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STATE REGULATION OF INSURANCE ACTIVITY IN THE CONTEXT OF INNOVATIVE ECONOMIC DEVELOPMENT

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A B S T R A C T	K E Y W O R D S
The article considers the conceptual foundations of the regulators of the institution in the conditions of innovative development of the economy. It notes that the institution as a process of defining and securing norms, rules, statuses, roles is regulated and modeled. On the basis of system analysis, a classification is given which, in the author's opinion, is applicable to research and analysis of the internal structure of the system mechanism with the aim to identify effective forms and instruments of state regulation of insurance activities.	Institution, institution theory, insurance institution, institutional regulation tools, direct regulation, indirect regulation, state regulation, methods of state regulation, forms of state regulation, system of state regulation, prudential regulation. institutional regulation tools.

Introduction

The conceptual foundation of institutional theory goes back to the idea of equilibrium. As a process of defining and consolidating norms, rules, statuses, and roles, and integrating them into a coherent system, an institution is regulated and modeled accordingly.

The study of institutional regulators in the context of an innovative economy becomes particularly relevant. In theoretical sources, the process of institutionalization is viewed as a set of a vast number of institutions. The issue of the relationship between the state and other institutions is resolved by the formula “first among equals,” and it is noted that the time has come “to consider the state not as sovereignty, but as an institution of institutions” [1].

Reforming the system of public administration through decentralization, the gradual reduction of state regulation and administrative influence on economic sectors, with the aim of expanding market-based management mechanisms, developing a competitive environment, and introducing modern mechanisms of public–private partnership, is intended to increase the efficiency of mutually beneficial cooperation in implementing the country’s development objectives [2].

Analysis and Review of the Current Situation.

State regulation in the context of innovative economic development requires new forms and instruments [3]. Existing trends necessitate an in-depth study of the effectiveness of economic regulators. For example, contemporary problems inherent in advanced foreign economic systems (EU countries, the USA, etc.) indicate a modification of state regulation practices in favor of market regulators. At present, a process of gradual strengthening and increasing complexity of state regulation of financial and economic processes is underway.

However, it should be remembered that the theory of state regulation finds its expression in the practice of a country's macroeconomic policy. Since real economic systems function under different economic conditions, the basic prerequisites for the development of these systems also differ significantly.

Under modern conditions of integration of various sectors of financial institutions in the economy (banking, investment, and insurance), product convergence—namely, current trends in the development of innovation markets in these sectors—has necessitated the creation of systems of cross-sectoral financial regulation [4]. The study of the system of state regulation is mainly conducted at the macroeconomic level. However, it should be noted that the level of macroeconomic analysis does not fully allow for consideration of institutional characteristics and sector-specific features of the regulatory system. This is equally true for any sector of the economy and, accordingly, is characteristic of insurance activity.

Main Part.

Modern achievements in the field of macroeconomic theory do not take into account the proportions and dynamics of development of individual economic sectors, which should determine the directions and content of state regulation. In particular, the relationship between theory and practice of macroeconomic regulation and the reduction of the role of state regulators remains a subject of debate. Therefore, research conducted at the meso-economic level is necessary (as industries develop, additional indicators for assessment will be added): with regard to a specific industry, an intersectoral complex, a specialized market, or at the level of an individual economic institution. It cannot be said that issues of regulation of insurance activity have not been studied at all. Various aspects of state regulation of insurance have been considered in a number of studies. Most of them are devoted to issues of monitoring the solvency of insurance organizations and were practically not linked to the fundamental theory of state regulation of the economy [6].

A number of publications are devoted to such problems of insurance regulation as the development and organization of compulsory insurance, the introduction of new mandatory types of insurance, and the role and place of state bodies in solving these tasks [7]. The result of these studies is the identification of the tasks of state regulation of insurance in one direction or another; however, the institutional aspect of insurance regulation is practically not considered. At the same time, the object of research is one of the segments of the financial sector of the economy of Uzbekistan, which has one of the most developed and dynamic institutional frameworks.

Economic liberalization and adequate institutional transformations of insurance during the transition to a market economy led to the fact that relations in the insurance services market became largely spontaneous and unregulated. This became one of the main reasons for the bankruptcy of newly established insurance companies. This situation was caused by the absence of the necessary regulatory norms that would place capital activity within appropriate legislative frameworks and prevent the penetration of non-professional agents into the market. The institutional foundations of insurance did not correspond to the objective economic needs of society. The insurance institution did not perform many of its inherent functions, such as ordering and structuring relations, reducing uncertainty risk, and ensuring security. The situation began to change quite rapidly as a result of the adoption of relevant regulatory legal acts, including the Law of the Republic of Uzbekistan “On Insurance Activity” and others [8].

Insurance represents an independent institutional form as well as a subsystem of the economic system of society as a whole. Therefore, it can reasonably serve as an independent object of analysis of the problems of state regulation. This allows, with a certain degree of abstraction and assumptions, the approximation and modeling of the regulation process at the macro level, as well as determining its necessity, basic methods, and forms.

Traditionally, the need for state regulation of insurance activity is derived from the social significance of insurance, which consists in providing citizens with compensation for material and financial losses, as well as additional income.

The state determines priority directions for the development of the industry, target benchmarks and mechanisms for achieving them, develops an appropriate regulatory framework, and thus forms state policy. At the same time, one of the main tasks of the state is defined as “ensuring the reliability of insurers’ activities” [9]. However, with such an approach, in our opinion, the objective perception of insurance as an open, complex, multi-subject system is artificially narrowed and simplified. In this regard, there is a need for an in-depth analysis that would allow a more complete justification, examination of the content and reasons for state regulation of insurance activity, and identification of the most effective regulatory tools.

The reasons for state regulation of insurance activity are formulated primarily based on its institutional nature. The necessity of state regulation of insurance activity is caused by the following factors:

lack of competition and the impossibility of achieving full market equilibrium;

incompleteness of information and the influence of external factors;

presence of high transaction costs;

specificity and social significance of the insurance product.

From a practical perspective, perfect competition is impossible in the real insurance market. The formation of supply and demand for insurance services occurs differently than in ordinary commodity markets. Due to the specificity of the product being sold, the insurer contributes to the formation of demand. In addition, information asymmetry is particularly pronounced in the insurance market. The probabilistic and random nature of the insurance product determines the insurer’s greater awareness compared to the potential client. Lack of information may block interaction and contribute to the absence of a contract. In insurance activity, the need to obtain information for more accurate statistical calculations is especially acute. This, in turn, leads to an increase in transaction costs, which can be minimized through state control.

As is well known, the market does not always ensure equilibrium; therefore, regulation of the interests of its participants is achieved through state intervention, and the social orientation of this industry also presupposes the presence of such regulatory instruments. “In the absence or insufficiency of state regulation, it is easy to place one’s own interests above the interests of policyholders” [10]. Socially significant types of insurance are of a public nature and therefore are subject to state regulation.

State regulation is one of the main conditions for ensuring the economic security of society. In addition to risks inherent in the national economy, modern innovation processes significantly increase financial security risks. Therefore, the state is called upon to create conditions for ensuring economic security and compliance with the law.

Moreover, one of the tasks of state regulation is the elimination or reduction of negative externalities that occur in almost any sector of the economy, including insurance. In our opinion, an example of an externality within the industry in the future may be the activities of foreign insurance companies that are able to offer more attractive products, resulting in reduced competitiveness of insurance products of domestic insurance organizations. In this case, it should be noted that the emergence of strong competitors will always stimulate the development of the insurance institution. “Foreign intervention” in insurance contributes to strengthening the positions of economic agents. This constitutes positive externalities. Outside insurance activity, the aggressive pricing policy of insurance companies can be considered a negative external effect, leading to increased costs for economic entities and, consequently, to price growth. The prevention and elimination of negative effects from the functioning of insurance organizations is essentially the main goal and reason for state regulation.

Sectoral features of state regulation of insurance activity are fully manifested at the level of its methods, forms, and instruments. The lack of clarity in understanding, defining, and distinguishing the main methods and forms of state regulation inevitably affects the process of developing, forming, and implementing the regulatory mechanism in practice. Most studies in this field are of a general economic, that is, intersectoral nature, whereas state regulation in specific industries is of the greatest relevance.

Each industry has its own specific characteristics that significantly influence the determination of the goals of state regulation and the application of its forms and instruments. The specificity of insurance activity in the conditions of Uzbekistan is undoubtedly reflected in the content and forms of state regulation. Traditionally, direct and indirect regulation are distinguished. The structure of the institution of state regulation is described by the totality of its methods, forms, and instruments.

To date, no unified opinion has been formed regarding the classification of forms and methods of state regulation of the insurance institution. For the purpose of systematizing the definitions of methods and forms of regulation, one may rely on the generally accepted essence of these terms. A method is understood as a “way of achieving a certain goal or solving a specific task” [11]. A form is “the external expression of a certain content” [12]. A method represents a system of certain functional actions, while a form is a means of influence through the application of a particular method.

State regulation of insurance activity is carried out through specific methods, which are based on the application of appropriate forms. Traditionally, direct and indirect regulation are distinguished (Fig. 1).

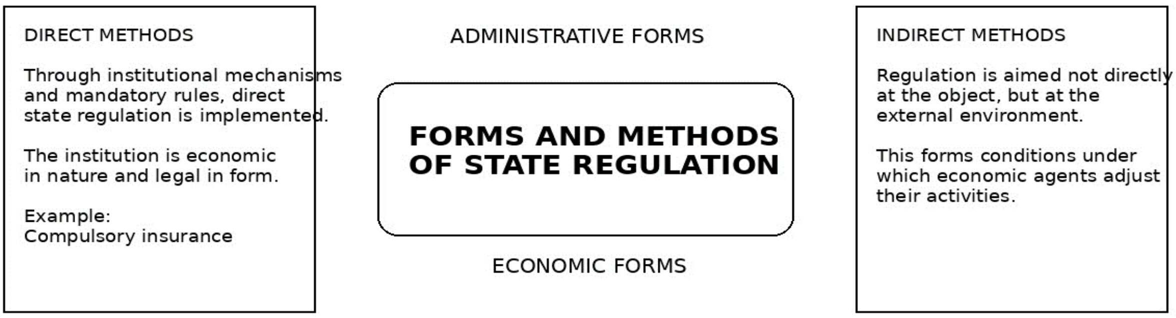

Figure 1. Forms and Methods of State Regulation of Insurance Activity [13]

In this process, it is more appropriate to distinguish methods at the level of instruments of state regulation. In this regard, the arguments presented below confirm the necessity of dividing regulatory methods into direct and indirect, depending on the mode of influence:

Direct regulation, in which direct state influence is exercised through the "establishment" of an institution and the introduction of norms and rules. A typical example is the introduction of compulsory insurance. The essence of this phenomenon is expressed in the economic nature of relations formed within compulsory insurance by virtue of law; that is, the method of its implementation is exclusively legal in nature, since compulsory insurance is always based on the adoption of a relevant regulatory legal act by the state.

Indirect regulation, which is based on methods aimed at the external environment in which an economic entity operates. As a result, conditions are formed in the external environment according to which the activities of the given entity are adjusted. These methods, like direct methods of influence, may also be based on regulatory legal acts and rules.

In our view, when distinguishing methods of state regulation into direct and indirect, there is no need for excessive detailed elaboration, which may divert attention from the intended goal—namely, the classification of methods. The division of methods of state influence subsequently makes it possible to systematize the forms of state regulation. At the same time, it is proposed to carry out the differentiation of regulatory methods by "linking" them to specific areas subject to regulation or to the sphere of regulated relations—specifically, in this case, to the insurance institution.

Conclusions and Recommendations

Thus, taking into account identifying characteristics, the methods of state influence on the insurance institution can be reduced to economic administration, regulation of financial activities, strategic and tactical forecasting, and monetary regulation.

The forms of institutional regulation (administration) consist in defining the external conditions for the functioning of economic entities, establishing the "rules of the game" in the market, and setting legal norms in specialized markets.

State regulation is one of the key conditions for ensuring the economic security of society. In addition to risks inherent in the national economy, modern innovative processes significantly increase risks to financial security.

Economic regulation represents a functional, active, and direct participation of the state through its authorized bodies. Such a form of state regulation, based on strategic and tactical forecasting, makes it possible to determine the directions of development of the economic system as a whole and, in particular, of a specific sector of the economy.

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