



ROLE OF COMPULSORY INSURANCE IN THE INSURANCE MARKET

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ABSTRACT	KEYWORDS
The article describes the role of compulsory insurance in the insurance market of our country, its theoretical foundations, implementation practices and practical recommendations for solving problems.	Insurance market, compulsory insurance and its types, social insurance, voluntary insurance, insurance coverage, tariff rate, level of harm.

Introduction

Insurance is one of the rapidly developing sectors of the financial system of Uzbekistan. Despite the fact that the insurance sector is relatively new, it has been occupying an important place in the distribution and redistribution of financial relations from year to year. The insufficiently developed economy, the low level of insurance culture among insurance entities, inconsistencies in the legislative sphere, the lack of methodological support, and others do not allow for the full use of the mechanisms for redistributing financial resources through the compulsory insurance system.

It should be noted that a number of effective measures are being taken by the government (Decree, 2019), the Insurance Market Development Agency, and responsible institutions to reform and accelerate the development of the insurance market of Uzbekistan, including practical work on the introduction and implementation of new types of compulsory insurance, including insurance of real estate and agricultural risks, taking into account the interests of the state and society.

Compulsory insurance at the current stage should be considered as a system of anti-crisis and guarantee measures of economic relations, which involves the formation of insurance funds at the expense of insurance premiums of legal entities and individuals, and their subsequent use to compensate for losses caused as a result of insured events.

Shirshov (2006) emphasizes that the development of compulsory insurance types, as the main organizer of the insurance services market, is aimed at solving the issues of additional financing of social protection of the population, and serves as an important factor ensuring stability in the economy. In addition, the full and economically balanced development of compulsory insurance types leads to the growth of insurance culture among business entities, which in turn leads to the development of voluntary insurance types.

According to Alekseeva (2008), the need for a compulsory form of insurance is explained by its great social significance. Some types of compulsory insurance provide the majority of the country's population with additional social protection. For example, compulsory insurance of employers'

liability, the obligation of which is one of the most important mechanisms for the development and regulation of social processes aimed at increasing the sustainability of the reproduction of labor resources, compensation for losses caused at work.

According to Cristian Buzatu (2013), any state introduces compulsory insurance types to reduce the costs of its budget for risk prevention. Also, through the introduction of compulsory insurance types, an insurance “habit” is formed among citizens. The role of compulsory insurance types in this regard is invaluable.

Ogorodova et al. (2016) in their study emphasize the following: compulsory insurance is currently acting as a catalyst for the development of the insurance market in financially developing markets. The insurance mechanism is an important system for supporting economic stability in the country, as it reduces the burden on the state budget from the point of view of state spending, including compensation for losses caused to victims of natural and other disasters.

Hamraeva F.Sh. (2020) the main economic benefit of compulsory insurance is to provide insurance coverage for many objects and individuals across the country in the event of unexpected natural disasters without spending budget funds.

Abdurakhmonov (2019) in his analysis drew the following conclusions, including that in the insurance market of most CIS countries, compulsory insurance premiums occupy a small share in the total insurance premiums. Only in the Republic of Belarus do compulsory insurance types form the basis of the insurance market. In the Russian Federation and the Republic of Kazakhstan, these two types of insurance are relatively balanced. The compulsory insurance sector is poorly developed in the insurance markets of Uzbekistan, Ukraine and Azerbaijan.

One of the factors of sustainable development of the country is the insurance system. Insurance serves as a financial shock absorber in the event of adverse events in the activities of the population and enterprises, and also ensures the social, financial and economic stability of society, including its financial institutions. Compulsory insurance, by its social and economic nature, is closely related to risks affecting the interests of the general public or the state, and is implemented based on the legislative characteristics of each country.

Compulsory and voluntary types of insurance are similar in their methodological and organizational forms, but they have their own distinctive and distinguishing features and principles (Table 1).

Table 1 Features and principles of mandatory and voluntary insurance types ¹

Features of optional and mandatory types of insurance	Principles of compulsory insurance
In voluntary insurance, insurance liability depends on the insured's insurance premiums. In compulsory insurance, insurance premiums are not related to insurance liability.	1. Compulsory insurance is established and regulated by law, according to which the insurance organization is obliged to insure the relevant objects and the insured is obliged to pay the established insurance premium.
In voluntary insurance, the term of the insurance contract is terminated when the insured stops paying insurance premiums, while in compulsory insurance, the insured cannot terminate the insurance contract, where the obligation is usually determined by law and the relationship is carried out within the framework of the law.	2. Full coverage of legally defined objects 3. The objects specified in the law on compulsory insurance are automatically accepted for insurance
In voluntary insurance, insurance organizations comply with the terms of the insurance contract, and in compulsory insurance, the state can make changes to the terms of insurance contracts by adopting regulatory and legal decisions at its discretion.	4. Implementation of compulsory insurance regardless of the payment of insurance premiums 5. Continuity of compulsory insurance (unlimited period of introduction of the type of compulsory insurance)
In voluntary insurance, bankruptcy management is established when the solvency of insurance companies decreases, while in compulsory insurance, the decrease in insurable earnings is eliminated by using state trust funds or by increasing insurance premiums.	6. strict determination of insurance coverage under compulsory insurance

Currently, the objective need for compulsory insurance for the Uzbek insurance market is due to the following factors:

- The limited ability of the state to provide assistance in emergency situations, due to the small amount of financial resources allocated for social policy;
- The outdated technologies and basic equipment used in almost all production sectors, which in turn cannot guarantee a safe labor process and the absence of environmental hazards.

According to analytical data from the Ministry of Finance of Uzbekistan, in 2019 the total volume of insurance premiums collected by the country's insurance companies showed relatively high growth rates and amounted to 2.3 trillion soums, which is 42.0% more than the previous year (Figure 1).

¹ Олиб борилган тадқиқотлар натижасида муаллиф томонидан шакллантирилди.

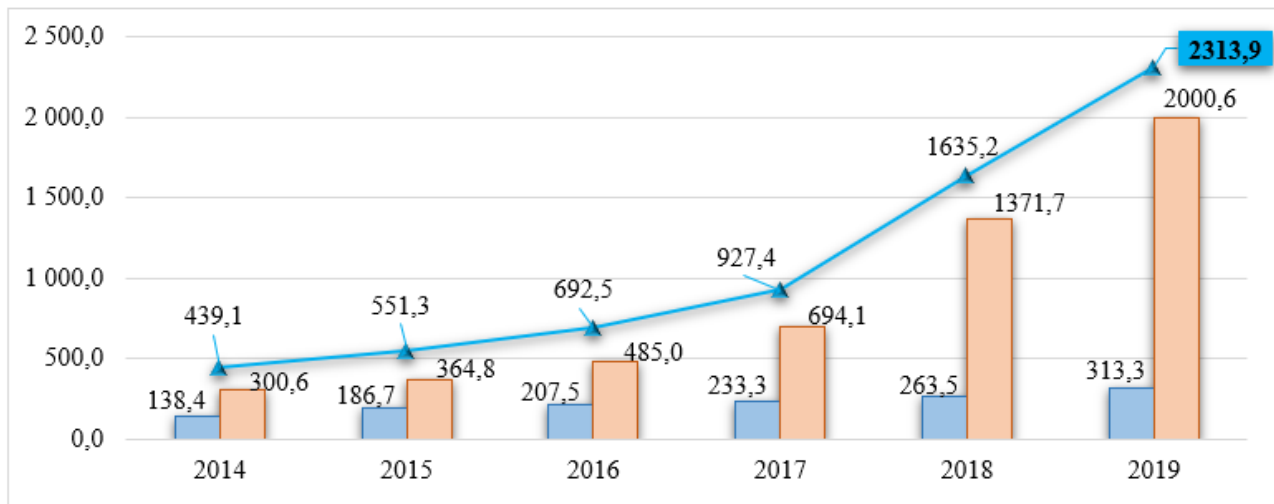


Figure 1. Dynamics of changes in insurance premiums by type of insurance (in billion soums)²

The main factors of growth of the insurance market during the analyzed period were provided by types of voluntary insurance services.

There are a number of economic indicators that affect the growth of insurance premiums, such as average wages, gross domestic product, taxes, monetary policy, etc. However, based on the experience of developed European countries, it can be noted that the development of the insurance sector is impossible without taking compulsory measures. Such compulsory measures are implemented by introducing compulsory types of insurance, which in turn leads to the development of the entire insurance sector.

Through the compulsory insurance system, the state participates in solving social problems of social development. At the present stage, the introduction of compulsory insurance of liability of vehicle owners, compulsory insurance of hazardous waste facilities (the introduction of compulsory medical insurance is expected at a later stage), and insurance of certain professions against accidents is an economically justified and correctly socially oriented policy. This is due to the need to increase the social protection of the population in the context of the economic situation of the state and the market economy. At the same time, it is also important to consider compulsory insurance types as temporary measures aimed at solving social problems of society during the transition period.

In 2019, a rapid growth in insurance coverage was observed. During the period under review, payments by companies increased by 77.0 percent and amounted to 813.5 billion soums. Such a sharp change in insurance coverage can be explained by an increase in payments under life insurance contracts in 2019 (Figure 2).

² Муаллиф томонидан Молия вазирлиги маълумотлари асосида тайёрланди.

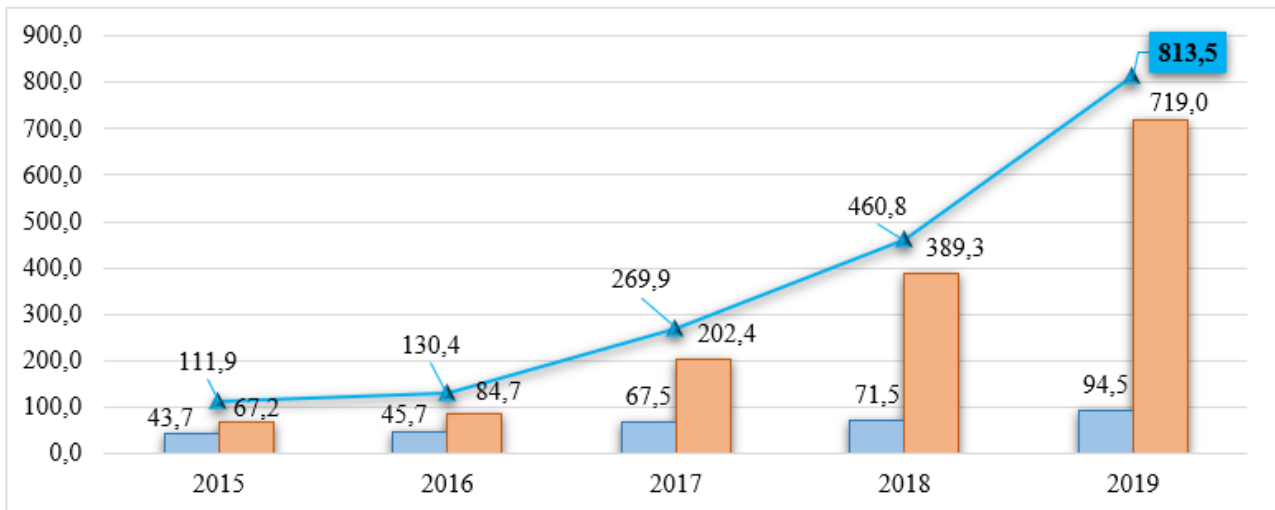


Figure 2. Dynamics of changes in insurance coverage by type of insurance (billion soums)³

From the data of the picture, we can see that there is a growing trend of the share of voluntary insurance in the composition of insurance coverage. In the period under analysis, the coverage of optional insurance types increased by 85.0% and amounted to 719.0 billion soums. As a result, the share of voluntary insurance in total payments increased by 3.9 percentage points and amounted to 88.4%. The growth of coverages related to compulsory insurance was 11.6% respectively.

Compulsory insurance types increase the area, scope and coverage of insurance, that is, by attracting many insurance objects to the field of compulsory insurance, the insurance premium tariff rate decreases. It should be noted that the level of harmfulness under compulsory insurance was 0.30 percent in 2019 (in international practice, this figure is 50-55 percent). This, in turn, determines the profitability of compulsory insurance, as mentioned above, that is, 70% of the collected funds remain at the disposal of the insurance company. In the future, this insurance will provide an opportunity to reduce tariff rates.

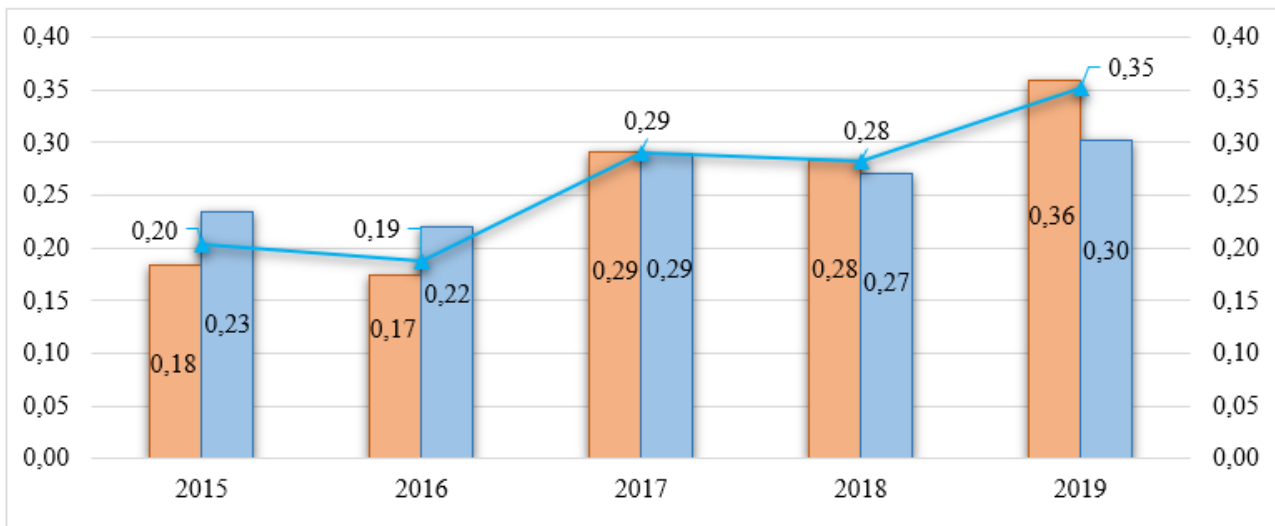


Figure 3. Damage rate of insurance premiums (in percent)⁴

³ Муаллиф томонидан Молия вазирлиги маълумотлари асосида тайёрланди.

⁴ Муаллиф томонидан Молия вазирлиги маълумотлари асосида тайёрланди.

In many cases, through compulsory insurance, the state can implement its own special guarantee and social programs. This primarily concerns the sphere of social insurance (pension insurance, medical insurance). First of all, it is beneficial for the state to use the insurance mechanism in solving social problems. Firstly, the number of people in need of state support decreases. Secondly, the state budget is used more effectively and fairly, in particular, the possibility of full-fledged social coverage of the poorest segments of society increases.

The objective necessity of compulsory insurance in the current conditions of the developing economy of Uzbekistan is its fulfillment of social functions, contribution to the formation of an insurance culture, the formation of a stable financial base for the activities of insurance organizations, as well as the proper organization of insurance activities, which will significantly contribute to saving budget funds. It should be noted that in the current state of the national insurance market, the role of compulsory insurance in covering the risks of all risk groups of the population and economic entities, as well as in significantly reducing state budget expenditures for covering the amount of damage caused by emergencies and natural disasters, is invaluable. In this regard, it is necessary to legally establish the principles of compulsory insurance in the territory of the Republic of Uzbekistan and limit the current practice of compulsory insurance types on the basis of secondary legislation, as well as accelerate the work on unifying previously adopted compulsory insurance types into a single system. In this case, the compulsory insurance system should be aimed at protecting the important property interests of the state in ensuring the protection of high-risk objects of the economy and require minimal budget funds.

In the field of compulsory insurance, there are about 40 types of insurance, depending on their economic importance, of which only a few are provided with a legal implementation mechanism, while the rest are not determined by legislation, therefore, it is necessary to bring their implementation mechanisms into line with the established procedures in Uzbekistan and adapt them to international practice.

At the current stage, the main directions of state policy on the development of compulsory insurance types are as follows:

- Formation of a legal basis for compulsory insurance in the insurance services market;
- Development of a methodology for compulsory insurance;
- Creation of effective mechanisms for state regulation and control of insurance activities;
- Ensuring the integration of the national insurance system into the international insurance market, studying the experience of foreign countries.

In our opinion, the formation of a methodological, objective and statistical database of compulsory insurance available today can, in turn, serve as the basis for the introduction of the following types of compulsory insurance:

1. Insurance of buildings and structures against fire and natural disasters;
2. Agricultural risk insurance;
3. Liability insurance of producers and service providers;
4. Professional liability insurance (notaries, medical professionals, lawyers, realtors, etc.).

In addition, a well-established compulsory insurance system mobilizes national funds in the country and serves to attract investments into the economy.

In conclusion, it can be said that the main goal of introducing compulsory insurance, first of all, is to reduce the burden on the budget at the expense of the formed insurance reserves. To achieve this goal,

it is necessary to improve the effective functioning and financial stability of the compulsory insurance system using the above criteria, as well as increase the effectiveness of state regulation of insurance activities. However, these measures should not allow the formation of a monopoly in this area of insurance activity. In addition, it is necessary to improve the legislative framework that determines the mechanisms for implementing compulsory insurance, as well as adopt republican laws regulating compulsory insurance.

In developing types of compulsory insurance, it is necessary, first of all, to improve them while preserving the existing ones and introducing new ones.

Indeed, despite the existing shortcomings in Uzbekistan, today an effective system of compulsory insurance is developing, an insurance infrastructure has been formed, and unique experience in implementing types of compulsory insurance has been accumulated. In a short period of time, the state monopoly has been abolished and a real independent national insurance system is being formed.

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