INSURANCE PROVISION OF LEASING MARKET RISKS IN GEORGIA

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Summary. Many leading countries in the world today successfully use such a form of lease relationship as leasing. In the conditions of developed market relations, Georgia was actively involved in the further development of leasing and its implementation in practice. One of the subsequent foundations of financial market development is the study of leasing relations and its insurance provision, because the effective development of the leasing market is impossible without its insurance provision, which in turn is an important factor of economic and insurance protection of business. Therefore, the study and detailed review of the leasing market and its insurance coverage allows us to see the current challenges in this field and ways to solve them.

The aim of the paper is to analyze the possibilities and challenges of the leasing market and its insurance provision in Georgia under the conditions of developed market relations, because leasing is a rather complex and comprehensive trade-financial system, which includes permissible and critical insurance risks and from which the parties participating in leasing relations need appropriate insurance protection.

The paper analyzes the stages of establishment, formation and development of the leasing market and its insurance provision in Georgia, as well as perspectives.

Keywords: Leasing, leasing relations, insurance market, insurance provision, insurance protection.

Introduction:

The commandment of leasing appears to us with a different content and its origin is connected with the United States of America. Leasing relationships play an important role in the economic development of the United States and are also widespread in various countries of the world, especially in Europe, and have a significant impact on the health and development of the economy of these countries.

In the conditions of the developed market relations, the demand for the development of leasing and its active implementation in practice has actively appeared in Georgia. The country first of all set the goal of developing leasing as a new economic category and its legal regulation. Leasing, as a different form of business activity, involves the right to use short-term and long-term production assets, which is secured by an insurance protection agreement and a schedule adjusted between the lessor and the lessee. Large commercial banks, as well as companies that own large financial resources and reserves, are often leasing companies.
This type of entrepreneurial activity requires fundamental research, because in recent years in Georgia, a lot of attention has been paid to the development of tools and tools necessary for business development, such as development of leasing companies, promotion and their insurance provision.

Development and regulation of leasing in Georgia at all stages arouses great interest of business entities. Therefore, the development of the leasing market and its insurance provision are facing the following tasks from the representatives of almost all areas of society:

- How developed is the leasing market in Georgia and does it ensure the growth of the country’s social and economic situation?
- How effectively do leasing companies operate in Georgia?
- To what extent does the insurance market provide effective insurance protection for the parties participating in the leasing agreement?
- What challenges do leasing companies face today and what are the prospects for the next stages of planned development and regulation?

In leasing relations, a special role is assigned to the insurance provision and insurance protection of the parties participating in the leasing contract, because the classical leasing structure mainly involves the participation of three parties: property producers, leasing companies, the same as the lessor, and the lessee. Due to the fact that the leasing contract includes immovable and movable expensive assets, the insurance entities ensure the financial security of the parties participating in the leasing contract as much as possible.

The growing rate of development of the leasing market contributes to the expansion of the production process and business in the conditions of developed market relations, therefore the development of the leasing business is a means of the development of the country’s economy and employment of the local population. It covers various areas of the economy and its successful activity is one of the indicators of economic stability in the country.

Review and discussion:

The development of leasing relations in Georgia began in 1997. Although the legal basis of leasing relations was not yet regulated at the state level, some leasing operations were still carried out. To regulate this area, a government agreement was signed between Japan and Georgia in 1997, according to which the Japanese side allocated a free grant of 4 million dollars for the development of the leasing market and regulation of leasing relations. In the following years, similar grants were allocated by China and Greece for the promotion of leasing activities. The first leasing company in Georgia appeared in 2001, and the law on leasing activities was prepared only a short time after the establishment of the company.

At present, the regulation of leasing activities in Georgia is carried out by the Civil Code of Georgia, and the insurance provision of leasing relations is carried out by the Law of Georgia "On Insurance". But the basis for the appearance, establishment and development of the first leasing companies in Georgia was the Law of Georgia "On Leasing Activities" adopted in 2002, which was declared invalid in 2011. A new concept for the development of leasing legislation is actively being developed, which involves the relevant government agencies and leasing company representatives, as well as foreign experts. The goal of the new concept is to further develop the leasing legislation and bring the leasing sector closer to the European Union and American leasing market. According to international experts and representatives of the leasing market, after the
improvement of the legislation, the field of leasing services in Georgia will become much more attractive. In international economic relations, the interdependence of partners in international leasing is regulated by the "Ottawa Convention on International Financial Leasing" adopted in 1998, which provides for insured property leased.

In the last period, improvement and development of the activities of leasing companies has attracted a lot of attention to the leasing institute. A number of factors determine the possibilities of the leasing market, and one of the leading factors is the dynamic development of the leasing business. The steps taken in this direction have a direct impact on the development and profitability of various types of business. Although leasing in Georgia is not yet properly developed, however, compared to a regular loan, it has many advantages: the subject of leasing is a means of security; Credit can be obtained not in cash, but in property; The leasing agreement is quite long-term, it is easy to sign and is associated with less financial costs.

The leasing market in Georgia is the only one where demand exceeds supply, despite the fact that both leasing services and credit resources in Georgia, as an alternative to leasing, are quite expensive. It is not accessible not only to small and medium-sized business entities, but also to large businesses, which in many cases refrain from leasing operations. It is true that 138 leasing companies are registered in Georgia, but in fact, most of them do not work. According to specialization, most of Georgia is engaged in car leasing, some - in household equipment, the rest in agricultural equipment, office equipment and construction equipment. Leasing firms are divided according to legal forms as follows: joint-stock companies-11%, joint liability companies-23%, individual companies-37%, limited liability companies-27.6%, limited partnerships and cooperatives-0.7% each.

As of today, three leading leasing companies operate in the leasing market of Georgia:

- JSC "TBC Bank" leasing company "TBCL";
- JSC "Bank of Georgia" leasing company "Georgia Leasing Company" (GLC);
- Independent leasing company "Alliance Group Leasing" (AGL).

If we look at the dynamics of the development of the leasing market, it is clear that in the last six years, including 2019, there has been an annual increase in indicators. In 2020, there is a sharp drop in the index, almost 12%, which was caused by the covid pandemic, and despite some further progress, the leasing market has not yet recovered the pre-pandemic situation. The leasing sector of Georgia, with a leasing portfolio of 500 million GEL, is about 1% of the country's GDP.

The dynamics of the leasing market according to the data of the last six years 2017-2022 looks like this: chart N1
As for the last five (2018-2022) years, the indicators of the three leading leasing companies operating in the leasing market of Georgia look like this: the first place is the leasing company "TBCL" of JSC "TBS Bank" with 66-82% and depending on the years Dynamics of growth, on the second - the leasing company "Georgia Leasing Company" (GLC) of JSC "Bank of Georgia" by 11-30%, and depending on the years, the dynamics of decline can be observed, on the third - independent leasing company "Alliance Group Leasing" (AGL) by 2-4% And depending on the years, a small growth dynamics is observed.

The indicators of the three leading leasing companies operating in the leasing market of Georgia in 2018-2022 look like this: chart N2

Among the risks facing the leasing market, we can distinguish:
- credit risks;
- insurance risks;
- currency (caused by exchange rate) risks;
- fraud risks;
- Various (including Russia-Ukraine war) risks.

The main goal of risk management is the smoothness of the existing processes in the leasing market and in the leasing companies themselves, which ensures compliance of the decisions made at different stages and levels with the level of acceptable and critical risks. The purpose of risk management is to determine the appropriate procedures for identification, evaluation and monitoring of existing risks and to implement its insurance.

Insurance risk is the most significant risk related to the customer and the third party. Its important component is currency risks and includes concentration risks, which implies the quality of the leasing portfolio and in turn is related to the social, economic and political situation in the country and the macroeconomic environment.

Insurance risks related to leasing activities and leasing assets caused by natural disasters, technical and technological factors, insurance incidents of a criminogenic nature and various accidents are usually insured. Periodically, the financial situation of the lessees is evaluated by monitoring the current debt and analyzing their financial reports. The main factors that the Company considers in determining whether a lease is impaired are its past due status, the financial performance and liquidity of the lessee and the value of the leased asset. Insurance costs in direct leasing expenses amounted to 5,302 million GEL in 2021, 4,859 million GEL in 2022,
and 2,752 million GEL as of six months of 2023. In the administrative and operational costs of leasing activities, property insurance costs amounted to 208 thousand GEL as of 2021, 136 thousand GEL in 2022, and 56 thousand GEL as of six months of 2023.

For insurance companies, the risk factor occupies a significant place in leasing relations. Financial assets are classified into insurance risk categories, taking into account the degree of internal and external risks:

- **Very low risk** – risks reflect a strong ability to fulfill financial obligations;
- **Low risk** – risks reflect sufficient ability to fulfill financial obligations;
- **Average risk** – risks reflect the satisfactory ability to fulfill financial obligations;
- **High risk** – risks that require proper monitoring;
- **Default** – risks in case of default, devalued by credit risk.

In the case of presenting a large amount of property through leasing, taking into account the quality of existing risks, insurance companies actively apply various forms of reinsurance and co-insurance to reduce risks, due to the fact that the value of leasing assets related to leasing activities is quite voluminous. Expert estimates show that the risk factor for the participating parties when signing a leasing agreement is about 30%.

Over the years, even the most superficial analysis of the leasing market in Georgia shows that the development of leasing companies cannot meet the market requirements. In society, there is very little awareness of the commandment of leasing and its understanding in order to distinguish the essence and meaning of the subject of leasing. One of the important moments when concluding a leasing contract is to determine the legal or material risks related to the subject of leasing. Business entities are cautious about signing leasing agreements, because they do not want to take an unknown risk in this direction and prefer bank credit. An important challenge for the leasing market in Georgia is the improvement of tax regulation and harmonization with European tax legislation. The value of leasing assets related to leasing activities is often so voluminous that it is a challenge for insurance companies and requires proper monitoring, especially in case of high (critical and catastrophic) risks. An important challenge of the leasing market in Georgia is the quality of service, since quality service ensures the success of the leasing business.

**Conclusion:**

In conclusion, it can be said that the development and expansion of the leasing market is an important factor in the development of the financial market in Georgia, the economic progress of the country, the simplification of entrepreneurial activity and the employment of the population. This type of entrepreneurial activity requires fundamental research, because in recent years in Georgia, much attention has been paid to the development of tools and instruments necessary for business development, such as the development of leasing companies, advancement and their insurance, as the most important factor for the protection of leasing companies, leasing assets and customers. It covers various areas of the economy and especially contributes to the strengthening of small and medium-sized businesses, so its study and detailed review allow to outline the current challenges and ways to solve them by developing a systematic strategy and tactics. There is a
need to increase awareness of leasing activities and increase business awareness of the benefits of leasing. Further strengthen the role and support of the state and improve the relevant legal framework. Special attention should be paid to the development and growth of small and medium-sized businesses in this direction.

Insurance provision of leasing relations actively contributes to the development of production and business in the conditions of market relations. Hence, it ensures further dynamic development of the leasing market and at the same time the insurance market.

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