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### Risk Management Problems and the Role of Insurance in Developing Countries

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#### ABSTRACT

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*The increase in the scale of globalization expands the area of economic relations, complicating the decision-making process of a particular economic entity or individual, taking into account the expected risks. Enterprise management could avoid risks identified based on expertise or minimize the consequences by developing risk management methods. However, the main problem is not the risk management methods but the insufficient knowledge and experience required to apply them. Especially The developing countries feel the low level of expertise. One of the risk management methods is the insurance mechanism, which does not serve to avoid the expected risks. Still, no other risk factors related to the activity arise by compensating for the incurred loss on time. The role of the insurance market in the risk management of economic entities is directly associated with the risk attitudes of both managers and other employees. The developed insurance market is one of the most powerful tools for social development. The paper brings to the fore the problems of risk management. Their review assesses the state of the insurance market, which reflects the attitude of the risk culture and its management, both legal entities and individuals. The analysis show that the insurance market is imperfect in Georgia, which are unlikely to adapt and act adequately to emerging risks in the global world in the face of existing risk attitudes, the low culture of information storage, and the financial constraints of potential insurers. Therefore, there is a belief in government support, which is widespread in European member states.*

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#### INTRODUCTION

In the Footsteps of Human Development: Both science and entrepreneurs are increasingly aware of "risk" as a way of perceiving the threat and the mechanisms to prevent or reduce the expected loss. First,

the mathematicians (Pascal, Fermat, Bernoulli ...) and then the classics of economic theory Smith A. (1776; 1888) was the first who explained the existence of a risk tax in the formation of profits. He related it to the level of income of the employee "High-risk professions are a guarantee of higher wages than low-risk professions." Smith's finding: The relationship between risk and return formed the basis for research the risk management problem (Hirsoh, 2020). Consistent studies (John Clark, John Stuart Mill, I. von Tunenen, and others) have distinguished the risk from uncertainty. When perceiving risk, Psycho-emotional mood is directed toward anticipating danger and leads to deprivation of human capabilities, even for a moment, but can significantly impact decision-making.

According to Knight F. (1921), "Risk is measurable uncertainty, and immeasurable uncertainty is simply uncertainty". Knight's definition of an uncertain "future" should not be the subject of discussion, and the entrepreneur should only manage measurable risks. The expansion of economic activity has increased the competition scale, and the risks of getting the expected result have improved. Improving risk management methods has been on the agenda.

In 1979, American psychologists Kahneman D. and Tversky A. studied human behaviour under conditions of risk and uncertainty. They developed theories about people's behaviour, which laid the foundation for developing risk management as a science. According to Kahneman's research, people respond differently to profit-loss results in different ways. In particular, the degree of satisfaction with the gain is significantly lower than mood disturbance when receiving the equivalent loss. That's why they are ready to take risks to avoid failure.

## 1. LITERATURE REVIEW

According to psychological studies, human behaviour in the decision-making process is irrational because they cannot adequately and fully assess the anticipated event in conditions of uncertainty. They shattered the dominant postulate of economic theory with outlandish behavioural theory - about rational human behaviour. In the second half of the 20th century, the "Theory of Expected Utility" requires a large amount of information and processing when making a decision, which is associated with spending a lot of time deciding in a market economy. The methods of intuition heuristics filled this shortcoming. In our opinion, a person's decision at the beginning of the activity can not be rational. Since there is no information base, his own experience and, in this case, decision-making according to the theories of Tversky (Laibson & Zeckhauser, 1998) and Kaneman D. (2003) is based on the psychological mood of the person at that moment. That's why decision making is far from rational. Still, in the process of activity, we believe that each person tries their best to evaluate the decision with the indicators of rationality. The final result may indicate irrationality, but we must keep in mind that there are always coincidences in nature that change even the development of high-precision calculations. Thus, the irrational decision-making theory, based on the information accumulated in various activities, the experience of the decision-maker, turns into a rational theory, which justifies the existence of the theory of "expected marginal utility". Existing theories are the basis of risk management.

The evolution of economic thinking, the deviation of actual profits from planned profits in entrepreneurial activity, the study of the factors facing entrepreneurs and the consideration of the so-called "force" of risk put in the first place. At the same time, it became clear that the development of an effective risk management system should be based on the risk-taking culture of the enterprise leaders (manager, financial manager, risk manager, marketing manager, I.T. manager). In particular,

- Periodically, it is necessary to identify and identify risks;
- Classification of risks according to risk factors;
- Proper selection of risk management mechanism;
- Control of the psycho-emotional factor in decision making;
- To measure the risk management costs in a particular case and compare them with the costs of the alternative management method to make a good decision on risk-taking or avoidance.

Dynamic development of the economic variability of determinants requires the introduction of risk management in all types of enterprises (Dorfman, & Tippins, 2006; Torontocentre, 2015), which is

especially important in financial institutions. Insurance activity is the only mechanism for protection against risks. The expected loss from the realization of trouble in the activity of the economic entity will be transferred to the insurance institution, and business continuity will be maintained. A prerequisite for using this mechanism is effective risk management in production organizations. Improper evaluation of entities and facilities participating in the risk management system leaves certain risks out of control. Unmanageable risk is generated in the financial risks of manufacturing organizations and becomes a source of a financial crisis (Pyrkova et al., 2018). The financial crisis of 2008 is clear proof of this.

There must be an attempt to create a risk management model that can 99% reliably determine the future. First, the economic system is a complex organism that often bypasses the established economic regularities and turns them into strange processes. Second, the market economy intensifies the desire of economic agents to make a profit, and they make irrational decisions, leading to the variability of the economic environment (Smith & Fischbacher, 2009; Dao, 2015; Glonti, & Vashakmadze, 2018).

A review of the risk management cases of large corporations in developed countries confirms that most of them pursue integrated risk management (Tsintsadze & Gogoberidze, 2019; Tsintsadze et al., 2019a; Tsintsadze et al., 2019b). Does introducing a risk management system in the company mean risk protection? Of course, this is not the case. First of all, risk management introduction requires a correct interpretation of the "risk" and the proper definition of its relationship with the threat and factors. In particular, the expected threat may not be risky at all, and excessive "worry" about it will cover significant risks, the elements of which are more realistic. Second, the level of risk culture, which is low not only in developing but also in some developed economies, exacerbates the risk identification process. Risk management models are focused on identifying the expected risk factors at all stages of entrepreneurial activity and minimizing their quality (Merlo et al., 2013). Changes in the economic environment do not allow risk analysis and assessment procedures to be carried out in a once-developed model, like a risk classification. Risk attitude is described by the approaches established in governing circles in the form of the following quotations:

- "There are no risks with us. We sell everything on advance payment."
- "Unless a risk penalty is defined by legislative acts, ie. There is no risk."
- "Our financiers understand the forecasting issues well and are 100% sure of the result."
- "We have no currency risks."

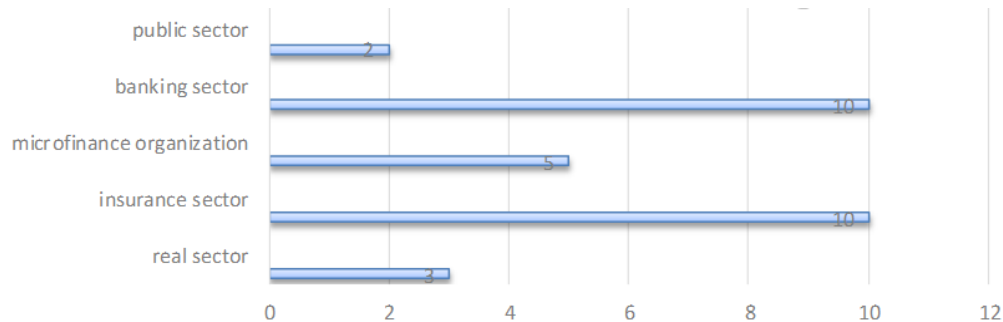
The risk management principles should be derived from the company's corporate code, establishing the entity's functions employed at all levels and their responsibilities to achieve the goal. At the head of the risk, a spiral is a strategic risk, the subject of which is the company management and the production process object. Therefore, to conduct effective risk management, first of all, the risk attitude of the staff must be studied. The key to starting an entrepreneurial business is to draw up a business plan and raise capital. However, no preparation stage requires documented knowledge of managerial and middle-level managers' risk attitudes and methods for minimizing risks in the field.

Thaler R. and Johnson E. (1990) showed that a person who lost a significant amount of money by ignoring the risk at the beginning of the activity, gaining emotional experience, reveals a high attitude towards risk when making different decisions. They called this phenomenon the «Breakthrough Effect». According to scientists, so-called "Unseen" risks influence the beginning of the entrepreneurial activity. In the modern period, when there are scientifically and practically justified risk management methods, risk-based decision-making indicates insufficient professional knowledge and an irresponsible attitude towards company owners.

A study of financial and non-financial companies (in-depth interviews) to find out the attitude of entrepreneurs towards risk, risk and risk factors (in-depth discussion) showed that senior and middle management are aware of the risk but do not see the need for expertise. «In the last decade, the most self-confident people in business have been people who called themselves risk managers» (Azquotes, 2009). The scientist's assessment is still relevant today; however, against the background of high self-esteem, no manager was identified who would focus on specific risks. And name a method of managing them based on systematicity and unsystematic.

## 2. RESEARCH METHODOLOGY

We use A qualitative method to conduct the research, using survey and in-depth interview tools. The question asked to the respondents, "They rated their attitude towards risk and knowledge of risk management methods and practice", from 0 to 10 points. The study involved top and middle management of banking and insurance institutions, microfinance organizations, actual sector companies and managers of public organizations. The diagram shows the average result.



**Figure 1.** Study of risk and risk management attitudes (financial and non-financial sector), 2021

The study results show that the risk attitude of the banking and insurance sectors is high. This situation is conditioned by the supervision of the banking sector using Basel recommendations. The interview revealed a risk management service in the banking institutions, which is directly involved in credit risk detection and management activities. However, the knowledge of the employees in the operating department about the risks related to banking activities and their management is low. As a receiving institution in risk insurance protection, the insurance sector pays excellent attention to identifying risks associated with the action and taking measures to minimize them. Employees' knowledge about risks and their management methods is also high.

A survey of microfinance organizations revealed that they are aware of the expected risks and make sufficiently risky decisions to make a profit. However, they do not have the practical experience and ability to use risk management methods due to insufficient knowledge and high costs. The situation of the real sector is acute: Part of the top managers is thinking about the above quotes, part is aware of the risks associated with the activity, but does not see the need for extraordinary measures. The practice of risk management in the public sector is even more acute. The public sector has developed and managed risk management methods enacted by the law. Still, as the survey showed, no specialist can be found to work on risk identification and assessment.

Here is one warning from Thaler R. «*I think the people who've been the most overconfident in our business in the last decade have been the people that called themselves risk managers*». (Azquotes, 2009). it is necessary to consider the sources of risks, according to their interdependence, To determine the reasons that lead companies to bankruptcy and end the reporting year with a loss, according to the rules of risk management and methods of conducting. The facet is remarkable that the absolute risk that the company suffers financially has a precondition in other troubles. Based on our research (theoretical, practical), risk generation begins with strategic risk arising from incorrectly defined goals and objectives, the following manufacturing risks: technical, technological, personnel, commercial, information provision, business disruption (contractors), risk of unacceptable planned profit, market, competition, legal, etc. (Narmania, & Faresashvili, 2012). The classification of risks differs according to the type of activity of the enterprise. The risk factors listed are interrelated. For example, technical risk by temporarily stopping production leads to a reduction of production capacity, which in turn leads to non-performance of the contract in front of buyers, partial loss of market share, complicating the competitive situation and eventually, it is formed as a financial risk.

About ten large companies have gone bankrupt in the Georgian market in recent years. Many companies on the verge of bankruptcy have escaped bankruptcy by merging with another company. The reasons for a company going bankrupt can be many, but the responsibility lies directly or indirectly with the company's general manager and its owner. It is impossible to study the reasons for companies'

bankruptcy according to individual risks, as the reason for bankruptcy is written «financial risk» in the conclusions. It is logical to argue that there is no established information storage culture in a country with almost no knowledge and experience in various fields. It is superfluous to talk about the risk management procedure.

The United States is the «homeland» to risk management, but according to Bloomberg, 98 enterprises went bankrupt in the USA in the first four months of 2020 (Hill, 2021). The existence of a risk management system, which predicts the expectation of pre-identified risks in a company, gives management a chance to avoid troubles. However, this certainly does not rule out the possibility of catastrophic risks that are almost impossible to detect and manage. The American example is precisely related to the risk of a disastrous degree, the pandemic. There are many reasons for this: first, there is no training of risk management specialists (only one subject is taught in management), low ability to perceive the expected threats from employees, risks at the beginning of the activity and then discussed by non-specialists at the level of intuition, insight and heuristics. However, these rules are successfully used in expert evaluation by suitably qualified experts. For the assessment of the state of risk management in the country and the use of Insurance as a management tool, the profit and loss reporting reports of enterprises in 2019 (not used in the study due to the 2020 pandemic) were studied: by the size of production and organizational-legal form (Volosovych et al., 2021; Kiptoo et al., 2021) Of the 17 economic activities in the country, eight large enterprises, ten medium and six small enterprises ended the year with a loss. It should also be noted that there would be a loss of planned profits, which is not apparent from public information (Geostat (2021).

One of the risk management methods is risk avoidance, which means transferring the risk to management for the insurance company or outsourcing. We analyzed The achievements of the insurance industry in the country and their role in business risk insurance to examine the state of use of the risk protection insurance mechanism by enterprises (Tsintsadze & Meloyan-Phutkaradze, 2017). Business risk insurance is used successfully in many countries worldwide and has a two-pronged effect: the insured business maintains continuity, and the insurance business is developing.

The insurance market in Georgia has been evolving consistently with changes in the direction of social policy in the country. Offering insurance protection and getting a positive effect was a complex process due to the difficult economic situation, low insurance culture, lack of state support. From 1992 to 2013, the insurance market expanded step by step, with the corporate medical insurance product accounting for 78% of the total market. The second phase in the development of insurance began in 2013 when state-initiated universal medical insurance took away a large contingent of insurers from insurance companies. Companies have a task: to create other insurance products and sell them to survive. The small scale of the demographic dividend in the country has led to an increase in the ageing index. As a result, the state was faced with increased low-income pension provisions. The law "On accumulative pension" was adopted in 2018 for solving the problem. This decision was another blow to the insurance sector. They lost the beneficiaries of private pension schemes, which significantly affected the solvency of insurance companies. The 30-year history of the development of the private insurance sector has proved to be still valuable from today's perspective. First, during this period, the population's attitude towards insurance changed. The ruling circles of insurance companies acquired the skills of Western governance, were able to develop an insurance product tailored to the solvency of the population, and use new supply channels.

The empirical strategy of insurance market research is to determine the variability of insurance premiums over the years. Accordingly, it must be determined whether the growth trend of the insurance market is related to the growing trend of the total Premium. Empirical research analyzed 14 years (due to the low culture of information storage, it was impossible to obtain more information). Data adjustments were allowed during the study to enhance model adequacy.

The initial regression model is as follows:

$$Y = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \alpha_4 x_4$$

where,

Y- is a dependent variable (total amount of insurance premium by years)

x<sub>1</sub>- independent variable (inflation rate %);

- x<sub>2</sub> - GDP of the country;
- x<sub>3</sub> - Investments made by insurance companies in fixed capital;
- x<sub>4</sub> - Amount of claims reimbursed by years.

According to time series analysis, all variables are considered exogenous and do not experience heterocadostability.

The data according to the selected variables are as follows:

**Table 1.** General information of the data

year	Total Premium	Inflation %	GDP	Inv. infix. Cap.	Reimbursed losses
2008	272013220,1	5,5	2006600000	19 26161,34	93839514,09
2009	360449123,6	3,0	1892100000	4 520 817	170896022
2010	361457159,7	11,2	21821569222	1 950 502	180034409,5
2011	321147047,3	2,0	25478724434	8 722 856	198917477,4
2012	515471427,4	-1,4	27227328060	97 064 444	260159392,8
2013	471066119,7	2,4	28593048830	109721346,7	368984614,3
2014	302640671,2	2,0	31124095143	56487196,38	207712625,1
2015	348719547,1	4,9	33935015582	55559546,37	171787962,2
2016	376491444,7	1,8	35836018088	42103388,68	191872580,7
2017	425110255,9	6,7	40761663456	39458314,47	221070346
2018	523426578,8	1,5	44599342780	45609560,33	235553973
2019	602532719	7,0	49252653853	30509892,28	275231963
2020	638893952,4	2,4	49266736190	32837710,98	287827944,4

Source: Georgian State Insurance Supervision Service, insurance.gov.ge

The impact of inflation on the total insurance premium is reflected in the increase in the insurance tariff, reducing the number of potential insurers and the probable amount of premiums attracted. The GDP ratio reflects the economic situation of the country, which is a condition of indirect insurance demand. Investments in fixed assets indicate the development of insurance infrastructure, and the recoverable loss is, in our view, an indicator of the insurance company's reliability. By predicting the regression model, it will be possible to change the insurance market to achieve the development of the insurance market. Defining the relationship between the variables is essential, thus excluding the variable that makes the model inadequate. First, the correlation between the X variables is established, and a graph is constructed.

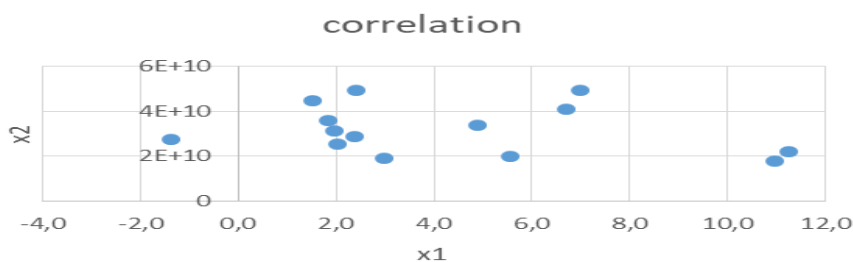


Diagram I

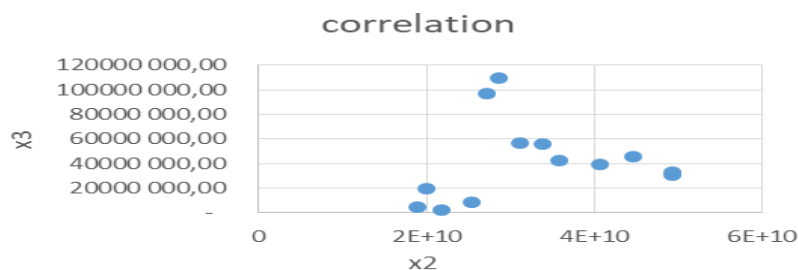


Diagram II

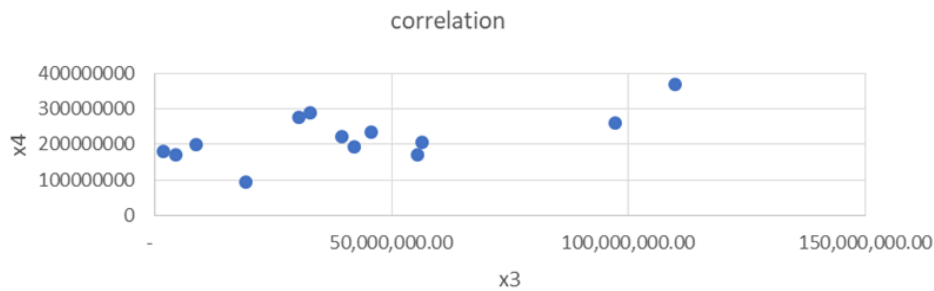


Diagram III

The graphs show that there are scattered data between the data, so the 2012-2013 data were excluded by conditional formatting, and a correlation was established between the other variables:

	<i>y</i>	<i>x1</i>	<i>x2</i>	<i>x3</i>	<i>x4</i>
<i>y</i>	1				
<i>x1</i>	-0,03733336	1			
<i>x2</i>	0,865905794	-0,178368211	1		
<i>x3</i>	0,159040261	-0,383205386	0,579379482	1	
<i>x4</i>	0,87424369	-0,1594249	0,85533572	0,27453587	1

The correlation matrix shows that multicollinearity was observed between X2 and X4. I.e. The model does not correctly explain the relationship between the factors, and there is a dual effect on the study variable. Because the impact of the x2 variable on the study variable is lower than the x4 variable, GDP data (x2) were excluded from the study data, which removed the multicollinearity problem. All statistical parameters of the variables were identified for checking the data with descriptive statistics:

Table 2. Descriptive Statistics

	<i>y</i>	<i>x1</i>	<i>x2</i>	<i>x3</i>
min	272013220	1,5151	1950501,75	93839514,09
max	638893952	11,2413	8722855,847	287827944,4
$\bar{x}$	412080156	4,373845455	33732983523	203158619,8
$s^2$	122743081	3,048080588	19601336,95	53301257,45
$\Delta x$	73376146,5	1,94524	1354470,819	38797686,06

Source: Authors' calculations

The table shows that all parameters vary considerably. The inflation rate, investments in fixed capital - the difference between the minimum and the maximum is high. The rise in inflation is linked to the post-2008 economic crisis. The increase in the volume of investment in fixed capital in 2012 should be considered a positive event in the insurance sector. However, the benefits do not appear without an increase in demand for insurance products; hence, the total insurance premium volume changes less. The regression equation looks like this after the change:

$$Y = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3$$

where,

x<sub>1</sub>- independent variable (inflation rate %);

x<sub>2</sub>- Investments in fixed capital made by insurance companies;

x<sub>3</sub> - Amount of claims reimbursed by years.

Multicolour check:

	<i>y</i>	<i>x1</i>	<i>x2</i>	<i>x3</i>
<i>y</i>	1			
<i>x1</i>	-0,117807295	1		
<i>x2</i>	0,251778927	-0,399873587	1	
<i>x3</i>	0,705473426	-0,279931541	0,371483717	1

The correlation matrix shows that the impact of the inflation variable on the rate of investment and loss is low, and the performed transformations rule out multicollinearity

**Table 3.** Regression Model Results, F-Test

<i>Model</i>	<i>SS</i>	<i>df</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>F</i>
Regression	1,17144E +17	3	0,777545744	0,682208206	8,155714502
Residual	3,35147E+16	7			
Total	1,50659E+17	10			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-14682064,56	101666113,6	-0,144414535	0,889243039
XVariable1	3426183,835	7786442,536	0,440019151	0,673189115
XVariable2	-0,352780364	1,2430981	-0,283791251	0,784780789
XVariable3	2,080076438	0,427718162	4,863194091	0,00182845

Regression analysis shows that the p = value is high. The relationship between the variables has shown this, and we believe that the reason may be incorrect statistics or another alternative to the hypothesis. The adequacy of the model is indicated by the value R Square = 0.77, i.e. the change in the insurance premium is due to the change in time of the independent variables.

**Table 4.** Check for data error

	<i>y</i>	<i>x1</i>	<i>x2</i>	<i>x3</i>	<i>y Reporting</i>	<i>Error</i>
2008	272013220,1	5,5477	19269161,34	93839514,09	192720956	0,29
2009	360449123,6	2,9862	4520816,96	170896022	349431138,8	0,03
2010	361457159,7	11,2413	1950501,75	180034409,5	397629930,2	0,10
2011	321147047,3	2,0411	8722855,847	198917477,4	402997424,8	0,25
2014	302640671,2	1,9516	56487196,38	207712625,1	404135039,4	0,34
2015	348719547,1	4,8795	55559546,37	171787962,2	339767775,1	0,03
2016	376491444,7	1,832	42103388,68	191872580,7	375851089,6	0,00
2017	425110255,9	6,7164	39458314,47	221070346	454252655,8	0,07
2018	523426578,8	1,5151	45609560,33	235553973	464389058,4	0,11
2019	602532719	6,9967	30509892,28	275231963	571030146,3	0,05
2020	638893952,4	2,4047	32837710,98	287827944,4	580676505,4	0,09
						0,12
						0,34

Source: Authors' calculations

For more reliability, the model was tested for the degree of error. According to Table №4, despite the high value of p-statistics, the degree of error is low, indicating the reliability of the selected independent variables.



$$Y = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3$$

According to the coefficients of the regression model, the relationship between the dependent and independent variables is as follows:

$$Y = -14682064,56 + 3426183,835x_1 + (-0,352780364)x_2 + 2,080076438 x_3$$

According to the coefficients, inflation has the highest impact on the development of the insurance market, the growth of investments is inversely proportional, and the compensation for losses is positive. Since we are dealing with a field whose profitability, reliability, product sales are different from the parameters of other types of enterprises, we hypothesize that inflation increases insurance rates financial risk, the understanding of which also increases the demand for insurance by the population, and as for investment in fixed assets, has a negligible impact. During the data, the period may be allowed to malinvest. The increase in losses can be considered an indicator of increasing the reliability of companies, which indirectly increases the volume of insurance premiums.

Research is focused on processing data over a specific period, so it was necessary to perform time series analysis and forecasting.

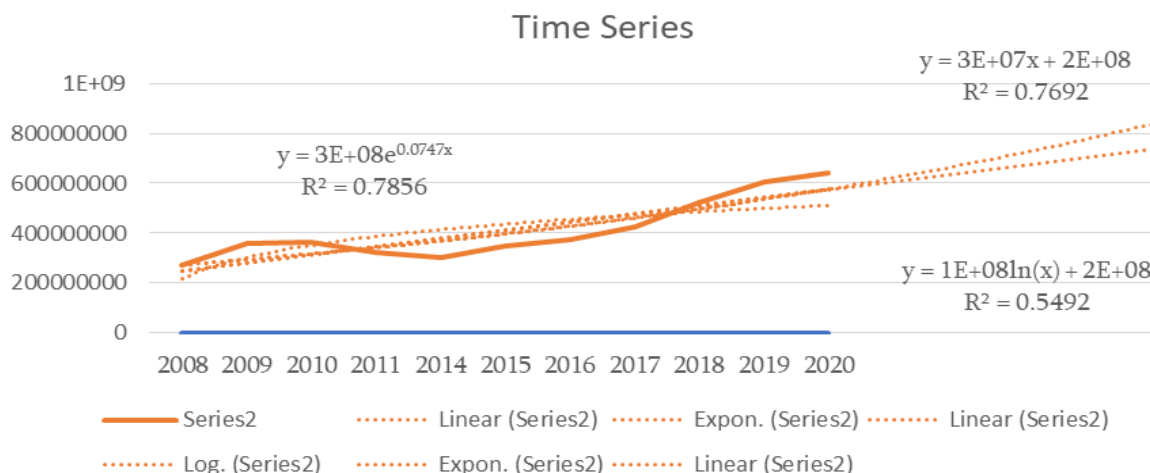


Diagram V

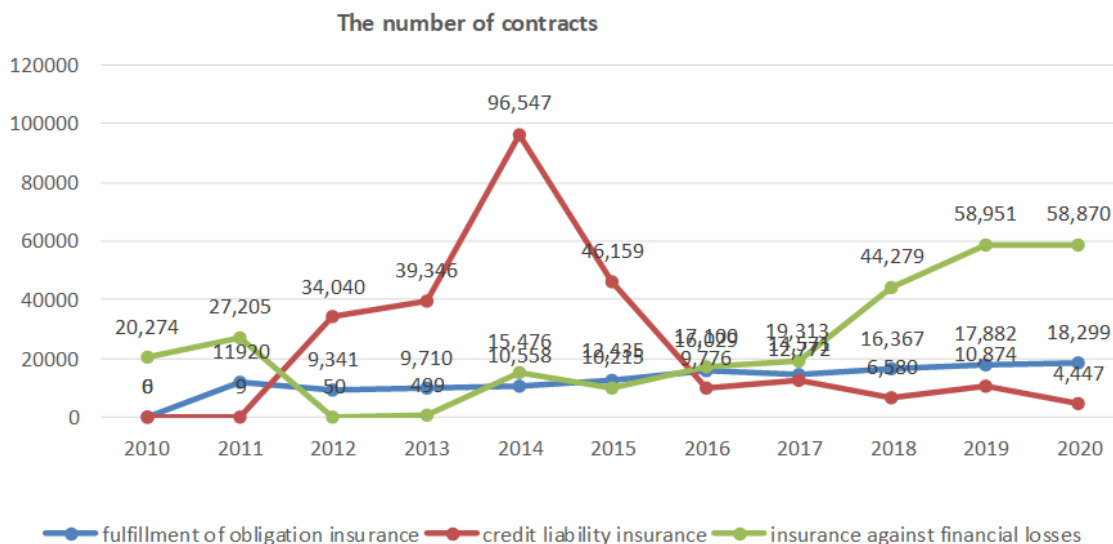


Figure 2. The Statistic data of insurance market, 2010-2020

Source: Insurance, 2021.

According to the time series trend analysis, the linear model is essential for the research parameter. The 5-year forecast confirms that there will be a linear increase in the total volume of the insurance premium, with a model rating of normalized R = 0.77. The non-linear model prediction rate is slightly ahead of the linear model data. Still, in the research process, a linear model conversion procedure was used to the non-linear model, although other parameters were adopted as absolutely inadequate. Therefore the linear model is adequate for data forecasting.

For the study, to assess the state of insurance business risks in the development of the insurance market, the Insurance of products related to the financial and economic activities of the beneficiaries for 2010-2020 is reviewed. In particular: obligation insurance, credit liability insurance, Insurance against financial losses. The number of contracts concluded during the period under review is shown in Figure 2.

Statistical analysis shows that Insurance against financial losses has been growing since 2017, which indicates a change in part of the risk attitude of business circles. Still, we can not talk about a significant contribution to the development of the insurance market, which is confirmed by the fact that by 2020, 722,695 enterprises are registered in Georgia, and the number of insured persons for the same year is 58,870, about 8.1%. Credit liability insurance led to an increase in the demand for credit insurance by the banking sector in 2014, an approach that led to the transfer of borrowers to commercial banks that had no insurance requirement, thus reducing their share of the insurance market since 2016.

The business risk insurance segment is influenced by the understanding of risk acceptance in manufacturing organizations and the need to manage them, which is still a weak point for Georgian enterprises. Health insurance, property insurance, vehicle insurance and agro Insurance play a dominant role in the insurance market. To identify the factors hindering/contributing to the insurance market's development, the two indicators were assessed: market penetration and density according to the 2019 data.

$$\text{Insurance market density} = \frac{\text{total insurance premium}}{\text{population}} = \frac{201\,613\,604}{3\,716\,900} = 54 \text{ (dollar)}$$

Since the share of financial risks is tiny, the market penetration calculation was not considered acceptable for these risks alone and calculated according to the total insurance premium of the 2019 insurance market.

$$\text{Insurance market penetration} = \frac{\text{total insurance premium}}{\text{GDP}} = \frac{201\,613\,604}{17500000000} = 0,012 \text{ (dollar)}$$

These indicators characterize the level of development of the insurance market within the country (Arena, 2006). The conclusion is compared with similar figures in European countries.

The analysis showed that entrepreneurial risk insurance is a problem in the Georgian market and all risks. The density rate is meagre compared to European countries; the market penetration rate is lower. At the same time, Georgia's course is to establish European standards and the commitments made by Georgia under the Association Agreement adopted in 2014, including promoting the development of the insurance market. One of the indicators of the insurance market's growth is the number of insurance products, which should be based on consumer demand and analysis of expected risks (Vnukova et al., 2020). Increasing consumer demand, in turn, depends on awareness of risk and uncertainty conditions. Making an insurance decision based on the example of others plays an essential role in the insurance business. Therefore, more information about the established insurance cases and reimbursement should be provided.

Countries	Insurance market density (dollar)	Insurance market penetration (dollar)
Czech Republic	663	2,8
Austria	2197	4,4
Belgium	2853	6,2
Denmark	6 486	10,9
Estonia	835	3,5
Finland	1221	2,5
France	4 472	10,7
Germany	3 095	6,7
Greece	420	2,1
Italy	2595	7,8
Netherlands	4 871	9,3
Spain	1 460	4,9
Sweden	4 575	8,9
Switzerland	6 878	8,4
Georgia	54	0,012

**Table 5.** Insurance Market Evaluation Indicators

SOURCE: OECD, 2020; INSURANCE, 2021.

The developed insurance market is one of the most powerful tools for social development. Nobel laureate J. Stiglitz named the expansion of the social security network as one of the critical reforms in the country's development. He noted that *"one of the tasks of risk management is to compensate the vulnerable sections of the population for the damage caused by the risks. Many developing countries have weak social insurance, such as no unemployment insurance. Even in more or less developed countries, insurance is very weak in two sectors of the economy: agriculture and small business"* (Stiglitz, 2003). Stiglitz's assessment of the reality of Georgia is still relevant today. There is no unemployment insurance in the country; agro insurance is provided with the state's participation, while small business insurance is almost non-existent due to inexperience in using risk management mechanisms.

The insurance market is imperfect, which are unlikely to adapt and act adequately to emerging risks in the global world in the face of existing risk attitudes, the low culture of information storage, and the financial constraints of potential insurers. We, therefore, believe in government support, which is widespread in European member states.

## CONCLUSION

The circle of problems identified based on the results of the market assessment of the risks and their management status, adequate risk response by the insurance market, use of insurance products provided by consumers, market indicators with insurance indicators is as follows:

- A deficient level of awareness of risk as a result of uncertainty in legal entities and individuals;
- Production - low level of knowledge of risk management methods of organizations;
- Neglect of industrial risk insurance;
- Difficulty in implementing a risk management system due to lack of professional staff;
- The problem of providing the necessary information for risk management due to the low culture of information storage;
- The impact of a low-risk culture on the development of the insurance market;

Eliminating existing problems is about raising risk attitudes, training employees to take responsibility for the performance of their functions, and the consequences of the expected risk of making a mistake. Introduce knowledge of risk definition and management methods in labour market requirements.

Sharing and introducing the experience of foreign countries in the enterprise to apply the expert method of risk management; Enhance information storage culture by monitoring quarterly or annual data. Get Mandatory requirement of the Corporate Code for private enterprises. This year, to protect the activities of Georgian state-owned companies from risks, a corporate code has been developed, a significant part of which is related to the introduction of risk management methods. By the aim of raising the listed insurance market indicators, the state must introduce compulsory insurance of enterprise property, business risks, personnel risks, and business disruption risks to avoid bankruptcy from financial and other risks of existing enterprises. This measure will change managers' approach to threats, increase the demand for insurance protection and eventually establish an effective risk management system.

Another example of the importance of insurance is a comment from Warren Buffett: "*Insurance may be a really good business. As a lens, he either enhances or highlights the manager's talent. Insurance is more than enough to demonstrate the abilities of the company's managers and owners; you must also know how to employ them effectively.*"

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