

Improving the Insurance System and its Implementation Mechanisms

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Abstract:

This paper makes analyses of the research points on insurance facilities of the Republic of Uzbekistan. On this case, improving the insurance system and its implementation mechanisms of the sector has been analysed both methodologically and theoretically. Finally, research has outlined both outcomes and shortcomings as the whole.

Keywords: *Insurance, facilities, Uzbekistan, mechanisms, implementation, outcomes.*

1. INTRODUCTION:

In the context of continuous development of the world economy and the global financial system, the importance of the insurance system and its main component, the insurance market, is growing. First, in world practice, the insurance system is one of the largest sources of investment in the economy through the formation of certain funds and the redistribution of funds of economic entities. Second, insurance is one of the main forms of risk management that is complex and has a growing trend in the modern economy. In addition, ensuring the protection of the property interests of the insured creates a process of continuous reproduction, which helps to ensure economic and financial stability. It should be noted that "the total turnover of the modern global insurance market is 2.4 trillion soums. US dollars." The experience of developed countries shows that the role of insurance in the effective solution of socio-economic problems is growing.

Extensive research is being conducted in international practice to improve the insurance

system and its implementation mechanism. These studies consider the insurance system as an effective form of protection of property interests of business entities, as well as a way to attract funds by insurance companies to invest in the national economy. However, today the analysis of the economic nature and mechanism of the insurance system, the specifics of the formation of the institutional environment of the insurance system in the country and research aimed at improving the mechanism of implementation of the insurance system remain one of the key issues.

Improving the mechanism of implementation of the insurance system is of paramount importance in the formation of a system of quality indicators based on increasing the efficiency of the insurance system and its implementation mechanism in accordance with modern requirements. In particular, "... the accelerated continuation of reforms in the banking and financial system, the widespread introduction of modern market mechanisms in the industry" has been identified as one of the priorities. Ensuring the fulfillment of these tasks requires the formation of a

system of quality indicators based on the effectiveness of the insurance system and the mechanism of its implementation in accordance with modern requirements and improving the efficiency of business processes of insurance companies.

2. Theoretical background:

The main condition for the implementation of the insurance system is characterized by the existence of demand for insurance services and the ability of insurers to meet this demand.

In the theoretical study of the insurance system, it is advisable to pay special attention to insurance and insurance activities. It is known that insurance has existed at all stages of human development as an effective means of protecting the property interests of individuals and legal entities.

The development of insurance relations is a strategically important task in the operation of modern economic systems. A sustainable insurance system stimulates the development of the national economy.

In this regard, first of all, it is necessary to identify methodological principles for attracting additional investment resources to the development of the financial services market in the national economy, the study of the formation and development of the insurance system, along with the development of market relations in the insurance sector.

According to the results of the analysis, the insurance system is a complex set of economic relations on the formation and distribution of the insurance fund to create favorable conditions for ensuring a continuous process of reproduction, insurance protection of property interests of economic agents. The insurance system includes the types and principles of insurance as well as the infrastructure.

The insurance system is a type of economic relationship between insurance companies and the insured, which is regulated by law, and is an economic mechanism aimed at protecting the property interests of the insured in the event of certain events (insured events).

Methodology

In a broader interpretation of the insurance system, it implies social insurance, including pension insurance, types of insurance with a long-term savings function, as well as mutual insurance.

The functioning of the mechanism of the insurance system is a process of interaction of the participants of the insurance relationship at the macro, meso and micro levels. This mechanism includes ways, methods and means of implementing insurance.

Insurance as a socio-economic institution has a unique history of development, which began in ancient times, at the stage of the emergence of humanity and the emergence of the first signs of statehood. The process of formation of the insurance institute was quite complex and consisted of several stages. In the process of evolutionary development, humans have been virtually helpless in the face of any dangerous natural conditions and events. The desire to deal with the damage caused by natural disasters, wars and other risks, and at the same time the consequences of these risks, has encouraged people to pool their strengths and resources. This situation was, firstly, objective, and secondly, the principle of combining their forces and capital as one of the basic principles of organizing the fight against the negative consequences of natural and other damage.

4. Main part

The insurance system is assessed in each country on the basis of real insurance premiums, ie the amount and rate of real premium growth of insurance companies from the sale of policies. Another important indicator of the world market is the share of insurance premiums in the GDP of a state or region. The share of insurance premiums collected by insurance companies in the US is 12% of GDP, 10% in Japan, 19% in Taiwan, 18% in Hong Kong, 12% in Finland, 8.44% in Western Europe and 1.3% in Russia. It is 0.85% in Kazakhstan, 0.62% in Armenia and 0.5% in Azerbaijan.

The formation of the insurance market of the Republic of Uzbekistan took place in the conditions

of transition to a market economy. The leadership of our country is aware of the need to develop the insurance sector, which is one of the strongest means of protecting economic entities from various risks in the context of the development of relations of economic entities with the outside world and the country's entry into the global financial and economic system.

Analysis of the development of the insurance system allows us to identify general trends in the development of the insurance system and priorities for development. The development of the insurance market, its structure allows to assess the effectiveness of the insurance system. At the same time, it is important to analyze the quantitative and qualitative indicators of the development of the insurance market, assess the level of economic and legal regulation of insurance relations, assess the level of impact on the overall development of the insurance system.

To assess the development of the national insurance market of Uzbekistan, we need a comprehensive analysis of its development indicators. The insurance

market of Uzbekistan is assessed by a number of quantitative and qualitative indicators.

We are required to pay attention to the quantitative indicators listed below.

1. volume of insurance premiums collected by insurance companies;
2. insurance payments made by insurance companies;
3. number of insurance companies operating in the market;
4. insurance market concentration (Herfindal-Hirschman index);
5. the amount of capital formed by insurance companies.

As of January 1, 2019, 30 insurance companies are registered in the Republic of Uzbekistan, of which 24 operate in the field of general insurance and 6 in the field of life insurance. In 2018, 3 new insurance companies started operating in the country, two of which are in the life insurance network: Euroasia Life LLC and Kafolat Hayot LLC and Apex Insurance LLC in the general insurance network.

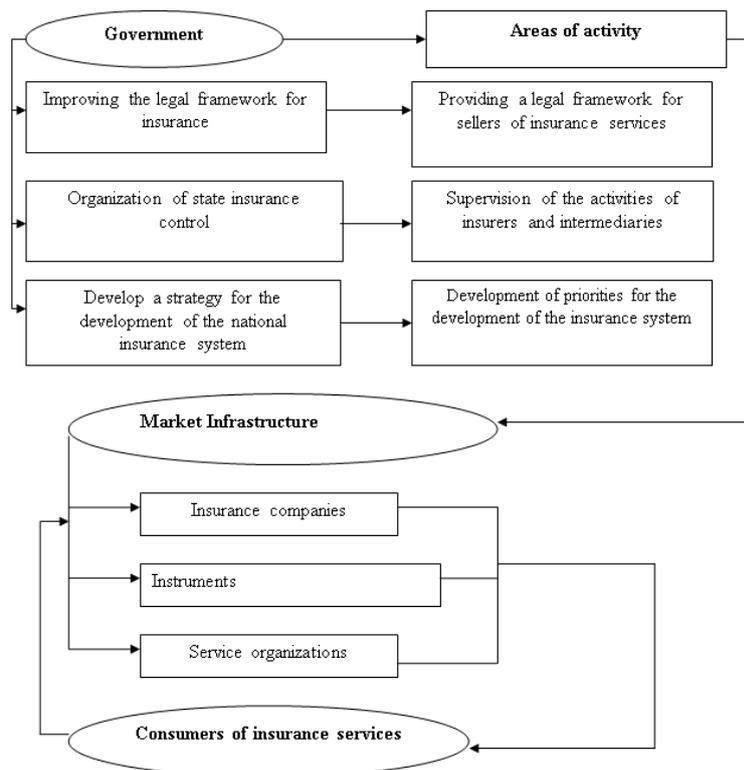


Figure 1. Interrelation of elements of the insurance system in the organization of the mechanism of operation of the insurance system

If we analyze from 2013, we will see that in 2018, insurance premiums increased by 4.7 times, ie in 2013 amounted to 338.5 billion soums, in 2014 439.1 bln. soums, in 2015 - 515.7 bln. soums, 692.6 billion soums in 2016, 927.6 billion soums in 2017. soums and 1.6 trillion soums in 2018. soums.

In 2018, the total insurance premiums accumulated in the national insurance market showed a high growth rate and amounted to 1.6 trillion. soums, which is 76.3% higher than in 2017. Taking into account the inflation rate in Uzbekistan in 2018, the real growth rate of premiums is estimated at 62.0%. This figure is significantly higher than the country's GDP growth rate in 2018, which, according to preliminary data, amounted to 5.1%, which clearly shows the dynamics of development of the insurance industry as a whole.

The main driver of growth of the insurance market in the analyzed period are the types of voluntary insurance services. There is a high growth rate of premiums by types of life insurance. At the end of 2018, the volume of premiums on voluntary insurance reached 1.4 trillion, which is 98.0% more than last year. At the same time, premiums on compulsory insurance also showed positive dynamics, but the growth rate was 13.0%. The volume of collected premiums on compulsory insurance amounted to 263.5 billion soums. The rapid growth rate of voluntary insurance premiums continues the upward trend in the share of voluntary insurance in the market.

For example, if in 2017 the share of voluntary insurance increased by 74.8%, in 2018 this figure increased by 9.05 points and reached 83.9%. Analyzing 2013 as the base year, we can see that in 2018 the total insurance premiums on voluntary types of insurance increased by 5.8 times. Such a trend of increasing the share of voluntary insurance in the market is assessed as a positive result, which reflects the real growth of the country's insurance market.

The total volume of insurance payments for all types of insurance in 2018 increased by 6.8 times

compared to 2013, or 66.9 billion. 460.8 billion soums soums.

In 2017-2018, there is a sharp increase in insurance payments. During the period under review, the company's payments increased by 71.0% to 460.8 billion soums. sum. Experts point out that the reason for the increase in total premiums in the market in 2018 was that life insurance contracts were payments on agricultural risks. There is a growing trend in the share of voluntary insurance in the structure of insurance payments. In 2018, the volume of payments on voluntary insurance increased by 92.0% and amounted to 389.3 billion soums. sum. The volume of payments on compulsory insurance increased by 6.0% to 71.5 billion soums. soums.

The main task of state insurance control in the country is to prevent the emergence of a major player in the market, which can hinder the development of competitive market mechanisms and influence the behavior of other market participants, insurers and consumers of insurance services.

This approach involves a qualitative and quantitative analysis of the insurance system. The Herfindal-Hirschman (HHI) index is used to identify a market player with a high concentration. HHI indices reflect the level of proportional concentration in the insurance market, as well as provide information on the effectiveness of competition mechanisms. At the same time, an important feature of the HHI index is that it pays more attention to the amount of market participants 'shares. The main content of the indicator is that the higher the ratio of insurance products in the market of the company, the greater the potential for the emergence of a monopoly.

The Herfindal-Hirschman index is used to assess the degree of monopolization in a network, which is calculated as the sum of the squares of the sales share of each company in the network:

$$HHI = S_{21} + S_{22} + \dots + S_{2n}$$

The above table data were used to determine the level of market concentration of the first five organizations belonging to the general insurance network in the insurance market of Uzbekistan.

$$HHI = 14.62 + 13.92 + 12.62 + 9.62 + 5.72 = 689.78$$

nature of the Herfindal-Hirschman index, can allow companies to merge and be bought by each other.

However, $HHI \leq 1000$, this indicator showed a low level of concentration in the market, which, by the

Table 1. Concentration level of the first five insurance companies in the insurance market of Uzbekistan (found by Herfindal-Hirschman index)

Si	14,6	13,9	12,6	9,6	5,7	
S²	213,16	193,16	158,76	92,16	32,49	689,78

In most companies of the general insurance network there is an increase in insurance premiums. At the same time, we can see that in some insurance companies the volume of payments has decreased compared to last year. It should be noted that the low growth rate of total payments in the sector is explained by the fact that JSC "Uzagrosugurta" has significantly decreased against the background of growth of payments for most other companies. Payments to the company fell 29.6 percent to \$ 65.6 billion. soums. As a result, the share of Uzagrosugurta JSC in total payments in the industry decreased by 33.3%.

As a result, the concentration of insurance payments in the general insurance sector decreased compared to last year. For example, the concentration of the first three companies decreased by 7.0 percent to 64.7 percent. For the first five companies, the figure was 76.9 percent, down 6.7 percent from last year. Concentration by organizations in the top ten decreased by 3.0% to 92.2%. The change in the payments of non-top ten organizations in the total amount of insurance payments of insurance companies operating in the general insurance network decreased by 1.5%.

The modern insurance system has shown signs of development in recent years. The analysis of key indicators of the insurance market of Uzbekistan considers the issues of increasing business activity among individuals in this segment of the financial services market, increasing insurance premiums, increasing the level of capitalization of insurance companies and strengthening state control over insurance companies. Nevertheless, there are a

number of challenges that will accelerate the development of the national insurance system.

It is noted that the revision of strategic development plans at the micro level or at the level of individual insurance companies, the introduction of risk management in the practice of the subjects of the insurance system.

The insurance market also acts as an intermediary. Because it has a specific task - to persuade the customer to buy an insurance product. Almost every possible object abroad is insured and insurance statistics are collected for it. This allows us to more accurately assess the risks. In Uzbekistan, there is a problem of lack of statistics for each object, in fact, the object is reinsured every time, and the level of prolongation in the market is low. However, in the context of an innovative economy, there is a need to reconsider the agency policy and the policy of selling insurance products in general.

In recent years, the number of insurance companies in the insurance market is growing. Large financial groups are opening their own insurance companies and making a profit from it.

It should be noted that the most attractive segments of bank insurance (life and health insurance of borrowers, loss insurance of debtors, collateral of legal entities, insurance of bank risks) are among the largest insurers - subsidiaries of the largest banks.

In general, the market should allow the development of infrastructure services. At the same time, it seems necessary for all insurers to fight fraud, to take into account policies and losses, to prepare a report, to create a common database. This will help to gather the necessary statistics to improve the quality of

underwriting in the market, which will allow the gradual development of the market.

Despite the fact that the resource potential of the economy plays a leading role in shaping the financial and economic potential of the insurance market, institutional changes have a significant impact not only on its formation, but also on its implementation. It should be noted that these changes will open up new opportunities for development, increase existing opportunities, but at the same time lead to threats and, accordingly, complicate the process of modernization of the insurance market, hinder the development of its promising directions.

The low level of capitalization of insurance companies has a negative impact on the financial stability of the insurance company. One way to solve this problem is to regulate the entry of foreign insurance companies into the domestic market.

The presence of foreign companies has a great impact on the development of the insurance market and attracts capital in the first place. In Poland, for example, 48% of total assets and 73.5% of capital in the insurance market are managed by foreign investors. Poland is currently one of the leaders in the insurance market of Eastern and Central European countries. Further development of foreign investors in the national insurance market will be carried out in the country with prudent policies and regulatory support.

There is an imbalance in the infrastructure of the insurance system. Currently, the institute of brokers is almost non-existent in the insurance market of Uzbekistan. As of January 1, 2018, there are 30 insurance companies and 3 insurance brokers in the country, while in economically developed countries this figure is tens to hundreds of intermediaries for insurance companies. The Institute of Brokers operates only as a reinsurance intermediary in international insurance companies. One of the main solutions to this problem is to coordinate the activities of insurance brokers regulated by the state. The investment potential of the national insurance system is not at the level of demand, which means

that it is advisable to increase the investment activity of insurance companies. The role of the insurer as an institutional investor is important in the development of the economy. Uzbek insurance companies have not been able to establish themselves as institutional investors, investing 88.6% of their total investments in 2018 in low-yield corporate securities and deposits. To enhance the role of insurance companies as institutional investors, assets can be placed in high-yield and long-term investments. It is necessary to attract insurers to participate in the development of investment activities.

Economic and legal regulation of insurance relations - regulation of the activities of the participants of insurance relations both by the state and by market means. On January 17, 2019, Decree No. PF-5635 adopted the State Program for the implementation of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 in the "Year of Active Investment and Social Development", which includes measures to develop the insurance market in Uzbekistan. According to this program, the main goal of developing the insurance market of Uzbekistan is to increase the level of protection of property interests of individuals and legal entities through insurance, to ensure the effective operation of the insurance market, taking into account international experience. In the context of an innovative economy, the role of regulatory agencies or self-governing bodies is growing. Self-regulation in insurance activities is the regulation of insurance activities without the participation of state regulatory authorities, which in world practice includes, first of all, the Association of Insurers and other public organizations.

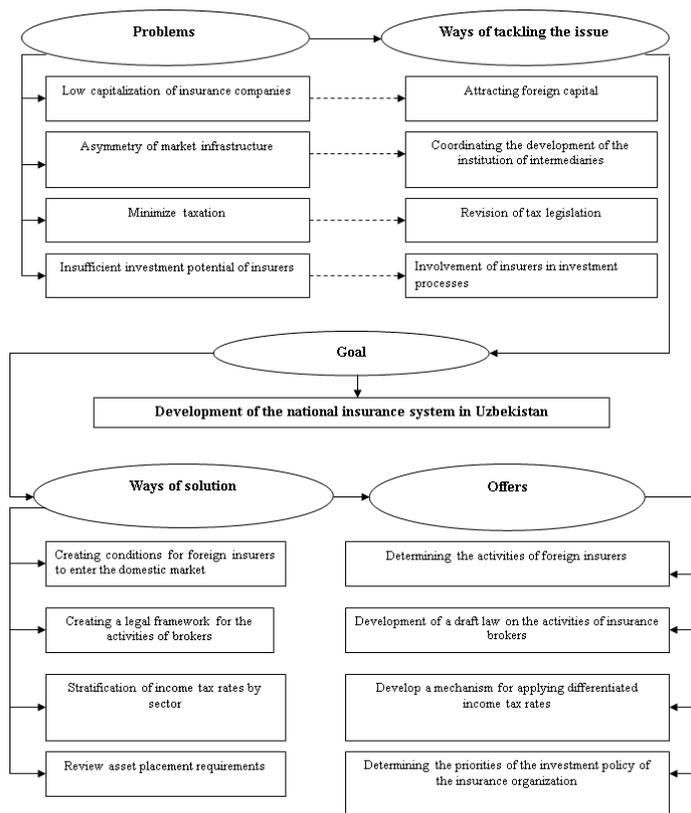


Figure 2. Problems in the functioning of the insurance system of Uzbekistan and their solutions

It should be noted that the practice of self-government is not an activity against state control. Norms of self-government expand and improve the regulation of insurance relations by the state. At the current stage of development of the national insurance system of Uzbekistan, despite the existing problems in the formation of the institutional structure of self-government and regulation of insurance relations, there are restrictions on the number of employees of the State Insurance Inspectorate under the Ministry of Finance.

Self-management can serve as an intermediary in resolving various conflict situations between the insurance company and the consumer of insurance services.

The process of becoming an "arbitration" institute is relevant in local insurance practice. The activities of such an independent body, which resolves disputes without going to court, have had a positive impact on the development of market relations in the field of insurance.

A key factor in the successful development of the national insurance system is the formation of a modern market infrastructure. In this regard, it is important to carry out financial engineering of business processes in the insurance company.

The purpose of the development of the insurance market of Uzbekistan is to increase the level of insurance protection of property interests of individuals and legal entities, to form effective market mechanisms for attracting investment resources to the national economy by ensuring the effective functioning of the insurance services market. However, the lack of modern technologies in managing the development of the national insurance market complicates the implementation of strategic goals of the state in this sector of the economy.

The analysis allows to highlight the following basic conceptual provisions of the policy of state regulation of insurance relations:

- Targeted approach to strategic management of the insurance market in the development of the national economy;
- application of short-term planning in conjunction with strategic plans for the development of the insurance market;
- reduction of regional disparities in the development of the national insurance system;
- application of management technologies;
- Improving the legal framework for regulating insurance relations in accordance with changes in the field of insurance relations.

In an innovative economy, the role of insurance market regulators or self-regulatory organizations is growing. Self-regulation of insurance activity is the regulation of insurance relations by self-regulatory institutions without the intervention of state regulatory institutions, which include professional associations of insurers, organizations and associations of insured (consumers of insurance services), social associations and organizations enters.

It should be noted that self-regulation does not contradict regulation by the state. Self-regulatory norms complement and expand the regulation of insurance relations by the state. The main factor in determining the institutional structure of self-regulation at the current stage of development of the national insurance system of Uzbekistan is the limited number of employees of the State Insurance Inspectorate and the underdevelopment of the insurance market and the growing problems of insurance regulation.

Self-regulatory institutions can act as intermediaries in resolving various disputes between an insurance company and a consumer of insurance services. In the practice of national insurance, the decision-making process of the institute of "arbitration court" is relevant. The existence of such an independent organization, which could resolve disputes without going to court, would have had a positive impact on the insurance industry.

The main advantage of self-regulatory institutions is that self-regulatory norms are more flexible than the requirements of state regulation and have the ability to change according to the real situation in the insurance market. The analysis of economic and legal regulation of insurance relations in Uzbekistan shows that self-regulatory institutions are specific special institutions that promote insurance relations. The purpose of self-regulatory institutions in the insurance market is to protect the insurance interests of its participants and the development of the national insurance system in general. Self-regulatory institutions perform the following functions:

- direct protection of the interests of participants of self-regulatory institutions in relations with the state (improvement of the regulatory framework);
- Insurance market, including self-regulatory institutions and state regulatory institutions

At the level of regulation of insurance relations, the development of processes of self-regulation of insurance relations, the balanced application of economic-legal and control methods will contribute to the development of the national insurance system. Thus, a key factor in the successful development of

the national insurance system is the formation of a modern market infrastructure, which is an important part of it. In this regard, it will be important for the insurance company to conduct financial engineering of business processes.

An important component of the success of any insurance organization is the availability of effective business processes and a corporate information system that ensures a high degree of automation of the work of each division of the insurance organization. The flexibility of the company, the quality of customer service, process practice, the level of costs and its future development potential will depend on it. Over time, customer needs are changing, information technology continues to evolve, and new approaches are emerging in the business management system. Therefore, the business processes of the organization, like a complex mechanism, need constant improvement.

The modern electronic-digital world opens up many opportunities for insurance activities by providing insurers with comprehensive information in order to assess as accurately and accurately as possible the risks that directly affect the financial stability of insurance companies. At the same time, it is expedient to identify the factors that directly affect the formation of a qualitative model of risk assessment and forecasting the probability of occurrence of insurance events.

5. Discussions

The spread and improvement of digital technologies will affect the development of industrial relations, the structure of the economy and education, setting new requirements for communications, computing power, information systems and services. In modern conditions, without advanced platforms, technologies, institutional and infrastructural environments, the dynamic development of markets and industries is unlikely to take place.

The process of digitization of the economy also has a significant impact on the activities of insurers - the main participants in the insurance market, business entities engaged in insurance activities.

In addition to the fact that the technology itself is new, the introduction of "smart insurance" products will lead to significant growth and development of the insurance portfolio, but in many respects this is the most important factor, taking into account the specifics of each client and the object of insurance. sales of insurance products, which allow the formation of price indicators, which will ultimately significantly increase the accuracy of risk assessment and have a positive impact on the financial stability of insurance companies. At the same time, similar product types mean that the customer is actively involved in shaping the price of his insurance product and, of course, prevents the development of negative situations in all areas of his life.

8. CONCLUSION:

The experience of introducing similar systems in the West shows that the "smart insurance" product has reduced the number of road accidents, increased the overall level of road safety, reduced car insurance and fuel costs, as well as improved the environmental condition of cities. For medicine, where early diagnosis of the disease is a guarantee of effective treatment, such decisions allow preventive measures aimed at reducing the medical costs of clients, and insurance companies to reduce the overall cost of paying and providing insurance coverage. Similar trends are observed in property insurance of individuals.

The implementation of the above scientific-theoretical proposals and practical recommendations will serve to improve the country's insurance system and its implementation mechanism, as well as to implement the tasks set out in the action strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021.

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