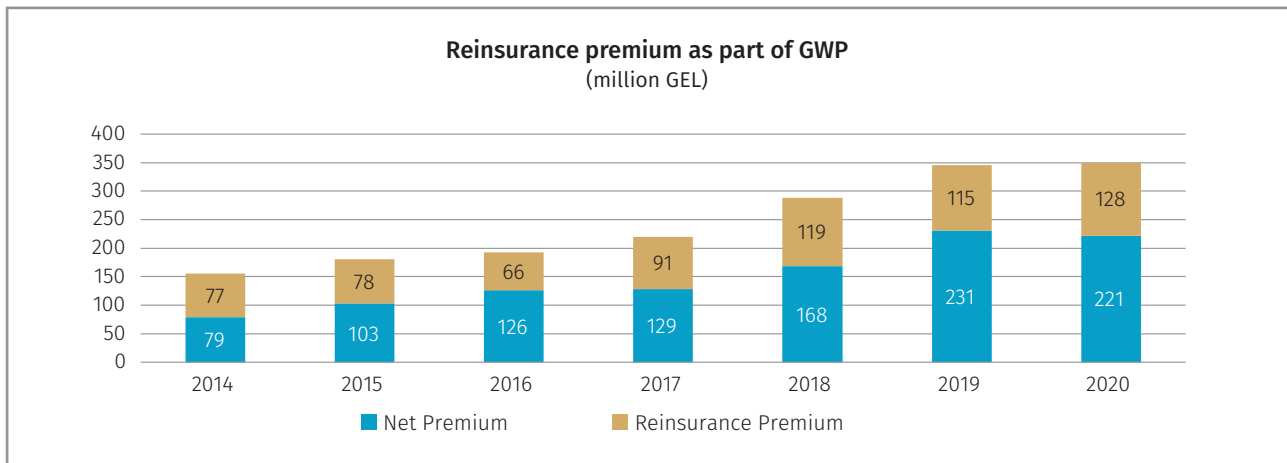


It should also be noted that complex reinsurance treaties are becoming increasingly popular as insurers are trying to reduce the number of facultative arrangements.

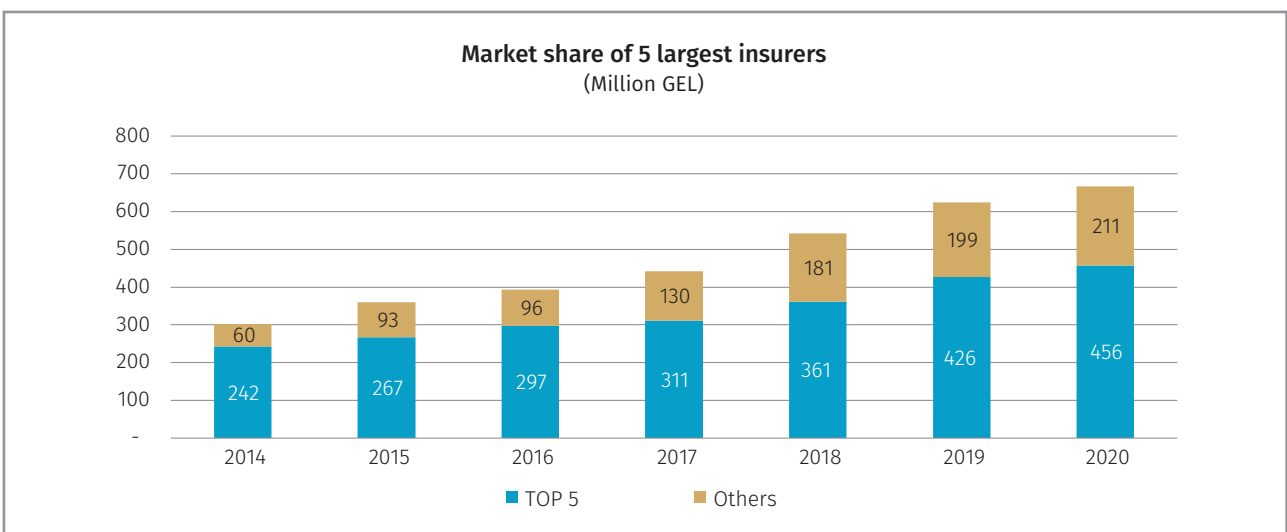
Insurance Classes	2014	2015	2016	2017	2018	2019	2020
Medical (Health)	0%	0%	6%	0%	3%	0%	2%
Road Transport Means (Casco)	4%	6%	3%	17%	26%	15%	10%
Property	80%	71%	60%	63%	66%	58%	63%
Motor Third Party Liability	8%	12%	7%	16%	10%	8%	3%
Life	16%	19%	17%	20%	13%	12%	13%
Third Party Liability	62%	60%	42%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

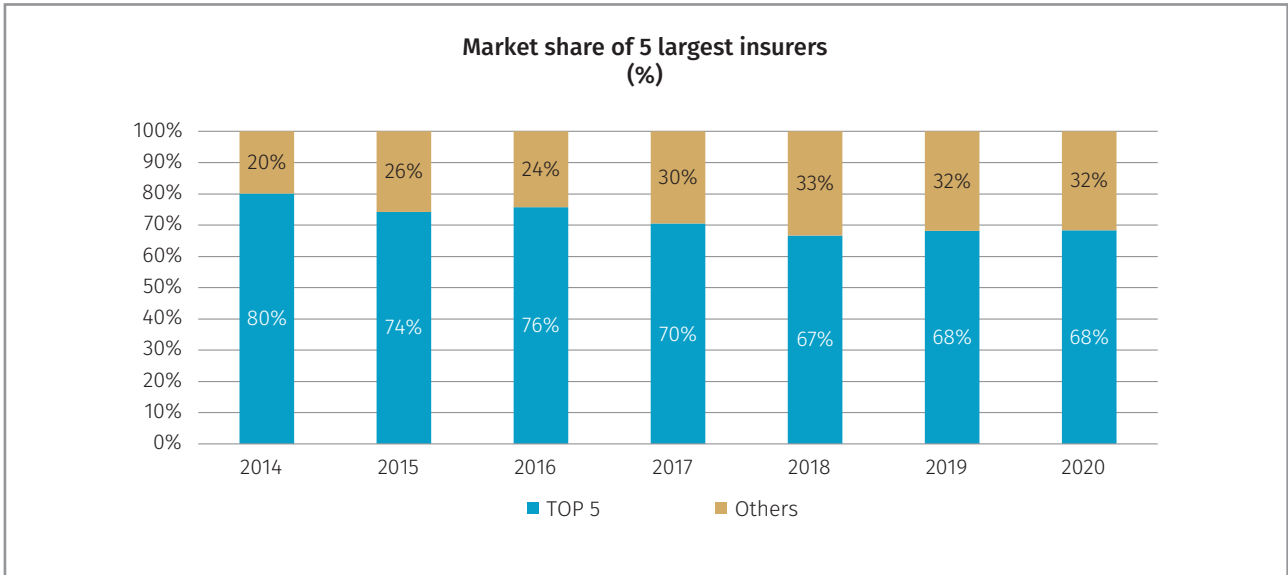
The table above shows the percentage of reinsurance premium in the total premium for main lines of insurance. Reinsurance practices are the most common in property, other liability, aviation, and cargo insurance. High risks

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



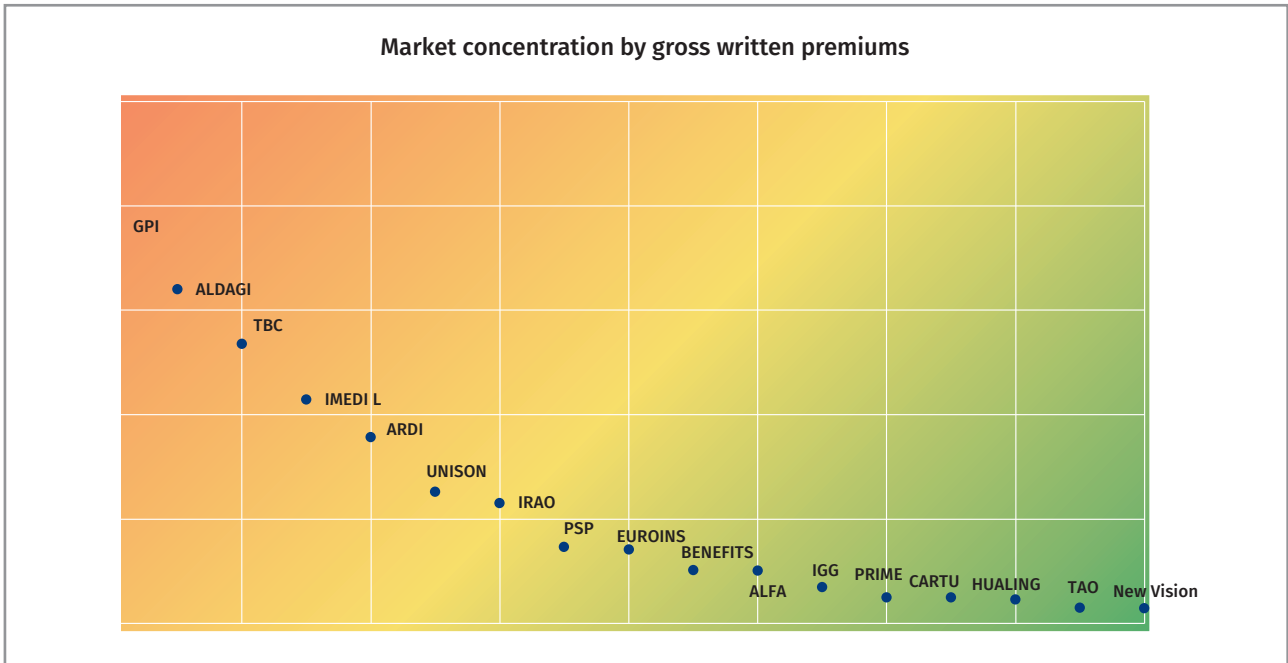
Market concentration





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

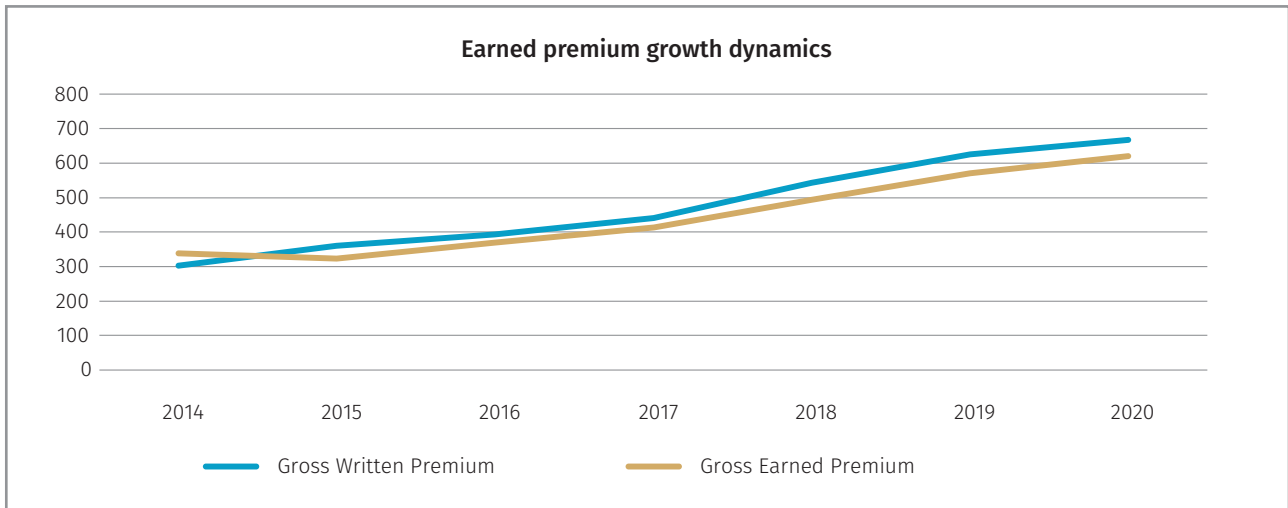
market share of the top five insurers remains high, there are also positive trends showing that the share of other relatively small insurers has increased from 20% to 32% since 2014.



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

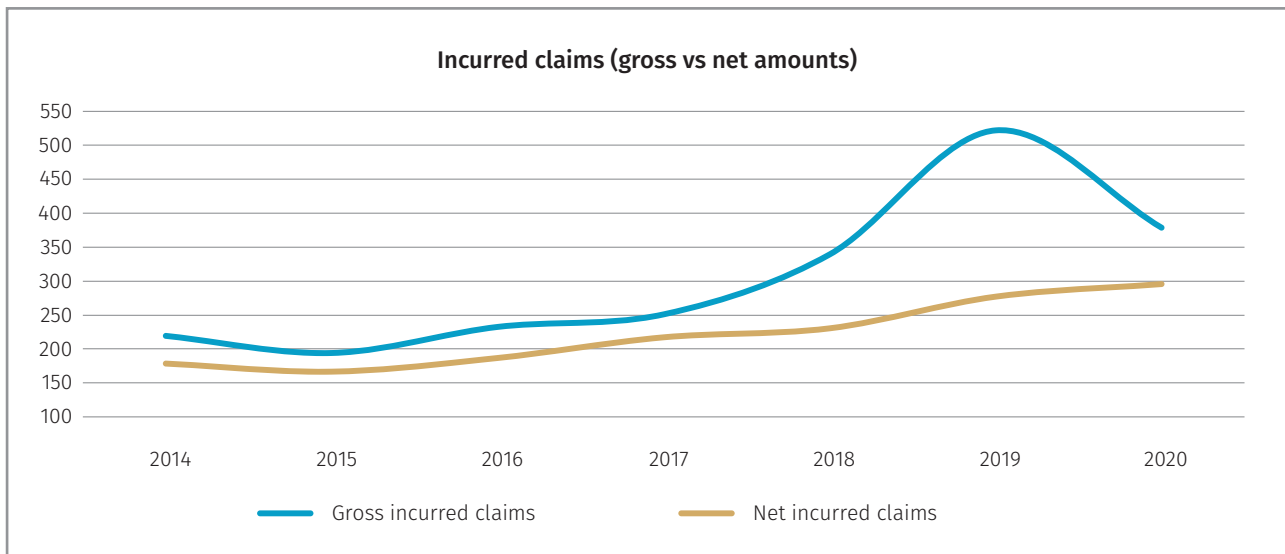
closely monitors the concentration, transparency and risk management quality of key players in order to ensure systemic stability on the market.

Activity dynamics

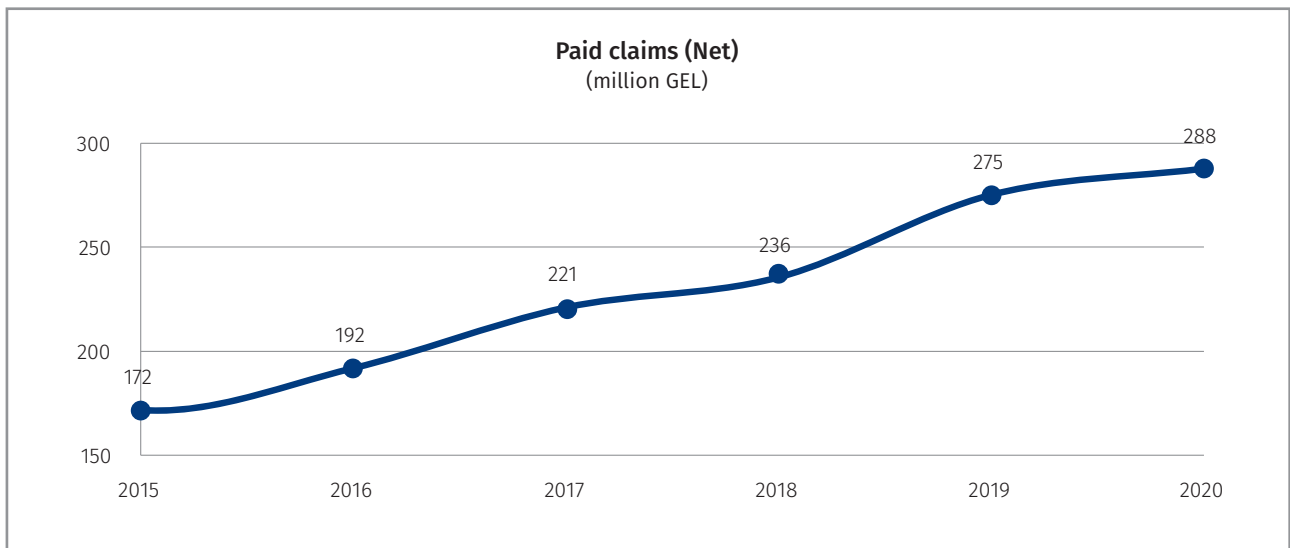
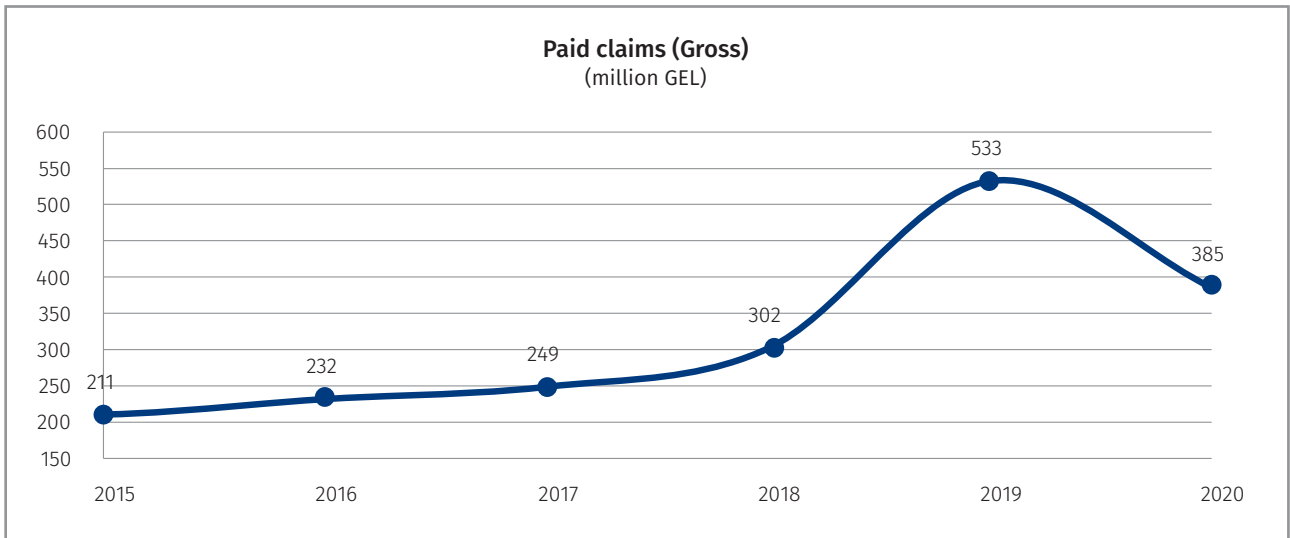


In 2014, with the movement of the overall health insurance program to the Social Service Agency (now National Healthcare Agency), the premiums from health insurance have reduced, but the

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



	2014	2015	2016	2017	2018	2019	2020
Gross incurred claims	219	194	233	251	339	522	379
Net incurred claims	179	167	187	217	230	277	296



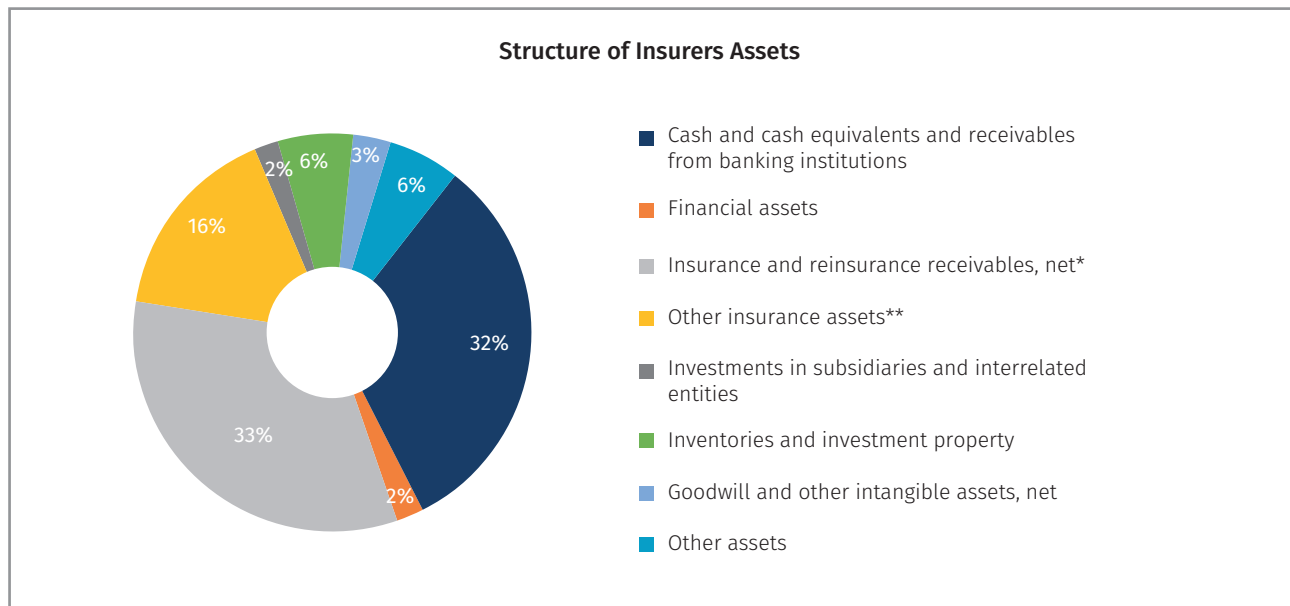
Due to the complex reinsurance contracts, the net loss ratio decreases over time, which also indicates that insurers are mainly using effective reinsurance programs.

	2014	2015	2016	2017	2018	2019	2020
Loss Ratio (Gross)	65%	60%	63%	61%	69%	91%	61%

	2014	2015	2016	2017	2018	2019	2020
Loss Ratio (Net)	65%	68%	66%	67%	60%	62%	60%

The structure of insurers' assets and liabilities

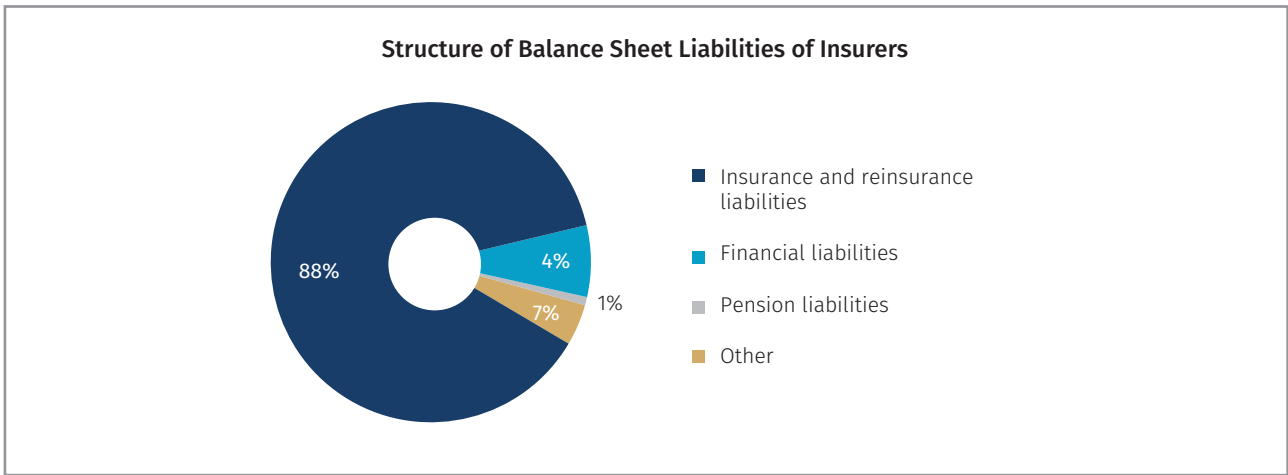
Asset name	Amount (mln. GEL)
Cash and cash equivalents and receivables from banking institutions	293
Financial assets	22
Insurance and reinsurance receivables, net*	304
Other insurance assets**	144
Investments in subsidiaries and interrelated entities	20
Inventories and investment property	52
Goodwill and other intangible assets, net	29
Other assets	52
Total	916



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

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

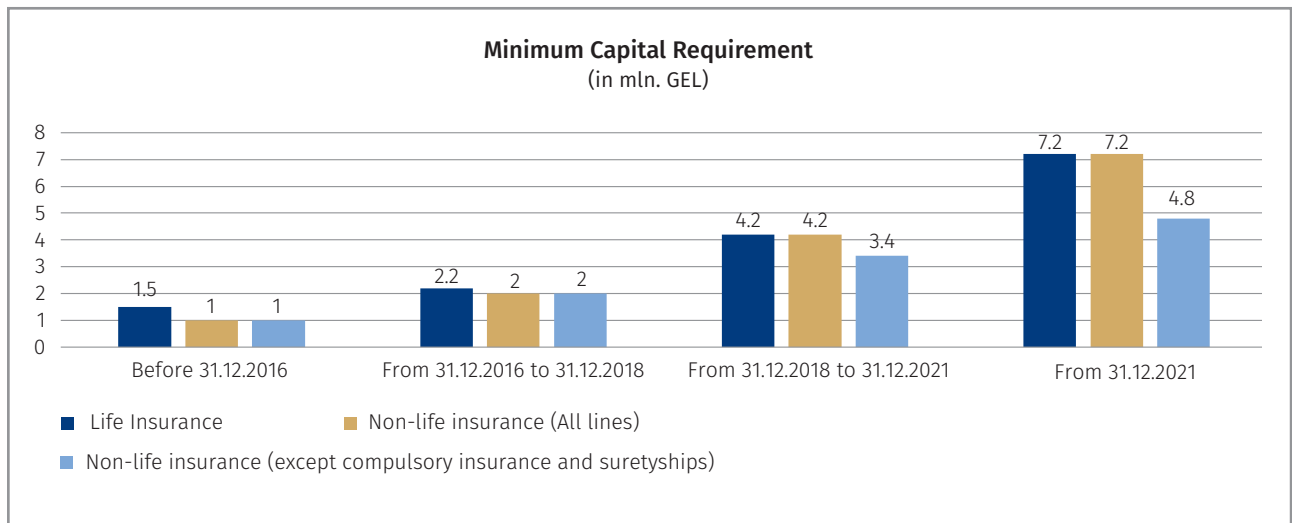
**** Note 2:** Other insurance assets mainly consist of the reinsurers share in reserves.



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

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

Ensuring the financial soundness of the sector



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

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

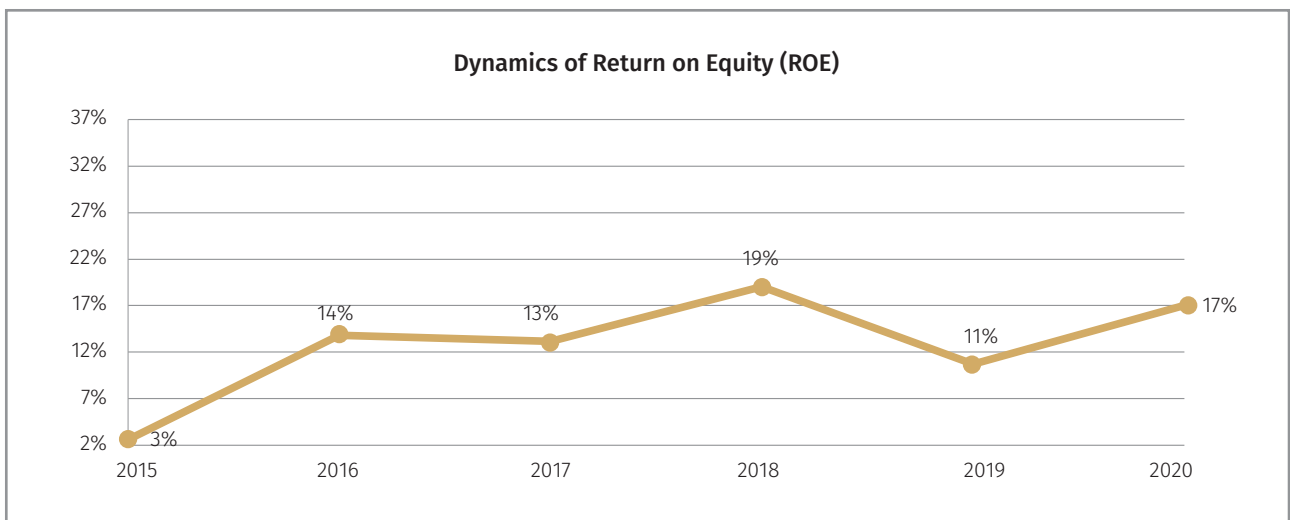
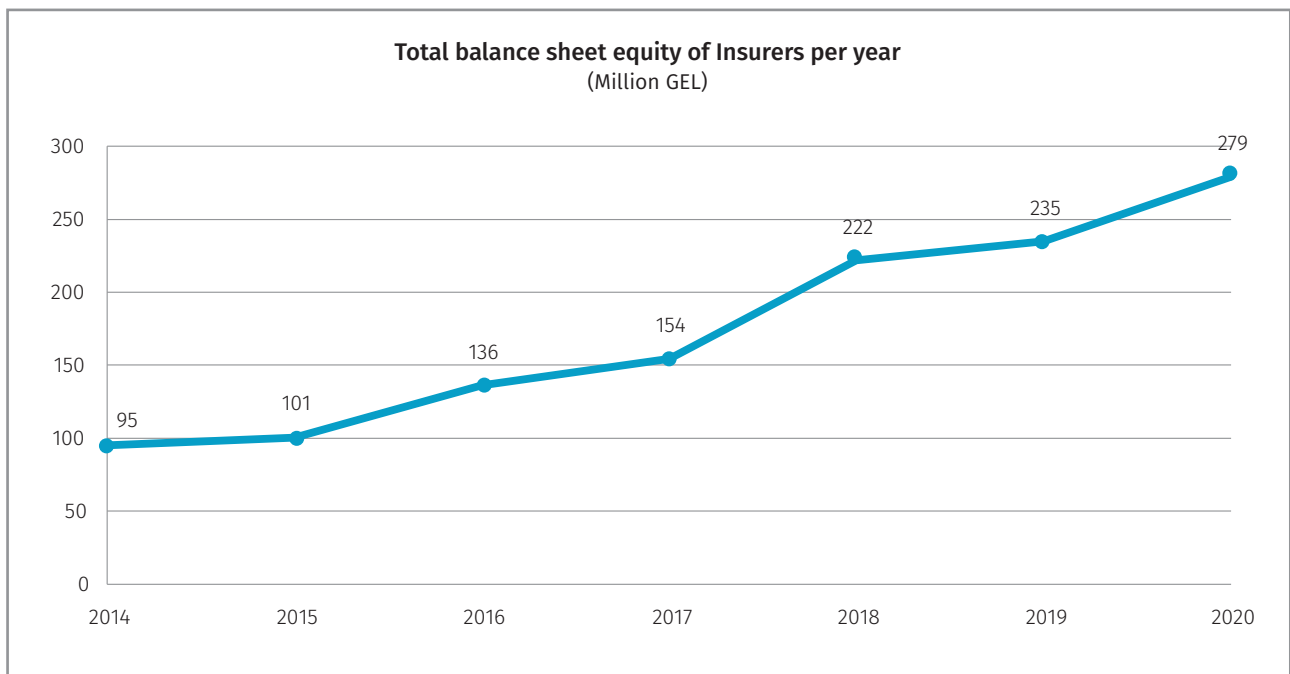
In case the insurer carries out only non-life insurance activities, except compulsory insurance and suretyship, then the minimum capital requirement is GEL 3.4 million.

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

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

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

Considering the existing decrease due to COVID-19, ISSSG decided to facilitate the implementation of reinvestments in working capital by insurers and postponed the introduction of a new capital requirement to 31st December 2021. Thus, ISSSG supported the stability of undertakings and prevented potential employment issues.

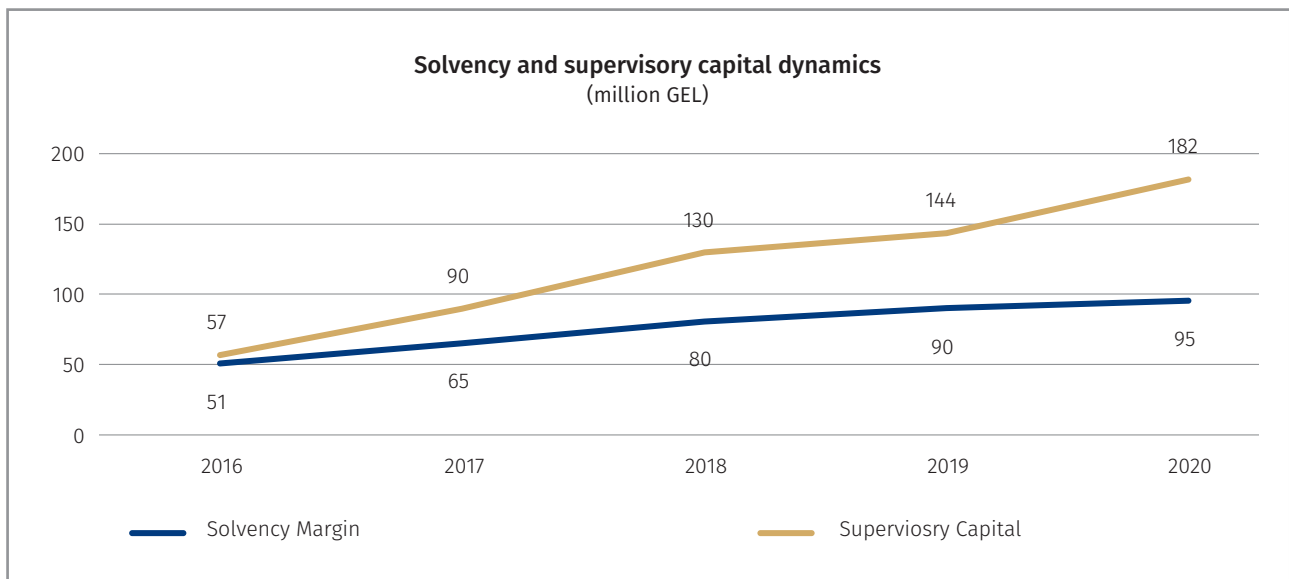
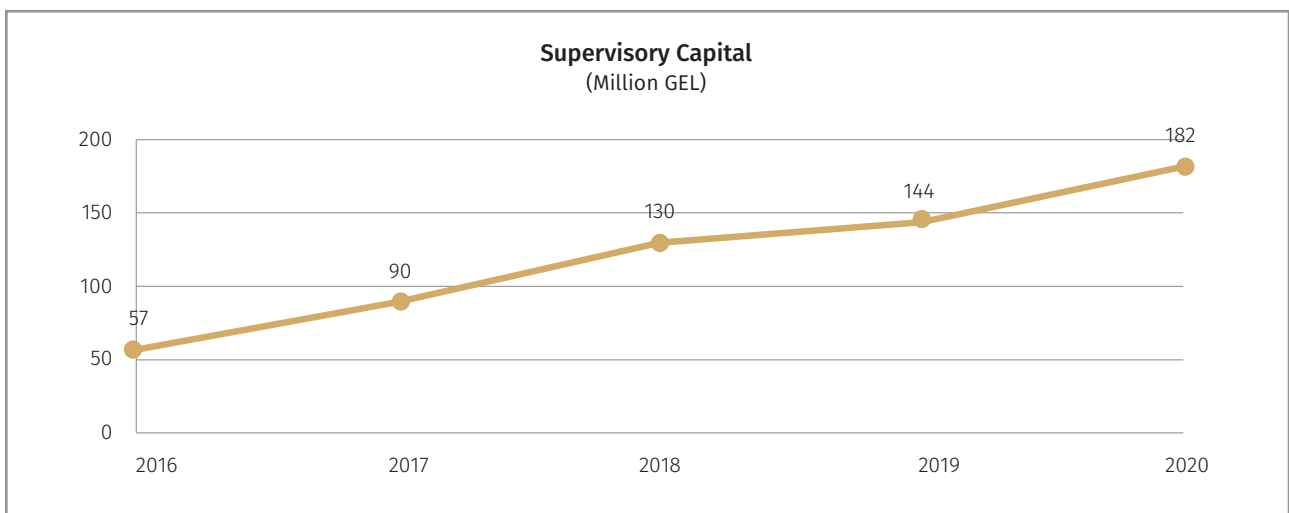


Taking into account the requirements of the Association Agreement and all relevant directives, in addition to the minimum capital requirements ISSSG has introduced regulatory capital requirements and implemented a “Solvency I” supervisory regime.’

The implementation of solvency and supervisory capital requirements in 2016 played a crucial role in the gradual increase of the insurance market capitalization.

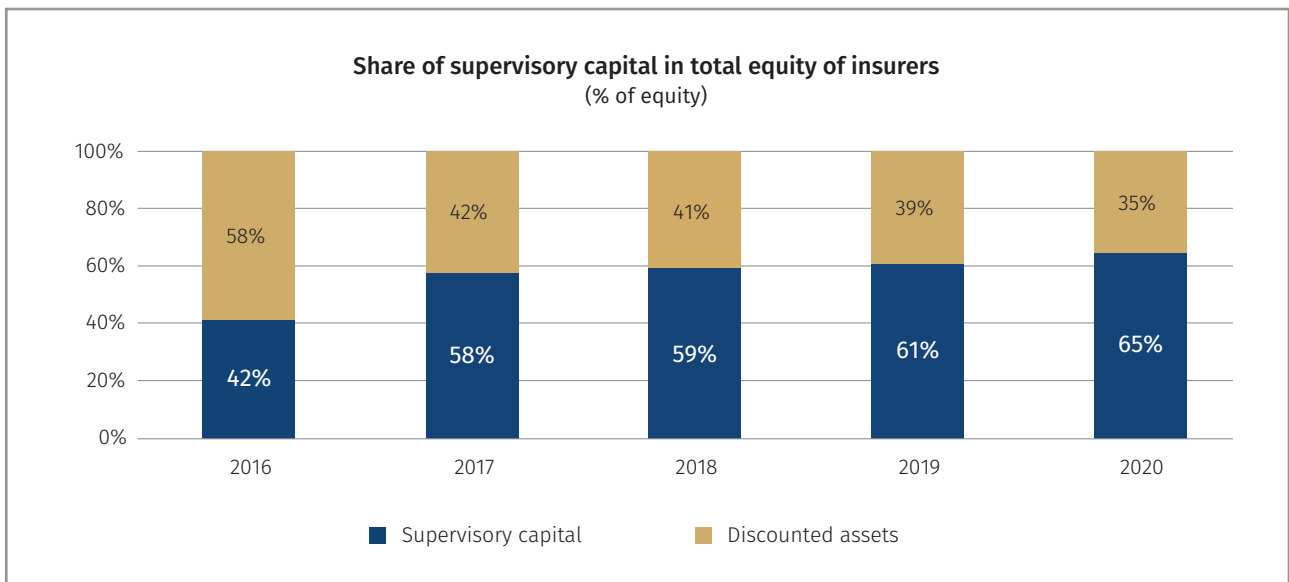
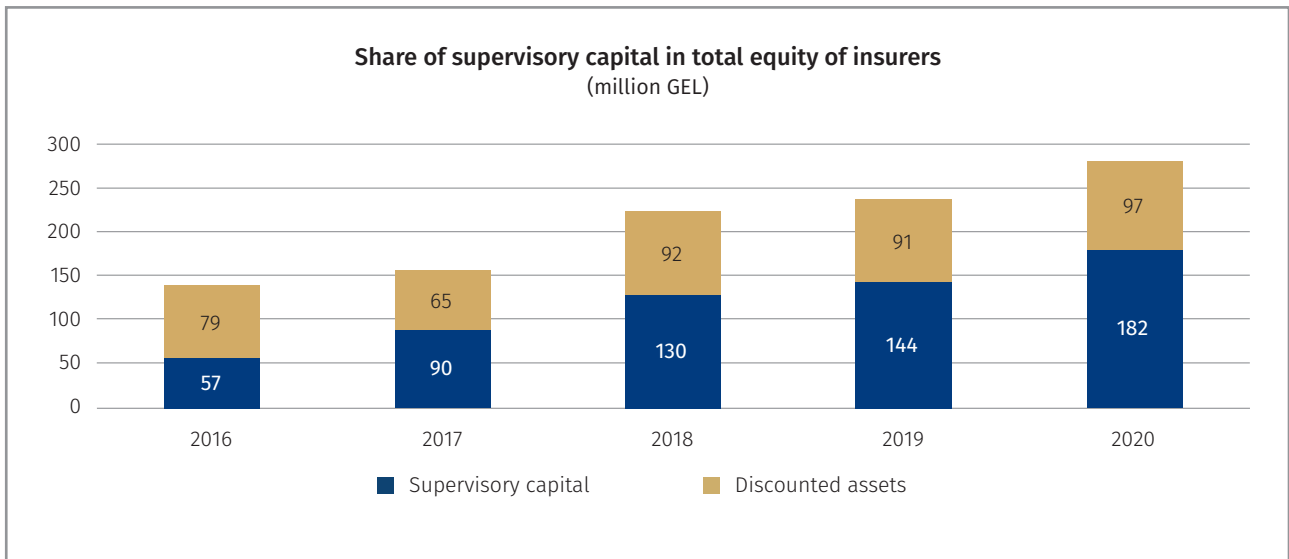
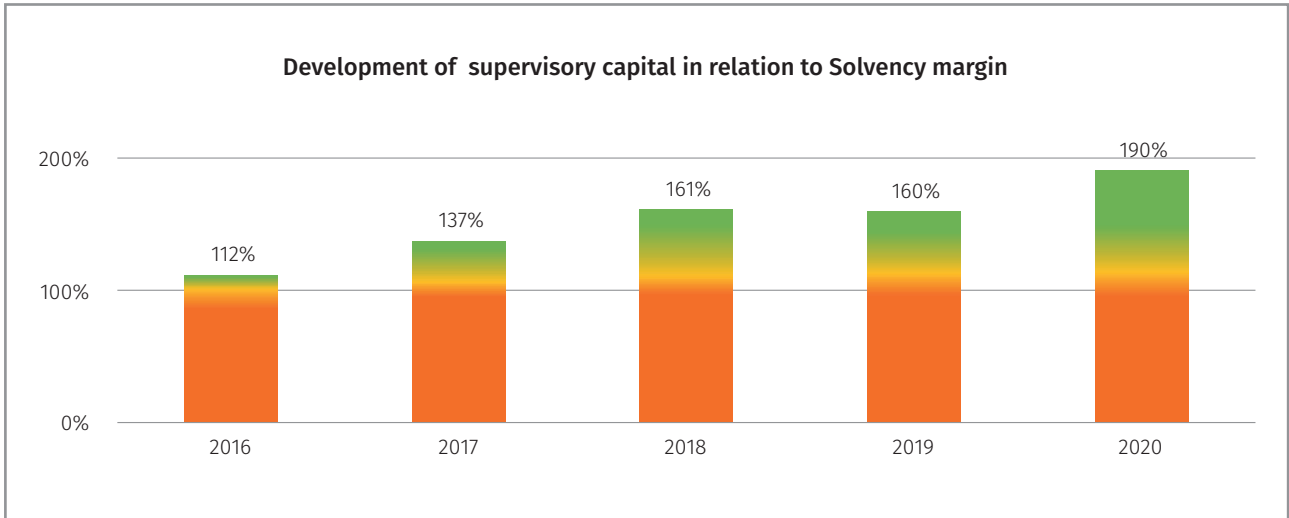
While calculating the supervisory capital, some specified assets are deducted from the insurers’ balance sheet, since supervisory capital must form the part of the insurer’s capital, which mostly consists of liquid assets.

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



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

By the end of 2020, the surplus exceeded 90%, which is a much better result compared to the situation when the new requirements were introduced.



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

Insurance Brokers

At the end of 2020, half of the existing 15 insurance brokers did not show significant activity.

Insurance brokers have the right to carry out intermediary activities simultaneously in line with insurance and reinsurance. However, from

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

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

