



## **STATE SUPERVISION AND REGULATION OF INVESTMENT ACTIVITIES OF INSURANCE COMPANIES**

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### **ABSTRACT**

The article provides an in-depth analysis of the theoretical, institutional, and practical aspects of state regulation and supervision over the investment activities of insurance companies. As an integral part of the financial markets, the insurance sector plays a significant role not only in ensuring the financial stability of individuals and economic entities but also in mobilizing investment resources and directing them toward the real sector of the economy. From this perspective, the establishment of an effective state control and regulatory system over the investment activities of insurance companies holds both scientific and practical relevance.

The article examines the requirements, restrictions, and monitoring mechanisms applied to the investment activities of insurance companies based on international experience and identifies current challenges and barriers in Uzbekistan's insurance market. Specifically, the implementation and effectiveness of state-imposed regulatory and legal requirements concerning investment diversification, liquidity, capital adequacy, risk assessment systems, and information transparency are assessed.

The study analyzes both direct (through regulatory authorities) and indirect (through legal norms, tax incentives, and administrative requirements) state intervention tools aimed at minimizing investment risks, ensuring financial stability, and fostering a healthy competitive environment.

Furthermore, the author proposes specific recommendations for institutional reforms that need to be undertaken by the state in order to fully unlock the investment potential of insurance companies in Uzbekistan. These include the introduction of modern financial monitoring systems, the implementation of rating mechanisms based on international standards, and the strengthening of corporate governance.

### **KEY WORDS**

Insurance companies, investment activity, state supervision, regulatory mechanisms, financial stability, risk management, legal and regulatory framework, institutional reforms, capital adequacy, liquidity, information transparency.

### **Introduction**

In modern conditions, the importance of forming a balanced insurance portfolio as one of the most important factors in ensuring financial stability is increasing. However, in the domestic literature, the insurance portfolio is considered only in this direction, that is, from the point of view of factors affecting the financial stability of the insurance company. Today, the quality and structure of the

insurance portfolio of national insurance companies are not optimal, therefore, they are adjusting these indicators depending on market conditions, their financial and organizational capabilities.

Analysis of the work of many economists shows that at present there is no specific systematic approach to insurance portfolio management. In order for theory not to lag behind practice, it is necessary to develop a comprehensive system for assessing the performance of the insurance portfolio and determining its optimal structure. This problem is relevant in the developing insurance market and ensuring the economic stability of the country. Therefore, further scientific research in this area and filling theoretical gaps are of great importance. It should be noted that, despite the existing problems and technical difficulties in the formation of the insurance portfolio, national insurance companies are achieving the formation of a balanced insurance portfolio. Thus, we can conclude as follows: the formation of an optimal insurance portfolio is not only a way to ensure the financial stability of an insurance company, but also necessary for its operation in market conditions.

Modernizing the economy of the Republic of Uzbekistan, introducing new equipment and technologies into production, increasing the country's export potential, and creating new jobs cannot be achieved without attracting large-scale investments. After all, in his Address to the Oliy Majlis on January 24, 2020, the President of the Republic of Uzbekistan Sh. Mirziyoyev paid special attention to the importance of investments in the economy and noted that "in order to develop the economy at high rates, it is necessary to consistently continue an active investment policy".

## **Material and Method**

Many foreign and domestic scientists have conducted scientific research on this topic and presented their opinions and definitions. In particular, L. Chechenova and E. Popovich studied the formation of the investment potential of an insurance company, the impact of insurance contracts and other obligations on the investment potential of insurance companies, and the system of indicators that determine and characterize the size of the investment potential of insurance companies. We believe that such studies serve as an important theoretical basis for assessing the investment potential of insurance companies and for strategic planning. In particular, by determining the impact of obligations related to insurance contracts on investment potential, the company will be able to manage its investment activities in a risk-adjusted manner.

G. Bajanov studied the investment potential and capabilities of insurance companies, the role and role of local and foreign insurance companies in mobilizing and investing funds in the economy. In our opinion, it shows the need to consider the investment activities of insurance companies not only in relation to the internal capabilities of the company, but also in relation to the macroeconomic environment and global market conditions.

One of our local scientists, Professor Kh. Shennayev, notes the specific feature of the insurance product, which is based on the fact that the sum insured is always greater than the insurance premium. This ratio characterizes the market attractiveness of insurance products and the demand for them. The economic essence of purchasing insurance services is manifested due to the probability of occurrence of insured events. In our opinion, the ratio between the sum insured and the premium shapes the competitiveness of the insurance market and market demand.

According to I. Kenjayev, attracting the necessary level of investments into the economy and ensuring their efficiency will lead to increased investment activity of economic entities and ensuring sustainable economic growth. We believe that by increasing investment activity, the main conditions for

sustainable economic development will be created, new jobs and competitive industries will be formed. Also, the development of investment activities of insurance companies is important in ensuring long-term stability.

### Analysis and Results

A market economy requires state regulation, taking into account the specific characteristics of insurance and investment activities. The state's influence on the insurance market depends on: Formation of a regulatory framework for insurance companies; State control over insurance and investment activities.

The purpose of state regulation of the insurance market is to ensure its efficiency, manage its financial stability and build confidence in the insurance industry. Investment policy directly affects financial stability, as its proper organization increases the volume of financial resources of insurance companies. The state regulatory system is based on the regulation and control of the investment activities of insurance companies.

State regulation of the investment activities of insurance companies pursues the following goals; controlling the formation and structure of the investment portfolio based on a guarantee of the financial stability of the insurance company. This is based on protecting the interests of policyholders involved in the formation of the investment portfolio of the insurance company;

protecting the interests of insured persons by creating favorable conditions for investment activity and increasing financial resources;

using insurance company funds as investment funds for the development of the national economy, while protecting the interests of the country.

The state regulation and control of insurance and investment activities in our national insurance market is currently entrusted to the Insurance Market Development Agency under the Ministry of Finance of the Republic of Uzbekistan. This central body exercises state control over compliance with the provisions of the Law on Insurance. There are three systems of control: the transparency system, the regulatory system and the state control system.

Table 1 Objectives and levels of regulation of investment activities of insurance companies

The main objectives of regulation at different levels	Levels of regulation		
	At the macro level		At the micro level
	Ensuring compliance with the terms and conditions of investment activities of all insurance companies in the country	Restricting investments within the national economy	Ensuring that the volume, time and place (area) of distribution of funds by insurance companies correspond to their obligations, i.e., the guarantee of insurance payments

The disclosure system obliges insurance companies to periodically publish financial and statistical reports. The regulatory system gives the requirements for insurance and investment activities the form of law and monitors their implementation. The state control system includes the principles of transparency and normativity. This system is implemented in relation to newly established insurance companies, in which state control bodies examine the documents, financial plan, business plan for

compliance or non-compliance with current requirements (the amount of authorized capital, the adequacy of asset and liability indicators).

In practice, state supervisory bodies analyze the state of affairs in relation to insurance organizations, assess the correctness and validity of the decisions made by insurance supervision. In this case, the methods of supervision and the intensity of supervision are determined by the real economic situation in the country.

Studying foreign experience of state policy on regulation of investment activities of insurance companies will help the national insurance market to avoid mistakes and create a favorable investment climate.

The existence of an effective system of state regulation of the national insurance system is a prerequisite for using insurance as an economic regulator, a socially necessary element of the state economy.

Investments play a decisive role in maintaining and increasing the country's economic potential. This, in turn, has a positive impact on the activities of enterprises, increases the gross national product, and increases the country's activity in the foreign market.

It is precisely investment activity that plays a key role in the implementation of large-scale political, economic and social changes aimed at creating favorable conditions for sustainable economic growth. From the point of view of the content and essence of economic reforms, the problem of increasing investment activity and improving the investment climate is one of the key issues.

Currently, the economy of Uzbekistan is a market economy, in which economic entities make their own decisions on investments. At the same time, economic entities make capital investments independently or on the basis of competition in financial markets. The main criteria for the need for investments include increasing production efficiency and maximizing profits. In addition, technological changes in the state of key industries require significant investments.

The reality of insurance as an element of the risk management system of individuals is determined by the loss ratio of the insurance premium. The loss ratio at "Uzbekinvest" Insurance Company was 67% in 2021, and 29% in 2022. The Covid-19 pandemic can be cited as the reason for the increase in this indicator in 2020-2021. Such a change in this indicator can be cited as an example of the lack of high-quality underwriting services of local insurance companies.

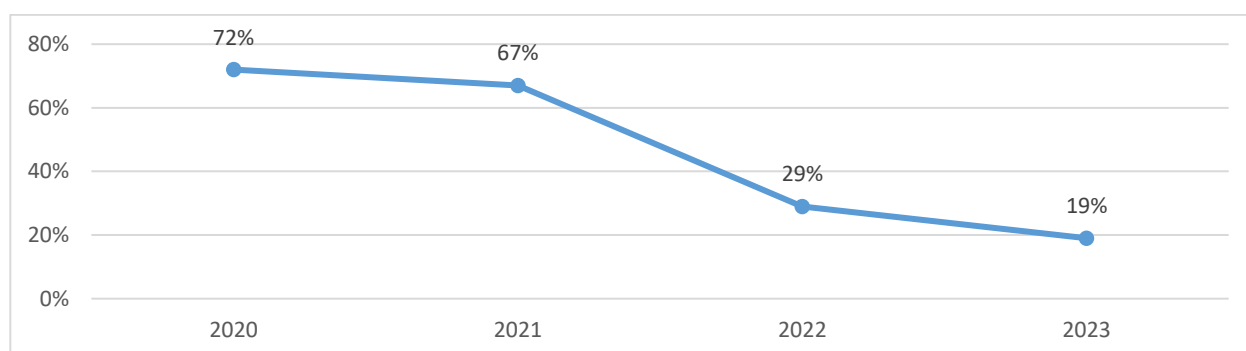


Figure 1. Loss ratio for personal insurance, using the example of the insurance company "Uzbekinvest"

In a context of increasing competition in the insurance market, as well as increasing customer demands for the quality of services provided, "Uzbekinvest" plans to continue its effective activities based on

innovative digital approaches to doing business and provide its customers with reliable comprehensive insurance protection.

As a result of the introduction of new and relevant insurance products to the market, insurance premiums in the amount of 51 billion soums were collected in the segment of individuals, which increased by 106% compared to 2020 and 4 times compared to 2017. More than 850 thousand contracts were concluded in this direction, which increased by 121% compared to 2020 and 5 times compared to 2017. In 2021, more than 34 billion soums in insurance coverage was paid to the population and car owners, the volume of payments increased by 8 times compared to 2017.

Table 2 Total insurance premiums collected from individuals in the general insurance network, million soums

	2018	2019	2020	2021	2022	2023*
Total insurance premiums collected from individuals in the general insurance network, including:	26 042	45 228	48 821	51 346	63 410	104 757
compulsory insurance	6 963	13 599	27 364	27 549	28 859	33 405
voluntary insurance	19 079	31 629	21 457	23 797	34 551	71 352

If it is possible to create digital insurance products in the current insurance market, the insurance product development strategy can be chosen by the insurance company (Table 3).

Table 3 Insurance product development strategy

Main positions	The opportunity to create and offer digital insurance products in the insurance market in the context of the traditional insurance business		
	high	average	does not exist
Characteristics of the current auto insurance market	–	–	stagnation
The size of the digital insurance market in the traditional insurance business	–	insufficient	–
Existing insurance products do not meet the expectations of insurers	–	change in insurance activity	–
High level of competition in the insurance market	+	–	-
Providing insurance based on other financial structures	expanding the range of insurance products		
Increasing dependence on the development of digital insurance products	+	-	-

Insurance market: offering insurance products in the sales offices of an insurance company or through intermediary organizations and agents. Digital insurance product: the price is calculated using telematics and artificial intelligence; the offering, execution and maintenance of the insurance contract is carried out using digital technologies.

Uzbekistan's investment sector is in a transitional period, characterized by certain features, such as:  
a decrease in the share and volume of state investments;  
the formation of a new system of investment incentives, in which profit-oriented investment plays a decisive role. The role of investment decision-making criteria based on the analysis of costs and benefits is increasing;  
an increase in the share of consumer goods in the economy with a simultaneous decrease in the production of goods for industrial purposes;  
the emergence of new, primarily non-state sources of financing.

The main task of state investment policy is to create a favorable environment for attracting investment resources for the development of the economy and the social environment and increasing the efficiency of their use.

Investment policy should be aimed at:

- determining the appropriate volume of investments for each period and their composition (by sector, production, technological, territorial and ownership forms);
- choosing priorities;
- increasing investment efficiency.

The above reflects all the components of investment policy, therefore, it can be interpreted more broadly.

The state's investment policy is a set of interrelated goals and measures to ensure the necessary level and composition of investments in the country's economy and its individual sectors and industries, to increase the investment activity of all the main agents of production activity - the state and entrepreneurs, the population. Simply put, investment policy is the state's activities aimed at identifying areas for searching for investment sources and their rational use.

The state regulates investment activity through legislation, planning, programming, state investments, subsidies, benefits, loans, and the implementation of socio-economic programs. Finding the optimal combination of market freedom and state regulation is especially important for state regulation.

The content of state regulation of investment activity is determined by the goals set by state bodies, as well as the opportunities and means at the disposal of the state in implementing investment policy.

The main principles of the state investment policy at the current stage are:

- reducing real interest rates to a level consistent with the efficiency of investments in the real sector of the economy, based on ensuring a balanced budget and further reducing the inflation rate;
- conducting tax reform, which provides for taking into account the investment opportunities of market entities based on the regulation, simplification and structural change of the current tax system;
- implementing the process of reforming enterprises in order to increase their investment attractiveness;
- forming organizational and legal conditions for reducing investment risks in order to stimulate population savings, direct investments of domestic and foreign investors;
- increasing the efficiency of their use through competitive placement of budget investment resources, mixed state-commercial financing of priority investment projects, providing state guarantees for private investments and strengthening state control over the targeted use of budget funds.

The state acts in investment activities in several ways:

- organizer of the investment and financial market;
- participant of the investment and financial market;
- manager of investment processes.



Investment policy depends on internal and external conditions - the state of the economy, the level of investment activity, growth and decline trends. Therefore, short-term and long-term investment policies are distinguished, which differ from each other in the time factors of action, the duration of the period for which activities are developed. Long-term policy determines the vector of economic behavior for many years in the future, short-term - for a year or several months.

The following conditions are necessary for the emergence of investment resources that constitute investment potential: the availability of savings and the ability of the population to realize current savings; the ability to service debt; foreign loans and investments. The scale and effectiveness of the implementation of investment potential are determined by the level of a favorable investment climate.

## Conclusion

In conclusion, it is worth noting that it is necessary to develop mechanisms for implementing state policy to ensure the economic security of economic entities and the entire region. Such mechanisms are: activating investment activity by strengthening the regulatory and incentive role of the state in attracting investments to the real sector of the economy, creating an effective system for protecting the property rights of investors, creating conditions for issuing additional shares, providing tax incentives for investment activities and a high level of corporate governance.

An important element of the investment incentive system is tax incentives for both investors and issuers themselves. To this end, the state should develop a number of measures that can stimulate potential investors, including the population, to increase investment activity.

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