Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

The Role of Risk Management and its Related Issues for Companies Economic Growth and Development of Insurance Sector: The Evidence of Georgia

Tea KBILTSETSKHLASHVILI*
Inara MAMEDOVA**

Abstract

This study provides information on the role of risk management in the insurance business. It presents different types of impacts that show us that every insurance company has to provide effective risk management process. Moreover, some major loss events in the history will be examined showing the possible outcomes.

Research question of this paper is: "What is the role of risk management for companies economic growth and development for insurance sector?"

H0- RM has an impact on economic growth and development of insurance sector

To find the answer to research question we analyze all aspects of risk management. We provide information about Georgian insurance market and overview of companies. Also we analyze impact on fund capitalization and economic growth. International standards and requirement for risk management are analyzed. In particular, the paper encompasses The Solvency Directive: European regulations for insurance companies by three pillar approach. And also to answer the research question we did comparison between Azerbaijani, Armenian and Georgian insurance markets.

Survey results show that, risk management, assessment and control is critical for organizations operations. It is important to define proper strategy and follow it in order to manage potential risks. Georgian market is developing and companies start to implement risk management function, however current level of managing risks is low.

Keywords: economic growth, insurance business, risk management
JEL: G01

Introduction

The insurance sector was absorbed in a constant process of renewal, powerful changes needed to adapt both to the new economic conditions and the increasing level of security, transparency and efficiency, which are increasingly in demand in financial markets and citizens. They are often in the enlarging uncertainty which surely leads managers and companies to pursue higher levels of defense with new paths to the practice of stability, control and risk management.

Risk Management asserts an extensive sight of risk and risk management meaning, that various dangers within an organization should not be handled solely. While managerial interposition is the driver of adjustments, the most outstanding Effective Risk Management (ERM) cultures are forward in reply to domestic affairs, such as unstable proceeds, over – assurance on models, meager value choice for repairing risk culture, governance, and quantification.

Whether tension derives from domestic and outer origins, there are increased interest to insurers from the side of clients, investors, auditors and business partners. The level of basic amenity that insurers can arrange stakeholders on their risk management capacities has a specific shake on the scope, extent and timing of risk-focused inquiry and checkup procedures.

Nowadays risk management potency is bettering, but still has some way to go to meet the forecast of Chief Executive Officer (CEOs) and Chief Reputation Officer (CROs). Difficult to analyze effectiveness and measure progress, but there are some ways that are developed to assist such tasks. Given the increasing complexity and interdependency of risks in insurance industry, the view of enterprise risk management and risk management has become the core issues for the insurance industry (Kleffner, 2003).

*Prof. Dr., Faculty of Business Management, International Black Sea University, Tbilisi, Georgia. Email: tea@ibsu.edu.ge
**MA, Financial Manager at LTD "Emba Trade", Tbilisi, Georgia. Email: inmamedova@gmail.com

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

Managing risk is at the heart of what an insurance company must do, because it is its business. Insurance companies make money by controlling different sorts of risks for persons, community and legal entities, the danger of decaying too youthful, abide losses due to synthetic or innate debacles, experiencing their assets, doomed the ability to proceed from function disruption, and so on.

The general aspiration of this article is to increase understanding of the concept and role of risk management and its' related issues for company's economic growth and development, identify major problematic areas, and develop competitive strategy.

- To know about various analytical tools that can be value in insurance sector.

- To understand risks that have vital importance in insurance industry and how to evaluate and analyse them.

Nevertheless, it is relevant to sign that the purpose of risk management is not to cancel risk and volatility, but to follow it and operate it. Risk management grants organizations to pinpoint and appraise their dangers; set risk patience based on their global corporate aims; and take the mandatory behaviors to regulate risk in light of those aims. When done correctly, risk management contributes to the conducting climate that abutments a heavy economic control and risk reduction, as well as a reasonable risk to take advantage of retail opportunities. Question then naturally arise: how does the insurance industry manage risks? This paper investigates to reply this question using proof from current scrutiny of the business. There is also proof to signify that insurers' risk management routine has been reconstructing considerably, and this is of course to be received.

Risk management instruments and routines across the insurance industry have ahead in position considerably in current years—and it's better thing they have. Such development and exercise of risk management programs, including financial capital models, more cultured management of disasters and active hedging programs, give priority to force the insurance industry to cope with their increasing uncovering to promising uncertainty in earnings and capital. These current adding to the industry's risk management arsenal are the latest proof of ongoing exertion to respond to alteration risk dynamics. In this paper we have tried to analyze the key risk management flows in the insurance business and distinguish how risk management forces the general rating process and the growth of capital necessities.

Problem Background

Regulatory and market forces create incentives for the Property and Casualty (P & C) and life insurance companies to the revision and improvement of strategies, processes and infrastructures for performance measurement and risk analysis.

Leading insurers assess risk management, aligning the risk management model in the business model and focusing on cumulative impacts (gross and net) and the product. This allows risk managers to understand their organizational savings across the business model and to reduce these impacts, both economically and efficiently as possible.

Insurers, which regularly evaluate, stress, and update their risk management capabilities, will be better outfitted to meet the belief of policyholders, shareholders and regulators, as well as their strengths in a competitive manner. This viewpoint explains how insurers can evaluate and adapt their risk management capabilities as part of an overall competitive strategy that includes:

- Periodic evaluation of risk management options in the light of the leading market practices and changes in business architectures;

- Technical assistance with the execution and management of improvement initiatives;

- Review of risk management options for executive management or board.

The problems that insurance company is facing in everyday life are some of them:

- The risk of pricing and underwriting is inadequate to solve the risk profile (s) of some of their accounts;

- Risk of solvency if there are clients who cannot pay;

- From an asset liability management view, the huge cash expenses produced by the destructive claims could upset the insurer's investment policy if such expenses are not cautiously trained;

- Problem of identifying of effective risk management. We have seen two classes of ways being used globally to scope risk management effectiveness. One approach likes to be emotional, principles-based and pliable, and the other ones to be more process-driven and rules-based;

- Inflation/deflation was a key concern for insurers and reinsurers;

- We have shown how an enterprise approach to risk management can be used by creating a binding cost, insurance policies, and the whole policy in the field of risk management. This policy includes a security assessment risks at the crucial level and legible methods to control these risks through initiatives, operational, capital structure and/or capital market (Global Risk Center, 2009);

- Finally, we showed how information technology can help achieve helping enterprise approach to security risk management. Such ways should assistance insurance executives to increase the best cash flow and more efficient management of cash efflux, which should lead to a higher level of value with time. But the development of such values is the aim of each business, insurance and non-insurance case.

Risk management as all business activities are connected to, starts with strategy. After the formulation of strategies, managers tend to set the control to enable them to carry out their strategy, using optimal cost factors and effective management of risks produced by these management drivers. Such often and most suitably revolves around the organiza-

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

tional structure, methods and facts (Crouhy, MarK, & Galai 2001).

Methods and Data Collection

According to the given literature it is obvious that different types of methodologies and researches are available to generate data and information relating to the particular topic. Some of them use classical "event-study" analysis to assess possible reactions of insurers to operational risk and the role of operational risk management as a part of company's strategy. There are no rules for the selection of research methods, nor does the best method of research, the use of each method depends on the form of research question, the research objectives and the contextual situation. Selection of the most suitable method of investigation is largely dependent on the goals and intent of research data type needed for the study. Combining both quantitative and qualitative research methods were more powerful than a single approach (Stewart & Cash, 2006) and very effective. For this research, as insurance market is developing in Georgia and it is difficult to conduct event-study or use historical information, we decided to conduct a survey using simple questionnaire. Interviews and questionnaires are effective tools to gather opinions, attitudes and descriptions. Questions included in questionnaire were easy to understand and did not require specific knowledge in operational risk management. Moreover, it gives us clear answers. However, small interviews were conducted with managers in order to get detailed information.

Insurance Industry and its Effect on Economic Growth

Functions of Insurance Companies and Economic Growth

Insurance companies, as part of the financial system, to perform a number of functions of the financial system, as well as through certain channels, which are recognized in connection with the development of endogenous growth models could contribute to economic growth. Simultaneous literature on the relationship between financial development and economic growth combine theory of financial intermediation and the two types of endogenous growth theory (Eikenhout, 2015).

Insurance and Economic Growth

Ensuring the protection, insurers could affect economic growth through the channels of marginal productivity of capital, technological innovation and the level of savings. Insurance companies reimburse.

With the possibility of transmission of various types of risks for insurance companies, the risk of adverse economic units more induced to buy goods and services, in particular, the higher the value. Thus, insurance supports the demand or consumption of goods and services, which stimulate production and employment and, finally, economic growth. Companies are exposed to various risks, liability, property, disability and illness of its employees and the lives of key employees have the ability to manage these risks by transferring the insurance companies. This allows companies to focus their attention and resources on their core business (Abrams, 2007). Thus, they are more willing and able to take a real investment, which leads to higher rates of economic growth. In addition, enterprises are encouraged to take not only investments, embodying existing products and production processes, but also those that include technological innovation. Namely, being innovative requires a willingness to take the risk. Although insurance, cannot change the attitude of the economic unit of risk (risk aversion does not change with insurance), plays a key role in the liberation of the spirit of enterprise. Thus, the insurance helps entrepreneurs take innovative and more profitable projects. Without metallization of risk pooling and transfer mechanisms that provide insurance companies, some economic activities will not take place and a positive impact on social security will fail. In other words, by creating a more secure environment, insurance promotes investment and innovation and economic growth (Phutkaradze, 2014).

The positive impact on economic growth through more efficient distribution of resources can be realized by reducing the social security burden. The increase of elderly people and falling birth rates, while at the same time, people have come to expect a high level of health care and pensions. This makes a lot of pressure on the social security system and could have a negative impact on economic growth. But private insurance companies can give their contribution to the social security system problems. They provide protection against the financial result of illness or injury, unemployment and retirement. Thus, insurance products such as life insurance and payment of health protection can replace the state safety program. Risk assessment is reflected in the price of insurance, and political conditions.

Comparison of Insurance Business of Three Countries: Georgia, Azerbaijan and Armenia

All countries, except Georgia introduced the unemployment insurance system and some active measures on the labor market, but the number of beneficiaries and benefit rates are extremely low. In order to prevent long-term unemployment, maintain employment and facilitate the reintegration of the unemployed return to the labor market, a significant increase in resources for active labor market measures, combined with improved design and targeting and strengthening employment services capacities are crucial. This refers to measures to create jobs, specifically, the promotion of a business friendly environment for small and medium-sized businesses, but also measures aimed at the supply side of labor market, and here, in particular the most vulnerable chain include women, the elderly and young people. Given the limited resources, capacity-building in monitoring, evaluation and impact assessment to measure the impact of active labor market measures are of crucial importance. In Armenia, a former State Social Insurance Fund was renamed the State Social Security Service and previously retained separate social insurance contributions have been included in the state budget in 2008 fiscal decentralization efforts aimed at strengthening the tax collection at the community level and at the same time some social responsibilities have also been shifted to the community level, but at the moment it is not clear whether all local authorities will be able to meet all its obligations. Basic social protection programs are financed by allocations from the central budget (Asian Development Bank, 2014-2018).

In Georgia, a former State Social Insurance Fund US stopped its activities in 2007 and was replaced by the Agency for Social Service, responsible for the management of almost all social security benefits, including pensions and means-tested social assistance payments.

In Azerbaijan, the benefits of social protection are implemented by two institutions: the benefits of contributions under the jurisdiction of the State Social Protection Fund, while social assistance benefits means-tested managed directly by the Ministry of Labor and Social Protection of Population. In the case of Azerbaijan State Social Protection Fund has main role, in particular in relation to modernization of the pension system management, which is considered in the country as an important pre-condition for the implementation of further reforms. In Armenia and Georgia, however, detached pension management institution established at an earlier stage was dissolved. Pensions in both countries are invested directly from the state budget. By this, the financial autonomy of the institutions of social security has been limited, and the administration was more closely associated with the government.

The Solvency Directive: European Regulations for Insurance Companies

Different sectors have different regulations. In this chapter the European regulations will be described as put down in the Solvency Directive. The Oxford Dictionary defines solvent as: “Having assets in excess of liabilities; able to pay one‘s debts”. The solvency ratio in insurance companies refers to the amount of capital available compared to the premium written. After the description of the Solvency Directive, the link between ERM and the Directive will be made.

In the European Union (EU) there are centralized regulations for the solvency of the insurance industry. These regulations have been put in place to protect the consumers against the risk of insolvency of insurance companies. The EU‘s solvency regime was created in the 1970‘s and contained a specific set of outlined solvency requirements. In 2004 the Solvency I project came into effect. The Solvency I regulations did not differ very much from the earlier regulations, focusing on calculations of the solvency margins. Solvency I can be seen as a robust and easy to understand system which is inexpensive to monitor. The downside of this system is that it is mainly volume based and not explicitly risk based.

To really change the regulations, the Solvency II project was started in 2001. When Solvency II comes into effect in 2016, it will replace multiple insurance directives currently in place. The key objectives of Solvency II include an improved consumer protection, modernized supervision, a deepened EU market integration and an increased international competitiveness of EU insurers.

Solvency II is not just about capital requirements. A lot of risk management aspects are covered in the Solvency II program. Different aspects are covered in the three different pillars; 1) Capital Requirements, 2) Governance & Supervision and 3) Enhanced Reporting and Disclosure.

Fund Mobilization by Insurance Companies and Fixed Capital Formation

Finance is the life of any business organization. Business organization cannot function effectively if funding is not handled properly. They require a proper planning, control and decision-making in relation to financial issues of any organization. Insurance companies also require the proper use of financial resources. Insurance is a contract between the insurance company (insurer) and the insured (the insured) in return for a fee (premium). The insurance company promises to pay a certain amount to the insurer or at a later stage, or upon the occurrence of a specified event. Insurance companies differ from mutual funds in the context that: while the main business of the former is to ensure the protection of the risk and investments in securities, it is incidental to the principal to provide protection against the risk function. Accordingly, insurance companies invest their funds in the stock market, money market, bond and gilt market. An important function of financial intermediaries, such as insurance companies in the economy is to mobilize resources at all levels of income and geographic areas adequately, timely and cost-effectively. That is to mobilize savings from the savings surplus economic units of the same channel saving deficit economic units, such as the business sector. Thus, insurance companies are selling their commitment to raise funds to be used for acquisitions commitments (Bodie, Kane, & Marcus, 2005). Insurance companies raise funds through the sale of policies and adoption of savings deposits and adequately invest those contributions in a variety of forms of investment security. Insurance companies differ from other companies is that their assets and liabilities are overwhelmingly financial nature, but the investment can be specifically and collectively translating into growth of capital accumulation in the economy.

The Enterprise Risk Management - Integrated Framework by COSO

Prior to the introduction of the ERM – integrated framework, COSO had successfully introduced the Internal Control – Integrated Framework in 1992. After seeing the need for a framework to effectively identify, assess and manage risks, the COSO initiated a project in 2001 to develop a framework for evaluating and improving the ERM.

To maximize value, management needs to set strategy and aims to optimally return goals and balance growth and related risks. The following 6 capacities basic to ERM will assist management to reach firm‘s performance targets while preventing loss of resources. Management needs to align risk appetite and strategy by considering the firm‘s willingness to take risks in evaluating different strategic situations. Related objectives need to be set and mechanisms need to be developed to manage related risks.

ERM will enhance risk response conclusions by assisting in recognizing and appointing other risk responses such as risk reduction, avoidance, sharing, and acceptance.

By implementing the ERM, the firm obtained an increased ability to identify potential events and establish responses, reducing surprises and operational losses.

Companies face risks in different parts of the organization. ERM helps to identify and manage multiple and cross-enterprise risks by promoting an effective response to the interrelated impacts of these risks.

Considering the full range of potential events, management is positioned to identify and actively implement the features.

ERM also assists in improving the deployment of capital. After receiving reliable information about the risks, management can effectively assess the overall capital needs and improve capital allocation.

The first dimension is the achievement of objectives. The four categories in which objectives will be achieved are shown on the top of the cube. The classification of aims admits a focal point on 9 separate aspects of ERM. Objectives relating to newsgathering and agreement are within the entity‘s control, while strategic and operation objectives are answerable to extrinsic events not always under the entity’s control.

The second dimension includes the eight completing components of ERM and is shown on the front of cube. These components are derived from the management company and are able to work and integrated into the management process.

The entity’s units are depicted in the third dimension on the right side. The three-dimensional image of ERM model portrays the ability to focus on the overall economic entity in the ERM, on all three dimensions, or for the purposes of categories, components, essentially a unit, or any subset of it.

Research Methodology

We have described the methods selected for analysis from a selected perspective and data collection, and the reasons for why these methods were chosen in comparison to the other alternative methods. Analysis includes working with the data, their organization, breaking them down into manageable units, synthesizing them in the search for models to discover what is important and what needs to be learned, and decide what you will say to others. We use interviews and questionnaires and also we analyze our research question through Two Sample t-Test with different dispersions and regression models. Many researches were made about this question and one of them was made by Ward and Zurbruegg (2000), they used the Johansen trace test and the maximum co-integration and Granger Causality equation. Co integration Test results have shown that in most cases there is a long-term relationship between the size of the insurance market and economic growth. The research question is: “What is the role of Risk Management for Companies Economic Growth and Development for Insurance Sector?” Thus, in order to find the answers to these questions based on empirical observations we have selected this specific subject as our choice of study.

Preconceptions

In order to be objectively involved in the work we needed to have certain pre-involvement or interest in the field of study. This helped us choosing the appropriate methods and tools for data collection and analysis. Setting objectives was not an easy task, and for our study we had to go through a lot of discussion in order to specify our objectives for this study.

The purpose of the paper was to investigate impact of risk management on insurance industry and by the way, the impact of insurance industry on economic growth. This issue has a special meaning for investment and for transitional countries, which are developing their growth policy. The research also includes statistical review of insurance companies in Georgia.

In the presented research we will use the hypothesis testing and qualitative approach because we think they are the best approaches that have a link with research methods to answer our research questions. We start with the questionnaire and interviews that we conducted in insurance companies. Then we analyzed their answers and started to test hypothesis and regression model. To answer research paper we use several ways in order to get efficient and right answer. Contribution to the knowledge would be made when the findings are not in accordance to the theoretical framework and reasons are provided by the respondents to support their views or opinions of rejecting particular observations/findings.

Data Collection

Our data collection was initiated with the secondary data sources, on the basis of which our theoretical framework was constructed. Finding exactly specific and relevant secondary sources in accordance to the chosen research question is a complex activity, as it is a tough job to find objectively same previous or current work. But reasonably relevant secondary sources have been identified and included throughout the thesis work.

For primary data collection we have opted for face-to-face interviews. We carried out semi-structured interviews from the respondents based in Tbilisi, Georgia. Semi-struc-

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

tured interviews provide the researcher with the ease of producing a list of questions on specific topics, which are formulated into the interview. We used open-ended questions in the semi-structured interview, as it provides much more room to the respondents to express their views and reasons. In semi-structured interviews, the order in which the questions were asked might vary, but it is preferred to keep track of the questions in the same order as in the interview.

Sample Selection

This study focuses on the approach of risk management of insurance companies in Georgia towards economic growth. Our sample is the respondents from insurance companies which are operating in Georgia. All the samples are selected from Tbilisi, Georgia (approximately 12 insurance companies).

Firstly, we are going to conduct the research in the following way: we will approach the insurance companies operating in Tbilisi and we would try to interview their Chief Financial Officers (CFOs), accountants or managers. Grouping all the different nature companies into one set would complicate the data analysis and drawing appropriate unbiased conclusions would be difficult.

Our research purpose was to discuss about the relationship between risk management, insurance companies and economic growth and we collected data through semi-structured interview and identified the result which replied to our research question.

Research Results

Thus, the functions of insurance companies - providing the means of risk management and of resource mobilization and allocation - are essential for economic growth. The results are confirmed in terms of life and non-life insurance and general insurance, even after controlling for other determinants of economic growth and endogenous. These data are consistent with the arguments of the theory linking finance growth. The results may be suggestive for the policy makers of the insurance sector. The key to the implementation of policies that are going to provide institutional improvements, stimulate competition and increase efficiency, especially in the field of risk management, as well as the development of new products of insurance companies. Countries that are associated with demographic problems and problems with the social security system should continue to implement incentives to encourage greater participation of insurance companies in addition to providing private pension and health care public positions. The insurance sector will better contribute to economic growth.

According to questionnaires, we get some results that show us Risk Management unit exists but it needs improvement. According to the answers to the Question, if the company has trainings, and if workers know new methods of RM process, we conclude that insurance companies in Georgia get trainings and event practices about RM to their employees, 56% employees response that they have trainings and get new information about identifying and reporting risks. It means that efficiency in insurance companies in Georgia is at satisfactory level. 42% of respondents identify Risk Manager for accountability for results of top risks, this means that RM unit exists and clear responsibility is defined. 56% of respondents analyze that Risk Managers and their department manage its top risks effectively because all companies have their Year-end report, which shows how they effectively manage premiums and risks to get this premiums. 56 % of workers see that efficiency is the main benefit of their company. 34% of managers of insurance companies response that Risk Management in Georgia requires improvement in analyzing the risk. In analyzing data they don’t make right time management, because of it 34% of respondents said that this step of RM process needs improvement. Compliance management and operational risks are highly important. Moreover, enterprise risk management has high level of effectiveness as well. We can assume that, managers defined the right risk types and identified their effectiveness positively.

At the beginning of the article, we get the hypothesis tested: RM has a force on economic growth and advancement of the insurance industry. Thus, we support the H0. To get this response, we tested it using regression models for the two measures on asset recovery, and one measure for return on equity. In these regression models two indicators: ERM, ERMRC and ERMBOARD, two Sample t-Test with different dispersions were used. These indicators assess the implementation of ERM.

When testing these hypotheses, the null hypothesis is being supported, until it is significantly rejected (Moore & McCabe, 2005). This means that until the alternative hypothesis could be supported, the null hypothesis cannot be rejected. For this research, this means that the hypotheses are only supported, when there is significant evidence for that. In the case that the results are not significant, the null hypothesis is supported. For this research, this means that if there is no significant evidence for a positive effect of RM implementation on firm performance, the null hypothesis is rejected that it does not have an effect. With the results of the regression models, the hypotheses could be tested. The test used to determine whether the hypotheses are accepted or not, is called the t-test. In such a test, it is determined whether the sample mean is significantly different from the hypothesized mean, in this case > 0, based on a certain confidence level. A confidence level gives an indication about how much of the total population will fall into that sample. When a confidence interval of 5% is used, 95% of all observations that are done within that population will find the same conclusion.

In this case, a confidence interval of 5% is used, based on other researches In this case, the first hypothesis in this research will be accepted when the β for ERM and performance is > 0, within the confidence interval of 5%.

Further, the hypothesis for the nonlinearity will be accepted when the β for ERM2 and performance is > 0, within

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

the confidence interval of 5%. The same goes for the influence of the financial crisis on RM and performance, which is accepted when β is > 0 between ERM and performance, when the financial crisis dummy counts 1.

Two independent variables are chosen: insurance premium and GDP. Confidence interval of 5%

T critical = 1,78

D= 6

T critical two side = - 2,57

-1,78>t6>-2,57

Accepted Ho: Development of insurance sector has an impact on economic growth.

Conclusion

Currently, the organization increased its recognition of the importance of operational risk management. Identifying and understanding the operational risk management will help to make more effective strategies and long-term planning. This document contains information on RM role in insurance market in Georgia. These indicators assess the implementation of ERM.

We analyze that Risk Management is in developing stage in Georgia, but take place a big role in insurance industry. Through our questionnaires and regression model we conclude that economic growth also is depended on risk management in insurance industry.

RM is important for all stakeholders of the insurer (insurers, investors and supervisors), as well as the overall stability of the system. Insurers have long run their underwriting of risks, but the science of managing all of their risks of work (the ERM) is still fairly new (though he quickly develops). While insurers will find significant value in the evolution of quantitative approaches to risk management, the benefits of quality approaches for certain types of risk should not be underestimated.

We recommend that the process of RM should be modernized so that a direct connection between the output of ERM model and an EBIT, which is the principal sign of the effectiveness of the company, is settled. The organization acquired the software risk provision, which different models. By determining the risk list, the company didn't change direction in favor of the many extra features than software. Main characteristic of the software is to conduct a risk analysis in accordance with certain probabilities for the various attainable consequences for each determined risk. This characteristic has been incapacitated, because the model risk in the company only wants the aggregate likelihood of each determined risk. Thus, it should be favorable to improve the risk model so that the various attainable consequences for each determined.

Risk management regularly has become main management activity. Organizations that appreciate their risks better than their rivals are in a very favorable place to attract risk of competitive advantage. Greater ability of risks provides the strength to deal with the risk that threatens rivals design situation better than the competition, as well as for risk management at the lowest cost.

In addition, we recommend considering the future consequences of current policies aimed at increasing foreign direct investment and economic growth. In addition, there should be an effective mechanism for risk transfer and financial intermediation, which allows the policyholder confidence in the strength of risk management, as they focus their attention on the enterprise, which can lead to real financing and growth. Finally, the government should make policies that preserve both insurers and insured persons in the country, as it will stimulate people to take care of the insurance companies and to encourage companies always pay genuine claims promptly.

In summary, understanding the risks and risk management should be much improved - senior executives and board members should have more knowledge of risk management, which will help them to keep up with other business and innovation processes.

References

Abrams, C. V.T. (2007). Optimized enterprise risk management. *IBM Systems Journal,* 46 (2), 219-234.

Asian Development Bank. (2014-2018). Azerbaijan risk assessment report and risk management plan. Retrieved from https://www.adb.org/sites/default/files/linked-documents/cps-aze-2014-2018-sd-03.pdf

Bodie, Z., Kane, A., & Marcus, A. (2005). Investments (6th ed.). McGraw-Hill Higher Education, California, San Diego.

Crouhy, M., Mark, R., & Galai, D. (2001). Risk management. McGraww-Hill, New York.

Eikenhout, L. (2015). Risk management and performance in insurance companies (Master thesis, University of Twente, Netherlands). Retrieved April 15, 2016, from http://essay.utwente.nl/66625/1/Eikenhout_MA_MB.pdf

Global Risk Center. (2009). Enterprise risk management: A driving force for the insurance industry. Retrieved January 19, 2016, from https://www.scor.com/PandC_docs/SCOR_FocusERM_102009.pdf

Kleffner, A. L. (2003). The effect of corporate governance on the use of enterprise risk management: evidence from Canada. *Risk Management and Insurance Review,* 6(1), 53-73.

Phutkaradze, J. (2014). Impact of insurance market on economic growth in post-transition countries. *International Journal of Management and Economics,* 44(1), 92–105.

Stewart, C. J.., & Cash, W. B. (2006). Structuring the interview. McGraw Hill.

Ward, D., & Zurbruegg, R. (2000). Does insurance promote economic growth? Evidence from OECD countries. *The Journal of Risk and Insurance,* 67 (4), 489-506.

Appendixes

Among Employees

When we hold questionnaire, we got very interesting picture:

Question 1: Do all employees get some information and training on identifying and reporting a risk? Is there a risk reporting "hot-line"?

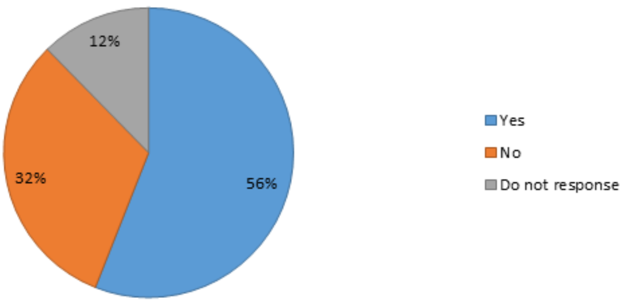

Figure 1. Getting Training on Identifying and Reporting a Risk

This question shows how often companies do trainings to their employees, and if they know new methods of RM process. Also, we conclude that insurance companies in Georgia get trainings and event practices about RM to their employees, 56% employees' response that they have trainings and get new information about identifying and reporting risks (see Figure 1).

Question 2: Who owns the top risks and is accountable for results, and to whom do they report?

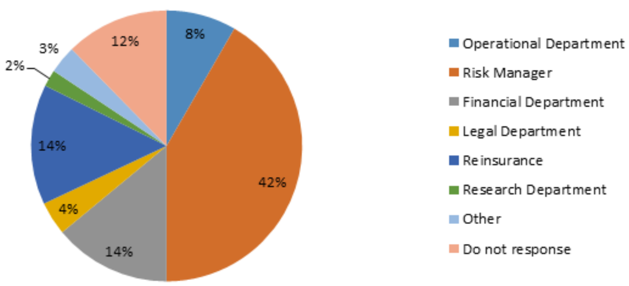

Figure 2. Owning the Top Risks and Accountability for Results

42% of respondents identify risk manager for accountability for results of top risks, this means that RM unit exists and clear responsibility is defined (see Figure 2).

Question 3: How effective is the company in managing its top risks?

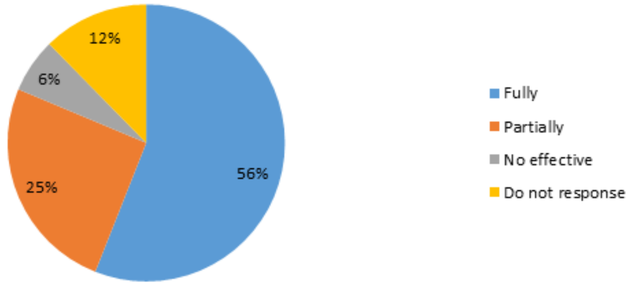

Figure 3. Effectiveness of Managing Top Risks

56% of respondents analyze that risk managers and its department manage its top risks effectively because all companies have their year-end report, which shows how they effectively manage premiums and risks to get this premiums (see Figure 3).

Question 4: Do you have in company positive culture for controlling risks? (see Figure 4).

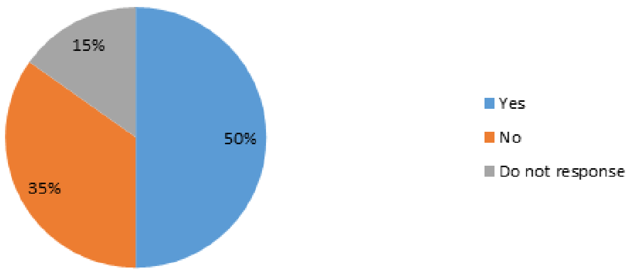

Figure 4. Having in Company Positive Culture for Controlling Risks

Question 5: Are your company's risk management capabilities continuously improving to ensure "we are managing our risks effectively in a changing business environment".

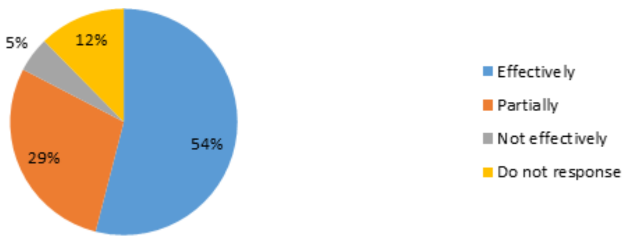

Figure 5. Effectiveness in Managing Risks

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

This question shows how insurance companies managing their risks to innovations and 54 % response that they manage it effectively. It is positive side of this question (see Figure 5).

Question 6: What benefits have you received from your RM framework?

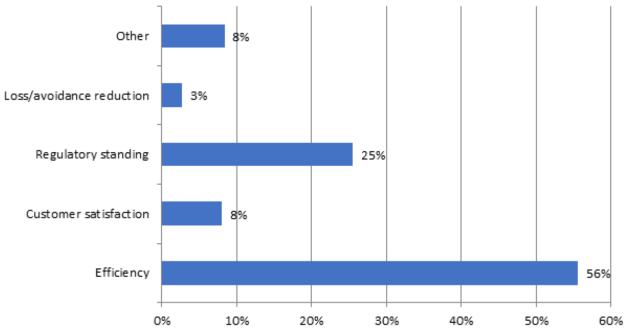

Figure 6. Benefits from RM Framework

Shows that Georgian companies which have RM system clearly see the benefits from RM framework and 56% answered that their main benefit is efficiency (see Figure 6).

Question 7: Rate your level of agreement with the following statements (see Figure 7): (1=strongly disagree, 5=strongly agree, 3 = neutral).

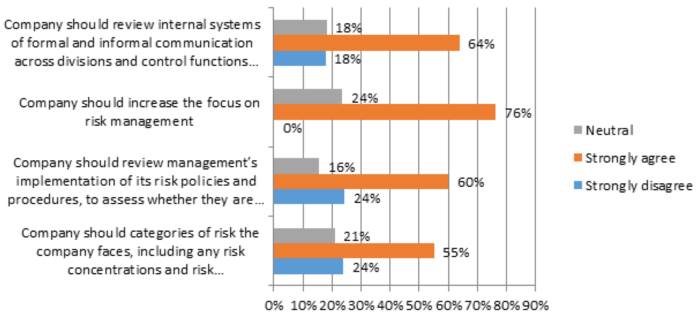

Figure 7. Rating of Statements

Among Management

Question 8: Does the organization's ethics are managed effectively through building an ethical culture, setting ethics into its risk management, operations, performance management and disclosure (see Figure 8)?

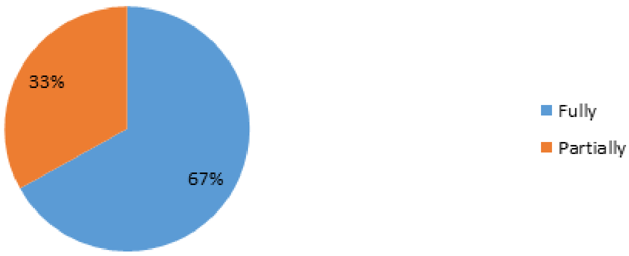

Figure 8. Managing Ethics

Question 9: Does the board comment in the integrated report on the effectiveness of the risk management system and process (see Figure 9)?

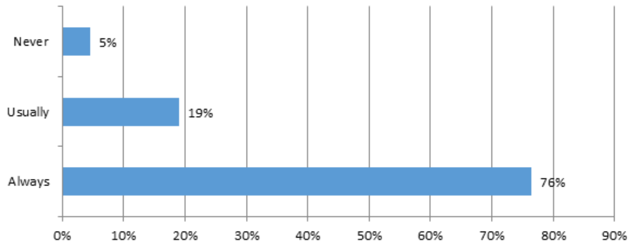

Figure 9. Reporting Effectiveness

Question 10: Does organization determine the levels of risk tolerance (annual risk tolerance to be set with risk limits and appetites) (see Figure 10)?

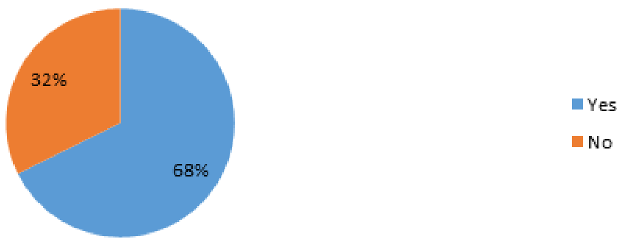

Figure 10. Risk Tolerance

Question 11: Does the organization ensure a framework for anticipating unpredictable risks (see Figure 11)?

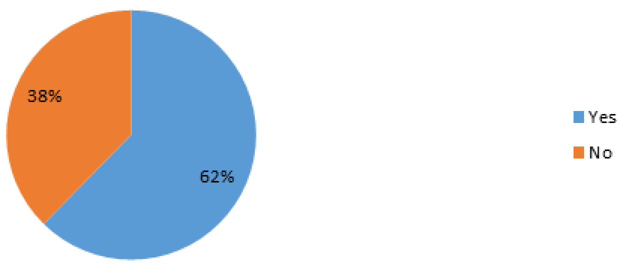

Figure 11. Framework for Anticipating Unpredictable Risks

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

Question 12: Define the level of significance of the following criteria to your risk management program (1= high significance, 2= low significance, 3 = medium significance, 4 = undefined) (see Figure 12).

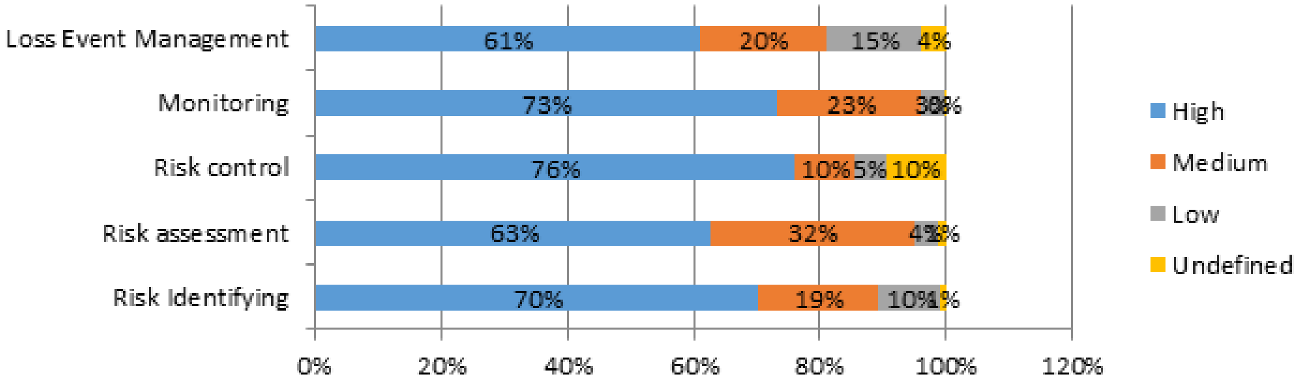

Figure 12. The Level of Significance of the Following Criteria

Question 13: What are the top risks for the insurance industry (see Figure 13)?

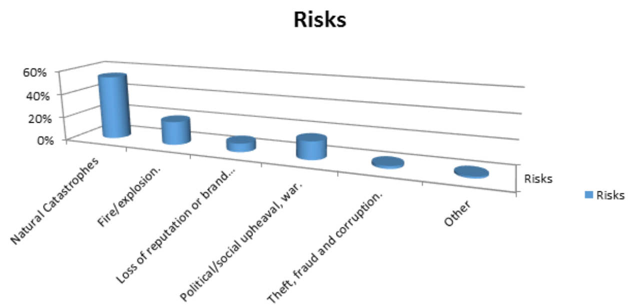

Figure 13. Top Risks

Question 14: For which decisions does the company use RM (see Figure 14)?

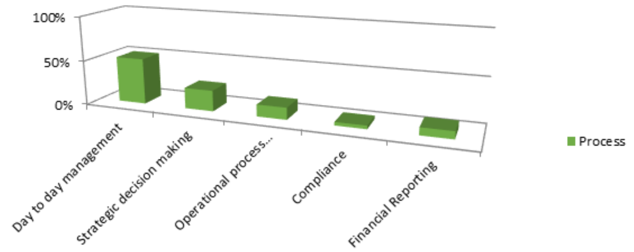

Figure 14. Using of RM

Question 15: What areas of risk management process require improvement the most in your organization? (Select all that apply)

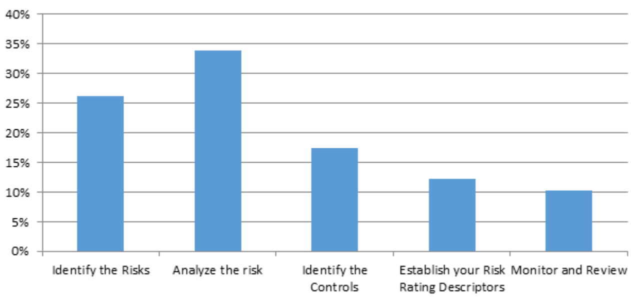

Figure 15. Areas of Risk Management Process that Require Improvement

We see that 34% of Risk Management in Georgia requires improvement in analyzing the risk. In analyzing data they don't make right time management, because of it 34% of respondents said that this step of RM process need improvement (see Figure 15).

Question 16: What is the time interval for risk assessment review in your organization?

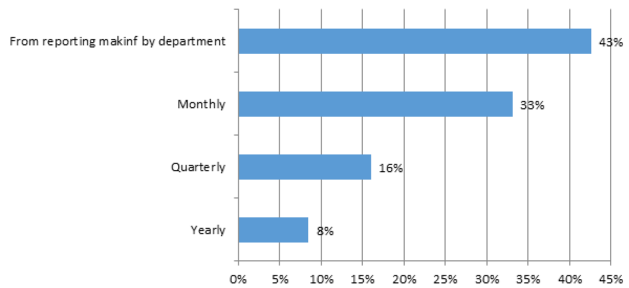

Figure 16. Risk Assessment Review

This question show that 43% managers do their job from reporting making by department, they do not have definitely

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 5, Issue 2, 2016

time to review of risk assessment. From one side, it may be negative side of this action (see Figure 16).

Question 17: Define the effectiveness of your risk management systems in the following (1 – effective, 2 – partially effective).

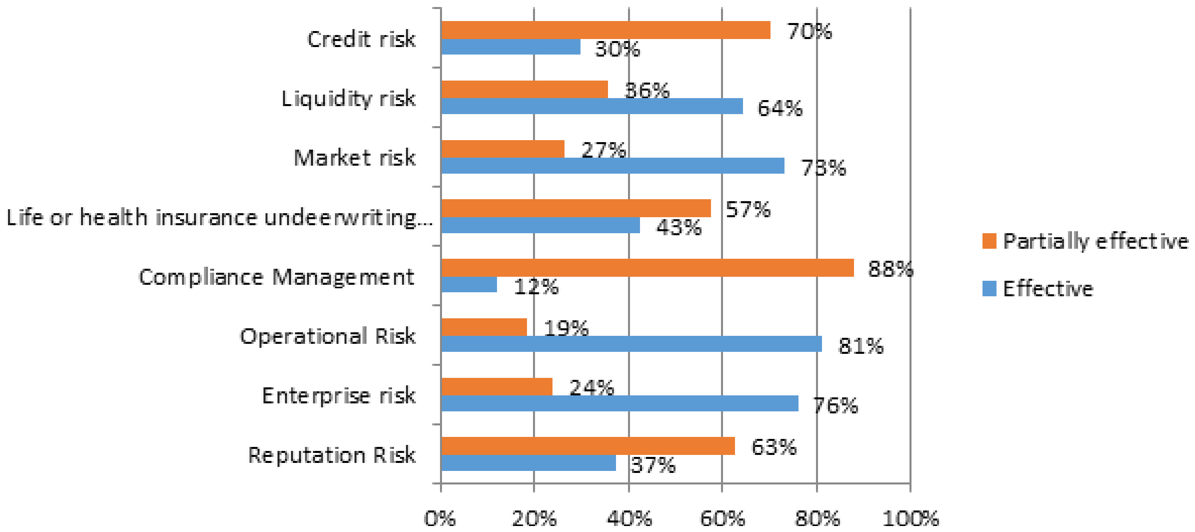

Figure 17. Effectiveness of Your Risk Management Systems

In this question, different types of risks were listed and managers had to choose effective ones and define their effectiveness. As a result, we see that compliance management and operational risks are highly important. Moreover, enterprise risk management has high level of effectiveness as well. We can assume that, managers defined the right risk types and identified their effectiveness positively (see Figure 17).