



THE ROLE OF PROPERTY INSURANCE AND DEVELOPMENT STAGES IN GEORGIA

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ABSTRACT

In a market economy, insurance is considered a significant part of finance. However, as is well known, the interest of the population in insurance products in Georgia is low, due to a variety of factors including distrust towards insurance companies, low incomes, and limited awareness of the insurance sector. The market share of property insurance is very small compared to other European countries where this product has long been established and functions successfully, it is essential for our country to implement appropriate reforms to promote better understanding and general awareness of the insurance sector.

Keywords: market economy, insurance product, property insurance, market share, insurance event.

PROPERTY INSURANCE

Property insurance is one of the most important types of insurance business. It is utilized by both individuals, who insure their homes, vacation houses, or other properties, and large organizations, which insure commercial properties, including small shops and large industrial enterprises.

COMMERCIAL PROPERTY INSURANCE

The primary objects of commercial property insurance are buildings owned or legally possessed by legal entities. Additionally, the insurance objects include stationary machinery, various types of furniture, computer equipment, and more. It is also possible to insure personal items of employees present at the workplace. In special cases, objects that do not belong to the insured but are temporarily entrusted to them and stored on their premises may also be covered.

Notably, there is the option to insure inventories of finished products or raw materials (spare parts and others). These objects have the particularity of having their volume and value change over time. Consequently, in developed markets, insurers regularly require the insured to provide reports on the current volume and value of the inventories. Typically, the insured periodically fills out a relevant form developed by the insurer, verifies it, and sends it to the insurer. In the event of a loss, these reports become a key basis for determining the amount of insurance compensation.

COVERED RISKS

Today, many unforeseen events and hazards can be insured under a property insurance policy, but there is no single standard form of insurance; different insurance companies offer various coverage options. Risks can be grouped into several categories for consideration, and insurance can be conducted not just for one risk but for all risks included in a group. For example, in property insurance, the “fire” risk group may include fire, explosion, and lightning strike, while the group for unlawful acts may include risks of theft (breaking and entering), robbery, vandalism, and more.

Additionally, combinations of risks for which insurance can be provided are specified. One risk or group of risks can be primary and fundamental, while others can be supplementary. Various options include primary risks, which are generally included in most property insurance policies:

A. Fire: Defined in the insurance terms as a fire capable of spreading independently beyond the area designated for ignition.

B. Explosion: Caused by gas or other explosive substances leaking from engineering systems.

C. Lightning Strike Insurance: Covers all damage resulting from a lightning strike to the insured property, whether directly or indirectly.

D. Aircraft Crash: More specifically, the fall of aircraft or parts thereof.

Also common are risks of “fire” and flooding, with flooding defined as the entry of water into the insured property due to failure, bursting, or leakage of artificial reservoirs, pipes (including municipal or other public sewage systems), and other devices. Furthermore, flooding is covered if caused by negligent or careless behavior.

Regarding another major group of hazards, it primarily consists of natural disasters (natural calamities), such as:

A. Earthquake: Defined as registered seismic shocks. Additionally, fire is often covered if it is directly or indirectly caused by the earthquake.

B. Flood: Caused by unusually high tides, typhoons, cyclones, storms, heavy rain, snowmelt, or blizzards, leading to flooding of land normally not covered by water.

Other natural disasters include landslides, soil uplift and depression, avalanches, heavy snowfall, storms, and hurricanes.

Another distinct group of hazards in property insurance includes theft (by breaking and entering or otherwise, which must be confirmed by special authorities), robbery, and vandalism, which refer to criminal acts defined by the criminal code (notably excluding acts committed by individuals authorized to be on the insured premises).

The insurer may also cover risks arising from collisions involving land vehicles (e.g., car accidents) or damage to windows. Finally, it should be noted that beyond the aforementioned “standard” risks, commercial property insurance may cover additional costs related to the removal of debris (remnants of damaged insured property), payment of fees to fire crews, cleaning up environments polluted as a result of an insured event, and others.

ALL-RISK INSURANCE

There are two main types of policies: the so-called “named perils policy” and “all risks policy.” The first type covers only the hazards specifically listed in the policy, while the latter covers any damage to the insured object (except for specified exclusions) regardless of which hazard caused it.

Another significant difference between these two types of policies is that in the case of a named perils policy, the policyholder is obligated to provide all necessary evidence that the loss was caused by a hazard listed in the policy. In contrast, with an all-risks policy, the burden of proof lies with the insurer to demonstrate that the incident falls within the exclusions specified in the policy and thus is not covered.

It is clear that the first type of policy is more favorable to the insurer, while the second is more beneficial for the insured. This is likely why the named perils policy is much more common in the market (especially in developing markets).

UNDERWRITING

Underwriting (risk assessment and determining insurance terms) in commercial property insurance is quite complex and requires substantial knowledge and experience. Underwriters must assess the covered risks, the probability of loss occurrence, and the potential magnitude of the consequences in advance.

In the case of particularly complex objects, underwriters may need assistance from specialists in specific fields (engineers, builders, energy specialists, communications experts, etc.). Large insurance companies usually have such specialists on staff, while smaller companies call upon them as needed.

The **maximum probable loss** indicates the maximum amount of loss that could occur regarding the

insured object. From the insurer's perspective, this amount is limited by the sum insured, which corresponds to the total value of the object. In contrast, the maximum probable loss is the maximum loss that may occur only with a very low probability.

INSURANCE AMOUNT, VALUE, AND COMPENSATION CALCULATION

The **insurance amount** represents the maximum liability of the insurer to the insured, the total maximum amount of possible insurance compensation. In simpler terms, when selling its insurance product, the insurance company assumes the obligation to compensate for losses incurred if an insured event occurs, not exceeding a certain pre-agreed monetary amount—the sum insured. As previously noted, in property insurance, the sum insured also serves as the basis for calculating the premium.

Many insurance concepts and principles are closely interlinked, making it impossible to discuss one without considering others. The concept of the sum insured is directly related to the insured value of the object, the insurance compensation (which will be discussed below), as well as property depreciation, multiple insurance, and others.

The sum insured in property insurance is generally (though not precisely and unequivocally) determined based on the insured value of the object. The insurer is responsible for its determination, but the insured should verify that the sum insured corresponds to the actual insurance interest (information banks, statistical data, expert opinions—these factors are always taken into account by the insurance company in the process of determining the value of the insured object and the sum insured). It is not reasonable for the sum insured to exceed the actual value of the insured object (as in this case, the insured would simply pay a higher premium but could not receive more than the insured value in the event of a loss), although the sum insured can be lower than these indicators.

Insurance value is the actual value of the insured object, calculated according to a pre-agreed method and used to determine the amount of insurance compensation. The insurance value should not exceed the maximum loss that may occur due to damage, destruction, or loss of the insured object.

The determination of the insurance value can be done through various methods. These methods differ based on the object, as well as different legal or historically established criteria used in different countries to determine it.

First, we should consider the so-called **restoration cost**. This is the monetary amount required to fully restore damaged (destroyed) property using appropriate, ideally suitable new materials (spare parts). It is evident that the restoration cost includes the labor costs as well.

The **market value** is also commonly used. This is the amount for which the assessed property would be exchanged in the local market on the date of valuation through a fair deal between a willing buyer and seller, both acting competently, knowingly, and without undue pressure.

Additionally, the concept of **replacement cost** plays an important role in insurance practice. Generally, this cost refers to the restoration cost, from which accumulated depreciation is deducted according to a predetermined method. This results in a property value that more realistically reflects the worth of the property considering its age and wear compared to the restoration cost.

If the market value (rather than the restoration cost) is used, the replacement cost can be understood as follows: if the market value is determined through the market for used property, then this value essentially already represents the replacement cost. However, if we are discussing the market for new property, then to obtain the replacement cost, we would still need to subtract accumulated depreciation from the market value.

The amount of **insurance compensation** (the amount the insurer pays as a result of settling an insurance claim) depends on various parameters of the insurance product and the insurance contract (insured value, sum insured, deductible, etc.). There was a time when insurers settled claims not just by paying cash but also by replacing, repairing, or fully restoring damaged property. Nowadays (at least in

the Georgian market), cash payment is prevalent, and determining the amount is a very significant part of the claims settlement process.

It is important to consider the state of the Georgian market in terms of property insurance. We can look at official statistics showing that in 2023, premiums collected in the property insurance sector amounted to 126 million GEL, which is 7.5 million GEL more than the previous year. The leading company in the sale of this product during 2022-2023 was Aldagi Insurance Company.

CONCLUSION

Property insurance in Georgia has enjoyed moderate demand over the years. This type of insurance has maintained its status as one of the most popular forms of the market for many years. While it is a sought-after product in the insurance market, property insurance remains a relatively expensive product for the average market, requiring a more stable economy and higher-income consumers. One necessary precondition for its popularization may be the improvement of economic well-being. Mandatory insurance could be implemented, taking into account coverage for certain natural disasters. Despite a low-risk geographical location and the existence of low-frequency risks, recent history has clearly demonstrated the power of natural disasters. Therefore, for the purpose of prevention, it may be possible to establish a minimum mandatory contribution to a general insurance fund, whose main goal would be to partially compensate for property losses resulting from natural disasters.

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ქონების დაზღვევის როლი და განვითარების მეტაკები საქართველოში

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რეზიუმე

საბაზრო ეკონომიკის პირობებში დაზღვევა მოიაზრება როგორც ფინანსების მნიშვნელოვანი ნაწილი, თუმცა როგორც, ცნობილია, საქართველოში მოსახლეობის დაინტერესება სადაზღვევო პროდუქტებისადმი მცირეა, რაც გამოწვეულია მთელი რიგი ფაქტორებით, მათ შორის სადაზღვევო კომპანიებისადმი უნდობლობით, დაბალი შემოსავლებით და სადაზღვევო სფეროს ნაკლები ცნობადობით.

გამომდინარე იქედან, რომ ქონების დაზღვევის ბაზრის წილი ძალიან მცირეა სხვა ევროპულ ქვეყნებთან შედარებით, სადაც ეს პროდუქტი დიდი ხნის დანერგილია და წარმატებით ფუნქციონირებს, საჭირო ხდება ჩვენს ქვეყანაშიც გატარებულ იქნეს შესაბამისი რეფორმები, აღნიშნულის უკეთ გაცნობისა და ზოგადად სადაზღვევო სფეროს პოპულარიზაციისთვის.

საკვანძო სიტყვები: საბაზრო ეკონომიკა, სადაზღვევო პროდუქტი, ქონების დაზღვევა, ბაზრის წილი, სადაზღვევო შემთხვევა.

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