Principles, Basic Forms and Mechanism Formation of the Company Finance

Annotation: This article discusses the principles, basic forms and mechanism for formation of company finance. The significance of issues related to improving the efficiency of financial and insurance support for the functioning of the timber industry complex by clarifying the structure and content of the financial mechanism of the timber industry complex, which objectively has significant industry specifics, are the subject of the presented scientific research. Taking into account the identified issues, in order to improve the quality of financial and insurance support, forest industry enterprises using various financial mechanism tools should pay special attention to the need for insurance as the most effective way to improve financial and economic performance and manage the financial flows of the timber industry complex.

Keywords: principles, financial mechanism of the forestry complex, instruments of the financial mechanism, financial companies, basic forms.

Financial resources are funds that allow the company to develop over time. In the process of managing financial resources, not only their total size plays a role, but also the volume of cash flow and the intensity of its movement. In order to manage financial resources effectively, it is important:

- classification of income and expenses, as well as identification of sources of income;
- analysis of external and internal factors affecting the effectiveness of the insurer's activities;
- the ability to quickly receive information in a convenient form for the financial manager.

The finance of the insurer is a system of monetary relations arising in the course of financial and financial and economic activities, and is necessary for the formation and use of funds, income and other monetary resources. Insurance companies have external and internal monetary relations.

External relations of the insurance organization are concluded with:

- budgets of all levels;
- off-budget funds;
- financial market organizations;
- reinsurance partners;
- manufacturing infrastructure;
- company clientele.

The insurer’s internal relationship arises from:
- founders (shareholders);
- employees of the insurance organization;
- affiliated and dependent organizations;
- branches, offices.

Financial and economic relations arising in the process of movement of funds, funds and financial instruments are considered effective.

Thus, the cash flow is the object of management in the insurance, investment and financial activities.

Cash flow is the process of the functioning of the monetary system. Money is one of the most important elements of the monetary system, taking into account the national characteristics of the national currency associated with cash flow. All this fully applies to the insurance organization.

The finances of the insurer provide for all its activities. Insurance companies form and use the funds of the insurance fund, covering the damage of the policyholder, as well as his expenses. Moreover, under market conditions, the insurer, as a rule, is engaged in investment activities at the expense of the insurance fund and at the expense of its own funds. Therefore, this process is much more complicated than in other sectors of the national economy.

The cash turnover of the insurer turns into two relatively independent cash flows: the turnover of funds that provide insurance protection and the turnover of funds associated with the organization of the insurance business. That is why the turnover of funds provides insurance coverage in two stages: at the first stage, the insurance fund is formed and distributed, at the second stage, the insurance fund will be invested in order to make a profit. Certain elements of the turnover of an insurance organization are of socio-economic importance, therefore, various economic and legal factors influence each stage of the process.

The cash flow of an insurer includes two cash flows that are relatively independent:

- insurance payments - the turnover of funds issued by the insurance company to the insured. The first stage is formed by the insurance reserves and funds of the insurer; the second stage is invested in banks (deposit deposits) and securities (shares, bills, bonds, etc.) in order to obtain additional profit (dividends).

- funds for insurance activities.

The main income of insurance companies is formed at the expense of insurance premiums (insured). An insurance organization can also receive additional income from sponsorship, consultations, personnel training, etc.

Insurance reserves for personal, property and liability insurance are formed from insurance premiums and ensure the fulfillment of insurance obligations in the form of insurance payments upon the occurrence of insured events.
The insurance product is an insured event. An insurance policy is a certificate confirming that this event has taken place.

The finances of the insurer ensure its activities for the provision of insurance protection. Insurance protection of property interests of legal entities and individuals is carried out by insurance organizations through the formation and targeted use of the insurance fund for insurance payments. Taking into account the specific aspects of the insurance business and based on the foundations of modern financial theory, the following principles for organizing the finances of an insurance organization can be distinguished (Fig. 1.2).

**Fig.1.2. Principles of organizing the finances of an insurance company**

Implementation of the principle of planning is achieved through the current and strategic financial planning in the insurance company. The principle is inherent in the insurance business, since the calculation of insurance rates (the formation of prices for insurance services) or actuarial calculations represent the planning of expenses, loss and profitability of the insurance company.

The principle of rationality should be taken into account when planning and implementing various expenses incurred by insurance organizations.

The optimization principle involves the use of various economic and mathematical methods in the management of the financial resources of an insurance company.

The principle of efficiency of financial activity implies, in the event of a negative situation, the timeliness of adjusting the financial policy of the organization, making constructive decisions and taking appropriate actions in order to eliminate the threatening situation.

The principle of diversification in financial activities is, firstly, the distribution of financial risk, which is fully implemented when planning and forming the investment portfolio of an insurance organization; secondly, the formation of a sustainable insurance portfolio is based on the diversification of the technical risk of the insurer.

The principle of interconnection and interdependence is fulfilled when any component of the total financial resources of the insurance organization is affected. The main financial indicators of an insurance organization represent a single system, changes in any individual component element cause adequate changes in others.
The principle of flexibility in the organization of the insurer's finances means maneuverability in managing the resources of the insurance organization, pursuing a flexible policy, the mobility of income and expenditure items, the composition and structure of investments, tariffs, etc.

The specifics of the financial relations of the insurance company is due to the peculiarities of the organization of cash flow. So, enterprises engaged in the production of products, the sale of goods, first incur costs, and then they are reimbursed, the insurer first attracts financial resources, and then fulfills obligations to the insured, as a result of which the organization's cash insurance turnover is more complicated than that of enterprises in other sectors of the national economy.

It is advisable to consider the most fundamental features of the functioning of insurance organizations as objective prerequisites for these problems:

- insurance organizations belong to the enterprises of sectors of the sphere of non-material production, therefore, in the process of capital circulation there is no stage of production and capital throughout the entire circulation has only a monetary form;
- insurance activity is aimed at providing financial protection against the consequences of the occurrence of certain specific events to individual institutional units exposed to certain risk factors;
- financial protection of property interests is carried out through the payment of insurance compensation corresponding to the real cost of damage that occurred as a result of an insured event and is subject to compensation;
- formation of interest among the participants of insurance relations due to the presence of risks;
- insurance relations are characterized by a closed layout and equalization of damage in time and space;
- insurance is characterized by the repayment of insurance premiums accumulated in the insurance fund through the system of payments for the tariff period;
- insurance provides for the equivalence of the relationship between the insured and the insurer and at the same time the profitability of insurance activities;
- the insurance service provided to the insured is paid, the insurance premium plays the role of the price of the insurance product;
- from the totality of contributions, the organization forms an insurance fund, from which compensation for damages to insulants occurs;
- insurance premiums are payable in advance at the beginning of each period covered by the policy, and the payment occurs within sometime after the occurrence of the insured event, in connection with which the insurance companies have temporarily free cash;
- the presence of mandatory state supervision of insurance activities in order to comply with the requirements of the legislation of the Republic of Uzbekistan on insurance, the effective development of insurance services, the protection of the rights and interests of policyholders, insurers;
- in accordance with the requirements of state supervision, the investment activities of insurance organizations are based on the principles of diversification, repayment, profitability and liquidity, etc.

The finances of an insurance organization are state-regulated monetary relations that arise in the process of formation and use of own, borrowed and borrowed financial resources.

The financial resources of an insurance organization are funds in the form of income and external receipts necessary to ensure the life of an insurance organization. In the economic literature, there is generally a unified approach to the issue of classifying the financial capital of insurance organizations: it is generally
accepted that it consists of own, borrowed and borrowed capital. How insurance organizations manage these funds depends on their ability to fulfill their obligations to policyholders in a timely manner. The specificity of the activities of insurers is that it is aimed at the preliminary collection of funds (insurance premiums), so that in the future, upon the occurrence of certain events (insurance events), guaranteed payments of insurance indemnities and collaterals will be made. The financial resources of an insurance organization are constantly in motion and in the time, aspect represent financial flows.

The mechanism of formation of financial flows of the insurance organization is presented in fig. 1.3.

![Fig1.3. The mechanism for the formation of financial flows of an insurance company](image)

The insurer forms and uses the funds of the insurance fund, covering the damage of the insured and financing its own expenses for the organization of the insurance business. In addition, in market conditions, the insurer, as a rule, is engaged in investment activities, using part of the insurance fund and its own funds. As a result, the insurance company's cash turnover is more complex than that of enterprises in other sectors of the national economy.

The cash turnover of an insurance organization includes two relatively independent cash flows: the turnover of funds that provides insurance protection, and the turnover of funds associated with the organization of the insurance business.

At the same time, the turnover of funds that provides insurance protection goes through two stages: at the first stage, an insurance fund is formed and distributed, at the second, part of the insurance fund is invested in order to make a profit.

The formation of the insurance fund is based on the probability of damage, which is calculated on the basis of statistical data and the theory of probability.

The distribution of the insurance fund is based on the actual damage caused to policyholders in a given year, which may deviate from the estimated one regardless of the activity of the insurer.

The probability of a discrepancy between the volume of the formed insurance fund and the needs for the payment of insurance compensation gives rise to a number of specific features in the organization of the finances of the insurer.

The insurance fund is formed through the accumulation of insurance payments, which are determined on the basis of tariffs.

A possible discrepancy between the expected and actual damage imposes certain requirements, first of all, on the structure of the tariff: its main part includes a risk premium, reflecting the possible probability
of a deviation in the amount of actual damage from the expected one. In fulfilling its financial obligations, the insurer spends the payments received, i.e. distributes them in different target areas, laid down in the tariff. At this stage of the movement of funds, the discrepancy between the calculated damage and the actual damage is possible, both in time and in space.

From the principle of a closed distribution of losses, it follows that it is possible to provide assistance to the affected insurers in a given year at the expense of the other participants in the insurance. The temporary distribution of damage requires the formation of reserve funds at the expense of the unused part of the total net rate in prosperous years, which will be spent in years with increased unprofitability.

Features of the time distribution of damage in risk insurance and the accumulation of the sum insured in long-term types of life insurance gave rise to two types of reserve funds: reserve funds for risky types of insurance and contribution reserves.

Such funds, in turn, can be formed for all types and branches of insurance in the aggregate, for each type of insurance separately or for groups of types of insurance. The first option allows for a wider redistribution of funds, the second more meets the requirements of maintaining the equivalence of the relationship between the insurer and the policyholder.

The higher the probability that the insurance fund created by the insurer will be sufficient to fulfill its obligations (damage compensation), the higher the financial stability of the insurer.

The activities of the insurance organization involve not only the reimbursement of their costs, but also making a profit.

An insurance organization should not seek to obtain large profits from insurance operations, since this would violate the principle of equivalence between the relationship between the insured and the insured. Moreover, in insurance, the term "profit" is used conditionally, since insurance organizations do not create national income, but only participate in its redistribution. The profit of insurance operations is understood as such a positive financial result, in which the excess of income over the costs of providing insurance protection is achieved. Nevertheless, insurance operations can sometimes bring significant profit, but its receipt is not a guideline for an insurance organization.

The main source of profit for an insurance organization is investment activity, which is carried out by using a part of the insurance fund for commercial purposes.

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