



## **RISK ASSESSMENT OF INSURANCE SERVICES IN OUR COUNTRY**

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<b>A B S T R A C T</b>	<b>KEY WORDS</b>
Our country risk assessment reflects our opinion on the insurance risks to which the economy, politics, financial system, payment culture and the rule of law in the Republic of Uzbekistan are exposed. Our assessment of the sectoral risk of the Uzbek general insurance sector is in line with similar estimates for Kenya, Angola and India. However, the general insurance markets in these countries are at very different stages of development. Our opinion on the Uzbek general insurance sector takes into account the still developing institutional system, as well as the dynamics of the industry and the characteristics of insurance products.	Insurance activity, insurance interest, insurance premium, insurance franchise, insurance market, insurance products, subrogation, acquisition, insurance contract, income, property, property interest, liability, insurance, policyholder, insurer

### **Introduction**

We consider the operating conditions for Uzbek insurance companies to be unfavorable, taking into account the introduction of restrictive measures in 2020, the low level of penetration of insurance services and only moderate prospects for economic growth in 2020, although they are better than in some other developed and emerging markets. We expect economic growth in Uzbekistan to be only 1.0% (compared to 5.6% previously), reflecting the negative impact of measures to contain the COVID-19 pandemic on domestic and external demand.

At the same time, the risks of deterioration in the forecasts of our baseline scenario remain. The impact of the COVID-19 pandemic on Uzbekistan's economic performance is still difficult to assess, and the consequences of the current situation may be worse than we currently assume. The pace of economic recovery will also depend on policy measures aimed at limiting the effects of stress factors and supporting the economy and households.

Indicators of the well-being of the population in Uzbekistan remain low in real terms: GDP per capita was about \$1,585 at the end of 2019. The population mainly purchases basic necessities, not insurance services, therefore they do not always buy adequate insurance coverage or do not buy it at all. This circumstance, as well as the low financial literacy of the population, hinder the development of the general insurance sector in Uzbekistan. As a result, the portfolios of Uzbek companies engaged in general insurance are dominated by simple insurance products. We note that the country's insurance sector is still characterized by a relatively low level of maturity and penetration of insurance services.

The ratio of the insurance premium of companies in the general insurance sector to GDP was 0.34% at the end of 2019. We expect this indicator to remain at a low level in the future.

The low level of financial literacy also hinders the development of the insurance sector in Uzbekistan. The volume of public spending on insurance services averages \$5 per capita, which is significantly lower than in developed insurance markets (more than \$2,000) and even in developing countries such as Kazakhstan, Angola, Kenya and India (less than \$50).

The credit quality indicators of the banking sector of Uzbekistan have a negative impact on the asset quality indicators of insurance companies. The basic rating level of commercial banks operating only in Uzbekistan ("B+") is low in the international context. Insurance companies are exposed to credit and market risks associated with the banking sector, in which they invest the bulk of their assets.

The regulatory regime applicable to the Uzbek insurance sector does not limit the entry of new companies into the market. Over the past five years, the number of general insurance companies has increased from 23 to 28. We note the high concentration of the country's insurance sector: the five largest companies control 56% of the general insurance market. In our opinion, the major players have more recognizable brands and enjoy the benefits associated with greater customer awareness of their insurance products, as well as the presence of sales networks that these companies effectively manage. We note that State insurance companies account for 40% of the gross subscribed insurance premium in the general insurance segment, although this share is gradually decreasing. The regulatory body announced the gradual privatization of the insurance sector in Uzbekistan, putting up for sale a 25% stake in the capital of the state-owned KAFOLAT Insurance Company JSC in August 2019.

A significant part of the signed gross insurance premium in the general insurance segment (83%) falls on three main business lines: property insurance (35%), financial risk insurance (31%) and auto insurance (17%), and we expect that this structure of insurance portfolios will not undergo significant changes in the next two years- three years. Corporate clients account for 55% of the signed gross insurance premium. Compulsory insurance, in particular car insurance, prevails in the segment of insurance for individuals. However, we expect that the situation may gradually change. We positively assess the regulatory authorities' measures aimed at conducting educational programs to raise public awareness of insurance services that can contribute to the development of the insurance sector in Uzbekistan in the medium term.

## Literature Review

Of course, "insurance" as a phenomenon did not appear yesterday or today, but, as noted by economists T. Malikov and H. Shennaev, it is known from history that even at the early stages of human development there were relations related to insurance. In the primitive communal system, those who lived life in the form of a tribe created food reserves to avoid unpredictable, diverse events. Some, however, perceived such unpleasant phenomena as floods and droughts that occurred as a curse of God. For some reason, there is no doubt that reserves were created to compensate for those losses that were noticed when events unrelated to the will of a person, in a word, were unexpected and unpredictable at that time. According to the Russian scientist M. Ivanov, during the reign of King Hammurabi, who ruled the Babylonian state in 1792-1750 BC, the members of the trade caravan had mutual consent before setting off [1]. According to this agreement, if the property of any member of the caravan was lost, stolen or looted by pirates, this damage was compensated by the members of the caravan. However, several thousand years have passed since the time when the civilization of

mankind began, and to the present day. However, the formation of reserves to compensate for losses incurred as a result of various events, which are one of the fundamental, scientifically based principles of insurance, remains today.

According to U. Turgunov, N. Beknozov, the issues of special insurance arose in some states in the Middle Ages. The transport service of a smaller industry, the development of international trade by the XVIII century. expanded the range and scale of such services in European countries. Of course, if in the first periods ships and cargo were mainly insured, then later mandatory insurance of passengers and crew members was introduced. This sphere has expanded, insurance services of various types of economic activity, people of different spheres have begun to appear. Some sources note that the first written insurance contract in England was concluded in the XIV century, when a fire insurance society was first established in Russia in 1827, in Italy in 1393, each notary averaged an insurance policy with 80 clients per week, and finally, in 1466, Venice adopted Maritime Insurance Code. One can even trace in the legal literature the existence of points of view that the work on codification of the right to insurance in the Russian state began in 1879 [2]. The term "insurance", i.e. "insurance", which comes from English, means "in" (inside) and "sure" (hope, reliable) – "in safe hands". This means that the insured object is reliably protected, which means there is nothing to worry about.

It is known that even in the Republic of Uzbekistan today, as one of the necessary elements of the production infrastructure, insurance occupies a special place in ensuring the continuity of ongoing economic reforms and protecting the population from unpleasant events, moving step by step towards building a just society, a strong democratic rule of law based on equality of all segments of society. As U. Aitbayev correctly noted, the insurance market provides material assistance in the preservation of almost all forms of ownership from natural disasters, compensation for damage caused to people as a result of various natural disasters.

Thus, M. Yusupov believes that "insurance, as an economic category consisting of accounting for contributions from interested organizations and citizens, means the emergence of a monetary fund under the management of a special organization (insurer) and a form of distribution", E. Khodzhiyev explains that "insurance means the provision of compensation for damage that may be caused by paying a membership fee to a special institution". A.T. Umarov put forward the idea that "insurance is the protection of one's interests by paying the insurance ceiling (insurance money) to these persons in accordance with the insurance contract in the event of a certain insured event from the account of funds formed from insurance premiums paid by legal entities and individuals", and M. Yuldoshev and Y. Tursunov believes that "insurance is an entrepreneurial activity aimed at protecting the interests of the insured person by fully or partially reimbursing him at the expense of previously paid insurance premiums, which replaces the material damage caused in the event of an insured event stipulated by the contract between the insurer and the insured person". "Insurance is a means of protecting an enterprise and the population from harm, a source of investment in the economy, as well as the basis of stability and financial security of society" - this is how Russian scientists L.N. Klochenko and K.I. Pylov [3].

As can be seen from the sources, there are different approaches to the concept of "insurance". If some of them imply that policyholders are a special "fund" formed on the basis of such contributions, then in some of them one can see a "means of protection" from losses, in others – a "form of formation

and distribution of a monetary fund" in the management of a special organization (insurer) or "economic relations" or "civil law relations" related to compensation for damages.

## Analysis

A mechanism that guarantees the protection of economic entities, including insurance institutions, eliminates or minimizes damage not only to the potential of this institution, but also to the economy of the country (region) as a whole. This is precisely the main function of ensuring the economic security of economic entities – increasing scientific and economic potential.

There are groups of factors affecting the internal and external environment on the security of an organization, each of which may contain different types of threats: economic, market, political, criminal, technological, competitive, social, international, etc. [4,p.187].

The main factors affecting the stability and economic security of the company include:

- the size of the company;
- external risks;
- balance of the insurance portfolio;
- development and sustainability of the customer base;
- balance of financial flows;
- the state of the branch network;
- the period of the company's existence on the market;
- the business potential of the company.

Each insurance company uses its own appropriate set of measures and methods that are suitable for both its internal and external environment.

In the mode of sustainable operation, an insurance company, when solving problems of its economic security, pays great attention to maintaining a normal rhythm of functioning, preventing material and/or financial damage, preventing illegal access to official information and destruction of computer databases, countering unfair competition and more.

The continuous strengthening of factors that threaten the economic security of an insurance company and cause its depressed development raises the question of creating a system for monitoring the condition and dynamics of the company's development in order to warn about the impending danger and take the necessary protective and counter measures.

It is essential to determine the characteristics of the economic security of an insurance company (indicators). Both the degree of adequacy of the assessment of the company's economic security, which corresponds to the real state of affairs, and the correctness of the justification of the complex of necessary measures to prevent and eliminate the danger corresponding to the scale and nature of the threats depend on the accurate recognition of hazards, on the correct choice of meters for their manifestation.

In general, for an insurance company, the concept of quantitative and qualitative indicators of economic security may contain the following indicators:

- 1) indicators of the insurance services provided (rating assessment, assessment of the competitiveness of services and others.);
- 2) financial indicators (assessment of the level of solvency and financial stability of the organization and others.);
- 3) social indicators (assessment of the level of salary arrears and others.)

The main consumers of the rating assessment are actual (genuine) and potential (possible) policyholders. Since their interest is focused on the possibility of the company's full and timely fulfillment of its obligations under existing (functioning) insurance policies, as well as the prospects for fulfilling newly emerging obligations, taking into account likely changes in the economic environment, two key indicators are considered when determining the level of reliability: the company's solvency and its financial stability. [4, p.187].

**In conclusion**, therefore, it is necessary to evaluate not only the "instantaneous" solvency coefficient, but also the probability of the company to maintain the current level of solvency in case of possible external and internal threats, that is, its financial stability. In fact, the company's activity must necessarily be considered as some kind of unforeseen process as an indicator in which its solvency is considered, and the probability is estimated that the trajectory of this process in conditions of internal and external risks in the final interval will not cross the established lower limit of the acceptable level of solvency, which may lead to bankruptcy.

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