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## Improvement of Financial Mechanisms of Investment Activities of Insurance Companies of Uzbekistan

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**Annotation:** This article discusses the improvement of financial mechanisms of investment activities of insurance companies in Uzbekistan. The most important aspect of insurance activity, along with the conduct of insurance operations proper, is the investment of financial resources at the disposal of insurance companies in order to extract maximum profit and strengthen their position in the market. The insurer is faced with the task of forming a portfolio of assets, taking into account the investment qualities and conditions for investing all groups of financial resources at its disposal.

**Keywords:** investments, investment policy, financial mechanisms, improvement, insurance company.

Investments are one of the significant areas of activity for insurance companies. Attention to investment activity is determined by the significant impact of its results on the financial condition of the insurance company as a whole. Quite often insurers cover losses from directly insurance activity at the expense of profit from investment operations. This side of the activity of insurance companies, as a rule, is profitable, and the degree of risk here is more predictable. In other words, if in insurance the financial result is a value that depends mainly on objective factors, in investment activity, profit is determined, on the one hand, by the investment skills of the insurer, on the other hand, it depends on the current economic situation in the country. Thus, effective investment activity acts as a mechanism for strengthening the financial stability of an insurance company. The economic significance of insurance is not limited to its guarantee and reimbursement functions. The financial resources accumulated in insurance funds serve as a significant source of investment in the economy and are one of the main factors in ensuring the effective functioning of an insurance company.

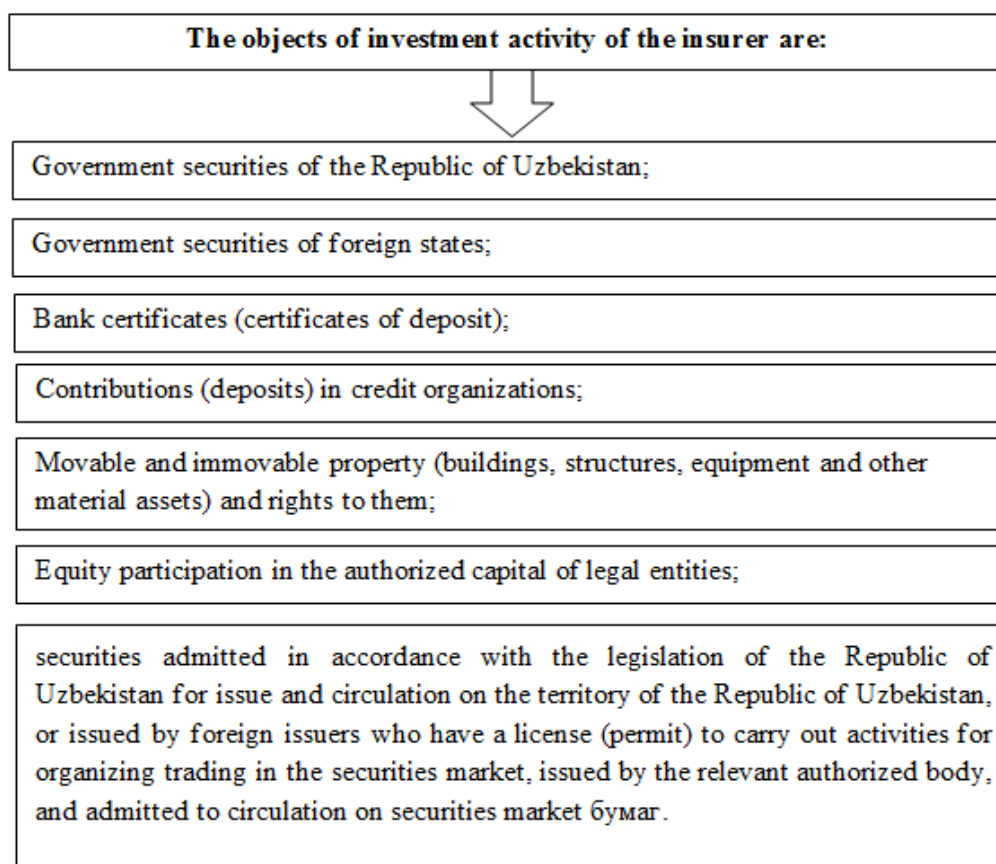
First, investment activity determines the very possibility of providing insurance services by ensuring the formation of a sufficient insurance fund.

Secondly, a well-organized investment activity ensures the quality of services provided and determines the market position of the insurer. Investment activity affects the main characteristics of the insurance product, primarily its cost, and the actual fulfillment of the obligations of the insurer, determined by the terms of insurance payments.

Thirdly, investing enables the owners of an insurance company to develop their business and manage it independently. As a source of investment activity of the insurance company is the own and borrowed capital available to insurers. At the same time, the invested monetary resources of insurance organizations are still mainly represented by insurance reserves. The investment activities of insurance companies, based on the use of temporarily free borrowed funds, are rather strictly regulated by the state. This is explained not only by the nature of the invested resources of insurance companies, but also by the lack of an objective opportunity for the actual owners of these funds - policyholders to control how efficiently the insurance company manages the funds provided to it. There are two main areas in the regulation of investment activities of insurance organizations:

- regulation of placement of own capital;
- regulation of placement of insurance reserves.

A large degree of regulation on the part of the supervisory authorities is observed in terms of the placement of insurance reserves. This is explained by the nature of this category of financial resources of the insurance company involved. The sectoral feature of insurance activity is manifested in the fact that the overwhelming majority of insurance organizations have insurance reserves as the main source of investment for the insurer. Taking into account the requirements of the legislation, insurance organizations must carry out their investment activities, first of all, ensuring the safety of assets, as well as protecting them from depreciation due to the influence of increasing inflationary processes.



**Fig. 3.3. Objects of investment activity of insurance companies<sup>1</sup>**

<sup>1</sup> Compiled on the basis of the Regulations on the investment activities of the insurer and reinsurer, approved by the Order of the Minister of Finance of the Republic of Uzbekistan dated July 3, 2009 No. 68, article 3

It is prohibited to invest in objects, the creation and use of which do not meet the sanitary and hygienic, radiation, environmental, architectural, urban planning and other requirements established by law, violate the rights and legally protected interests of legal entities and individuals. The total amount of the insurer's assets placed in the authorized capital of other legal entities is limited to 50% of the sum of the insurer's own funds sources. The share participation of the insurer in the authorized capital of any one legal entity shall not exceed 30% of the authorized capital of this legal entity. It is not allowed to place more than 50% of the insurer's assets in one land plot or other real estate object in real estate objects. When placing the insurer's assets in bank deposits (deposits), the deposit in one commercial bank should not exceed 40% of the insurer's assets. When placing the insurer's assets in deposits (deposits) in credit institutions (except for commercial banks), the total amount of deposits (deposits) should not exceed 10% of the insurer's assets. The placement of the insurer's assets in the charter capital of one legal entity or other participation rights in one legal entity shall not exceed 30% of the insurer's assets. The insurer has the right to provide loans to its founders, shareholders and employees, as well as loans to policyholders who have entered into life insurance contracts with it, guaranteed by these contracts. In this case, the total amount of loans provided should not exceed 10% of the authorized capital of the insurer. The insurer has the right to attract loans (financial assistance) in an amount exceeding 30% of the number of sources of own funds, only after notifying the State Inspectorate for Insurance Supervision. The insurer is obliged to have cash on hand or on settlement (currency) and other bank accounts in the amount of at least 3% of the amount of accrued insurance indemnities for the previous twelve months<sup>2</sup>.

In order to further reform and ensure the dynamic development of the national insurance market, introduce new types of insurance services in demand, increase consumer confidence in the insurance market, as well as in accordance with the State Program for the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017-2021 in "Year of Active Investments and Social Development" several directions were identified:

- Improving the legal and regulatory framework in the field of insurance, including the consistent implementation of standards and recommendations of international organizations and the best international practices in this area;
- institutional development of the insurance regulation system aimed at ensuring the reliability and sustainability of the insurance market through the introduction of effective regulatory mechanisms and prudential supervision;
- increasing the level of capitalization, solvency and financial stability of professional participants in the insurance market, improving the quality of their assets, as well as the development of investment activities of insurers;
- development and expansion of the infrastructure of the insurance market by activating the activities of insurance brokers, improving the system of work of insurance agents, introducing bancassurance mechanisms, as well as increasing the role of professional participants in the insurance market as a whole;
- strengthening the protection of the rights of consumers of insurance services and other subjects of insurance activity, increasing the insurance literacy of the population and their confidence in insurance, ensuring the openness and transparency of the insurance market;

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<sup>2</sup> Regulations on the procedure for applying penalties to insurers for violation of the legislation on insurance activities, approved by the Decree of the Ministry of Finance, the State Tax Committee of the Republic of Uzbekistan of the State Committee of the Republic of Uzbekistan for Demonopolization, Support for Competition and Entrepreneurship dated July 11, 2008 No. 77, Article 9

- expanding the volume, range and improving the quality of insurance services provided through the introduction of new innovative and development of traditionally demanded insurance products;
- widespread use of modern information technologies in the field of organization and regulation of insurance activities, active introduction and development of electronic types of insurance services;
- improvement of the system of training, retraining and advanced training of specialists in the insurance market, the use of modern teaching methods, stimulation of research activities in the insurance industry;
- building and maintaining a positive image, as well as increasing the investment attractiveness of the national insurance market, including through its integration with international and foreign insurance markets.

In accordance with the above directions, the Roadmap was approved for the accelerated development of the insurance market of the Republic of Uzbekistan for 2019-2020.

The main problem of investing funds is the undeveloped stock market of the Republic of Uzbekistan and a small number of financial projects where money could be invested. In the developed countries of Europe and in the USA, the share of invested funds of insurance companies is about 20-25%, despite the fact that in our country this figure is several times less.

For example, in the UK there are approximately 70 types of securities. In Uzbekistan, the least risky investments are government securities or securities of financial institutions with state participation. But such securities provide low returns. Moreover, it should be taken into account that this rate varies greatly in conditions of financial crises.

At present, in the Republic of Uzbekistan, due to the instability of the climate, a specific state supervisory authority is needed that could control this segment of the economy. Since there is an acute shortage of workers in the stock market, there is a problem of a lack of qualified specialists who could carry out this function. In addition, in the current situation, insurance companies do not have enough funds that need to be invested. Pension and funded types of insurance, which already contain rates of return, do not help either. There are very few attractive investment instruments in Uzbekistan that could provide protection against inflation and lead to additional income, and this is one of the main problems, especially in the current conditions of a declining financial market. The question of the structure and volume of investments, periods of reinvestment at the expense of insurance reserves, is a complex task that each insurance company solves independently.

The financial resources of domestic insurance companies are much less than those of the West. Insurers today need to create preconditions for the further transformation of insurance companies into large institutional investors who would be trusted by the citizens of the republic.

It is necessary to improve state regulation in the field of insurance and increase the financial literacy of the population.

It is important to create an atmosphere of public confidence in order to stimulate the investment of free financial resources in business through insurance companies that are professionally engaged in investments. Today, the most untapped resource is long-term life insurance. Based on the experience of other countries, it has been proven that long-term life insurance serves as an effective investment tool and helps to transform the population's savings into long-term investments. Now the problem of the domestic insurance market is that the population is not ready to transfer their savings to insurance companies so that they become long-term investments and generate income, at the same time, contribute to the development of the country's economy. It is possible to solve the problem of transforming the savings of

the population into long-term investments through insurance companies through the implementation of systematic and consistent actions of the state in the following areas:

- stimulate long-term life insurance, including pension insurance (for example, the provision of tax incentives for individuals);
- provision of payment guarantees (you can use the same mechanism as guaranteeing bank deposits);
- Formation of a mechanism for placing reserves in investment instruments that meet the requirements of insurance organizations according to such criteria as diversification, repayment, profitability and liquidity;
- creation of a system for the implementation of state control over compliance with the norms of functioning of state control over compliance with the norms of the functioning of this market. Among the large-scale processes that need to be stimulated within the insurance sector in order to strengthen investment potential;
- Consolidation of insurance companies and the concentration of insurance capital;
- provision of new joint insurance products with special aggregate reserves of insurance pools;
- Consolidation of the insurance and banking businesses not only in terms of interaction, but also in terms of transition to the level of contractual partnership, creation of joint financial and insurance products.

The main problem of the domestic market of insurance services is that more than 20% of the assets of Uzbek insurance companies are illiquid. At the moment, there are no opportunities, and often the desire of insurers, to replace illiquid assets with real and valuable ones. The above leads to an increase in distrust in the insurance business as a potential investment institution.

Thus, we can conclude that the current problems in investment activity hinder the development of the marketing policy of the insurance company, as insurers have to constantly think about the company's ability to meet its obligations to customers. As a result, it is easier for Uzbek insurance companies to refuse to invest in this situation than to put at risk the limited volumes of attracted resources. The investment activity of insurance companies is quite an important component of the social and economic development of the society. In developed countries, most of the investments are long-term and are carried out at the expense of life insurance companies, while in Uzbekistan the bulk of the funds are represented by short-term assets. In addition, the participation of Uzbek insurers in the investment process is often speculative, and medium and small insurance companies do not have the desire to enter the stock market on their own, since they have sufficient investment potential. The mechanism of insurance is different in that with its help, insurance organizations can collect and accumulate the contributions of policyholders, and make payments on them upon the actual occurrence of an insured event. The company can use the existing time period to invest the collected funds and receive additional income.

For risky types of insurance, the deferred period is short, while for life insurance, the duration of contracts is tens of years. Consequently, the investment opportunities of insurance companies are determined by the economic nature of insurance. In the event of catastrophic risks, successful investment activity enables the insurance company to cover the negative financial result by directing the received investment income to insurance payments. If at the macro level investment activity is useful for the economy of the country as a whole, then at the micro level it allows to increase the financial stability, solvency and competitiveness of an individual insurer.

The studies carried out allowed us to draw the following conclusions:



- The lack of fundamental research on investment problems in the field of insurance has led to the underdevelopment of the knowledge system in this area.
- An important development factor is the need for interaction between domestic insurance companies and leading foreign insurance and reinsurance companies in order to obtain advice on the effective management of financial resources.
- To increase the amount of placement of insurers' assets. This will give a big impetus to the development of the investment activities of the insurer and the reinsurer, thereby increasing the efficiency of financial management of insurance companies.

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