
INSTRUCTION TO IMPROVE THE INVESTMENT ACTIVITIES OF INSURANCE COMPANIES IN UZBEKISTAN

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Abstract

Keywords:

Insurance, investment, insurance market, bank deposits, shares and securities, capital structure, loans

The article covers the problems and solutions to increase the investment activity of insurance companies operating in Uzbekistan. In addition, the analysis of the financial condition of insurance companies in the Republic of Uzbekistan for 2010-2021 and the composition of the investment portfolio were analyzed. The main purpose of this article is to develop scientific proposals and practical recommendations aimed at improving the investment performance of insurance companies.

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INTRODUCTION

World experience shows that global climate change, pandemics, the development of technological innovations and the growing cyber threats pose important challenges to the world insurance community and the scientific and expert community. Today, in all developed countries, insurance is a strategically important sector of the economy. It provides a large part of the investment in its development and frees the state budget from the costs of compensation for losses caused by unforeseen events. In addition, insurance plays a special role in solving the social problems of society. "In 2020, natural disasters and man-made disasters caused \$ 187 billion in damage to the global economy, of which 44.4 percent, or \$ 83 billion, was covered by insurers."*. This indicates the high role of insurance activity in the sustainable development of the world economy.

Through the study of investment activities of insurance companies in world practice, it serves to develop proposals and recommendations to ensure the access of local insurance companies to international financial markets, the introduction of advanced corporate governance, international ratings, improving the investment activities of insurance companies in our country. Also, when we analyze the dynamics of changes in the share of insurance premiums in GDP of insurance companies in developed countries such as the United States, Great Britain and Japan, we can see that rules have been developed for the organization of investment activities. In addition to insurance activities, insurance

* <https://www.swissre.com/media/press-release/nr-20201215-sigma-full-year-2020-preliminary-natcat-loss-estimates.html>

companies have a wide range of opportunities to carry out additional investment activities in the insurance market.

It is no exaggeration to say that the intensification of insurance processes in Uzbekistan is the result of reforms in the financial and credit system of the country. The fact that the growth rate in some regions for the collection of insurance premiums is higher than the national average has a significant untapped potential of insurance processes in the regions of the country.

Today, in all developed countries, insurance is a strategically important sector of the economy, providing a large share of investments in its development. Exempts the state budget from the costs of compensation for damage caused by unforeseen events. In addition, the total authorized capital of insurance companies in 2021 amounted to 1.6 trillion soums. Almost 8 million contracts have been concluded by these insurance companies in both directions. During this period, 3.7 trillion soums of insurance premiums were collected. Insured persons were paid 1.2 trillion soums in insurance premiums. We can see that this figure has increased by 119 per cent compared to the same period last year².

At the end of 2021, the share of the insurance services market in the gross domestic product of Uzbekistan will be only 0.5%. For comparison, the figure is 12% in the US, 11.6% in South Korea, 6.8% in Germany and 1.5% in Russia. Insurance percentage to total GDP of the world is equal to 2.9%³.

One of the main reasons for this is that insurance services are not attractive enough. This indicates that the potential of the insurance market is not fully used and the investment activities of insurance companies are not taken into account. The solution of these issues is especially important.

LITERATURE REVIEW

They have conducted a number of their own studies to improve the investment performance of insurance companies. In particular, Uzbek economists,

In particular, according to Kenjaev (2019), the investment potential of insurance companies is the financial capacity of insurance companies, which characterizes the investment potential and consists of two parts. After the insurance organization is free from insurance and other obligations, the author's tariff is formed as an opportunity to attract funds from external sources, as well as funds associated with the impact of exogenous and endogenous complex factors [1].

Shennaev (2021) studied the scientific and theoretical basis of the investment activities of insurance companies, the problems of formation of financial resources of insurance companies and their investment in various fields. In particular, the issue of optimizing the placement of insurance reserves, insufficient capitalization of the insurance market, the lack of high professionalism of most insurance companies in the field of investment activities were raised [2].

Umarov (2013) studied the regulatory framework for regulating the investment

² <https://yuz.uz/news/bugungi-kunda-ozbekistonda-qancha-sugurta-kompaniyasi-bor>

³ <https://www.iii.org/publications/a-firm-foundation-how-insurance-supports-the-economy/driving-economic-progress/contribution-to-gdp>

activities of insurance companies. According to the scientist, the state regulation and practical aspects of investment activities of insurance companies have been studied, the directions of development of their investment activities and the main investment instruments have been identified [3].

Khakberdiev (2020) mentioned that he studied the best foreign experience in improving the investment activities of insurance companies and substantiated the possibility of using this experience in the practice of Uzbekistan. He studied issues such as the formation of the investment potential of the insurance company, the impact of insurance contracts and other obligations on the investment potential of insurance companies [4].

Karimov and others (2016) studied the investment activities of insurance companies in developed and developing countries in the study of the current state of investment activities of insurance companies. Thus, conclusions are formed aimed at ensuring the access of national insurance companies to international financial markets, the introduction of advanced corporate governance, obtaining international ratings, improving the investment activities of insurance companies in the country [5].

Sherov (2019) analyzed the methods of innovative development in improving the investment performance of insurance companies. One of the main problematic aspects of the investment activity of insurers in the research work is the issue of optimizing the placement of insurance reserves. He also pointed to the lack of capitalization of the insurance market as a problem, noting that most insurance companies do not have high professionalism in the field of investment activities. It is argued that the acceleration of the development of the customer base of the domestic insurance market can be achieved through the creation of special training centers for high-quality training and retraining of insurance agents, including specialists [6].

However, in our opinion, in the numerous scientific studies of domestic and foreign scholars covering various aspects of the formation and use of investment resources of insurance companies, the economic literature does not pay enough attention to studying the investment activities of insurance companies as a key factor accelerating economic growth.

RESEARCH METHODOLOGY

In this study, the methods of synthesis, abstract-logical and critical thinking, grouping, group comparison, comparative comparison, factor analysis and financial coefficients were used.

ANALYSIS AND RESULTS

As of 2022, there are 42 insurance companies in Uzbekistan. In particular, 34 insurance companies provide services in the field of general insurance and 8 in the field of life insurance. It should be noted that in the local insurance market there are 5 insurance brokers and 5 actuaries with qualification certificates.

Table 1

Structure of the insurance market of the Republic of Uzbekistan⁴

The structure of the insurance market	01.10.2020	01.10.2021	Change%
Number of insurance companies	36	41	114%
including life insurance	8	8	100%
General charter capital of insurance companies (in million soums)	1 280 176	1 512 758	118%
Number of insurance brokers	5	5	100%
Number of actuaries	5	5	100%
Number of insurance agents	9 458	9 453	100%
including legal entities	2 724	2 734	100%
Number of insurance companies that are members of the Payment Guarantee Fund	17	23	135%

During 2010-2021, the financial situation of insurance companies in the Republic of Uzbekistan has changed significantly. In particular, the total authorized capital of all insurance companies in the country for 9 months of 2021 amounted to 1512.8 billion soums, an increase of 7.5 times (or 756%) compared to 2010. Insurance premiums for the first 9 months of 2021 amounted to 2632.5 billion soums, an increase of 15 times (or 1500%) compared to 2010. At the end of 9 months of 2021, insurance payments amounted to 2632.5 billion soums, an increase of 29 times (or 2907%) compared to 2010.

According to the results of 9 months of 2021, insurance reserves were formed by insurance companies to fulfill their insurance obligations under existing insurance contracts for 9 months of 2021, which is 17.3 times (or 1733%) more than in 2010. We can also see that the growth trends in the insurance market have accelerated since 2017. The gradual increase in the minimum requirements for insurance reserves will allow insurance companies, firstly, to ensure the fulfillment of obligations assumed by the company only with its assets, and secondly, to show the company as an institutional investor in the development of various sectors of the economy.

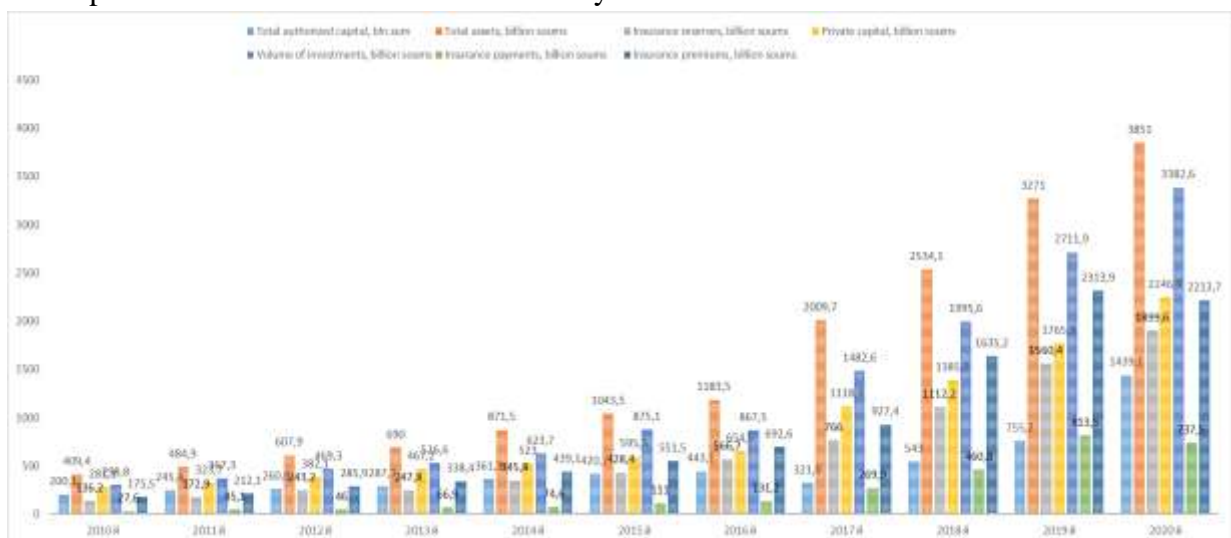


Figure 1. Analysis of the financial condition of insurance companies in

⁴ Prepared by the author on the basis of data from the Insurance Market Development Agency under the Ministry of Finance. <https://imda.uz/uz/>

Uzbekistan from 2010 to 2021⁵

When creating an investment portfolio, insurance companies should form it based on its specific characteristics. In this process, the investment period must correspond to the duration of the obligations set out in the essential insurance terms. That is, to a certain extent, they should pay attention to the established principles of financial and credit policy on the distribution of capital, including investment security, profitability and investment growth, the level of liquidity. We consider that it is due to the lack of a universal approach to solving the problems that arise in the formation of the investment portfolio. In turn, this affects the effectiveness of investment activities.

Table 2

The structure of investments placed by insurance companies in Uzbekistan from 2010 to 2021⁶

Years	Bank deposits	Shares and other securities	Participation in the charter capital of enterprises	Real estate	Loans	Others	Total
2010	44,3	40,8	5,7	7,3	1,1	0,8	100
2011	45,1	41,2	5,6	6,5	1	0,6	100
2012	46	40	6	6	1	1	100
2013	45,2	44,4	5	3,7	0,9	0,8	100
2014	47,1	40,1	7	4,5	1,1	0,2	100
2015	46,8	39,6	6,7	5,1	1	0,8	100
2016	45	41,3	7	5,7	0,8	0,2	100
2017	45,2	43,4	6,2	4,3	0,7	0,2	100
2018	51,7	35,4	6,3	5,8	0,7	0,1	100
2019	52,4	31,3	6,8	8,5	0,8	0,2	100
2020	53,2	31,5	6,7	7,6	0,8	0,2	100
2021	58	27,8	5,8	7	1,3	0,1	100

From the data in Table 2, we can conclude that in the first 9 months of 2021, insurance companies in the Republic of Uzbekistan allocated 3.61 trillion soums of free financial resources in various sectors of the economy in the amount of 2096.7 billion soums (or 58% of the total). This figure was 44.3% in 2010 and increased by 13.7% over the previous period. 1003.1 billion soums (or 27.8% of the total) were invested in shares and other securities, which in 2010 was 40.8% and fell to 13%. Participation in the charter capital of enterprises amounted to 208.5 billion soums (or 5.8% of the total), which is almost the same as in 2010, when it was 5.7%. In addition, 252.2 billion soums (or 7% of the total) were invested in real estate, which in 2010 was 7.3%. Employee loans and placement of other types of assets remained in the range of 1-2 percent.

In developed countries, the objects of investment activity of insurance companies are

⁵ Prepared by the author on the basis of data from the Insurance Market Development Agency under the Ministry of Finance. <https://imda.uz/uz/>

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different. Private sector bonds make up the bulk of the investment portfolio of insurance companies in the UK, France, the Netherlands, Ireland, Switzerland and Israel. But this financial instrument does not exist in our country. In our view, the introduction of private sector bonds will create an opportunity to effectively invest the free cash resources of insurance companies.

One of the most pressing issues is the placement of free financial resources of insurance companies, which are being formed as the main institutional institution of the economy of the country, at high rates. On this basis, below we consider some issues of ensuring the investment attractiveness of insurance companies.

First, a healthy competitive environment in the insurance market has not been fully formed. This situation can be explained by the fact that commercial banks, large manufacturing enterprises and large service enterprises, which are the main consumers of insurance services, do not organize transparent tenders for the selection of insurance companies.

Second, there are still cases of unjustified reduction or increase of tariff rates, ie the main focus is not on setting tariff rates based on the findings of actuarial services. This can be explained by the fact that in Kazakhstan, which is twice the size of the national insurance market, there are about twenty actuaries, while in the insurance market of Uzbekistan there are only five actuaries.

Third, some types of insurance, such as mortgaged property insurance, limit the ability of borrowers to freely choose an insurance company. In this regard, the influence of the bank employee in the selection of the insurer to the insured remains.

The main consumers of free financial resources of insurance companies are the founders who participate in the charter of the insurance company. That is, they are organizations with the same characteristics. This, on the one hand, contributes to the reliable placement of vacant financial resources of insurance companies, on the other hand, can lead to a number of negative consequences. In particular, if a crisis occurs within a network, it can cause serious problems for other parts of the system. Also, the mobility of free financial resources will be lost. Access to other sectors of the economy in need of financial resources and placement at high rates is limited.

Another pressing issue in the insurance market is that the advice of acquaintances is becoming crucial when choosing an insurance company or insurance service by the insured. However, the insured must choose the insurance company or insurance product based on the analysis of available information. In fact, such data transparency is not ensured. The organization of open and transparent tenders for the purchase of insurance products by state-owned companies and enterprises with a natural monopoly position is not well established.

All of the above indicators show the low level of investment activity of insurance companies in the country. From the above analysis, we can see that in order to effectively allocate and increase the mobility of free funds and other financial resources of insurance companies, it is advisable to create a specialized investment company under the Insurance Market Development Agency under the Ministry of Finance of Uzbekistan. This investment company places and controls financial resources in various sectors of the economy at high rates on a selective basis, ensuring liquidity. As a result, the financial

resources of insurance companies will be available to all sectors. The reason is that at the same time, insurance companies are strengthening and increasing their position in the insurance market by using new marketing tools, changing the practice of working with a narrow range of banks. Because today, in economically developed countries, serious attention is paid at the governmental level to increase the efficiency of investment activities of insurance companies, to ensure their investment attractiveness.

The efficiency of investment depends mainly on the area in which the investment is placed and in what direction the investment will be used. Economic growth depends, firstly, on the amount of investment and, secondly, on its efficiency. Therefore, it is necessary for investors to increase investment funds by conducting investment activities wisely, developing new sources of investment. As mentioned above, insurance companies have the opportunity to carry out investment activities in addition to their core business.

CONCLUSIONS

As a result of scientific research, the following conclusions were reached on improving the investment activities of insurance companies:

Analysis of the current state of investment activities of insurance companies operating in our country has shown that the financial resources of insurance companies have grown significantly in recent years. Because the introduction of new insurance products in the insurance market determines the basis for this. The use of financial resources of insurance companies is based on their liability. The higher the volume of financial resources of the insurance company, the greater the responsibility for the use of financial resources. The increase in the capital and income of insurance companies will allow them to form insurance reserves and increase investment.

We can cite a number of reasons that indicate a low level of return on investment transactions. The first reason is that insurance companies do not have qualified personnel to place funds in the stock market. In addition, the stock market in Uzbekistan is underdeveloped and insurance companies are not interested in developing their investment activities. This is due to the fact that insurance activity has a higher level of profitability than investment activity. That is why companies have a superficial attitude to investment activities.

From our analysis we can see that there are no special methods for assessing the effectiveness of investment activities of insurance companies, it is necessary to define strategic directions for the development of investment activities of insurance companies, develop and calculate a system of indicators describing the level of investment potential. Insurance companies can be competitive by identifying performance indicators and factors that affect the value of the organization. We need to develop factors that directly and indirectly affect the indicators that characterize the level of investment potential, the problems of financial stability and solvency of insurance companies and ways to overcome them.

The national insurance market of Uzbekistan has been analyzed, according to which the volume of insurance premiums is growing rapidly from year to year, but its share in GDP remains low, the diversity of insurance services is insufficient, lack of trust in insurance companies and a large number of potential insured not provided with services.

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