



Impact of Covid-19 on Georgian Insurance System

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Abstract

Insurance companies, as representatives of financial intermediaries, have an important role in stabilizing the country's financial system. In the context of the Covid-19 pandemic, great importance is attached to the effective financial and operational management of insurance companies, not only to ensure the sustainability of the financial system, but also their efficient operations are one of the main guarantees of the solvency of insurance companies. The Covid-19 pandemic revealed the weaknesses that existed in the global insurance system and provided us with important data to address potential problems in the future. The current pandemic has also accelerated existing digitization trends. Insurance companies will have to innovate and adapt as much as possible to the needs of consumers in order to withstand stiff competition. The aim of the research is to assess the impact of Covid-19 on insurance companies in Georgia, to identify its features, as well as to identify potential problems and develop recommendations for their elimination. The subject of research is the operational and financial functioning of insurance companies in the conditions of the Covid-19 pandemic, and the object of research is Georgian insurance companies.

Keywords: Covid-19, Insurance industry, Georgian insurance system, Insurance companies.

Jel Codes: G01, G22.

Introduction

Pandemics are by their very nature unlikely to enable diversification for insurers and reinsurers. These cases will require some form of state support in order for the insurance or reinsurance markets to function effectively. Covid-19 has identified significant holes to address pandemic risks. In recent months, special attention has been paid to reducing pandemic risks and protecting economic entities from it. Insurance and reinsurance companies, risk management groups, and policy makers around the world have developed potential approaches and mechanisms to cover

pandemic-related risks. These mechanisms differ in the degree of coverage offered and the degree of government participation. (OECD, 2021)

Covid-19 has led to unprecedented monetary policy interventions that have further reduced interest rates. This has both direct and indirect effects on insurers. Supervisors value low interest rates as a factor that will have a significant impact on insurers' profitability and solvency. Life insurers with large amounts of long-term liabilities are particularly vulnerable to low interest rates as their long-term liabilities increase and investment returns decrease. The above impact is strongest when there is a significant mismatch between assets and liabilities in terms of maturity. At this time, it is difficult for insurers to find assets that meet the relevant income norms. In the wake of low interest rates, insurers have changed and are changing their own business models, namely they have changed their own mix of products. (IAIS, 2021)

Representatives of both the private and public sectors have an important role in ensuring financial resilience against future pandemics. Risk-sharing agreements between the insurance sector and governments play a vital role in developing financial protection mechanisms that cannot be covered by the insurance or reinsurance sector alone. Similar agreements exist, for example, in the case of terrorism and natural disaster risks. They provide affordable insurance coverage against them. While there are differences between pandemics and natural disasters, the above agreements make it possible to create certain models. (OECD, 2021)

The spread of coronavirus has underlined the importance of interdependencies among different regions. Depending on business links and other existing relationships, the virus quickly moved across borders. Perceptions about the crisis and social behavior responded generally with lags, but they were also likely affected by observed experiences abroad. Countries had the opportunity of learning from others about social adjustments that were more or less effective in containing the disease. (Milani, F., 2021)

The Covid-19 pandemic and the measures taken to limit the spread of the virus have significantly disrupted economic activity worldwide, with uncertainty about the future of the global trading system and international cooperation being on the rise. (Nebolsina, 2021)

During the COVID-19 crisis, insurance balance sheets were under pressure not only because of rising rates, but also because rolling over investments became increasingly complex. An absence

of market liquidity and the consequences of a herd effect driving investors towards lower-risk assets in sectors that were considered safer made trading these assets extremely expensive if possible, at all. This strained market situation drove bid-ask spreads from their normal range to historic highs and made portfolio adjustments more difficult. (Liedtke, 2021). At least in the first waves of the pandemic, most countries have attempted to fight it with aggressive lockdowns and social distancing rules that had enormous economic and financial consequences. These policies hit individual and corporate incomes in diverse manners and intensities (Gollier, 2021).

Methods

Due to the fact that the State Insurance Supervision Service of Georgia has not yet published the 12-month financial data, let us calculate the loss ratios for the Georgian insurance system as of the first three quarters of 2018, 2019, 2020 and 2021. To do this, build an auxiliary table:

Table 1. Auxiliary table for calculating the loss ratio of Georgian Insurance System, Million GEL

year	Net loses	Net insurance premiums
2018	168,7	285,4
2019	198	330,5
2020	220,7	367,8
2021	260,3	414,1

According to the data, the loss ratio for the first three quarters of 2018 was 59%, in 2019 60%, in 2020 60%, and in 2021 63%. In 2020, the loss ratio for the first three quarters did not increase compared to the corresponding period of the previous year, which was due to a roughly equal relative increase in net insurance losses and the net insurance premium generated. In 2021, the situation worsened, leading to an increase in the loss ratio, which in turn led to a higher increase in the ratio of net insurance losses to the insurance premium generated.

Let's study the dynamics of net premiums and losses in life and non-life insurance for three quarters in 2018-2021, for which we use the following table:

Table 2. Net premiums and losses in 2018-2021 for three quarters, GEL

Year	2018	2019	2020	2021
Net premiums in non-life insurance	379,652,576.25	430,588,025.72	454,061,674.10	539,585,464.17
Net losses in non-life insurance	214,628,418.76	425,917,038.43	239,759,561.97	294,087,904.20
Net premiums in life insurance	27,474,866.18	34,100,436.10	37,316,551.37	44,372,502.16
Net losses in life insurance	7,752,137.25	8,777,211.18	12,476,754.52	21,502,602.42

As of the three quarters of 2019, the growth rate of non-life insurance premiums increased by 13% compared to the same period of the previous year, in 2020 the corresponding figure was 5%, and in 2021 by 19%. It is true that in absolute terms, the volume of premiums drawn in non-life insurance during the first three quarters of 2020 increased over the corresponding period of the previous year, but in relative terms, in particular in terms of the rate of increase, its value decreased. It is noteworthy that in 2021, the growth rate in the first three quarters exceeded the corresponding figure for 2019.

The year 2020 was notable for the fact that the amount of paid losses in non-life insurance in the first three quarters compared to the previous year decreased absolutely compared to the corresponding period of 2019, in particular, it decreased by 44%. It is true that in 2021, the growth rate for the first three quarters was 23% compared to the corresponding period of the previous year, but it still lags behind the corresponding period of 2019.

The rate of increase in premiums written for life insurance for 9 months in 2020 was 9% compared to the corresponding period of the previous year, while in 2019 the similar rate was 24%. In 2021, the situation improved, in particular, the growth rate for 9 months compared to the previous year was 19%. Interestingly, the compensated losses in life insurance are steadily increasing in 2020 and 2021. For example, if in 2019 the rate of increase in compensated losses in this type of insurance for 9 months was 13% compared to the previous year, in 2020 and 2021 their values were respectively - 42% and 72%.

Impact of Covid-19 on Georgian Insurance System

Insurance profit for the first 9 months of 2018 amounted to 107.1 million GEL, in 2019 - 120.5 million GEL, in 2020 - 129.7 million GEL and in 2021 - 131.2 million GEL. The above dynamics show that the growth rate of insurance profits decreased in 2020 and 2021 compared to 2019, when a relatively high growth rate was observed. It should also be noted that in absolute terms, there was still an increase in the first three quarters of 2020 and 2021.

Investment income for the first 9 months of 2018 amounted to 14.7 million GEL, in 2019 - 14.6 million GEL, in 2020 - 20.7 million GEL and in 2021 - 23.5 million GEL. In contrast to the dynamics of insurance earnings in investment income, on the other hand, the rate of relative increase increased in 2020 and 2021, which was mainly related to the increase in income from deposits in credit institutions.

As we see in the 9 months insurance market review for 2021, the net profit for 9 months in 2021 decreased from 44.3 million GEL to 31.9 million GEL compared to the same period of the previous year, while the volume of assets increased from 976.9 million GEL to 1,007.1 million GEL. This allows us to say that the rate of return on assets in 2021 has decreased compared to the previous year.

Interestingly things led to a decrease in net profit for 9 months in 2021 compared to the previous year. In 2021, the net profit from life and non-life insurance activities for 9 months increased compared to the previous year, by about 23 thousand GEL from non-life insurance activities and 1.5 million GEL from life insurance activities. In 9 months, 2021, the return on investment increased by about 2.8 million GEL compared to the corresponding period of the previous year. It should be noted that in 2021, administrative expenses decreased by about 1.2 million GEL in the first 9 months compared to the previous year. As for salary expenses and other issues, it increased by 7.5 million GEL compared to the previous year. At the same time, in 2021, other revenues decreased by about 8.2 million GEL compared to the previous year. As the analysis showed, the decrease in net profit for 9 months in 2021 was mainly due to the relatively high increase in wage costs and other issues, as well as a decrease in other revenues.

Assess the impact of Covid-19 on the assets and liabilities of the insurance sector. Because we do not yet have the 12-month data for 2021, let us use the 9-month figures and use the absolute increase and growth rate to estimate the dynamics.

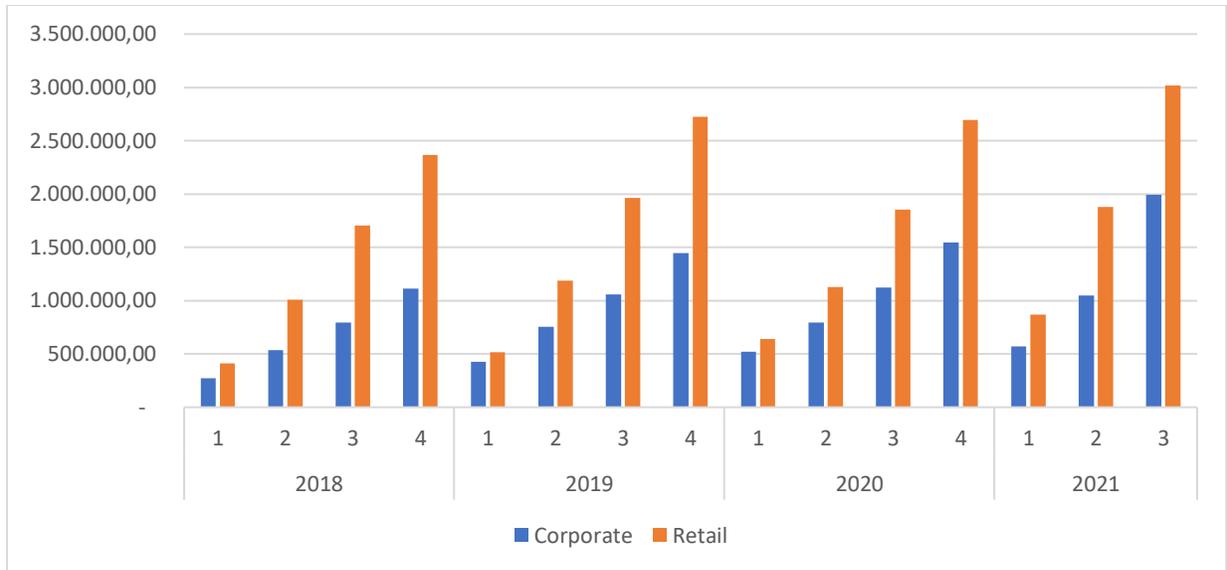
Based on the analysis of the dynamics of 9-month indicators in 2018-2021, it is clear that despite the absolute increase every year, the relative change in terms of the indicator or growth rate in 2021. In particular, in 2019 and 2020, the 9-month asset growth rate was 17%, while in 2021, respectively, it was only 3%. As further analysis shows, in 2021, as of 9 months, there was a significant change in the structure of assets compared to the corresponding period of the previous year, namely a decrease in net reinsurance claims and the reinsurer's share of insurance reserves. They decreased by about GEL 16 million and GEL 36.8 million, respectively. Therefore, in the above types of assets, the growth rate of 9 months in 2021 was negative, in contrast to the situation in the corresponding period of 2020.

The situation is similar in terms of liabilities. Liabilities of the insurance sector increased by 9 months in 2018-2021, but in 2021 the situation changed by 9 months. As of 9 months in 2019, the growth rate of liabilities compared to the corresponding period of the previous year was 15%, in 2020 17%, and in 2021 only 1%. In terms of liabilities, the following trend was observed in 2021: while other insurance liabilities increased in 2019 and 2020, in 2021 it decreased by about 18 million GEL compared to the previous year. There was also a significant change in the growth rate of gross insurance reserves, in particular, if the absolute increase in the first 9 months of 2019 and 2020 was more than 60 million GEL compared to previous years, in 2021 its value was only 11 million GEL. As for the dynamics of capital. In 2018-2021, the absolute capital increase was recorded every year for 9 months, but even in this case, in 2021, the growth rate decreased significantly. The capital growth rate in 2019 was 23%, in 2020 15% and in 2021 9%.

To assess the activity of the insurance sector, we can use the number of policies issued since the beginning of the year in a given period. Take advantage of quarterly data from 2018 through the 3rd quarter of 2021 and see what trends are observed. I wonder how the pandemic affected the number of policies in the retail and corporate sectors:

Figure 1. Dynamics of policies drawn since the beginning of the year by quarters

Impact of Covid-19 on Georgian Insurance System



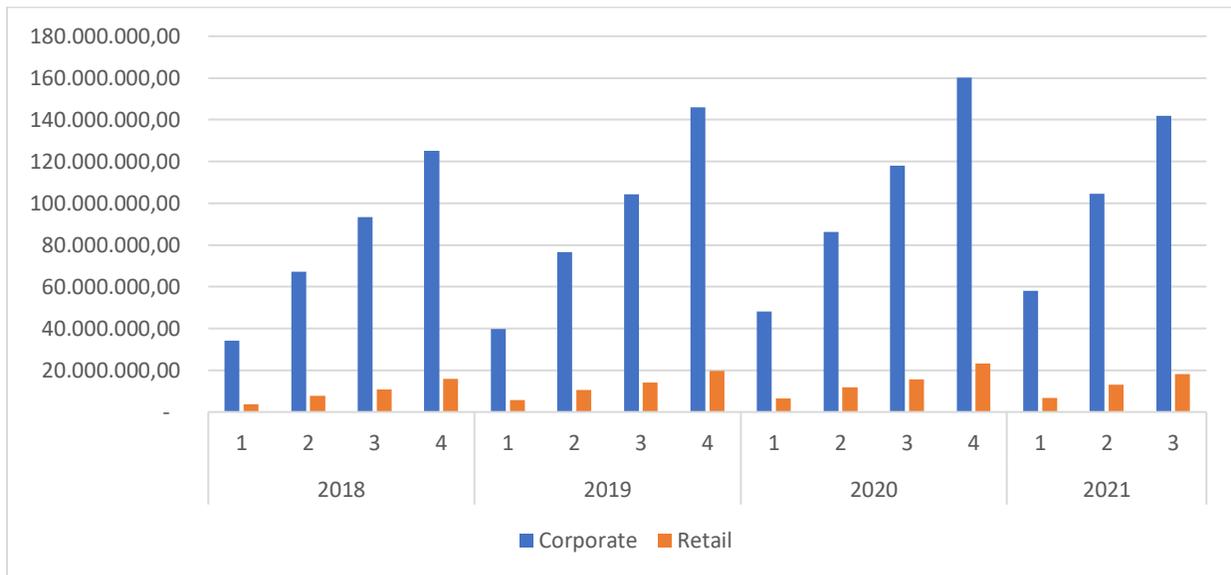
In 2019, compared to 2018, the number of corporate policies issued since the beginning of the year increased by 30%. The highest growth rate was recorded in the first quarter of 2019, with a value of 50% compared to the same period last year. In the first quarter of 2020, these dynamics did not change significantly and compared to the first quarter of 2019, the number of corporate policies issued increased by 23%. Trends have changed since the second quarter of 2020, namely the growth rates of policies in the corporate sector in the second, third and fourth quarters have been 5%, 6% and 7%, respectively. For comparison, the figures for the same period in 2019 were 41%, 33% and 30%. The trend for the last period of 2020 continued in the first quarter of 2021 and the growth rate of corporate policies became 9%. Already in the second and third quarters of 2021, the trend changed and the growth rates of corporate policies in the second and third quarters compared to the previous period were 32% and 77%.

There was a similar trend in terms of the number of policies issued in the retail sector. The trend of the previous year continued in the first quarter of 2020 and the growth rate of policies was 24%, from the second quarter there was an absolute decline and the growth rate became negative, its value was -5%, in the third quarter -6% and in 2020 a 1% decrease in retail In policies drawn in the sector. The situation started to improve in 2021 and the growth rate of policies in the first quarter was 36%, the growth rates in the second and third quarters increased even more and their values were 67% and 63%, respectively.

In terms of premiums written in recent years, health insurance is the leader in terms of types of insurance. For example, about 40% of the financial premiums attracted for the 9 months of 2021

came from health insurance. The growth rate of financial premiums written in the corporate sector in the field of health insurance in 2020 compared to the previous year was 10%, and in 2019 - 17%. As of 2021, the growth rate in all three quarters has exceeded 20% compared to previous periods. The growth rate of financial premiums written in the field of health insurance in the retail sector for 9 months in 2020 was 10% compared to the previous period, while in 2019 the similar figure was 31%. The situation has improved in the last quarter and the annual growth rate of financial premiums written in the field of health insurance in the retail sector has become 18%, 5 percentage points less than in 2019. In the first quarter of 2021, the downward trend in growth continued and stood at 4%. Already in the third quarter there was a 17% increase.

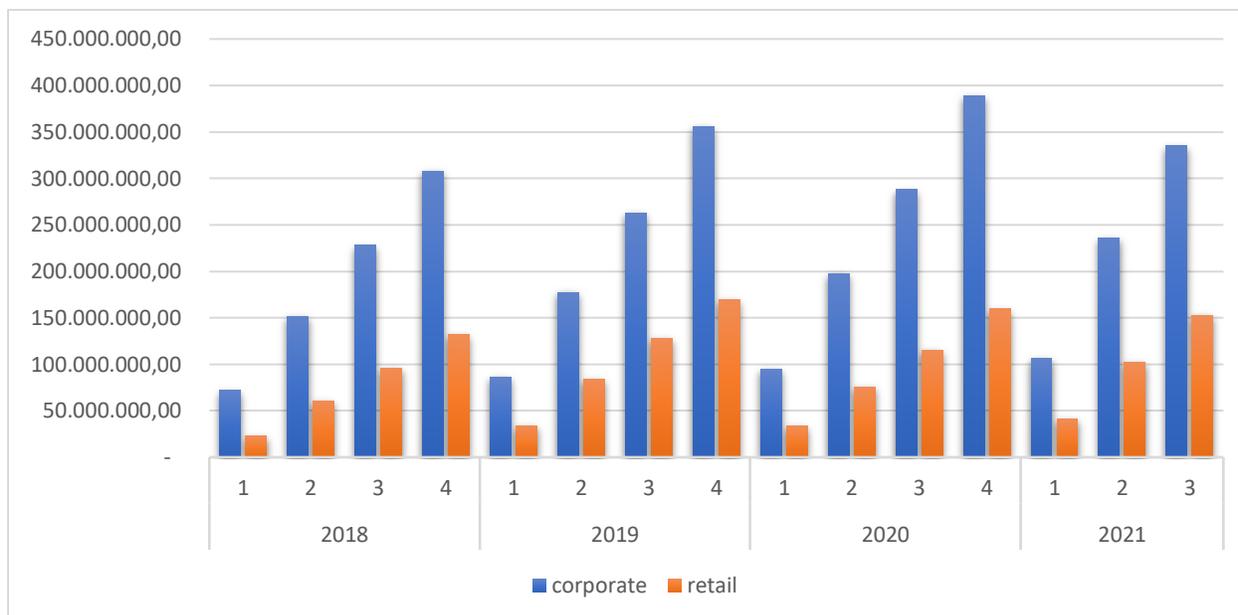
Figure 2. Dynamics of financial premiums written in health insurance by quarters, GEL



The growth rate of overall financial premiums written to the corporate sector has been declining since the first quarter of 2020, which lasted until the end of the year. Overall, the financial premiums written to the corporate sector increased by 9% in 2020 and by 16% in 2019. From the second quarter of 2021, the situation has already started to improve and the growth rate of the total written financial premium was 19%. From the first quarter of 2020, the growth rate of the financial premiums written to the retail sector became 0%, while the corresponding figure for the corresponding period of the previous year was 47%. The growth rates in the second and third quarters became negative and at the end of the year the overall financial premiums written to the retail sector decreased by 6%. For comparison, in 2019 there was a 29% increase. From the very

first quarter of 2021, the situation started to improve and as of three quarters, the rate of increase of the financial premium written to the retail sector was 32%.

Figure 3. Dynamics of written financial premiums in the corporate and retail sectors by quarters, GEL



Conclusions

The financial impact of the pandemic on Georgian insurance companies was not as significant as on the global insurance system. Their solvency and liquidity did not deteriorate, and their profitability rates remained relatively stable. To assess the activity of the insurance system, the paper analyzed the dynamics of policies issued since the beginning of the year by quarters, as well as the trends of changes in the total written financial premium and the premiums written in the type of health insurance in retail and corporate terms. Analysis of absolute and relative ratios revealed that the pandemic in the first quarter of 2020 had a relatively strong impact on the retail sector in terms of both the number of policies and the financial premiums written. The impact on the corporate sector was relatively small. In addition, from 2021, there will be a continuation of previous trends. It should also be taken into account that Georgian insurance companies are characterized by a certain specificity, which is reflected in their investment policy. Most of their investment portfolio consists of deposits and consequently current events in the financial markets

are less relevant to them. Georgian insurance companies will have to take into account global trends, which include digitization trends and changes in consumer attitudes.

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