

# MICROINSURANCE PRE-FEASIBILITY STUDY

## GEORGIA

*Prepared for:*

Kreditanstalt für Wiederaufbau (KfW)  
German Financial Cooperation

Development of Instruments for Financial Cooperation  
in the field of microinsurance

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## List of Abbreviations

BoG	Bank of Georgia (a commercial bank)
CBHCF	Community-Based Health Care Financing
CF	Constanta Foundation
DFID	Department for International Development (UK)
Est.	Estimated
EU	European Union
FGD	Focus Group Discussion
GEL	Georgian Lari
GMSE	Georgia Microfinance Stabilization and Enhancement
GCCI	The Georgian Chamber of Commerce and Industry
GoG	Government of the Republic of Georgia
GPA	Group Personal Accident
ISSSG	Insurance State Supervision Service of Georgia
MFI	Microfinance Institution
MoF	Ministry of Finance
MoH	Ministry of Health
NBG	National Bank of Georgia (The Georgian Central Bank)
NGO	Non-Governmental Organisation
PHRplus	Partnership for Healthcare Reform plus (a USAID health care project)
ROSCA	Rotating Savings and Credit Association
SELP	Small Enterprise Lending Programme
UGB	United Georgian Bank
US\$	United States dollars
USAID	United States Agency for International Development
VAT	Value Added Tax

The current exchange rate is 1.96GEL to 1US\$.<sup>1</sup>

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<sup>1</sup> 8 May 2004 - <http://www.xe.com/ucc/full.shtml>

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## Executive Summary

There is much interest in microinsurance in Georgia. Discussions between insurers and MFIs, including banks, have occurred over the last several months as insurers recognise the potential of the micro- and small-market, and MFIs see client needs that go beyond credit, and savings where possible. This has resulted in the development of at least one set of health microinsurance products being offered between one MFI and an insurer. These discussions have been somewhat limited by a lack of knowledge about how to develop, test, and sell and service these products. With this need satisfied, it is possible that there could be a reasonably rapid growth in the range of, and market for, microinsurance products. This in turn will help those in Georgia who are struggling for improvement, to be able to secure the gains they have made.

Microinsurance has an important role in the market that is neglected in most countries. The population with the most risk, and the greatest impact when they suffer risk is the low-income market. Donors and others have worked to develop credit programmes for this market, fewer create savings opportunities. Credit can help a low-income person or family to improve incomes that yields better nutrition, education, health, and other benefits. Savings can help them to build a fund for investment or emergency. Nevertheless, without insurance to help this market better manage the risks they face, all of these gains remain tenuous at best. Insurance is the safety net that keeps people from falling into the pit of poverty.

In Georgia, the insurance industry is very small in terms of gross premiums, with a mere US\$17 million generated in 2003. That is a mere 0.34% of GDP and about US\$3.65 in premiums per capita. In comparison, the averages for the European Union are 8.4% and US\$1,763 (in 2001), respectively. Yet, Georgia is abundant with insurers. This has led the Supervisory Service to increase the capital requirements to force consolidation in the market to improve both efficiency and stability of the insurers that survive. The social security system is not sufficient in terms of healthcare, or pensions, where pensioners receive a total of ALL17 (US\$8.50) per month, while the “extreme poverty level” is considered to be less than ALL50 (US\$26) per month.

Demand for microinsurance, appears strong in Georgia. Low and lower-middle income people interviewed as individuals and as part of focus group discussions noted that their greatest unmet risks in order of priority were related to health care financing, business risks, theft, death of a breadwinner, and income continuation, or pensions, for post-retirement years. The demand was seen as significant.

However, confidence in the insurance industry is marginal and several insurers are owned by “offshore” companies. In order to improve the confidence of the market and secure premiums and especially life insurance and pension investments, there is a need to strengthen the consumer protection safeguards within the current system.

The regulatory environment is rather loose in comparison to other countries in terms of composite insurance (allowed), and registering agents (not necessary). However, in this context, these are minor, and there is nothing that stands out in the draft law, codes, or regulations that would hinder the development and success of microinsurance in Georgia.

Because of the high level of interest in microinsurance among the different players, what is required here is to assist with the activities that make microinsurance different from mainstream insurance, as well as educating insurers, MFIs, and the markets. The ability to manage these activities and make the processes as efficient as possible for all parties could be done by a specialist institution. This is a ripe market in terms of supply players, and potential policyholders, within the constraints of a country with 4.36 million people.

Because of real interest on the part of current insurers as well as the objective of the Insurance Supervision Service to consolidate the insurance market, it is inappropriate to start a greenfield insurance company in Georgia. However, there is an important role for KfW in the Georgian microinsurance market in improving the skills base of microinsurance product development, and consumer protection and confidence-building with regards to pensions. The interventions that would have a strong positive impact on both insurers and MFIs (in the broadest sense) and the low-income markets would be (1) a microinsurance brokerage firm, and (2) a custodial company. The brokerage company, as a knowledgeable and experienced intermediary between the different parties, could provide a major improvement to the growth and development of microinsurance. The custodian could take on a dual role of protecting consumer pensions, as well as help build the market confidence that will create a foundation for significant growth in the microinsurance (and traditional insurance) utilisation.

There is potential and interest here for knowledgeable and experienced interventions to help guide the different parties, as well as safekeeping the long-term funds. The market size is limited, but any intervention should be seen in terms of relatively easy expansion of a branch network into Armenia and Azerbaijan. This virtually triples the potential market and will aid in the generation of economies of scale.

## 1. Microinsurance<sup>2</sup>

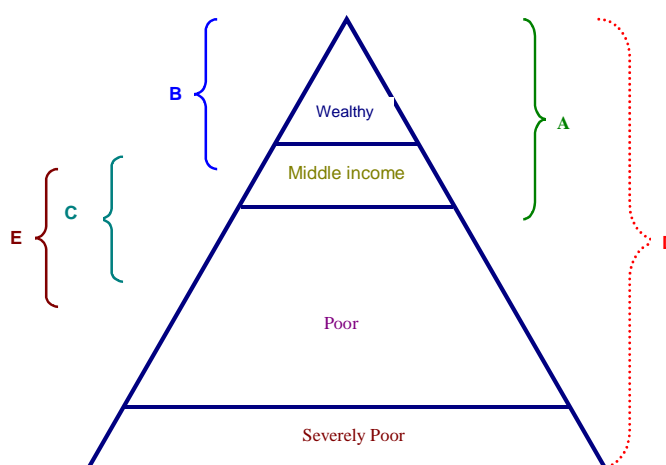
### 1.1. *Where does Microinsurance fit within the Insurance Sector?*

In Georgia, a wide range of insurance products and insurers has been available at least to the upper and some of the middle market. These insurers offer a wide selection of products and sell mostly voluntary products out of offices in most towns throughout Georgia. The social security system is acknowledged by almost everyone to be limited in its effectiveness with rampant abuse by health care professionals. The pension program provides Georgian Lari (GEL) 14 (or US\$ 7) per month to pensioners. For about eighty percent of Georgians monthly income per capita does not exceed GEL100 (US\$50), while almost half of the population have incomes less than GEL50 (US\$25). Coping mechanisms for many of these people are limited to family, neighbours, and the sale of assets.

Formal sector insurance companies focus on the area identified as “A” for the two obligatory products – motor third party liability (required of all cars) and business fire cover (required for all businesses). Within the “poor” group, insurers have shown great interest in developing that market with specialised products. Except for Aldagi, these insurers have had few actual forays into this market. However, this is not due to lack of interest, rather to a lack of understanding of how to manage within this market. These insurers have worked to develop and manage a wide range of products, but have not yet mastered product development for this market. In contrast to Albania, visited prior to Georgia, the voluntary versus obligatory insurance ratios are almost mirror images with Georgia selling almost 80% voluntary products. Mostly these products are being sold within the area marked “B”. Corporate customers and high middle to wealthy individuals are purchasing especially products like voluntary comprehensive policies for their vehicles and health care covers. One insurance company has recently begun, one week ago, to offer a specialised health insurance product for microfinance clients.

The aggregate market for microfinance institutions (MFIs)<sup>3</sup> is in the area identified as “C”. The range is somewhat limited on the bottom end because there are very few products for agriculture lending (besides ProCredit and even they are being careful). On the upper end, activities reach almost to the top of the middle-income group given their relatively large maximum loan values. Some of them require borrowers to obtain insurance for property, or their lives as a means of protecting the institution’s interests. At this point, the MFIs are sending their clients to the insurance companies so the insurance is sold directly by the insurance companies.

Area “D” indicates the range of products offered by the social and health insurance systems of the government. These are said to be extremely weak and their



<sup>2</sup> Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.

<sup>3</sup> In this paper, MFIs are defined in the broadest sense and include any financial activities with the low-income market. The institutional structure might be as an NGO, a bank, a credit union, cooperative, or other type.



effectiveness is seriously limited. They include cover for pensions, disability benefits, primary health care, and medications. Even government representatives and the World Bank (working with the government to begin to develop strategies for these issues) noted that the current system is not nearly effective. Thus, the area indicator for the pyramid is not solid.

The potential market for microinsurance is indicated as “E”. This area starts relatively higher on the poverty section of the pyramid than it would in other countries. This relates to the sizable farm population that may be unable to manage premium payments<sup>4</sup>. It is also a factor of the relatively large loans that are common here for microfinance companies. The maximum loan value of many of these clearly relates to the lower middle-income group. However, there are many institutions providing services within a close range of these MFIs including banks and newly formed credit unions.

### *1.1.1 What are some microinsurance products?*

In general, there are several somewhat common microinsurance products to address the specific needs of the low-income population. These typically cover risks that are relatively costly and with limited and uncontrolled frequency. Such products would include various components of health insurance,<sup>5</sup> life (including attached long-term savings or investment products), disability, accident, property cover, even policies for livestock, and against too much, or too little, rainfall. Some international examples of these follow.

First, it is important to recognise that MFIs can have strong tools of risk mitigation within their product lines. To help their clients with risk management they should be offering emergency loans and specialised savings products (where legal). These could be the first line of defence for low-income clients of these companies. In Georgia, the NGO MFIs have not been legally able to accept savings and thus they are precluded from such risk management tools for their clients. However, banks and credit unions do manage savings and could reasonably develop such rapid response products.

In Bangladesh, Delta Life offers life microinsurance with an endowment policy to well over one million very low-income individuals throughout that country. These policies offer low value endowments (US\$100 – 2000) after a period of fifteen or twenty years. This savings is tied to a life insurance product that completes the endowment upon death.

In Uganda, the American International Group (AIG Uganda) offers a group personal accident (GPA) policy through MFIs that covers almost three million lives (thirteen percent of Uganda’s population). This policy is linked to MFI loans and provides credit life, permanent and temporary disability, and accidental death benefits for clients, their spouses, and four children. Using MFIs as their delivery channel has allowed for rapid and efficient growth.

In Kenya, Africa Air Rescue (AAR) Health Services offers a comprehensive and an in-patient only health insurance product through one MFI currently. This product provides access to several AAR health care facilities, and a number of hospitals in their market area.

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<sup>4</sup> This needs more research in the next phase of this study.

<sup>5</sup> Please note the Glossary of Selected Insurance Terms in the final section of this paper.

In Georgia, Constanta Foundation and Aldagi Insurance have teamed up to offer a health insurance product for Constanta's clients. Introduced on May 7, 2004 the range of products is already performing beyond expectations. This will be discussed in detail below.

In India, property insurance is offered by SEWA Bank covering the homes of very low-income clients. In addition, weather index "insurance" is offered by ICICI Bank and their insurer in agricultural areas to protect against too little or too much rainfall in a way that virtually eliminates the moral hazard of traditional crop insurance.

### *1.1.2 How is microinsurance delivered?*

Several models of microinsurance delivery are in use internationally. These models fall into the following groups:

- o **Partnership model:** Where an insurer is paired with a bank or MFI to offer effective and efficient microinsurance products. In this model, the insurer manages the insurance risk and the financial organisation acts as the agent for the product(s). Constanta Foundation in Georgia uses this model with Aldagi Insurance in the delivery of their range of health insurance products.
- o **Community-based model:** This model is prolific in numerous countries, usually focused on health financing. Organisations including International Labour Organisation (ILO) and the Centre for International Development and Research (CIDR) promote this model and work with communities to help them develop and administer a risk fund. In Georgia, Curatio, a development organisation begun in Tbilisi, will be administering funds from the Japanese and others to develop 32 community-based health-financing schemes. In this model, community members are gathered to provide premiums into a central fund, negotiate with doctors, determine the "right" care mix for them cover, set the premiums, and develop and manage the controls. The multiple responsibilities, limited capacity of local people, and limited support make these programs difficult to reach organisational sustainability.
- o **Provider model:** Some mission hospitals develop and offer their own insurance schemes with community groups. These have been difficult to manage because insurance skills are limited among hospital administrators. Most of these programs are run through the books of the hospitals, and are unable to reasonably provide data on the sustainability of these schemes. In Georgia, there appear to be no health care facilities using this model, however, it was reported to be common for the doctor to take care of someone on credit.
- o **Full service model:** In some cases, regulated insurers are developing products that effectively help them move down market without a marketing partner. Delta Life of Bangladesh has done this with its endowment life policies. In other cases, such as SEWA in India (up to 2001/2) the MFI itself takes on the insurance risk. This holds several serious risks for an MFI. In Georgia, insurers note that would like to offer products to this market but do not understand its uniqueness and special requirements. They are thus eager to sell through Banks and MFIs.

- o **Social protection models:** In these models the government takes on the responsibility of insuring its citizens (or some portion of them) using “contributions” usually from the employed population. Georgia provides some health care and pensions in this manner. However, medical treatment still requires significant un-receipted payments that often make such care too expensive for the poor. The World Bank reports that 80% of household healthcare financing is borne by the household. The pension system is badly in need of an overhaul. The World Bank and the Government of Georgia (GoG) have been deliberating what should happen with the pension scheme. The GoG appears to be in favour of bringing the pension fund into the budget and paying the pensions as transfer payments from the budget. World Bank wants them to maintain the fund for pensioners, and move towards a defined benefit plan.

The key consideration with these models is: Where does the risk lie? In some of these models, the insurance risk is left to be the responsibility of a party that is not likely capable to effectively manage. Any intervention in microinsurance should both ensure proper “placement” of the risk, and support the government’s efforts at social protection.

### **1.2 How does Microinsurance fit within the broad policy environment?**

In broad terms, the new Government of Georgia is intent on aiding the low-income population, but has not been able to focus in that area as budgetary and political constraints recently have monopolised government attention. The social infrastructure such as health care and pensions are badly in need of repair, and the new government has noted a desire to turn over as much of these activities as possible to private institutions. Indeed a new pensions law was enacted in 2003 and there are now five institutions registered to take and manage pensions (including the NBG which manages a pension scheme for its employees). However, there is little investment opportunity in Georgia beyond construction and T-Bills, but there are no currency controls so pension companies can invest their funds internationally.

Representatives of the GoG noted during meetings that they are very interested in having risk management tools provided to the poor of Georgia. The Head of the Insurance State Supervision Service of Georgia (ISSSG) noted that the GoG would “welcome any innovation” in this area.

The laws of Georgia in general are being revised and updated through the assistance of the European Union. The insurance laws are in the process of adjustment. The ISSSG has been trying to control the number of insurers in the market through three rounds of increasing the minimum capital requirements for insurers.

There is a clear gap in the provision of insurance in that there are almost no appropriate products for this market in Georgia. However, there is much interest from MFIs and insurers to begin to fill this void.

## **2. The Insurance Sector in Georgia**

The private insurance sector in Georgia is relatively new. In the communist days, there were two state insurance companies: Gosstrakh, the State Insurance Company, and its sister company the State Insurance Company for Foreign Operations. These were subsidised by the Central Insurance Reserve Fund. It was in 1990 that the first privately owned insurance company was licensed, and then five years more before the second

one was licensed. Then two years after that, in 1997, when there were already at least four insurance companies, the first insurance law was enacted.

A listing of significant events in the history of the Georgian insurance industry is provided below in Table 1.

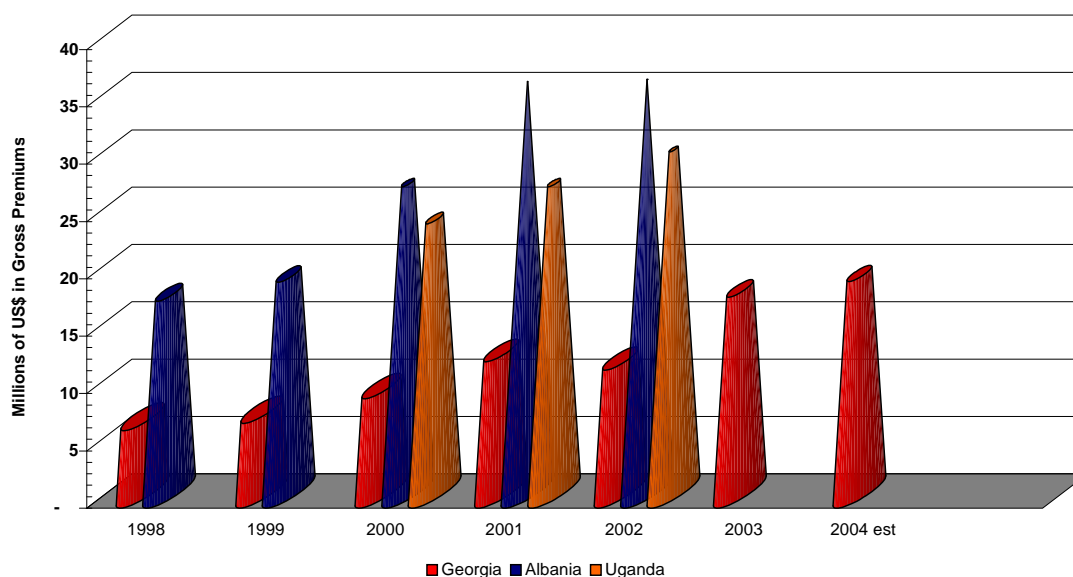
Table 1: Significant Events in the History of the Georgian Insurance Industry

Year	Event	Insurers
1990	Aldagi Insurance opened as first privately established insurance company	1
1995	Three additional insurers commenced business in Georgia	4
1997	First Insurance Regulations	25
	Insurance State Supervision Service of Georgia (ISSSG) set up as “independent” body	
	Motor Third Party Liability requirement introduced	
1998		42
1999	Business fire insurance requirement introduced	19
	Increased minimum capital requirements to consolidate market	
2000		18
2001	Private Pensions funds legalised and licensed	22
2002		27
2003	Tax holiday offered for companies that started pensions and health insurance schemes	18
	Commercial Banks started new (“arms length”) insurance companies	
2004	ISSSG doubles minimum capital requirement (planned)	

In addition to these insurers, at the end of 2002, there were fourteen insurance brokers, of which only eight were active, and two of those were only operating to broker reinsurance. Total commissions to brokers in 2002 were GEL143,000 (US\$65,000), of which 53% of that was earned by one broker, Aon. These commissions were earned from premiums of GEL1.37 million (or US\$627,000) which is about 5% of total gross premiums for that year. Additionally, of the GEL1.37 million, almost 60% was related to reinsurance premiums. Clearly, the brokers in Georgia have not been very active.

The Georgian market for insurance had been growing steadily, if not rapidly, until 2002 when it stagnated for a year. The estimated results for 2004 show an increase of over 50% for that year. The Chart below shows the growth in annual gross premiums for Georgia, Albania, and Uganda, the three countries in this overall study. During the periods shown in the table, it is clear that Georgian growth has been much slower, and from a lower starting point, than either of the other two countries. Indeed, in 2002, Albanian insurers collected almost three times the premiums, and Uganda 2.5 times the premiums of Georgia.

**Comparative Premium Growth: Georgia, Albania, and Uganda**



A more appropriate way to look at these markets is to consider the insurance penetration and insurance density in the three countries. Insurance penetration helps in understanding the level of premiums in terms of a nation’s GDP. This makes it easier to compare across countries as well as showing how significant insurance is within the economy. Insurance density provides an understanding of the premium value per capita in a country. This offers insight into the general utilisation of insurance products and is a sign of the maturity of the insurance industry in a country. Table 2 below, shows the insurance penetration for the years 1999-2002 in the three target countries as well as several others for comparison purposes. Georgia has, and continues to have, a significantly lower insurance penetration than either of the other target countries, and dramatically lower than the other example countries / regions. This suggests that there should be much room for growth.

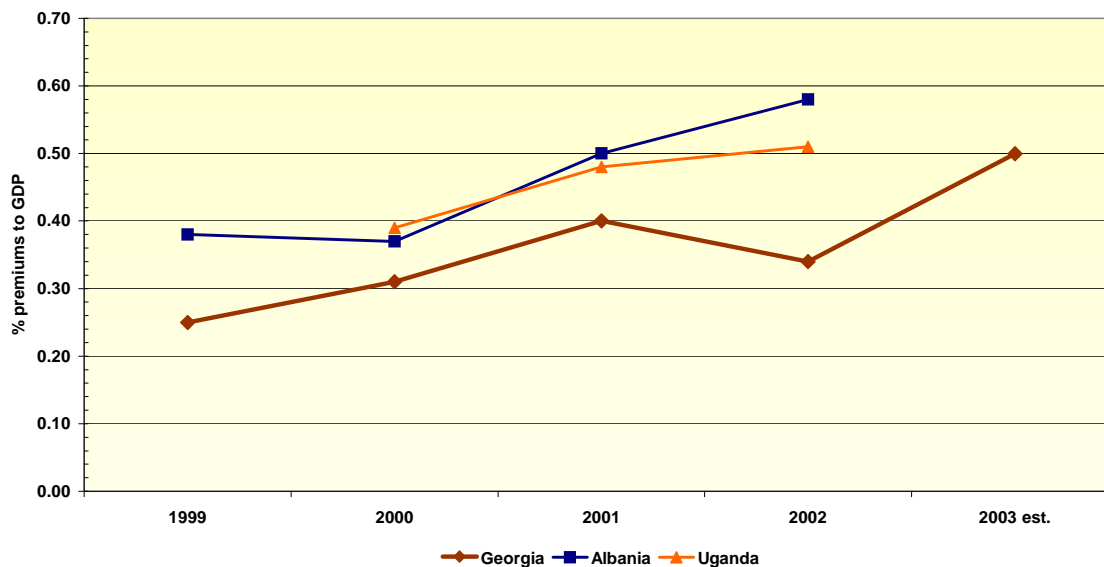
**Premiums as a % of GDP (Insurance Penetration)<sup>6</sup>**

	1999	2000	2001	2002
WORLD	7.5	7.8	7.8	8.14
Croatia				3.16
Kenya				3.09
Russia				2.77
Serbia and Montenegro				2.24
Greece				2.05
Ukraine				2.01
Latvia				1.91
Bulgaria				1.90
Lithuania				1.46
Turkey				1.31
Romania				1.09
Albania	0.38	0.37	0.50	0.58

<sup>6</sup> 2002 data from Swiss-Re sigma No. 8/2003. Albania, Uganda, and Georgia data from respective insurance regulators.

Uganda		0.39	0.48	0.51
<b>Georgia</b>		<b>0.13</b>	<b>0.26</b>	<b>0.40</b>
			<b>0.34</b>	

Insurance Penetration (Premiums / GDP)



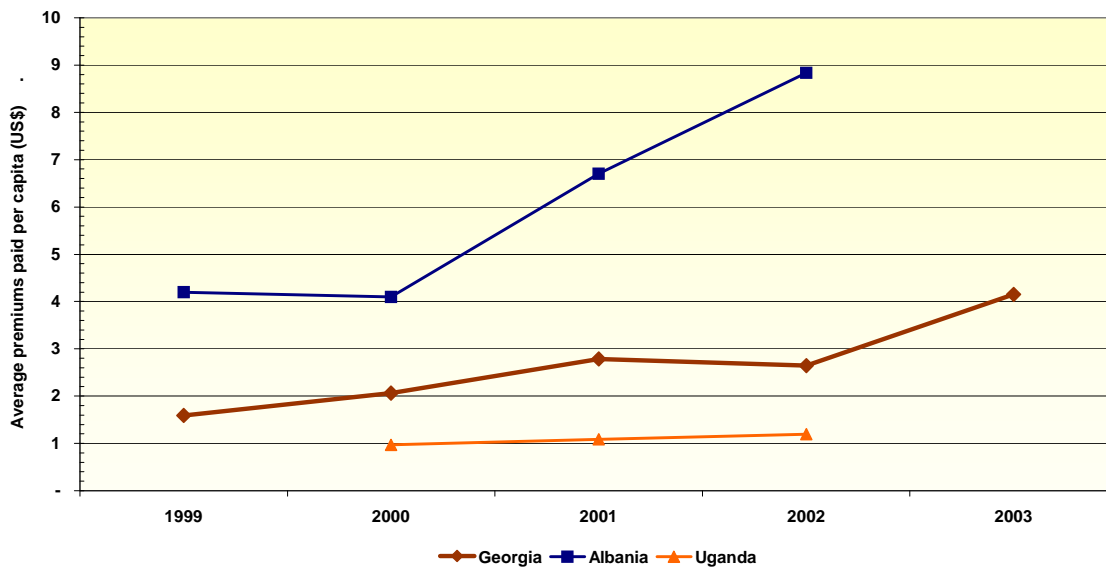
Premiums per capita, below in Table 3, shows the target countries as dramatically lower than all other countries / regions except for India, which is less than the density for Albania, but still about 2.5 times higher than Georgia, and almost six times higher than Uganda.

Premiums per capita (Insurance Density) (US\$)<sup>7</sup>

	1999	2000	2001	2002
WORLD	387	404	393	422.9
Croatia				160.7
Kenya				11.6
Russia				66.6
Serbia and Montenegro				33.0
Greece				253.1
Ukraine				17.1
Latvia				68.5
Bulgaria				43.1
Lithuania				57.9
Turkey				35.0
Romania				22.3
Albania	4.20	4.10	6.70	8.84
<b>Georgia</b>	<b>1.39</b>	<b>1.82</b>	<b>2.49</b>	<b>2.33</b>
Uganda		0.97	1.09	1.19

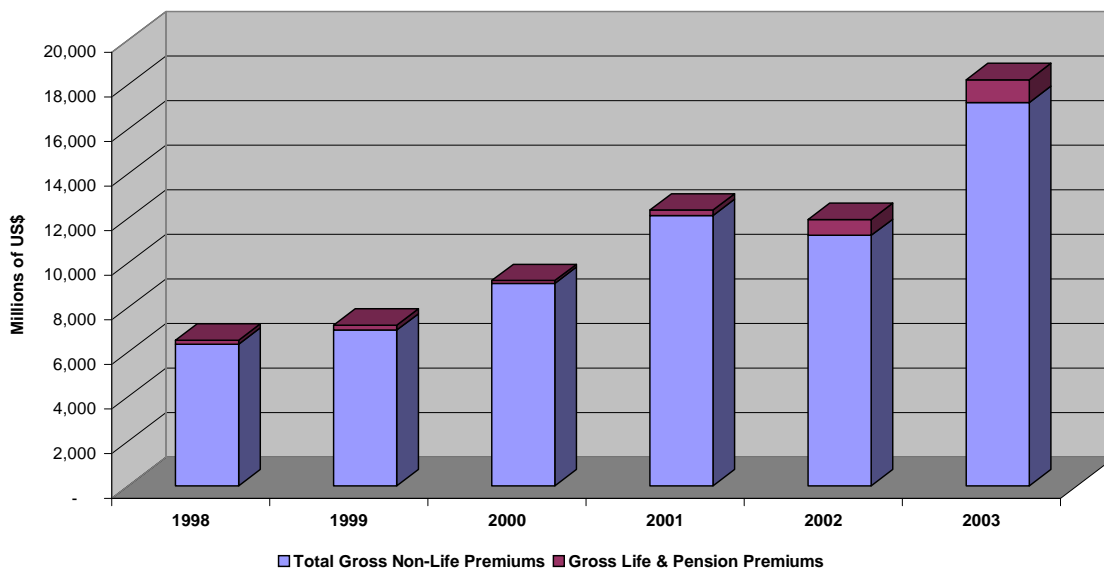
<sup>7</sup> 2002 data from Swiss-Re sigma No. 8/2003. Albania, Uganda, and Georgia data from respective insurance regulators.

**Insurance Density (Premiums per Capita)**



The chart below (“Georgia: Total Premiums by Life versus Non-Life Premiums”) shows the progression of growth of gross premiums in Georgia. In 2002, there is even a drop in the gross premiums. In GEL terms the two years were virtually even, but the improvement of the GEL to the US\$ has resulted in this drop. In 2003, Georgia returned to rather rapid growth. Additionally, from this table it is clear that the portfolio mix is also seriously skewed with long-term policies (life and pensions) growing to a mere 2.2% of total premiums in 2002, and then 6% in 2003. This slow growth and imbalance suggest potential for growth overall and on the long-term side of the insurance business.

**Georgia: Total Premiums by Life versus Non-Life Premiums**



In the chart below, “Georgia: Market Share Shifts 2002 to 2003” it can be seen that the top four insurance companies, or about 20% of the total insurance companies, have

consistently held around 75% of the insurance market (in terms of gross premiums). This is relatively common in developing insurance industries. In fact, the ISSSG has again increased the minimum capital requirements to reduce the number of insurers and improve the position of those that are left. The expectation is that some of the eighteen insurers in 2002 will either close or merge. The World Bank suggests that an appropriate number of composite insurers for Georgia would be between five and seven. With too many insurers, overhead costs remain high and this keeps the premium costs unnecessarily high, thus reducing demand.

It is also interesting to note the dramatic decline in market share of Aldagi Insurance. They have consistently dropped market share since 1995 when three new insurers entered the market. Additionally, these changes occurred during a period of 69% growth in gross premiums in the industry. Thus, this reflects a net nominal decrease in premiums for Aldagi during this period (US\$3.8 million in 2002, and US\$2.8 million in 2003). The insurers to watch are BCI and Pension and Insurance Holdings as their pace of growth is much faster than any other.

### Georgian Insurers: Comparative Market Share 2002 and 2004 estimated<sup>8</sup>

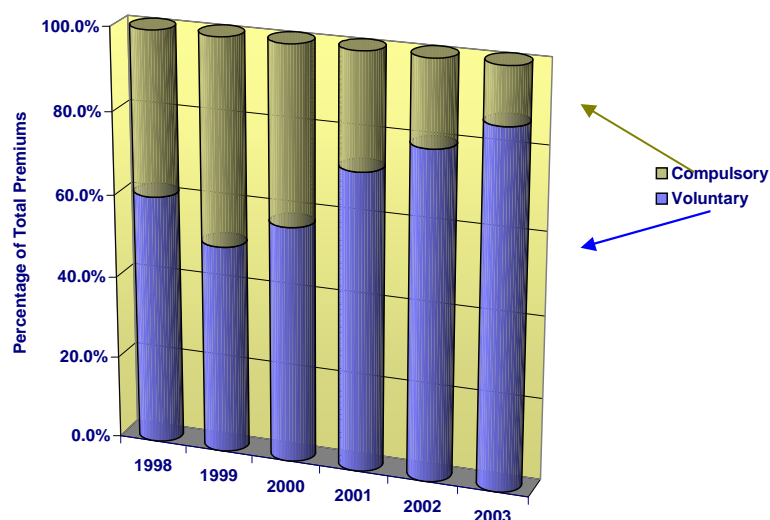


Georgian insurance companies offer a wide array of products. The table below, Percentage of Gross Premiums by Product Line (Georgia) provides a view of the sales trends by product from 1998 to 2003. It is worthy of note that the two obligatory products – Compulsory Motor Third Party Liability (MTPL) and Obligatory Fire – which composed up to almost 50% of the insurance business in 1999, is only 14% in 2003 (as opposed to Albania where the obligatory products composed almost 85% of the market). The market leaders are actually health and property covers. It is clear that there has been significant effort to sell the voluntary products by many of these insurers. The reason for this is negative in the way it occurred, but positive in its results.

<sup>8</sup> Source: Insurance State Supervision Service of Georgia. Annual Reports, 1999-2002 and summary report Quarter 1 2004.



**Georgia: Voluntary versus Compulsory Insurance Premiums**



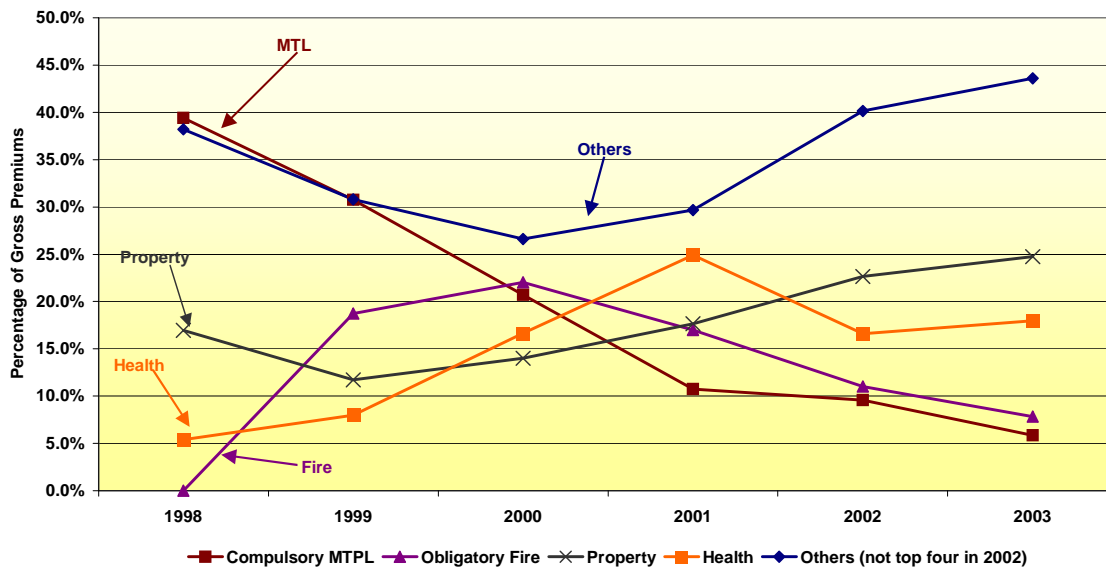
There is a small tax that must be paid before the compulsory MTPL stickers can be provided. This tax must be paid at a commercial bank and the receipt brought to the insurer. It was noted that certain insurance companies aligned themselves with certain banks. These banks, found it difficult to process in a timely manner the tax payments of the insurers that were not their “partners”. Because the MTPL premium is the same for all insurers, customers go to the insurer that is aligned with a bank that finds it easy to process their payments.

**Percentage of Gross Premiums by Product Line - Georgia**

	1998	1999	2000	2001	2002	2003	Trend
Property	17.0%	11.7%	14.0%	17.6%	22.7%	24.8%	Increasing
Health	5.4%	8.0%	16.6%	24.9%	16.6%	18.0%	Increasing
Civil Liability	3.0%	2.7%	3.2%	5.0%	9.4%	11.4%	Increasing
Land Vehicles	5.3%	3.9%	4.2%	4.3%	7.4%	10.1%	Increasing
Obligatory Fire	0.0%	18.7%	22.0%	17.0%	11.0%	7.8%	Declining
Obligatory MTPL	39.4%	30.7%	20.7%	10.8%	9.6%	5.8%	Declining
Carriers Liability	0.5%	1.9%	2.6%	3.3%	3.7%	3.7%	Increasing
Cargo	6.2%	5.0%	3.1%	3.2%	3.6%	3.3%	Flat
Aviation	6.1%	1.7%	2.2%	3.8%	1.9%	3.1%	Declining
Accidents and Sickness	12.2%	9.8%	6.1%	3.5%	4.4%	2.9%	Declining
Financial Risks	0.0%	1.6%	1.3%	2.2%	2.7%	2.8%	Increasing
Voluntary MTPL	2.6%	2.7%	3.0%	2.7%	3.2%	2.5%	Flat
Pension	0.0%	0.0%	0.0%	0.0%	1.7%	2.2%	Increasing
Professional Liability	0.3%	0.0%	0.0%	0.8%	1.0%	0.8%	Flat
Life	2.0%	1.6%	0.7%	0.9%	1.1%	0.5%	Flat
Vessels	0.0%	0.0%	0.2%	0.0%	0.1%	0.4%	Flat
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

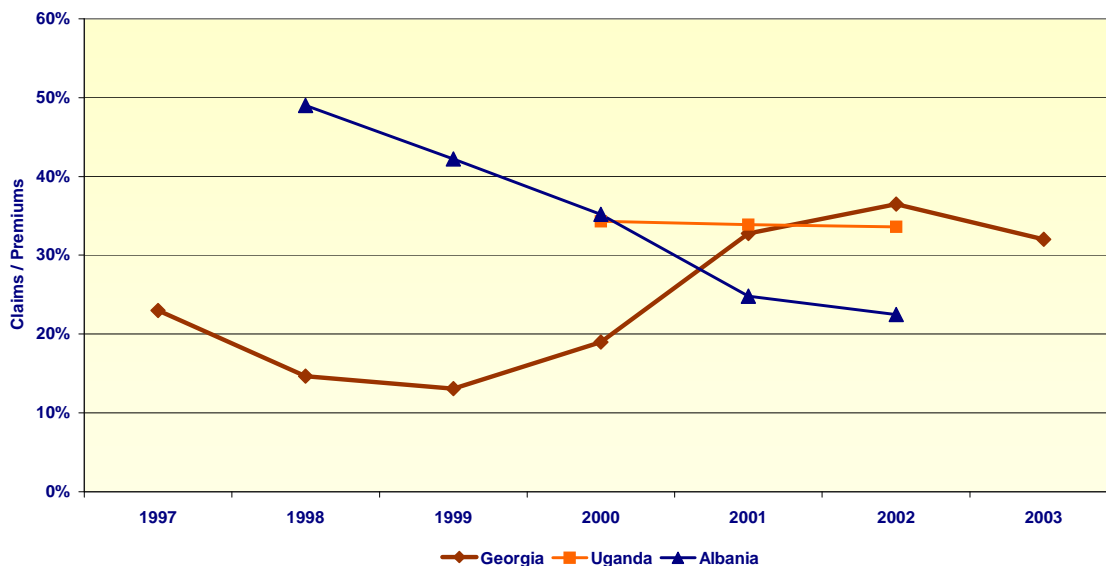
The chart below shows the percentage of gross premiums for the top four products and the others from 1998 through 2003. Here the decline of MTPL and obligatory fire is clear, as is the increase in property and other products, and to a lesser extent health. This shows that the market is broadening in terms of products, which is a positive trend. Now the effort should be in deepening the market with relevant products.

**Georgia: Claims Ratios by Major Product Line**



The insurance industry in Georgia has historically had extremely low loss ratios (claims during a period / premiums earned in the same period) indicative of a new and growing industry where overheads are often very high, especially when there are so many insurers in a small market. The table below shows the loss ratios for the three target countries.

**Comparative Loss Ratios: Georgia, Albania, and Uganda**



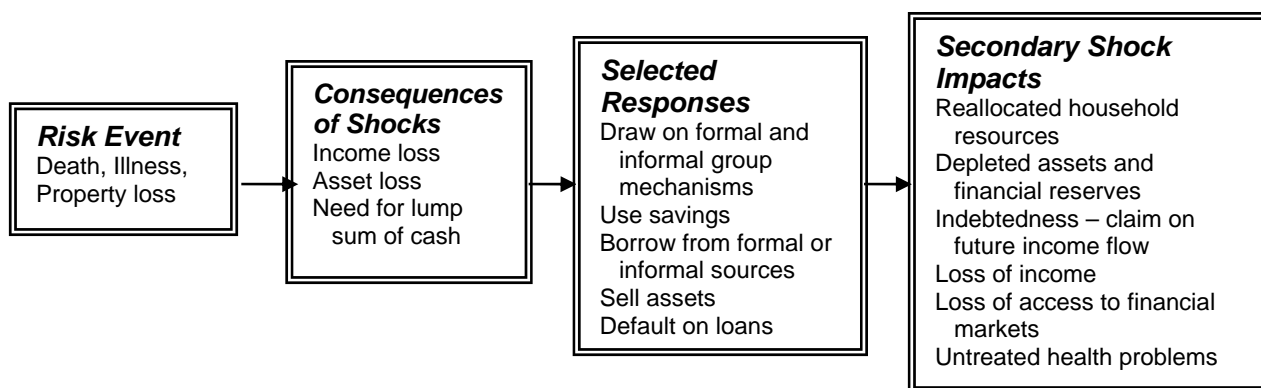
The average loss ratio should be around the 50-60% percent range, and higher with some products. The size of the market, the need for increased capital to meet requirements, and the lack of benefit from any significant economies of scale, help keep these ratios low, though improving, in Georgia.

From this overview, it can be summarised that the insurance industry in Georgia, has not yet matured. Though there are some positive signs – diversity of product mix,

ISSSG efforts to consolidate the market and reduce overheads – growth remains slow, and both insurance penetration and density remain weak. However, this is an industry with leaders that clearly want to grow, and enter new and profitable markets. There was very strong interest in understanding the low-income market by insurers so that they could discover an efficient and effective way to penetrate that market. What is missing is the guidance to expand into these new markets.

### 2.1. Risk management options for the poor<sup>9</sup>

When low-income people suffer from a risk event, a series of consequences, responses, and impacts follow. These are outlined in this diagram. Low-income people need mechanisms to help keep them from losing everything. Few risk management options are available to low-income households in Georgia, though there is great interest in changing this.



#### 2.1.1. MFIs and banks

MFIs and banks have a great opportunity to provide risk management tools to the low-income market because they are already conducting financial transactions within this market. Occasionally these institutions will offer specialised savings products that are used only for health care crises, others for weddings, and still others for education. Some institutions like ProCredit Bank offer rapid disbursement loans that people could use in an emergency. There is significant evidence that microfinance loans can and often do get used to fund crises, but this use is dependent on the timing for the loan. Some institutions basically pre-qualify borrowers for emergency loans and then have a system where people can access them when there is an emergency.

One MFI, Constanta Foundation, with Aldagi Insurance, is offering (as of Friday 7 May 2004) a specially designed health care insurance product to their customers. This product includes:

- a. Access to a telephone service for an insured to arrange medical service and to get other necessary medical or non-medical information
- b. Coverage for all costs related to emergency care; and
- c. Fixed benefits for emergency hospitalization (for therapeutic or surgical treatment).

Additionally, these products are designed to cover both receipted and un-receipted charges related to their care. After a period of testing, this product will be offered to their growing client base, currently numbering over 19,000 borrowers.

<sup>9</sup> "MicroInsurance Centre Briefing Note # 6: Financial Risk Management Tools for the Poor." Monique Cohen and Michael J. McCord, January 2003.

There have been several efforts to improve the availability of financial services in the rural areas, though with varying success. The World Bank had a revolving fund of eight million dollars that was lent in rural areas. It is said that when the funds, that actually belonged to the government based on the World Bank agreement, were returned, the GoG shifted them into the country's general operating fund. This effectively closed the credit programme. With IFAD, they worked to develop credit unions throughout the country. A total of one hundred and fifty credit unions were initiated. At present there are fifteen that "doing well", and forty more that are still alive, but limping. The others are closed. Now, Curatio is about to embark on a project with Japanese funds to develop community based health care financing in thirty-two areas. In a prior such endeavour, they developed seven of these CBHCF groups, and they note that four are still operational.

#### 2.1.1.1. Savings

NGO MFIs are not legally permitted to take savings. Bank MFIs provide access to savings, but do not appear to have specialised emergency savings products. ProCredit Bank is expanding rapidly and might help to address these gaps. The credit unions are mostly weak though could possibly offer specialty savings products.

#### 2.1.1.2. Emergency Credit

ProCredit advertises that one of their loan products can be disbursed for up to US\$2000 in the same day. Another bank has a similar product but disbursing only to a maximum of US\$1000,<sup>10</sup> and the Small Enterprise Lending Programme (SELP) also provides rapid loans through some of their partners.

#### 2.1.2. Informal structures

Georgia has many ROSCA programmes, but the most important informal structure to help, especially the low-income people, are family and friends. These structures are frequently not sufficient.

### 3. The Demand for Risk Management Services in Georgia

The National Bank of Georgia in their 2002 annual statistical report note that "monthly household income in Georgia in 2002 averaged US\$120. Application of the World Bank exchange rate based on purchasing power parities increases this amount approximately fourfold. For about four in five Georgians monthly income per capita does not exceed GEL100 (US\$51), while almost half of the population have incomes less than GEL50 (US\$26), or less than one dollar per day. People living in these ranges are extremely susceptible to minor risks that have a major impact. Helping them to manage their risks could make a significant impact on their household financial stability.

#### 3.1. *What types of risks are good candidates for insurance and why?*

"Not all risks are insurable. There are seven basic insurance principles that determine whether a loss is insurable:

1. The loss must occur by chance, and not be caused intentionally by the insured.
2. The loss must be definite, with reasonable confidence that the loss indeed occurred, and its loss must be measurable.
3. The probability of the loss occurring must be calculable as this is a key component in setting the premium.

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<sup>10</sup> The ability to actually access such loans in one day was not tested as part of this review.

4. There must be a large number of similar insured units exposed to the risk because of the law of large numbers which states that the larger the sample observed or studied, the more likely accurate the estimate or prediction.
5. The loss must not be catastrophic, creating losses for large numbers of insured at the same time as costs might be beyond the insurer's ability to honour claims. An insurer can avoid huge losses by means of reinsurance or the transfer of some or all risk to other insurers.
6. The policyholder must have an insurable interest in the event, and this event must cause a genuine loss to the policyholder. Ownership of property and family or financial ties of a beneficiary are two ways of establishing an insurable interest.
7. Premiums must be affordable.

These fundamental principles guide, on the most basic level, what can and cannot be normally insured. Thus, for example, a non-suicidal death can be insured, while school fees or marriages normally cannot.”<sup>11</sup>

In terms of microinsurance, the practicality of selling and managing these products requires simplicity, innovative premium payment mechanisms, and the ability to implement effective controls against moral hazard, adverse (or anti-) selection, fraud, and overuse. Because of these, the available number of options for more complex products is proportional to the insurance specific management expertise available. For example, an MFI might be able to offer basic credit life insurance on its portfolio, but it would take an insurer with health care financing expertise to offer health insurance. Interestingly, in Georgia, the first significant microinsurance product offered through a relationship between an insurer and an MFI is a health product. In most countries, this is not done because the capacity is limited. Here, there was a focused and controlled product development process that led the institutions to recognise the enormous need for health care insurance.

In terms of health insurance, an additional fundamental input is required - at least one provider of quality health care services. Without available quality services, insurance cannot reasonably be sold. The purpose of insurance is to help people manage risks. Sending them to poor quality facilities will have a negative impact on them through poor care, and will be more costly to the insurer due to additional costs related to the poor care. This is a limiting factor to growth (especially geographically). Generally, public hospitals are not seen as options for insurance because of several issues which include: quality of care, the need for un-receipted payments, limited confidence in financial arrangements with such hospitals, and difficulties in managing the necessary controls. In Georgia, Constanta and Aldagi appear to have developed a product that might mitigate these issues and still provide important benefits to their mutual customers. This product deserves monitoring for the lessons that they inevitably will learn.

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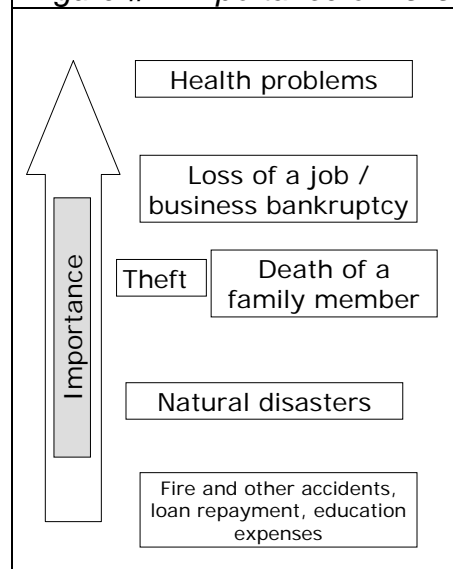
<sup>11</sup> The Working Group on Microinsurance. “Preliminary Donor Guidelines for Supporting Microinsurance”. October 2003, pp 27-28. Accessible from [www.microinsurancecentre.org](http://www.microinsurancecentre.org).

### 3.1.1. Risk in the Georgian Context<sup>12</sup>:

[Special note: The balance of section 3 is based on results from a qualitative demand study conducted in February 2004. In Appendix 6, there is a discussion of qualitative and quantitative research methodologies.]

The risk is important for a poor family if: its impact on the household's financial, physical, human, social assets is severe, it is happening frequently, and there are no effective coping mechanisms allowing the family to protect from it or manage the loss. In other words, the risk is important if the family well-being and security is reduced significantly when the family has to generate a necessary lump sum of money to cope with the risk. Considering both development and business imperatives, it makes sense to develop micro-insurance products only for the most important risks faced by the poor.

Figure #1: Importance of risks



The most important risks poor families currently face in Georgia are of a structural nature due to the ongoing transition from planned to market economy combined with turbulent internal conflicts. Focus Group Discussion (FGD) respondents mentioned the following problems as particularly important: unemployment, crime, corruption, poor public services and safety nets, fluctuating currency rates, unclear tax regulations, and electricity shortages in the winter time<sup>13</sup>. A significant component of job loss risk is related to the need for funds in old age given that the social security system is not adequately functioning.

The research focused on life cycle and crisis risks given the potential of some of them to be insured. Health problems, loss of a job, business bankruptcy, theft, death of a family member were respectively the most important risks experienced by study participants.

#### 3.1.1.1. Health problems: ineffective coping mechanisms to face frequent and unexpected expenses

FGD respondents identified health problems as the most stressful and frequent shock for several reasons:

- It is worth mentioning that sickness was a minor risk in the Soviet times. The health problems have been accumulating during the last thirteen years when people were living in worsening conditions, especially poor shelter and deteriorating quality of food and water.
- *"We go to the doctors' only when we are dying"* – nowadays due to other priorities people neglect even the necessary minimum of regular health care. *"We will never spent what we earned on ourselves, it will go to cover other family basic needs"*. They do not have regular check-ups and neglect small injuries and

<sup>12</sup> The contents of this section and its sub-sections are taken from: Matul, Michal. Understanding Demand for Microinsurance in Georgia. The Microfinance Centre for Central and Eastern Europe and the Newly Independent States. February 2004. This paper was prepared expressly for this pre-feasibility study.

<sup>13</sup> The research has not focused on ranking the importance of the structural risks due to limited scope of the research. That is why the structural risks are not presented in order of importance. However, only the most important risks that were mentioned by all groups regardless their composition and location are cited in this report.

illnesses that can have very serious impacts in the long-term, including prolonged illnesses<sup>14</sup>.

- Even the minor health problems weaken adult family members' productivity leading to an avalanche of subsequent shocks as decreasing business income, recurrent problems to repay current debt, and difficulties in paying rents, for example.
- Child health expenses put households in financial crises because adult family members will do everything not to postpone necessary treatment.
- The health costs are getting higher and higher. It is due to frequent need to buy medicines as well as to cover all the informal costs of "free" hospitalization. It includes paying doctors, nurses, ambulance attendants, pharmacies, and others.
- Health problems are relatively more difficult to anticipate than other shocks.
- Finally, yet importantly, as all the families are affected by various health problems informal help is rarely available. In the absence of formal mechanisms to cope with the risks, the poor families live without appropriate resources to respond to health crises.

#### 3.1.1.2. Loss of a job / business bankruptcy: losing the only family income source

As formal employment opportunities are still very scarce, a significant number of the poor are involved in self-employment activities. The risk of business bankruptcy is getting more and more important nowadays due to increased competition, decreasing purchasing power of local population, lack of entrepreneurial skills of former salaried employees, corruption, and unclear tax regulations. FGD participants emphasized that it is much more acute for families with a large number of dependants. Like elsewhere in transition countries recurrent losses of stable income sources lead to the loss of self-confidence, depressive behaviour, and exacerbation of social problems resulting in declining social networks.

Looming largest in the job loss risk is the impact of old age and the concern of people that they will have resources when they reach that point. They see that government systems are not adequate (currently public pensions pay US\$8.5 per month). People are very concerned about how they will survive when they can no longer work. This problem is exacerbated by the distrust people have of insurance companies and the concern that these companies will entice them to save for pensions, and then disappear with the money.

#### 3.1.1.3. Theft: frequent but not priority losses relatively easy to be solved by one's own means

Theft is particularly stressful when it concerns business assets or goods because it diminishes business prospects. Even if it is very frequent in Georgia nowadays people are much more careful, and somehow manage the losses on their own. For the participants selected among poorer Constanta Foundation clients, reaction to theft was associated with significant fear of revenge by bandits.

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<sup>14</sup> It is confirmed by UNDP (2002) quantitative analysis: "In terms of health care, the analysis shows that access to proper medical treatment is a commodity far from the reach of most Georgians. Poor people tend to postpone a visit to the doctor until it is really needed, often with dire effects on the health of the individual and the budget of the family in question. Overwhelmingly (90%), the reason to skip a visit to the hospital or a doctor is lack of money. Only 24% of Georgians below the poverty line can afford a complete treatment (visit to the doctor and the purchase of medicines)."

#### 3.1.1.4. Death of a family member: big psychological and financial impacts mitigated by family help

Considering it from the economic point of view death of a family member in Georgia is associated with very high expenses. Nevertheless, FGD participants argued that it is relatively easier to face because of very efficient traditional help of relatives, friends, and neighbours. Consequently, the financial pressure from this shock is short-term. In addition, some FGD participants mentioned that in case of funeral expenses it is relatively easier to adjust them to family capacities when compared to other shocks.

##### Equality in Contributions

It was noted that when people in a village die, the neighbours provide some financial or in-kind assistance. This gift is noted in a special book that each family maintains. When someone of the gift giver's family dies, the now giving neighbour reviews what that family had last provided them and reciprocates with an equivalent gift.

*To conclude, it is useful to distinguish three types of risks:*

- Type A: frequent and very unpredictable risks requiring relatively smaller amounts of money, including costs related to children health, medicines for less serious sicknesses, emergencies linked to first signs of serious illnesses, recovering from petty thefts of business assets and goods, loan repayment problems;
- Type B: more expected risks requiring bigger lump sum of money, including death of a family member and costs of health care related to prolonged serious illnesses;
- Type C: not frequent and unpredictable risks requiring overwhelmingly big amount of money, including major health care needs, big theft, sudden business collapse, serious accidents, natural disasters.

*Based on the discussions with the study participants, in general terms, type A risks have the biggest impact on increasing vulnerability of Georgian families. It is not only that they are the most prevalent but also the families have not yet developed effective coping mechanisms to protect from or to manage the losses. Some key issues on coping mechanisms, at least in the upper low and middle-income market follow below.*

#### 3.1.2. Risk Coping Mechanisms Currently in Practice

The key to developing responsive and profitable micro-insurance products is to understand the effectiveness of risk coping mechanisms the poor currently use in order to identify a gap that microinsurance can fill. The effectiveness is a function of access to coping mechanisms by different groups, short-term and long-term costs of using it, and benefits one can acquire, including to what extent a coping mechanism protects from or covers a loss.

##### 3.1.2.1. Multiple, risky borrowing to face frequent risks requiring relatively small lump sums

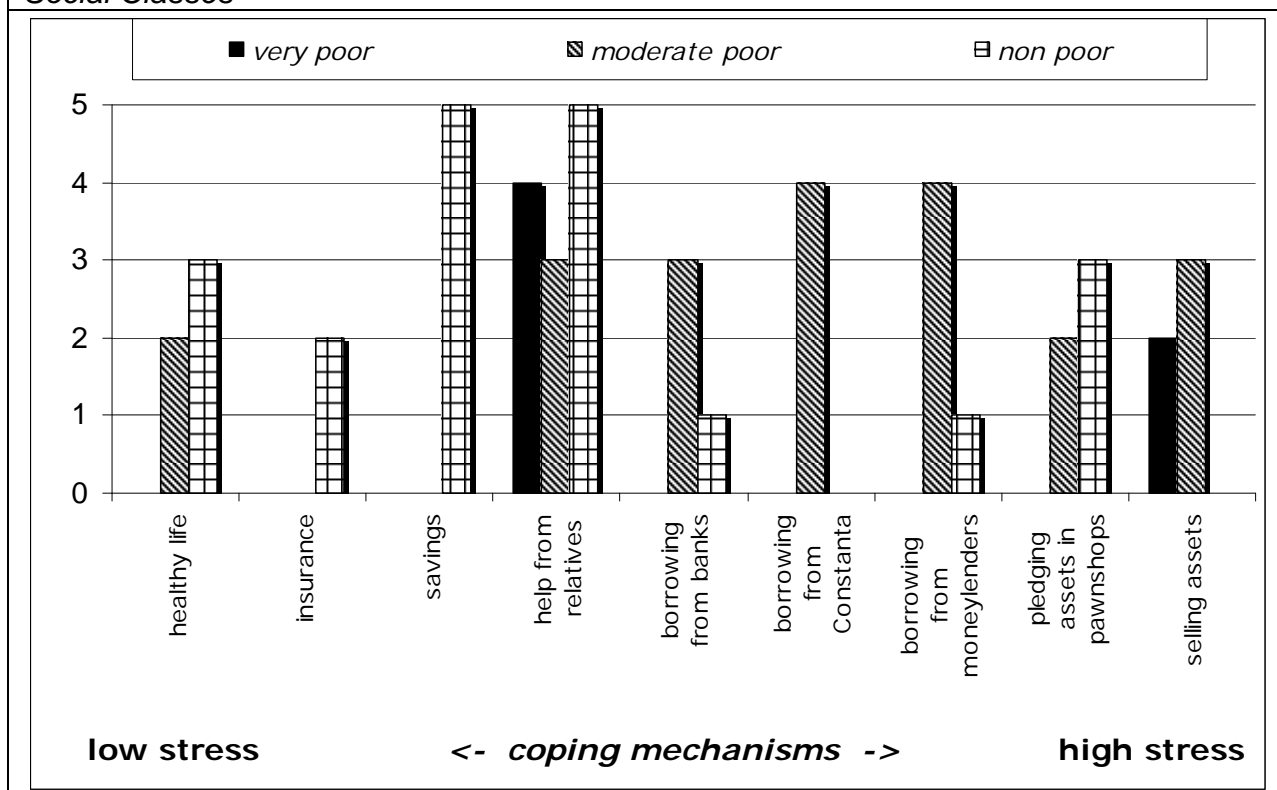
Given that family health problems were identified as the most important risk for the poor in Georgia, an in-depth analysis of ways people protect themselves or manage unexpected health expenses was conducted in order to show risk response behaviours for type A risks. In order to stimulate discussions among FGD participants a matrix was



used to analyze coping mechanisms used by three highly contrasted groups: very poor, moderate poor and non poor<sup>15</sup>.

In case of a health crisis of a family member, the moderate poor, representing the majority of the population, cannot count on formal or less stressful informal strategies to help them to cope with it. A mix of borrowing from different sources and selling or pawning physical assets is the most prevalent strategy to get an additional lump sum of money to face the expenses and smooth family consumption.

**Figure #2: Coping Mechanisms in Use to Respond to Health Problems by Different Social Classes**



Informal social networks are very strong in Georgia and everybody can count on financial help from relatives, friends and neighbours in the form of grants, interest-free loans or low interest loans on convenient conditions. According to the FGD participants, this is the main and virtually the only mechanism to cope with crises among the poorest<sup>16</sup>. Interestingly, the moderate poor prefer to solve their small health crises by themselves through borrowing from other sources than to seek family help. FGD participants explained that they are afraid to fail to repay money or to give back the mutual help and therefore do not want to ruin their social networks because of small amounts of money. It must be noted, however, that the moderate poor have access to

<sup>15</sup> The very poor were described by FGD participants as those not involved in any economic activities surviving with a help from relatives and from begging. The FGD participants classified themselves as moderate poor: a group that has some income generating activities, does not spend all the money on food, and can even think about children education. According to them this group represents a majority of Georgian population. The non poor are those from new middle class that don't have to worry about their day-to-day expenses.

<sup>16</sup> The help is rarely in the form of loans as families and friends realistically assume that the poorest will not be able to repay anyway.

help from family and friends and use this mechanism in desperate situations<sup>17</sup>. They perceive the social costs of it to be higher than for example financial costs of borrowing from a moneylender. On the other hand, the help from relatives and friends is the most popular mechanism to smooth consumption among the richer families who do not share the same concerns and have access to respectively more “affluent” social networks – it was described as a *“polite interaction between the rich people in the hope for mutual help in case of more serious problems”*<sup>18</sup>.

Borrowing from moneylenders is a very popular coping mechanism among the moderate poor<sup>19</sup>. Despite the high price, (usually 10-15% monthly) they appreciate easy access to very fast and uncomplicated service. Even if it allows them to respond in a timely manner to emergencies, it is not an end but rather a beginning of a problem. The common behaviour is to look for a solution to repay the highly priced loan as soon as possible<sup>20</sup>. Usual options are to take cheaper loan from another source or sell household assets. It is worth to note that moneylenders do not lend to the very poor.

FGD participants agreed that Constanta Foundation (CF) microenterprise loans are as popular among the moderate poor as moneylender services to cope with health crises. Evidently, the moderate poor would prefer to go to CF because the interest rate is much more attractive, the loans are small as well, and under manageable guarantee requirements. However, the CF loans are not useful for high priority emergencies, as very often you have to wait until the end of the current cycle or in case of new clients, for approval. The in-depth analysis of loan use of CF clients confirms the fact that CF loans are used for emergency purposes. Even if only behaviour of 8 clients was analyzed, it is safe to put forward the following general conclusions:

- in most cases the first CF loan is used exclusively for business purposes;
- subsequent loans and enterprise profits generated by the poorer clients are very often used to cover family health or education expenses;
- on the contrary, richer clients (whose families have usually other sources of income) rarely use the loans for non-business purposes and reinvest a significant share of business profits back in their enterprises.

The moderate poor also have relatively high access to consumer loans at banks. It refers predominantly to the very popular fast loans based on gold items<sup>21</sup> and to ProCredit Bank individual microenterprise loans. These services are available to the upper segment of the poor, and to non-poor. This product is appreciated because of the monthly repayments facilitating money management in times of crisis. Some of the poorer FDG participants expressed their fear of high requirements and strict enforcement rules.

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<sup>17</sup> The only limitation is that the very poor and moderate poor have usually respectively poor relatives and friends and in some situations they cannot contribute the full amount needed.

<sup>18</sup> In relation to help from family and friends an interesting finding is that study participants have not mentioned remittances from family members working abroad as a coping mechanism (given high work migration in the Caucasus region). It is probably due to unstable flow of remittances making it less useful to respond in a timely manner to unpredictable shocks, which is also confirmed by UNDP (2002).

<sup>19</sup> It is worth to note that FGD participants were not ashamed to talk about moneylenders (as is the case in most transition countries, including neighboring Armenia). It probably reflects a high prevalence of money lending embedded in Georgian culture.

<sup>20</sup> It was observed that poorer FGD participants were less concerned about the high price, comparing to richer study participants, who have wider access to financial services. In addition, in Gori respondents were in general less price sensitive than in Tbilisi where there are more options available.

<sup>21</sup> Loans up to US\$1000 at 3% monthly interest rate over 1-3 months (Pearce 2002).

Selling assets was quoted as the most stressful coping mechanism used to acquire small lump sum of money, both because of sentimental issues related to family belongings, and big difficulty in renewing household durables and business assets. Despite the high-stress associated, it happens often that the moderate poor have to resort to this strategy. The respondents mentioned that it is easy to liquidate assets on the second-hand market in case of emergency. This strategy is also used by the very poor who sell small things like spoons, plates, bottles, jars, and other things. The moderate poor would prefer to sell assets than to pawn them in the pawnshops, which are very prevalent across Georgia, because they are afraid of not being able to repay on time, and therefore losing the object at a low price. On the other hand, pawnshops offer relatively the best conditions for emergency loans and are often used by non poor families, who are sure to repay on time, to smooth their consumption in times when they do not have cash savings. Finally, yet importantly, there was a common agreement among the study participants that most of the very and moderate poor have sold most of their valuables during harsh times from 1992-96; therefore, this strategy is becoming less and less available to growing number of vulnerable families.

*“All the people have several debts”* – according to FGD participants over-indebtedness is prevalent and getting worse in urban and semi-urban areas<sup>22</sup>. It is interesting to note that relatively richer study participants more often quoted this statement. It probably reflects common behaviour of the upper segment of the poor, who benefit from wider access to credit services and use it extensively to cope on their own with small consumption shocks, no overindulging their family and friends.

Other important results regarding coping mechanisms in use for frequent and very unpredictable risks requiring relatively smaller amounts of money are:

- The “new poor” are shocked by their new status and have not really generated any mechanisms to protect themselves from the health shocks. There was a general agreement that other basic needs expenses are so pressing that there is no scope to think about any prevention methods like for example regular check ups. Moreover, the healthy style of life is not realistic given hard work conditions. The only ex-ante strategy cited was being more careful of thefts and robberies.
- The very poor and moderate poor cannot reduce consumption to face the shocks because for a majority of families it means reducing food consumption. There is virtually no marginal benefit from it as many families consume only the necessary minimum.
- There is no operational formal public health insurance scheme. The health safety nets do not exist<sup>23</sup>.
- The very poor and moderate poor do not save at all, and especially do not save for emergency purposes. All the study participants cannot imagine saving when they are faced with so many pressing needs of high number of household dependants. However, they said that they used to save in the Soviet times and they would be willing to save now. The very poor and moderate poor still do not trust banks and are afraid to save at home. A sign that they are able to put aside

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<sup>22</sup> These results are confirmed by UNDP (2002) quantitative analyzes “for the poor, income from take home pay accounts for about one third of the household budget while the remainder falls to sources either unstable (pensions), have to be repaid in the future (loans), or are seasonal (food products sold).” In addition, State Department of Statistics estimates that “borrowing/dissaving” and “property sale” contribute about 20% to average family income.

<sup>23</sup> Georgian-European Policy and Legal Administration Centre (2003) states “The vast majority of population, including informal sector employees, the self-employed and the unemployed, as well as their family members, have no social protection whatsoever, and the assistance for those covered by the social safety nets is symbolic.”

some small amount of money is the fact that some study participants mentioned saving as a coping mechanism to face expenses associated with prolonged illnesses. On the other hand, non-poor families save regularly at home, (rarely in the banks) and in-kind (houses, cars) – it is the main coping mechanism that they use for health problems<sup>24</sup>.

- Self-employment economic activities are an important strategy for the moderate poor. Even if most of them are survival microenterprises, they contribute from time to time to cover unexpected household expenses and open access to microenterprise credit services.
- Private insurance policies were rarely mentioned as coping mechanisms. The FGD participants explained that non-poor hold health insurance policies. However, in their opinion, the non-poor do not know much about modern insurance themselves; therefore its use is not widespread.

### 3.1.2.2. Effective family help in response to more predictable risks requiring bigger lump sums

If a family is faced with bigger expense associated with the death of a family member or serious prolonged illness (type B risks) the help from family and friends is the most important coping mechanism and in most of the cases, a very efficient one – “*dead person is capable to pay his funeral fees*”. Across Georgia, relatives and friends contribute sums of money during a traditional gathering after the funeral of the family member. These donations usually cover the costs. Therefore, even if the family has to borrow money to advance payments<sup>25</sup> they are able to repay the full amount in a reasonable period of time.

*In Summary, coping mechanisms are not effective and rather high-stress for type A risks. The urban poor in Georgia have not created good mechanisms to avoid, prepare, share, or transfer these risks. The only strategies that are still effective are to retain risks by excessive borrowing and liquidating household assets. It seems like these are not very good mechanisms as they cause increasing vulnerability to poverty, growing over-indebtedness, and a shrinking household asset base. On the contrary, these are relatively effective and associated with lower stress coping mechanisms for type B risks that are based on a traditional notion of sharing a risk requiring bigger lump sums of money within an extended family. Regarding type C risks, the general feeling is that the only possibility is to get humanitarian or government help.*

### 3.1.3. Who Demands risk Management Services?

According to the 2002 census, Georgia has a population of **4.36 million people**, approximately half of them living in rural areas. According to the UNDP Human Development Report (2002), poverty is a serious issue in Georgia and poverty headcounts are high in all the regions. People living under the poverty line account for 51% of population in winter and 42% in summer<sup>26</sup>. There are no significant differences

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<sup>24</sup> It is important to note that lack of savings is rather not due to lack of capacity to save. The savings culture was undermined by local conflicts and transition from old to new banking sector when most of Georgian families lost their life savings. It should not impact a capacity of Georgian poor families to put a small amount of money aside on a regular basis to pay insurance premiums.

<sup>25</sup> Some delayed payment schemes were also mentioned. On the other hand, it is important to investigate the issue to which extent “emergency savings” can be promoted to cover some small, unexpected expenses that might be not possible to cover by micro-insurance schemes.

<sup>26</sup> The NHDR Poverty Line, set at approximately 100 GEL/month, captures that segment of the population that is a unit of analysis in this report – poor and vulnerable non-poor. Those who live with 100 GEL/month are families “that earn enough to achieve a minimum diet but suffer non-trivial constraints in the provision of items like health care, education, electricity and gas. These are vulnerable individuals with little capacity to further restrict their budgets for whom unexpected expenses can easily mean reductions in quality and quantity of food.”

in poverty statistics between urban and rural areas due to bigger inequalities in urban areas and relatively easier access to food in rural areas. World Bank (2002) argues that the increase in vulnerability for the average household was a key factor affecting living standards of the population over the period 1997-2000. According to their estimations, 60% of the population faces a real risk of experiencing poverty over a three-year time horizon. It is important to note that, like elsewhere in transition countries, the poor in Georgia can be classified as “new poor” – a group that is relatively highly educated and possess a range of household physical assets of significant value.

The following table shows poverty indicators for Georgia. Note that 10.0% are living in extreme poverty (less than GEL50 (US\$26) per month. Those living with incomes per person under the official subsistence level of GEL125 (US\$64) (including the extreme poor) make up over 50% of the population. One quarter of the population lives within 20% of the subsistence level indicating a significant pool of people that likely move in and out of poverty. This is generally a group of people that can find stabilisation with insurance products that reduce their risks.

### Poverty indicators: Monthly income per capita by income group, 2002

	Percentage of households		
	Percentage	Cumulative	
<25 GEL	2.1	2.1	Extreme poverty line (GEL50, US\$26)
25-49	7.9	<b>10.0</b>	
50-74	13.0	23.0	Official subsistence level (GEL125, US\$64)
75-99	14.8	37.8	
100-124	13.9	<b>51.7</b>	
125-149	11.6	63.2	
150-174	9.3	72.5	
175-199	7.0	79.6	
200-249	8.6	88.2	
250-299	4.6	92.8	
300-399	4.4	97.2	
400-499	1.5	98.7	
500+	1.3	<b>100</b>	
Total	<b>100</b>	n.a.	

**Source:** State Department for Statistics, Integrated Household Budget and Labour Force Survey.

In its own report on poverty,<sup>27</sup> the GoG notes that:

“The above data allow us to conclude that the poverty problem is very acute in Georgia and it will take quite a time to solve it completely. The grounds for such a conclusion are given by the fact that more than a half of the population is below the poverty line that does not seem high (the official poverty line). After a relative improvement in 1997, **the worsening of the general socio-economic situation began in 1998 and it is still carrying on.**”

<sup>27</sup> State Department for Statistics of Georgia, Poverty Monitoring in Georgia: Report for 2000-2001, (Statistical and Analytical Collection), Tbilisi, 2002.

[Ten] percent of the households live in extreme poverty, and this is a rather high figure. Those above the extreme poverty line can afford to spend on food, clothes and other household commodities on average 5 times as much as those below it, 4 times as much on heating and electricity, as well as on health care. The extremely poor spend 10 times less on education. One might think that most of extremely poor are not of education age and they merely do not need it. However, if we look at the distribution of the extremely poor by age, we will see that this distribution does not much differ from the average. Therefore, the extremely poor can not afford education.”

This level of poverty has the effect of making it difficult for those that could most benefit from insurance to pay the premiums. However, with mechanisms to facilitate their access to at least some microinsurance products, this could have an important positive impact on their stability above the poverty line.

The demand for risk-management services among the low-income markets has retarded because of a lack of understanding of the option of formal risk management tools, distrust of local insurance companies, and inappropriate products available for them. This lack of knowledge is slowly being eroded as programs like Constanta increase the uptake on their new product, and FINCA copies it and introduces it to their market. Already, there has been demand beyond expectation for the Constanta health product, though it is admittedly too early to draw any conclusions.

Microfinance Institutions and banks report a demand from their clients for risk management products as these clients' incomes begin to grow and they have more assets to protect. Additionally, during the qualitative research phase of this work, people were interested in insurance as a risk-mitigating tool.

There are some issues that might hinder demand, but should not make introduction of insurance products impossible. Some of these include:

- lack of insurance knowledge
- limited available funds for premiums
- significant seasonality issues
- distrust of insurers

As elsewhere, these difficulties can be reduced through careful product design and significant education of sales staff and potential policyholders.

### **3.2. *How is the Market Segmented?***

The current insurance market in Georgia is segmented mostly by income. The extremely poor, and the pensioners, rely on the government social insurance to support them, and the government is clearly unable to do so at this time. The self-employed are left out of the insurance loop being unable to benefit from social insurance, and unable to access appropriate private sector insurance. The upper-middle and upper income people, and medium and large businesses have a wide array of insurance products available to them.

The poorest sector is unlikely to be served by the private sector, but with specialised products, the self-employed could become an effective market segment for the insurers.

### 3.3. **Effective versus Potential Demand**

#### 3.3.1. *Willingness to pay / Affordability*

Willingness to pay and affordability of microinsurance in Georgia and most developing countries have several components.

<p><b>“Affordability”</b> – is a function of:</p> <ul style="list-style-type: none"> <li>▪ Trust in the provider</li> <li>▪ The degree of matching of the product and the market needs</li> <li>▪ How efficient is the mechanism of premium generation and payment</li> <li>▪ The total cost of accessing the insurance</li> <li>▪ The level of understand of the product and how it works</li> <li>▪ Household income</li> </ul>
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When these factors are addressed in the design of a product, it is much more likely to attract real demand.

#### 3.3.2. *What is the Estimated Demand for Microinsurance Services?*

The demand for different products will be different depending on the structure of the affordability factors noted above.

Total employment with its components is shown in the table below. Generally, microinsurance policyholders would fall into the group of self-employed. For conservatism sake, we will consider only 25% of the self-employed as a general means of reflecting the range of microinsurance in Georgia from the diagram on page 1 of this report. This allows for up to about 300,000 potential policyholders. At best about 35% of these could be expected to purchase any insurance product, leaving about 100,000. The average household size is just over three, so covering these families would allow for about 300,000 potential lives covered.

<b>Status in employment, 1997-2002</b>	Thousands					
	1997	1998	1999	2000	2001	2002
Employees	673	748	732	684	654	651
Self-employed	1,071	969	983	1,043	1,136	1,185
Employers	47	26	20	21	20	28
Own-account workers	571	390	423	506	562	634
Family workers and members of producer’s cooperative	786	553	540	516	554	523
Unidentified	104	14	18	112	88	3
<b>Total employment</b>	<b>1,848</b>	<b>1,731</b>	<b>1,733</b>	<b>1,839</b>	<b>1,878</b>	<b>1,839</b>

**Source:** State Department for Statistics, Household Budget Survey (1997, 2000, 2001), Labour Force Survey (1998, 1999), Integrated Household Budget and Labour Force Survey (2002).

However, insurance delivery will require an efficient mechanism. This is typically the role of MFIs (again this is meant in the broadest sense to mean any organisation that manages financial transactions for the low-income market). The total current micro- and small-scale clients of such MFIs would currently total about 50,000 to which insurers

could have reasonably efficient access. Purchasing for their family would offer a market of about 150,000. These are current numbers, and the MFIs would likely grow at a pace of at least 20% per year. Thus, in three years the MFI clientele might reach about 260,000 borrowers plus family members. With time and effort, up to about 65% of these might purchase some insurance product. This provides a potential market of between 100,000 and 170,000. Taking into account the self-employed figure from above, the range of effective clients (those that actually purchase microinsurance) would be between 100,000 and 300,000 lives. Because the efficient access overrides the simple availability of people, the effective potential market is estimated at about 150,000.

Based on estimates of the volume of the likely market for microinsurance, and conservative uptake ratios for life, life with long-term savings, supplemental health care, and fire insurance the following represent the likely effective demand for these products if offered as voluntary:

Product	Estimated Total Potential Market Volume	Conservative Uptake Factor	Conservative Estimated Effective Demand	Potential Annual Premiums (US\$)
Life (general)	150,000	30% <sup>28</sup>	45,000	0.9 million <sup>29</sup>
Life (with long-term savings)	100,000 <sup>30</sup>	30%	30,000	0.4 million premium 1.4 million <sup>31</sup> investment
Supplemental Health Care	150,000	80%	120,000	3.6 million <sup>32</sup>
Fire (voluntary)	50,000 <sup>33</sup>	20%	10,000	0.2 million <sup>34</sup>

Thus, gross commissionable premiums received are estimated at US\$5.1 million, and investable funds of US\$1.4 million.

Of the commissionable funds, MFIs receiving 10% to 20% commissions would receive between US\$0.5 million and US\$1.0 million, given these assumptions. If a broker were to service all microinsurance activity at the rate of 10% (as seems common in Georgia), the gross income would be about US\$500,000 per annum. It would likely take three to five years to reach this level.

Additional research on effective demand would be necessary before any significant investment in this market.

#### 4. Supply of Microinsurance in Georgia

In Georgia, the microinsurance supply is very small at this point. However, one thing that makes Georgia unique is that virtually all significant players - banks and other MFIs with financial products for the poor, at least the top three insurers, the central bank, and the ISSSG - are actively interested in bringing microinsurance to this market. Most MFIs

<sup>28</sup> The 150,000 potential is net of those unlikely to purchase any product. Additionally, this figure only represents those who would buy only life insurance. Those who purchase life insurance and the long-term savings would be indicated in the next category.

<sup>29</sup> Assumes US\$1 per person per month as premium.

<sup>30</sup> This generally would only include adults

<sup>31</sup> Assumes US\$5 per month saved per person. The insurance cost is included in Life (General).

<sup>32</sup> Assumes US\$2.5 per month per person

<sup>33</sup> One residence or business per family unit

<sup>34</sup> Insurers are charging 2-3% on the value of cover. Assumes household and / or business value at US\$1000, and 2% charge.



have spoken with insurers, and insurers have responded positively. The problem they face is that they have a lack of knowledge or experience in how to do this effectively. This has been hindering the supply of microinsurance products.

#### **4.1. Who are the current and potential suppliers of Microinsurance in Georgia?**

There has been much discussion about microinsurance in Georgia, but it is just now beginning to show tangible results.

##### **4.1.1. Government**

The social protection programmes of Georgia are not successfully responding to the needs of the people or the responsibilities of the government. The pension program provides GEL14 (US\$7) per month for pensioners (plus GEL3 (US\$1.50) as an attempt to make up for payment arrears). This is a mere 29% of the extreme poverty line. It is common on almost every block to see pensioners begging or trying to sell small quantities of some commodity just to get by, and the antique resale shops are full of whatever belongings they possessed.

The state health care system is nearly as difficult. Though they are only supposed to pay 25% of the cost of care, many people find the un-receipted costs of care to be beyond their capabilities. Even the head of the Health Care Committee in Parliament (who was, until the beginning of April 2004, the Minister of Health) noted that the system is not nearly satisfactory.

The government is interested in privatising these systems and in moving more them out of government and to the private sector. This, of course, has the potential to be good and bad for the insurers. Some of the layers of health care have already been shifted to private providers.

##### **4.1.2. Parastatal Insurers**

There are no parastatal insurers in Georgia and have not been since the parastatal was privatised. This company is now known as State Insurance Company and is a minor player in this market.

##### **4.1.3. Specialised Microinsurers (regulated)**

There is currently no specialised regulated microinsurer for this market, and such is unlikely given the size of the market and need to manage business in more than one sector.

##### **4.1.4. Formal Insurers Moving Down-Market**

As noted, at least the top three insurers are very interested in moving down market and providing products to the low-income market. However, they recognise that they cannot do this themselves without an efficient delivery channel. They do see MFIs and banks as appropriate for this role, but are unsure how to develop products for this market and how to arrange the relationships. MFIs are demanding products for their clients, but they have similar concerns about appropriate products, and managing the relationship with the insurer(s).

That said there is one relationship between Constanta Foundation and Aldagi insurance that has resulted in a product that appears to have significant potential for the partners and the policyholders. The health



product offers five levels of cover at a premium range of GEL1.80 to GEL4.80 (US\$0.90 to US\$2.40) per person per month. The product range offers various combinations of:

- Aldagi Assistance – a free 24-hour telephone service with the ability to preauthorise care, as well as provide an extensive array of other information including entertainment options and details.
- Emergencies – covers costs of transport and emergency care
- Hospitalisation – with cover for surgery and therapy
- Hospitalisation – with surgical cover only

The insurer pays a fixed amount of coverage (in order to address the issue of the un-receipted payments) of GEL35 (US\$18) per day for basic hospitalisation cover, and GEL45 (US\$23) per day for surgical cases.

Details of this group of products are provided in Appendix 3.

One of the other MFIs, FINCA, has noted they are in the process of copying this product with some potential enhancements.

#### *4.1.5. NGOs (unregulated)*

Curatio, an NGO originating in Tbilisi, has organised seven community-based health care financing (CBHCF) programs. Of these, four are said to be still in operation. They have been contracted with Japanese development funds to develop CBHCF programmes in thirty-two additional villages. This activity has not yet commenced.

It was noted that there had once been an Oxfam health insurance project, but this had failed. Details were unavailable.

#### *4.1.6. Credit Unions and Cooperatives*

The World Bank and IFAD had a program to develop credit unions in Georgia. One hundred and fifty were developed. Now fifteen are “doing well”, forty more still active but limping, and the rest have died. None of these offer microinsurance at this time as their efforts have been completely focused on simply getting them to stabilise.

#### *4.1.7. Hospitals*

Hospitals in Georgia do not have microinsurance products, though some private providers do allow people to obtain care on credit.

#### *4.1.8. Other Suppliers*

There are no other suppliers of microinsurance products.

#### *4.1.9. Institutional Potential*

For microinsurance to work, we need one or more MFIs and one or more insurance companies ready, able, and enthusiastic about entering a new market with new products. In Georgia, all MFIs visited and all insurance companies visited were all very interested in adding microinsurance to their range of products. This interest has been exhibited before the visit through tentative interactions between the two groups, and the actual testing of a product by Constanta and Aldagi.

The institutional potential is clearly evident. However, it is also clear that any improvement in the range of microinsurance products reaching the low-income people of Georgia will require significant technical assistance for MFIs, and insurers in areas such as training, relationship development / management, new product development for microinsurance, and marketing, as well as regulatory assistance to clarify certain key issues. Many of these activities are common for insurance brokers. A broker could

facilitate these needs and reduce the burden on both MFI and insurer, while potentially obtaining better products for this market at better prices.

#### 4.2. *What is the anticipated Market Evolution?*

Given no additional inputs, it is likely that over time microinsurance will expand throughout the low and middle levels of the financial market. There is evidence of this process in its nascent stage now. However, there could be a more rapid and controlled introduction of quality products in a manner that takes advantage of lessons learned elsewhere, and more efficiently for insurer and MFI if there were an intermediary broker to manage the products and relationships.

MFIs and banks are growing and they all want microinsurance products to help them attract more clients, and protect the ones they have. This is a microinsurance market that is ripe for some assistance. Demand is evident on all sides, and a skilled intermediary could make this market bloom.

### 5. The Legal and Regulatory Environment

The Legal framework for insurance is approved by the Parliament, and supervised by the “independent” Insurance State Supervisory Service of Georgia (ISSSG). The ISSSG was organised in 1997, seven years after the first private insurance company commenced operations. The twenty insurance companies are all private. They must have each class of business (as in life, health, property) licensed, but once licensed they can develop and offer whatever products they can develop within that class. This makes it easier for the introduction of microinsurance products, though is likely less effective at protecting the consumer – the primary responsibility of any insurance supervisor.



#### 5.1. *What are the Legal and Regulatory Frameworks?*

The insurance laws are being addressed by an EU team, TACIS, and the process is additionally supported by the World Bank. The current regulatory framework is rather loose compared to those of other countries. For example, where most countries either do not allow, or are moving away from composite insurance companies (those that can sell life and non-life products), Georgia has a number of these types of companies. In most countries there are some regulations governing agents. In Georgia, anyone can be an agent without training or approval.

The initial capital requirements have been adjusted three times in 7 years as can be seen from the table below.

*Minimum capital Requirements for Different Insurance Licenses (In thousands)*

Period	Life Amount		Non-Life Amount		Pensions		Insurers - year end pre-change
	GEL	US\$	GEL	US\$	GEL	US\$	
1997-9	50	26	30	15	N/A	N/A	4
1999-2002	600	306	500	255	1000	510	42
2002/3 -	1200	612	1000	510	1-2000		27

These increases are a result of the Supervisory Service trying to improve protection for consumers, as well reducing the overhead costs of so many insurers in a small market.

The Head of Service noted that the EU is pressing them to raise the level of minimum capital to that common in the EU. This is Euro 3 million for a life license, and Euro 2 million for non-life. These amounts are deemed too high to be able to generate a reasonable return in the Georgian market.

The current law, enacted in 1997, is in the process of revision. Numerous amendments and a weak initial framework have made this necessary to regularise the law and bring it into reasonable compliance with the EU requirements.

There is no mention of microinsurance in the draft law, nor is there any prescription for addressing the insurance needs of the low-income market. However, some important points from the *draft* law are noted below.

#### Consumers

- II.8.3 – The policyholder shall be free in choosing an insurer licensed by the Insurance Supervisory Authority for concluding both the voluntary and mandatory insurance contracts.

#### Brokers

- I.7.6 – A foreign legal person may carry out functions of an insurance broker in Georgia through a subsidiary or representation, which has been registered under established procedure, or directly on the basis of contract signed with legal persons of Georgia.
- II.12.5 - ...insurance broker shall not be authorised to enter into insurance contracts on behalf of a foreign insurance company, except [for green cards]

MFI NGOs are unable to accept savings in Georgia. This deprives clients of the opportunity to build up own investment funds, and leaves a void in the trio of critical financial products (credit, savings, and insurance). It was considered that possibly insurers with pensions or other specialty medium and long term savings instruments could obtain savings from MFI NGOs that could consolidate their clients' investments. This was discussed with both the ISSSG Head of Service and the Head of Non-Bank Financial Institutions at the National Bank of Georgia. Neither saw a problem with this strategy. Such an activity may create some additional opportunities for insurers and MFIs.

##### *5.1.1. Framework for unregulated insurers*

There is currently no special framework for unregulated “insurers” in Georgia

##### *5.1.2. Framework for MFIs*

The insurance act forbids any organisation from conducting any insurance business without a license. Thus, MFIs cannot legally develop and sell their own insurance products without a license. Clients are sent to insurance companies to obtain required insurances. There is legal scope in the draft law for an MFI or bank to become an agent.

## **6. Developing a Microinsurance Sector in Georgia**

### **6.1. *Creating an enabling environment at the policy level***

At the policy level, the new law should clarify some general insurance issues. However, from the draft, there remain several key issues that will likely need to be addressed in the future. Among these:

- Composite insurance companies – most countries do not allow them, or those that have them are mostly phasing them out, yet these continue to be legal entities in Georgia. This makes things easier for microinsurance – to obtain life and non-life products from the same vendor. However, there are risks implicit in this structure.
- In most countries, because they act as aggregators and may hold significant amounts of other's money, insurance brokers are required to maintain a level minimum capital, and be registered by the Insurance Supervisor (the ISSSG in this case). In Georgia, brokers are licensed and supervised by the ISSSG, but they act primarily under the requisites of the companies' act, by which they are registered. There are no minimum capital requirements for brokers.
- In most countries, there must be some registration and quality control over insurance agents (as corporate or individual entities). In Georgia, such registration is not necessary. This is significant in terms of agents understanding the rules and procedures of insurance. For microinsurance, it is more helpful to have a corporate entity maintain the agents license, so as to limit the requirement of sometimes hundreds of MFI staff being trained, tested, and licensed as agents. In this case, the insurer and corporate agent management should confirm appropriate training and knowledge of insurance principals, procedures, and ethics.
- As a means of promoting private pension funds, many countries allow pension deposits as pre-tax activities (i.e., salaries are taxed on the wages net of the pension payment). This is not the case in Georgia, although in 2003 there was a moratorium on that portion of corporate taxes for those companies that started health or pension funds. Treating these as pre-tax activities might help to improve the potential for pension, or specialty long-term savings instruments (such as a marriage savings plan, or a college fund) that could be tied to life and disability insurance policies. This might be especially important now when MFI NGOs are not allowed to take any savings.
- There has already been pressure from the EU to increase minimum capital requirements from the current levels to US\$2 million for non-life cover, and US\$3 million for life products. These amounts may be too high to obtain a reasonable return with a limited population as in Georgia.

There appears to be nothing in the new law that directly addresses microinsurance issues. However, it would be beneficial if there were an effort to begin to educate the ISSSG and possibly parliament about microinsurance principals, processes, and coverage and premium details. This will help when eventually there is a call to include some level of microinsurance activities in new laws, regulations, or directives.

The exchange laws of Georgia allow free flows of funds across borders, and this will help with pension funds and long-term savings because of the need to diversify investments, and even to find appropriate investments.

Although direct insurance business of insurers carries no value added tax liability, intermediary services, such as the activities of agents is taxed at a rate of 20% VAT.

Thus, with regards to the Aldagi / Constanta health microinsurance products, 20% will be an obligation of Constanta Foundation to be paid when the turnover exceeds GEL100,000 (US\$51,000).

## **6.2. Building an enabling environment through donor coordination and stakeholder education**

In terms of insurance in general, the donors have limited involvement. World Bank has worked with policy. The EU has had a program or regulatory reform through their TACIS Programme. USAID has focused on vaccinations its Partnership for Healthcare Reform plus (PHRplus) program, which often has a policy and community-based microinsurance component, but not in Georgia. USAID has no additional involvement, although through their microfinance support programme (GMSE) they are conducting a major microfinance demand study throughout the country. Before any additional related initiatives, they await the report that is scheduled for delivery on May 31. GTZ has no activities with insurers. Donor coordination in Georgia is said to be reasonably good.

The stakeholders on all sides – supervisor, bank and MFI staff and management, potential clients, even the market in general – need to better understand insurance and how it can be directly beneficial to them. The potential policyholders know little of insurance and will need to not only understand it, but also will need to recognise why it is important to them, and they need to gain trust the insurers. The insurers need to learn that the low-income market is different from their other markets, and will require specialised products, and innovative delivery mechanisms. Any agents will have to learn to sell and service this market in a new way, and they will have to be appropriately incentivised. The education processes in these programs can be among the most intensive aspects of product development and implementation. However, if the investment in education is not made in the beginning, the product will almost surely fail, or simply limp along.

## **6.3. Creating Demonstration Models**

In many places, demonstration models can help others see the value in a particular market or process. Just as potential microinsurance clients will wait to see if the first movers actually get what they were promised, insurance companies often want to see something work before they make an investment. In Georgia, there is demonstration product starting (Constanta and Aldagi). What is needed now is assistance to develop and offer new products in an efficient manner. For example, one MFI has observed the health product of Constanta / Aldagi and has recognised the potential market advantage that Constanta will have as a result. Thus, their plan is to copy the product and offer it as soon as possible to counter the advantage. They assess this as limited risk under the assumption that Constanta does good work and must have thoroughly developed and tested this product. The problem is that without understanding the back office activities and the requirements of Constanta, and the adjustments they have made to satisfy these, this company is likely to have a difficult time by simply copying the brochure and putting their name on it. An intermediary that understood microfinance and insurance could greatly assist in this process.

### **6.3.1. Supporting New Entrants**

There are currently no new entrants in the insurance or microinsurance market. In fact, the ISSSG is actively trying to consolidate the insurance market to strengthen it, and reduce aggregate overhead costs. As an indicator, there are 290,000 people per insurer in Georgia. In Albania, the same ratio is 620,000, and in Uganda 1.25 million

people per insurer. Though a gross measure, the indication is that Ugandan insurance is more than four times as efficient as that in Georgia.

Support for a new entrant might be appropriate for a new microinsurance brokerage firm. This firm would work on product development, facilitate the transactions and negotiations between MFIs and insurers, train staff of MFIs and insurers, develop concept and product marketing, monitor and address related regulatory issues, and manage quality, efficiency, and costs, for a wide range of appropriate microinsurance products. Support for such a new institution could help to manage and expand the growth and variety of microinsurance products and uptake in Georgia.

### *6.3.2. Supporting Current Players*

In Georgia, everyone that was visited – insurers, MFIs, banks, government officials – all have an active interest in the development of microinsurance. The management of these institutions have already considered the benefit of microinsurance to their business and their customers, and have deemed this a positive step forward and a good business move. Besides the one product that was just introduced, the other players have a knowledge gap. They want to move into microinsurance, but do not know how to do it effectively. Support to these companies at this time could have a tremendous positive impact on the delivery of quality, demand driven microinsurance products. In many ways, this market seems like a flower in the bud stage. Adding some water and keeping it fertilised will help the flower to bloom beautifully. The current players would benefit significantly from some focused assistance.

### **6.4. Supporting Innovation**

In this market, related companies are extremely interested in microinsurance innovations and a means to implement and manage them. Support to gently guide this innovation based on lessons from the rest of the world would assist them significantly, and help to spread the benefits of microinsurance through much of the low and middle income markets.

An important consideration in Georgia is that even though this market is relatively small, with a population of about 4.36 million, if a good model can be developed here, it will be relatively easy to shift that model to Armenia and Azerbaijan with populations of 3.1 million and 8.3 million, respectively. This brings the total market size to 15.8 million.<sup>35</sup> If the support is in the form of a company such as a broker, or even an insurance company, this could act as a head office in Georgia with branches in the other countries, and this expansion would be relatively less expensive in terms of set-up, product development, and on-going management.

## **7. A Possible Role for KfW**

In identifying opportunities for KfW intervention, a list of principles was developed to guide the process. These principles are:

- o Formal sector regulated insurers have the most appropriate skills base to manage microinsurance products, and thus they should be worked with, as appropriate.
- o KfW's efforts should reduce the overall risk in the risk management system.
- o Ultimately the impact of the sum of the interventions should be very large, and positively effect low-income people regardless of geography.

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<sup>35</sup> Population data is from the World Health Organisation's *World Health Report 2003*.

- o Where the private sector is likely to develop itself in terms of microinsurance, KfW should not intervene except to assist that progress.

Based on the above principles, and the information gathered from insurers, bureaucrats, MFIs, Banks, and others, options are offered for interventions that will improve / initiate the provision of microinsurance products in Georgia. The Core Options are those that require KfW involvement, while the Additional Options are of a more technical assistance nature.

In Georgia, the insurers already want to enter, indeed at least one has entered, the microinsurance market. Thus, there is no need to entice them with a reinsurance fund. The Insurance Supervisory Service is increasing capital requirements to consolidate the market and increase efficiency in the industry. A new insurance company would be counter to this strategy, especially since there are already insurers interested in this market. Because of the limited market size, it likely would be necessary for any insurance company to offer products throughout the whole range of markets rather than simply microinsurance. This would allow for the economies of scale that are difficult to obtain in a relatively small market. Thus, a new Microinsurance Company is not advised.

However, there remains a need for assistance on several levels within this burgeoning microinsurance market. Two areas in particular could be addressed by KfW to significantly improve the potential for successful microinsurance provision.

1. To overcome the very real concern of the market with relation to the security of their potential long term-investments (pensions, annuities, endowments) a trusted custodian to possess the long-term savings should be introduced into this market.
2. Because there is much interest in the potential of microinsurance and a strong demand for additional information and continued assistance, the introduction of a microinsurance specialist broker could dramatically aid in the process of product development and quality provision. This broker could provide assistance to both MFIs and insurers while managing the new product development, operational processes, market demand and satisfaction, marketing, and regulatory issues to facilitate microinsurance, all with a business approach.

The following options are detailed in Appendices 1 and 2.

**The core investment options:**

1. An equity investment with technical assistance funds to support the development and operationalisation of a custodial firm in Georgia. This firm would be independent from the insurers, and would quickly build a reputation for integrity to show the markets that their pensions and other long-term savings are directly overseen and the funds are maintained in a manner that greatly minimises the potential for fraud. This will add needed confidence that should help to improve the potential for such long-term savings.
2. An equity investment to start a microinsurance brokerage firm. This could provide research and development and assistance with all aspects of offering microinsurance for insurers and MFIs. This company would take a commission on the microinsurance products sold through it, as is the practice of brokers everywhere. This commission as the income source will push the company to



develop marketable products, and provide technical assistance, in the same way that re-insurers might, to improve their earnings.

These investment options work synergistically to improve the overall confidence, skills, and direct response to the needs of this market. The broker will ensure top quality, demand driven yet profitable products with proper sales tools and training, and the custodian will create the confidence that strengthens the foundation of the insurance industry in Georgia. Together, there could be a very substantial improvement in the penetration and density of insurance in Georgia, plus provide important capital inputs into the financial system which will help spur group of the private sector with the availability of funds.

**Additional non-investment option:** (This suggestion is related to technical assistance only and thus is not within the purview of KfW. However, if the core investment options are not implemented, this additional option would be an important to aid in the development of microinsurance in Georgia):

1. The creation of a three year programme of technical assistance to microinsurance that focuses on responding to the needs of:
  - i. Insurers – with new product development, training understanding the microinsurance market, marketing development and monitoring, regulatory improvements
  - ii. MFIs – training on insurance and insurance marketing, sourcing the best mix of price, coverage, and credibility from insurers, activity monitoring,
  - iii. Potential Policyholders – top quality microinsurance products, that respond to their needs, at a price that is appropriate.

Because the brokerage and three-year TA options respond to the same market problems, the two are mutually exclusive. Based on preliminary estimates, the first option may be preferable in that it will result in the development of a sustainable institution providing a valuable service, while the technical assistance option will aid the problem but leave no institution, and it will not experience the pressure to generate a return, which can be incentivising.

Details of both sets of suggestions are provided in Appendix 1 and 2.

## **8. Conclusions**

Georgia is a country ripe for microinsurance. Insurers are talking with MFIs about what they can do. MFIs (including banks) are interested in improving their range of products, as well as providing risk management tools for their clients. The market itself, though limited, has also shown interest, especially in health microinsurance.

One combination of Aldagi Insurance and Constanta Foundation has just begun to sell a set health microinsurance products. It is too early to make any assessment, except to note that this has created a positive jolt in the market. As an example, one competitor of Constanta is actively arranging to copy this set of products, simply to maintain a parity of product mix with Constanta. Such copying can be problematic, but clearly, the demand is present.

The insurance industry itself is small with a mere US\$17 million in premiums earned in 2003, and very low insurance penetration of 0.34% of GDP, and US\$2.33 per capita

insurance premiums from 2002. However, the market is heavily skewed towards voluntary products, which shows effort by the insurers to actually sell insurance, even if historically that has been to the wealthier market. These insurers offer a wide range of products for businesses and individuals.

The regulatory system currently in effect, and that system proposed in the draft regulations, appear amenable to microinsurance. However, it would seem almost inevitable that significant changes will be needed to the current draft to comply with international standards. Thus, someone should be monitoring the progress of this law to make sure the interests of microinsurance are considered. Not as separate law, but simply so that the potential for microinsurance success is not diminished through laws made without such consideration.

An important demand relating to long-term protection from the loss of income due to old age was noted during the study. This demand was restrained because of a strong distrust of insurers and other local institutions. If the products such as pensions and endowments are to be successful, there must be entry in the market of an institution that can oversee and control within strict parameters the utilisation of those funds. KfW could have an important role in this through the development of a custodial company coupled with a requirement by the GoG that all pension funds must be held with this proposed custodian.

The insurers and MFIs could greatly benefit from assistance that improves their ability to develop and market microinsurance products. This is a role that could be taken on by a specialised microinsurance broker. This broker would have incentive to improve and expand the market with insurers and MFIs since its livelihood would be dependent on microinsurance sales.

Clearly there is market risk in terms of generating enough of a market in Georgia to make either or both of these companies profitable. However, the potential in Georgia is dramatically better than that for Albania (another country for which we conducted a pre-feasibility study). The demand for these interventions in Georgia is much stronger than that for Albania, and the market is clearly more fertile for such products in Georgia given the demand from the market, and the almost total breakdown of the government social security systems

Key risks to the proposed interventions by KfW include:

- That the government is not firm in its requirement that pension funds maintain their funds with the custodian. Such agreements should be concluded with the World Bank which may have greater leverage with the government.
- That MFIs and Banks do not utilise the broker. This will require professionalism on the part of the broker in showing that there are very real and practical benefits to their services.
- That the market simply is not large enough to offer microinsurance products profitably and efficiently. This requires a more detailed market study to gain a more precise understanding of the potential effective market. Additionally, any consideration of this market should include at least future consideration of a regional approach.

Microinsurance in Georgia has the potential to make a significant positive impact among the micro- and small-markets. With some focused assistance, the suppliers of microinsurance could reach relatively large numbers for a country with 4.36 million people. It is possible that this market could support a specialised microinsurance broker, and this intermediary's assistance could be an important ingredient in the success of microinsurance in Georgia.

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Cohen, Monique, and Michael J. McCord “MicroInsurance Centre Briefing Note # 6: Financial Risk Management Tools for the Poor.” January 2003.

Matul, Michal. Understanding Demand for Microinsurance in Georgia. The Microfinance Centre for Central and Eastern Europe and the Newly Independent States. February 2004.

(Plus all documents listed in Appendix 5: Relevant Documents Collected.)

## Appendix 1: Core Option

### A1.1 The introduction of a Custodian Company to protect long-term savings.

<b>Problem</b>	In Georgia there are many insurers but there is little confidence in their products or abilities to really help people manage their risks. This is clearly evident from the insurance density and penetration information showing that there is very little of either of these. Additionally, a number of these insurers have overseas ownership in places like Bermuda. These may have weaker legislation that might allow for some questionable activity. The potential for fraud risk in such cases is high (especially given that there are no foreign exchange controls to keep the premiums in the country). Once these funds are invested outside the country, they could be impossible to get them back.
<b>Impact</b>	Such a structure will surely limit the potential for long-term savings products like pensions that are commonly offered through insurance companies. This puts more strain on an already incapable system of social security, and results in inefficient intermediation of funds through the economy.
<b>Potential KfW Intervention</b>	The system needs an intermediary that can take custody of the long-term savings and other investments of insurers so that these can be controlled by an entity other than the insurer. If managed properly this could have a very positive impact on the market through improved confidence in the financial systems. If people are more confident in the system and convinced that they actually will get their principal and interest back when they need them, this will surely improve utilisation of private pension schemes and bring efficiencies to the market.
<b>Likely Intermediaries</b>	Partners would include the World Bank, the ISSSG, and possibly an international custodian.
<b>Type of Financial Investment</b>	Equity in voting and non-voting shares, and technical assistance funds to set-up, and develop and test protocols and processes.
<b>Form of TA</b>	Short and long term personnel to develop the microinsurance culture and products, set-up costs. There would need to be expatriate staff to further the image of an outside company which will be important in developing the critical image for this company.
<b>Estimated Cost</b>	US\$2 million (1 million in equity mechanisms, and 1 million in technical assistance)

## A1.2 The introduction of a microinsurance broker into the Georgia insurance market.

<b>Problem</b>	There is much interest in microinsurance in Georgia. Most of the insurers and MFIs are unsure of how to approach this range of products even though they recognise a potential benefit.
<b>Impact</b>	With this limited understanding there is likely to be problems with product development, delivery, innovation, and quality. In turn, if these problems impact the individual policyholders negatively, this will have a dramatic effect in a market that is already sceptical about insurance and insurance companies. Additionally, the development and implementation of microinsurance products will be delayed due to the reluctance to enter the market with limited knowledge, even though there is recognition of the potential by the supply side actors.
<b>Potential KfW Intervention</b>	The introduction of a specialised intermediary to work with insurers, MFIs, and clients would significantly benefit this market. A new insurance company is not needed, but a microinsurance broker could satisfy the needs of this market and, over time, become profitable.
<b>Likely Intermediaries</b>	
<b>Type of Financial Investment</b>	Equity in voting and non-voting shares, and technical assistance funds (long-term debt?) to set-up, conduct research, and develop and test products.
<b>Form of TA</b>	Short and long term personnel to develop the microinsurance culture and products, set-up costs
<b>Estimated Cost</b>	US\$1 million

## Appendix 2: Additional Option

### A2.1 Technical assistance three-year project

<b>Problem</b>	There is much interest in microinsurance in Georgia. Most of the insurers and MFIs are unsure of how to approach this range of products even though they recognise a potential benefit.
<b>Impact</b>	With this limited understanding there is likely to be problems with product development, delivery, innovation, and quality. In turn, if these problems impact the individual policyholders negatively, this will have a dramatic effect in a market that is already sceptical about insurance and insurance companies. Additionally, the development and implementation of microinsurance products will be delayed due to the reluctance to enter the market with limited knowledge, even though there is recognition of the potential by the supply side actors.
<b>Potential Interventions</b>	A three-year Centre for Microinsurance could be developed in Georgia with donor funds. This institution would conduct product development, and would work with insurers, MFIs, supervisors, and others, to improve the potential for microinsurance proliferation in Georgia.
<b>Likely Intermediaries</b>	
<b>Type of Financial Investment</b>	Grant funding
<b>Form of TA</b>	The whole program would be technical assistance.
<b>Estimated cost</b>	US\$1.5 million

### **Appendix 3: Further Details of Aldagi / Constanta Health Microinsurance Product**

The variations of health microinsurance products offered by Aldagi / Constanta include the following components:<sup>36</sup>

#### Basic Term:

“Aldagi-Assistance” 24-Hour Telephone Service - a free 24-hour telephone service, which helps an insured:

- in organizing/arranging medical services appropriate to below-provided additional insurance terms;
- in getting detailed information about the procedures of reimbursement of cost (if and when necessary);
- in getting an extensive array medical and non-medical information.

#### Additional Terms:

- Coverage of all expenses related to emergency service, including transportation with unlimited service;
- Insurance benefit in the case of emergency hospitalization, covering both therapeutic and surgical cases GEL35 (US\$18) per hospital-day in the case of therapeutic treatment and GEL45 (US\$23) per hospital-day in the case of surgical treatment. This is limited to fourteen hospital days;
- Insurance benefit in the case of emergency hospitalization, covering only surgical cases at GEL45 per hospital-day. This is also limited to fourteen hospital days.

Based on above-listed terms the following five of microinsurance products were designed and the proposed five products were priced per individual:

#### **Product I:**

- “Aldagi-Assistance” 24-Hour Telephone Service;
- Coverage of all expenses related to emergency service, including transportation with a benefit in the case of emergency hospitalization covering both therapeutic and surgical cases;

Premium per person per month: **GEL 4.80** (US\$2.40)

#### **Product II:**

- “Aldagi-Assistance” 24-Hour Telephone Service;
- Coverage of all expenses related to emergency service, including transportation with a benefit in the case of emergency hospitalization covering *only* surgical cases.

Premium per person per month: **3.80 GEL** (US\$1.90)

#### **Product III:**

- “Aldagi-Assistance” 24-Hour Telephone Service;

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<sup>36</sup> Information provided by the Deputy Director of Constanta Foundation, Constantin Tseretelli



- Insurance benefit in the case of emergency hospitalization - covering both therapeutic and surgical cases;

Premium per person per month: **4.00 GEL** (US\$2.00)

**Product IV:**

- “Aldagi-Assistance” 24-Hour Telephone Service;
- Insurance benefit in case of emergency hospitalization - covering surgical cases.

Premium per person per month: **GEL 3.00** (US\$1.50)

**Product V:**

- “Aldagi-Assistance” 24-Hour Telephone Service;
- Coverage of all expenses related to emergency service, including transportation.

Premium per person per month: **GEL 1.80** (US\$0.90).

## Appendix 4: Institutions and People Visited

### *Insurers:*

- Aldagi ([www.aldagi.com](http://www.aldagi.com))
  - Ms. Ekaterine Iashvili, General Director, [emi@aldagi.com.ge](mailto:emi@aldagi.com.ge), 995-32-9244(11)
  - Mr. Guram Mirzashvili, Executive Director Underwriting Department, [underwriting@aldagi.com.ge](mailto:underwriting@aldagi.com.ge), 995-32-9244(11), Mobile 995-77-712926.
- British Caucasus Insurance (BCI) ([www.bci.ge](http://www.bci.ge))
  - Mr. Iva Davitaia, Deputy CEO, and Director Sales and Marketing, [idavitaia@bci.ge](mailto:idavitaia@bci.ge), 995-32-985-955, Mobile 995-77-461-658
- Imedi-L (Georgian-International Insurance Company)
  - Dr. Alexander Lordkipanidze, Managing Director, [imedi-l@imedi-l.com](mailto:imedi-l@imedi-l.com), 995-32-25-00-88

### *Microfinance Institutions / Banks:*

- Bank of Georgia (BoG)
  - Mr. Vladimer Robakidze, Deputy General Director, [vrobakidze@bog.ge](mailto:vrobakidze@bog.ge), 995-32-444-106
  - Ms. Tamara Khizanishvili, Director of International Relationships Department, [tkhizanishvili@bog.ge](mailto:tkhizanishvili@bog.ge), 995-32-444-172
  - Mr. Ed Coll, Senior Advisor - EBRD, [edcoll@bog.ge](mailto:edcoll@bog.ge), 995-32-444-151, Mobile 995-99-950-119
- Constanta Foundation ([www.constanta.ge](http://www.constanta.ge))
  - Mr. Constantin Tseretelli, Deputy Director, [constantin@constanta.ge](mailto:constantin@constanta.ge), 995-32-95-30-20, Mobile 995-99-10-04-02
  - Mr. Levan Lebanidze, Operations Manager, [levanl@constanta.ge](mailto:levanl@constanta.ge), 995-32-95-30-20, Mobile 995-99-50-87-35.
- FINCA Georgia ([www.villagebanking.org](http://www.villagebanking.org))
  - Mr. Jeremy Strauss, Country Director, [busk@earthlink.net](mailto:busk@earthlink.net), 995-32-92-11-26, Mobile 995-99-55-89-23
  - Mr. Gigi Matiashvili, Deputy Director, [jijj@access.sanet.ge](mailto:jijj@access.sanet.ge), 995-32-92-11-26
- ProCredit Bank ([www.procreditbank.ge](http://www.procreditbank.ge))
  - Mr. Philip Sigwart, General Manager, [p.sigwart@procreditbank.ge](mailto:p.sigwart@procreditbank.ge), 995-32-202-222
  - Ms. Liana Maruashvili, Operations Manager, [l.maruashvili@procreditbank.ge](mailto:l.maruashvili@procreditbank.ge), 995-32-202-222, Mobile 899-270-035
  - Ms. Nino Berishvili, Deputy Head of Credit Division, [n.berisshvili@procreditbank.ge](mailto:n.berisshvili@procreditbank.ge), 995-32-202-222
- Small Enterprise Lending Programme (SELP)
  - Mr. Michael Kortenbusch, Programme Coordinator, [kortenbusch@selp.ge](mailto:kortenbusch@selp.ge), 995-32-44-18-40
  - Mr. Mamuka Maisuradze, Credit Advisor, [maisuradze@selp.ge](mailto:maisuradze@selp.ge), 995-32-44-18-40.
- United Georgian Bank (UBG) ([www.ubg.com.ge](http://www.ubg.com.ge))
  - Ms. Irina Fichkhaia, Credit Department Director, [irina@ubg.com.ge](mailto:irina@ubg.com.ge), 995-32-987-413, Mobile 995-77-766-786
  - Mr. Giorgi Shengelia, Deputy Director of Marketing Department, [g.shengelia@ubg.com.ge](mailto:g.shengelia@ubg.com.ge), 995-32-99-57-36
  - Mr. Alexander Girgvliani, Deputy Director of International Relations Department, [a.girgvliani@ubg.com.ge](mailto:a.girgvliani@ubg.com.ge), 995-32-505-715

- World Vision (<http://georgia.worldvision.org>)
  - Mr. Gerlof de Korte, Microenterprise Development Program Manager, [gerlof\\_dekorte@wvi.org](mailto:gerlof_dekorte@wvi.org), 995-32-99-83-84, Mobile 995-99-16-97-02

*Microfinance Support Organisations:*

- Curatio International Foundation ([www.curatio.ge](http://www.curatio.ge))
  - Mr. David Sulaberidze, Consultant, [d.sulaberidze@curatio.com](mailto:d.sulaberidze@curatio.com), 995-32-22-20-65, Mobile 995-99-16-30-80
- Georgia Microfinance Stabilization and Enhancement (GMSE) ([www.microfinance.ge](http://www.microfinance.ge)) (USAID / Chemonics Project)
  - Mr. Seit Devdariani, Microfinance Specialist, [seit@gmse.ge](mailto:seit@gmse.ge), 995-32-751-028
  - Mr. Zaal Anjaparidze, Public Information Specialist, [zaal@gmse.ge](mailto:zaal@gmse.ge), 995-32-751028/29, Mobile 995-77-416900.

*Private Sector Groups:*

- The Georgian Chamber of Commerce and Industry (GCCCI) ([www.gcci.ge](http://www.gcci.ge))
  - Mr. Shota Mackatsaria, [gcci2003@yahoo.com](mailto:gcci2003@yahoo.com), 995-32-222-552

*Donors and International Organisations:*

- GTZ
  - Mr. Heinrich-Jurgen Schilling, [iurgen.schilling@gtz.de](mailto:iurgen.schilling@gtz.de), 995-32-201-800, Mobile 955-77-724-547
- IFAD / World Bank (Agriculture Development Project)
  - Ms. Lali Durmishidze, Technical Manager, [lali.durmashidze@adpcc.org.ge](mailto:lali.durmashidze@adpcc.org.ge), 995-32-934-651, Mobile 995-99-575-002.
- USAID ([www.usaid.gov](http://www.usaid.gov))
  - Mr. Jeffery Lehrer, Deputy Director Office of Economic Growth, [jlehrer@usaid.gov](mailto:jlehrer@usaid.gov), 995-32-77-85-40 ext. 134, Mobile 995-99-57-11-56.
  - Mr. Craig Bell, Senior SME Credit Advisor Office of Economic Growth, [crbell@usaid.gov](mailto:crbell@usaid.gov), 995-32-77-85-40 ext. 191, Mobile 995-99-57-11-56.
  - Dr. (Mr.) Rezo Ormotsadze, Project Development Specialist Office of Economic Development, [ormotsadze@usaid.gov](mailto:ormotsadze@usaid.gov), 995-32-77-85-40 ext. 179, Mobile 995-99-57-80-31.
- World Bank ([www.worldbank.org](http://www.worldbank.org))
  - Dr (Ms) Tamar Gotsadze, HD Projects officer, [tgotsadze@worldbank.org](mailto:tgotsadze@worldbank.org), 995-32-91-30-96, Mobile 995-77-43-84-87.

*Government Representatives:*

- Insurance State Supervision Service of Georgia (ISSSG)
  - Mr. Archil Tsertsvadze, Head of the Service, [atsertsvadze@yahoo.com](mailto:atsertsvadze@yahoo.com), 995-32-95-72-33.
- National Bank of Georgia (NBG) (The Georgian Central Bank)
  - Ms. Mzia Tepnadze, Director Non-Bank Financial Division, 995-32-442-292
- Parliament of Georgia
  - Hon. (Mr.) George Tsereteli, Parliamentarian, Head of Health Committee, former Minister of Labour, Health, and Social Affairs, [tsereteli@parliament.ge](mailto:tsereteli@parliament.ge), [tsereteli@moh.ge](mailto:tsereteli@moh.ge), 995-32-22-12-35, 995-32-38-70-71

*Others:*

- Mercy Corps ([www.mercycorps.org](http://www.mercycorps.org))

- o Mr. Steve Power, Country Director / Chief of Party, [spower@mercy Corps.ge](mailto:spower@mercy Corps.ge), 995-32-98-45-55, Mobile 995-99-50-86-29

## **Appendix 5: Relevant Documents Collected:**

Aldagi Insurance Company, Annual Report 2002.

Chamber of Commerce and Industry of Georgia. Annual Report 2003.

Imedi-L International, Results for 2002.

Insurance State Supervision Service of Georgia. Georgian Insurance market and State Regulation, Annual Report, 2002.

Insurance State Supervision Service of Georgia. Georgian Insurance market and State Regulation, Annual Report, 2001.

Insurance State Supervision Service of Georgia. Georgian Insurance market and State Regulation, Annual Report, “2001” (actually 2000).

Insurance State Supervision Service of Georgia. Georgian Insurance market and State Regulation, Annual Report, 1999.

United Georgian Bank, Annual Report 2002

### Legislation of The Republic of Georgia:

#### *Insurance:*

European Union’s Tacis Programme, Insurance Regulation Legal Framework, Including Laws, Codes, and Sub-Law Narrative Acts.

#### *Credit Unions:*

The Law of Georgia on Non-Bank Depository Institutions – Credit Unions.

October 8, 2002: On Approval of the Regulation on the Minimum Capital Requirement for Credit Unions.

October 8, 2002: On Approval of Regulations on Application of Sanctions against Non-Bank Depository Institutions – Credit Unions.

October 16, 2002: On Approval of Regulation on Declaring Insolvency and Bankruptcy of Non-Bank Depository Institutions – Credit Unions.

November 6, 2002: On Defining Minimum Number of Members of Credit Unions

November 15, 2002: On Approval of regulation on Asset Classification and Creation of Possible Loss Reserves by Credit Unions.

## Appendix 6: Some comments on qualitative versus quantitative research

Market research is a critical step in understanding a market and the consumers within it. It is appropriately used at critical points along the process of a controlled product development process. Two broad types of market research may be conducted: “qualitative” research and “quantitative” research. These methods have significant differences, as noted in the table below.

	<b>Qualitative</b>	<b>Quantitative</b>
Use/Objective	To gain an in-depth understanding of consumer behaviour and attitudes	To measure behaviour and attitudes
Method	Facilitated questioning (open-ended, probing questions, controlled discussion)	Structured surveys (focused, prompting questions, just Q&A)
Participants	Homogeneous, small groups	Statistically representative sample of a population
Output	Consumer words and descriptions	Coded responses
Required Skills	Focus group / PRA facilitation training and expertise	Statistical analysis and survey design

Thus, qualitative research is commonly used in the initial phases of market research while quantitative research is typically used when there is already a product prototype. Quantitative research is inappropriate for exploring the rich complexity of human life and thus market needs. It is difficult to formulate appropriate qualitative questions when there is not a clear idea of the product itself. Thus, quantitative approaches will be more appropriate when seeking to quantify the level of demand for a well-defined product prototype.

Qualitative research is best for generating ideas and concepts, and gaining an understanding of behaviours and attitudes to find out why people behave or think the way they do. It is good for developing ideas to refine existing products, develop new products, identify potential new programmes, and plan new marketing or advertising campaigns.

For these reasons qualitative research was used in this study to understand better the risks people faced, how they address them, and where gaps might be that could lead to potential interventions. It provided a good understanding of what people thought of insurance, and what they felt they needed.

Qualitative research does have some limitations as a result of the limited numbers of participants, and the probing methodology. The results are not necessarily representative of a market because the numbers of participants is limited, and because of the level of interpretation, it is possible that an analyst with a particular point of view may interpret the thoughts and comments selectively to support that view. For these reasons, the researchers and analysts selected for this project (for Uganda, Albania, and Georgia) are all fully trained and certified MicroSave microfinance researchers. MicroSave is recognised as one of the most important microfinance market research training organisations in the world. More information on participatory rapid appraisal and its benefits in this type of research is available from [www.microsave.org](http://www.microsave.org).

## **Appendix 7: Glossary of Selected Insurance Terms**

**Accident:** An event that is unforeseen, unexpected, and unintended.

**Actuary:** A person who calculates insurance and annuity premiums, reserves, and dividends.

**Adverse Selection:** Tendency of persons with a higher-than-average chance of loss to seek insurance at standard (average) rates, which, if not controlled by underwriting, results in higher-than-expected loss levels

**Agent:** An insurance company representative who solicits, negotiates or effects contracts of insurance, and provides service to the policyholder for the insurer, usually for a commission on the premium payments.

**Beneficiary:** The person or financial instrument (for example, a trust fund), named in the policy as the recipient of insurance money in the event of the occurrence of an insured event.

**Benefits:** The amount payable by the insurance company to a claimant, assignee, or beneficiary under each coverage.

**Broker:** A sales and service representative who handles insurance for clients, generally selling insurance of various kinds and for several companies. Brokers resemble agents, except for the fact that, in a legal sense, brokers represent the party seeking insurance rather than the insurance company.

**Claim:** A request for payment of a loss that may come under the terms of an insurance contract.

**Commission:** The part of an insurance premium paid by the insurer to an agent or broker for services in procuring and servicing the insurance policy(ies).

**Comprehensive medical expense insurance:** Insurance that provides coverage, in one policy, for basic hospital expense and major medical expense.

**Co-payment:** Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes a formula for dividing the payment of losses between the insurer and the policyholder. For example, a co-payment arrangement might require a policyholder to pay 30% of all losses while the insurer covers the remainder.

**Covariant risk:** A risk, or combination of risks, that effects a large number of the insured items/people at the same, for example an earthquake, or a major flood.

**Coverage:** The scope of protection provided under a contract of insurance, and any of several risks covered by a policy.

**Credit Life Insurance (or “Outstanding Balance Life Insurance”):** Insurance coverage that repays the outstanding balance on loans in default due to the death of the borrower. Occasionally, partial or complete disability coverage is also included.

**Deductible(s) (or “Excess”):** Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes an amount or percentage which a policyholder agrees to pay, per claim or insured event, toward the total amount of an insured loss.

**Disability:** Physical or mental condition that prevents a person from performing one or more occupational duties temporarily (short-term), permanently (long-term), and / or totally (total disability).

**Disability benefit:** A feature added to some life insurance policies providing for waiver of premium, and sometimes payment of monthly or lump sum income, if the policyholder becomes temporarily, totally and / or permanently disabled.

- Distribution Channel:** Type of process used to deliver insurance policies to clients. Direct marketing and agents are two examples of different distribution channels
- Endowment policies:** The insurer pays a lump sum at the end of an agreed period of policyholder investment.
- Exclusions (or “exceptions”):** Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.
- Experience:** The record of claims made or paid within a specified time period.
- Fraud:** Intentional perversion of truth in order to induce another to part with something of value.
- Group Insurance:** Insurance written on a number of people under a single master policy, issued to their employer or to an association or other organization with which they are affiliated.
- Group life insurance:** Life insurance on a group of people under a master policy that usually does not require medical examinations. It is typically issued to an employer for the benefit of employees, or to members of an association or some other related group, for example, a professional membership group. The individual members of the group generally hold evidence of their insurance.
- Health insurance:** Coverage that provides benefits as a result of sickness or injury. Policies include insurance for losses from accident, medical expense, disability, or accidental death and dismemberment.
- Insurable interest:** A financial reliance you have on someone (such as a spouse) or something that can be covered by insurance. For example, you need an "insurable interest" in someone in order to buy a life insurance policy on that person's life.
- Insurable risk:** The conditions that make a risk insurable are (1) the peril insured against must produce a definite loss not under the control of the insured, (2) there must be a large number of homogeneous exposures subject to the same perils, (3) the loss must be calculable and the cost of insuring it must be economically feasible, (4) the peril must be unlikely to affect all policyholders simultaneously, and (5) the loss produced by a risk must be definite and have a potential to be financially serious.
- Insurance:** A risk management system under which individuals, businesses, and other organizations or entities, in exchange for payment of a sum of money (a premium), offers an opportunity to share the risk of possible financial loss through guaranteed compensation for losses resulting from certain perils under specified conditions.
- Insured:** The policyholder - the individual(s), businesses, other organizations or entities protected by an insurance policy in case of a loss or claim.
- Insurer:** The party to the insurance contract who promises to pay losses or benefits.
- Lapse:** The termination or discontinuance of an insurance policy due to non-payment of a premium.
- “Law of Large Numbers”:** Concept that the greater the number of exposures (for example, lives insured), the more closely will actual results approach the results expected from an infinite number of exposures. Thus, the larger the number of people in the insured risk pool, the more stable the likely results of risk event occurrences.
- Loss Ratio:** The ratio of claims during a certain period divided by the premiums for that same period.



**Microinsurance:** Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.

**Moral hazard:** Hazard arising from any non-physical, personal characteristic of a risk that increases the possibility of loss or may intensify the severity of loss for instance bad habits or low integrity. An example might include failing to properly care for an insured goat because it is insured, thereby increasing the chance it will die of disease.

**Mortality table:** An actuarial table based on mortality statistics over a number of years.

**Mutual Insurer:** Insurance in which the ownership and control is vested in the policyholders, who elect a management team to conduct day-to-day operations.

**Pensions:** The insurer pays an agreed amount to the beneficiary for an agreed period based on regular investments of the beneficiary until the date disbursement commences.

**Policy:** The printed document issued to the policyholder by the company stating the terms and conditions of the insurance contract.

**Policy term:** The period for which an insurance policy provides coverage.

**Premium:** The sum paid by a policyholder to keep an insurance policy in force.

**Property insurance:** Insurance providing financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke.

**Reinsurance:** A form of insurance that insurance companies buy for their own protection. One or more insurance companies assume all or part of a risk undertaken by another insurance company.

**Reserves:** An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding.

**Risk:** The chance of loss. Also used to refer to the insured or to property covered by a policy.

**Risk Management:** Systematic process for the identification and evaluation of pure loss exposures faced by an organization or individual, and for the selection and implementation of the most appropriate techniques for treating such exposures.

**Risk Pooling:** Spreading of losses incurred by a few over a larger group, so that in the process, each individual group members' losses are limited to the average loss (premium payments) rather than the potentially larger actual loss that might be sustained by an individual. Risk pooling effectively disperses losses incurred by a few over a larger group.

**Settlement:** Payment of the benefits specified in an insurance policy.

**Term insurance:** A plan of insurance that covers the insured for only a certain period of time (term), not for his or her entire life. The policy pays death benefits only if the insured dies during the term.

**Underwriter:** (1) A company that receives the premiums and accepts responsibility for the fulfilment of the policy contract. (2) The company employee who decides whether or not the company should assume a particular risk.