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INSURANCE AS AN ELEMENT OF RISK MANAGEMENT IN THE CONTEXT OF MODERNIZATION OF THE ECONOMY OF THE REPUBLIC OF UZBEKISTAN

RUSTAM SODIKOVICH AZIMOV

Abstract

The liberalization of the Economy of the Republic of Uzbekistan, which began in 2017, has a great stimulating effect on national insurance market, on the qualitative and quantitative parameters of its development. And it also requires the development of specific methodological approaches to the further development of the insurance mechanism as the main element of the risk management system.

Keywords:
Insurance, Risk management, Insurance Market, Risk Assessment

Author correspondence:
Rustam Sodikovich Azimov
Candidate of Economic Sciences, General Director of JSC "Uzbekinvest Export-Import Insurance Company",Tashkent, Uzbekistan
Email: *office@uzbekinvest.uz*

INTRODUCTION

Despite the fact that today insurance covers an ever-wider range of insurance risks peculiar to the modernizing economy, understanding the insurance nature as the element of legal entities and individuals' risk management system in the context of modernization of the economy of the Republic of Uzbekistan requires development of specific methodological approaches in its study. The urgency for considering these aspects grows because in a modernizing economy risk management is a task that cannot be solved only with the use of insurance.

Risk management is an extremely broad subject and risk management methods might take various forms. The risk management sphere includes safety precautions, personnel training, medical care, purchase and sale of assets, introduction of computer systems, and protection of buildings, as well as combination of other measures which efficiency is directly determined by

the nature of particular entrepreneur's economic activity and risk types typical for such activities[1].

In a modernizing economy, risk management is of particular importance due to the serious complication of the risk environment and the urgency to take measures to mitigate the consequences of multiple risks occurrence. Risk management is of priority for improving the efficiency of legal entity business as a whole, as well as one of the main areas for improving the quality of individual's life.

LITERATURE REVIEW

It is generally recognized that insurance is an economic category that reflects the totality of specific distribution and redistribution relations of a specially created insurance fund to overcome or compensate for losses inflicted on material production and living standards of the population as a result of the realization of any previously specified danger.

Insurance is also considered as a financial product that is produced and sold by insurance companies. The purpose of insurance is to overcome the financial consequences of certain risks and, if possible, to help prevent the realization of insurance risks. The objects of insurance are material values, life, health and working capacity of citizens. The subjects of insurance are specific objects or specific events that are associated with risk [1].

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The risk has two important characteristics: first, the probability of the realization of any danger; secondly, the extreme nature of adverse consequences from the realization of this danger. Therefore, risk management should be understood as a target process for predicting risk events, choosing a

[1] Архипов А.П. Страховой менеджмент. Москва, Юрайт, 2021 г. с.128

method of influencing them, implementing this impact, monitoring and adjusting methods and actions [4].

RESULT AND DISCUSSION

At the present development stage, it is accepted that risk management is based on the following principles:

- objectivity (the presence of the possibility of unfavorable outcome independent of the will and consciousness of person taking the risk. Besides, risk management should be based on scientific skills and, ultimately, be related with the protection of property interests of a particular legal entity or individual);
- comprehensiveness (full consideration of existing threats for their adequate assessment);
- continuity (the need for constant monitoring and risk control in the context of changing risk environment);
- feasibility (economic effect of risk management should significantly exceed the costs of their implementation).

The main goal of risk management is to obtain reasonable confidence degree in accuracy of the decisions made as well as to reduce the uncertainty in regards to consequences of such decisions. Accordingly, the main task when launching risk management system should be the formation of decision-making algorithm based on a systematic and objective analysis of facts, processes and trends.

Methodological aspects of the insurance development as an element of risk management in the context of modernization of the economy of the Republic of Uzbekistan are related to the main elements of the risk management process (Fig. 1.). The risk management process elements, even being specific, do not have strictly defined borders. They are closely interconnected with each other, and each one is not only dominant, but also subordinate in relation to another element [5].

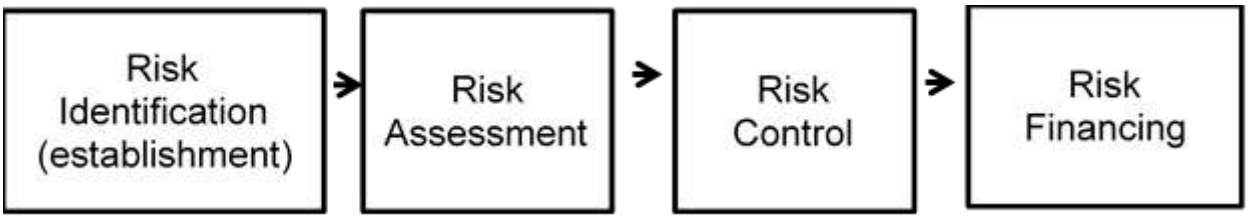

Fig. 1. Risk Management Process Elements

Sourse: author's analysis.

Risk identification is the systematic use of data to identify threats related to risk issue or problem description. Information may include historical data, theoretical analysis, reasonable opinions and concerns of interested parties. Risk identification answers the question “What could go wrong?”, including finding possible consequences. It forms the basis for further steps in risk management process.

Risk identification (impending danger) before its occurrence is the important objective of the risk management process. When insuring, the policyholder (insured person) can himself influence the subjective risk factors. Risk identification, as a rule, is carried out by the insurer independently or with involvement of special experts (insurance surveyors). With their help, risks are identified and the nature of their impact on insurance object is established.

After the risk is identified by the policyholder and insurer, the parties proceed to agree on the coverage amount. To do this, it is necessary to carry out the next stage of the risk management process - to assess its value. Assessment (risk analysis) is the risk measurement associated with identified perils. It is a qualitative or quantitative process linking the occurrence probability and the loss severity. In some risk management tools, the ability to detect damage (detectability) also influences the risk assessment. Risk assessment compares identified and analyzed risk with the given risk criteria. Risk assessment considers the evidence weight in relation to all three fundamental questions.

In performing effective risk assessment, the reliability of the data set is important as it determines the quality of the conclusions. Clear assumptions and justified uncertainty sources will increase confidence in the result and/or help to identify their limitations. Uncertainty is due to a combination of incomplete knowledge on the process and its expected or unforeseen variability. Typical uncertainty sources include knowledge gaps, scientific research and process understanding gaps, loss sources (eg, process failure modes, variability sources), and the probability of problems being detected.

The risk assessment result is a quantitative risk measure or a qualitative description of the risk range. If the risk is expressed in quantitative terms, numerical probability is used. Alternatively, the risk can be expressed using qualitative descriptors such as “high”, “medium” or “low” which needs to be formulated in as much detail as possible. Sometimes the "risk score" is used to further define descriptors when ranking risks. In quantitative risk

assessment, risk measure defines the probability of certain consequence taking into account a number of circumstances generating risk. Thus, quantifying of risks is useful for one particular consequence.

Alternatively, some risk management tools use a relative risk measure that combines several severity levels and probability into a final measure of relative risk. At intermediate stages of the calculation process, a quantitative risk measurement can sometimes be used.

Risk (potential losses) assessment in modern conditions is difficult due to inflation and its unpredictable trends, instability of economic and political situations. However, this assessment is inevitable and includes: determining risk type, determining its occurrence frequency and monetary value. The basis for calculations is mainly statistical data, primarily, the policyholder data. In addition to them, the insurer uses its own statistical information on similar insurance objects. When determining the amount of the sum insured, it is important to determine the value of the maximum possible loss for insurance objects as a whole and for its individual parts. The insurer needs this indicator when defining the share of his participation in insurance, self-retention, reinsurance.

Various methods are used to assess risk in insurance practice. The most famous of them are: the individual estimates method, the average values method and the interest method. The individual estimates method is applied to risks that cannot be compared with the average type of risks. The insurer makes an arbitrary assessment reflecting his subjective view and existing experience. Due to the emergence of new insurance objects with a high value, the significance of this method grows when concluding the insurance agreements.

For the average values method, it is typical that individual risk groups are divided into subgroups, and this creates an analytical basis for determining the insurance cost by risk characteristics (for example, the technological cycle type, the insurance object book value, and etc.).

The interest method is the combination of discounts and markups to the available analytical base, depending on the possible positive and negative deviations from the average risk type. The discounts and markups used are expressed in a percentage (or per mile) from the average risk type.

Risk prevention (control) includes organizational and technical measures taken in order to minimize the loss when accepting risk for the insurance, during the agreement period and when settling claims (in case of

insurance event). Risk control includes making decisions to mitigate and / or accept risks. The purpose of risk control is to reduce risk to an acceptable level. The efforts to control risk should correlate with the risk severity. Decision makers can use a variety of processes, including cost-benefit analysis, to understand the optimal level of risk control.

Risk control could focus on the following questions:

- Is the risk above acceptable levels?
- What can be done to reduce or eliminate risks?
- What is the reasonable balance between benefits, risks and resources?
- Do new risks emerge as a result of identified risks controlling?

Risk mitigation focuses on the processes of mitigating or avoiding risk if it exceeds defined (acceptable) level. Risk mitigation can include actions to mitigate the loss severity and probability. Processes improving risk identification can also be used as part of risk control strategy. The implementation of risk mitigation measures can lead to the emergence of new risks in the system or increase the materiality of other existing risks.

Therefore, it may be justified to revise the risk assessment to identify and assess any possible change in risk after the implementation of the risk mitigation process.

Measures to prevent the insurance event occurrence and eliminate its consequences are carried out by the insured and the insurer separately, as well as jointly. The aggregate of any activities should be weighed against the expected results. The costs of risk control incurred by the insurer are divided into three parts:

- costs directly related to the establishment of risk control and prevention of losses;
- inevitable losses that cannot be foreseen and prevented at any circumstances including measures of careful risk control;
- administrative costs related to risk control.

Despite the control effectiveness, there are insurance events that cannot be prevented or reduced. Besides, there are risks for which the costs for reducing insurance events probability will turn out to be unreasonable since they will exceed the possible loss. In this regard, risk financing is necessary being the final stage of the risk management process.

Risk financing is the allocation of funds for self-insurance, mutual insurance and insurance in order to protect property interests in case of certain events.

Risk financing on account of monetary funds formed by insurers from insurance premiums paid by policyholders is preferable since it is least expensive. However, this circumstance does not at all exclude that, for example, a supplier or carrier may leave the risk on its own responsibility or carry out mutual insurance jointly with other entities related to each other by the common activity field.

The benefits of insurance are especially feasible in case of insurance event under the risk provided by insurance protection. The objective of insurance company is accurate determination of the sum insureds, deductibles, premium amounts, and optimal insurance conditions. Mutual insurance societies can solve a similar problem without solid paid statutory fund and full-time management bodies of the society.

The economy modernization is accompanied by the further industry development, the housing construction, the social facilities creation and thereby increases the probability of significant loss occurrence as the number of facilities subject to particular risk grows. At the same time, the insurance technology development leads to improvement in underwriting and growth of pre-insurance expertise quality that ultimately affects the insurance premium value - it becomes comparable to the amount of potential damage. This has led to the reduction in the use of classical insurance and the emergence of p2p (peer-to-peer) insurance where potential policyholders unite into groups and informally create the fund to pay indemnities in case of insurance events without involving the insurer [6].

CONCLUSIONS

An acceptable risk is a compromise between the level of safety and the possibility of achieving it - technical, social, economic, etc. Therefore, it is necessary to find the best option, i.e. to define an acceptable risk - a level of risk that society has to put up with for the time being. Currently, the most relevant and attractive, especially for employers, is such a risk management method as insurance. Its essence lies in the fact that for a certain relatively small fee, the insured transfers financial responsibility for the risk to a third party - the insurance company. If the insurance company has developed an effective insurance mechanism based on qualitative risk assessments (actuarial calculations); control over the use of the insurance fund and the distribution of responsibility among the subjects of insurance, then mankind has not come up with a better method of risk management. Insufficient development of the insurance mechanism leads to negative processes. This is

most clearly manifested in liability insurance and compulsory insurance of employees against industrial accidents and occupational diseases.

In the absence of a scientifically substantiated differentiation of the insurance rate in accordance with the degree of risk at each particular enterprise, this has led employers to try not to invest in improving working conditions, knowing that insurance companies are responsible for compensating for damages.

To sum up, with the transition to compulsory insurance of vital and socially significant risks, all of us, both insurers and the insured, should be aware that we are facilitating the responsibility for the risk, those who should control it and strive to minimize it. Studying the causes of the risk and assessing the consequences of the realization of the risk allows you to develop a risk management mechanism.

Risk management is based on a targeted search and implementation of work to reduce the level of risk, i.e. reducing the likelihood of risk realization. The purpose of risk management is to find the best option for the employer in terms of the highest profit and lowest risk.

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