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Ways of Development of Accumulative Life Insurance in Uzbekistan

¹ **Obiddin Toshmurzaevich
Yuldashev**

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¹ candidate of economic science, associated
professor of the department of "Insurance and
Pension affairs", Tashkent Institute of Finance
obiddin@inbox.ru

Abstract: The article is devoted to the problems of the development of accumulative life insurance, various scientific and theoretical views on its economic essence are analyzed, the advantages and disadvantages in comparison with other investment instruments are considered, the directions of the development of accumulative life insurance are determined, scientific proposals and practical recommendations on them are given.

Key words: accumulation, insurance coverage, life insurance, accumulative life insurance, micro life insurance, accumulative and insurance behavior of the population.

Introduction

Cumulative life insurance plays a very important role not only for the insurance market, but also for the country's economy and its citizens. Because this is a type of activity aimed at financial and social protection of people throughout their lives by creating a comprehensive system of material support for them in the event of various events related to their life, health and ability to work, leading to a disproportionateness of their personal or family budget and a decrease in the level of life.

Insurance companies directly provide the country's financial market with loan capital and long-term funds through endowment life insurance operations, and in this regard, they will also have the opportunity to receive income and increase capital. Cumulative life insurance to solve problems of national importance through the use of life insurance reserves, which are considered a long-term resource, allows you to accumulate free cash at the disposal of the population. And the assets accumulated by insurance companies are the main source of investment and serve the development of the national economy.

Currently, a variety of financial services for the capitalization of temporarily free funds of the population and enterprises forms competitive relations between financial institutions that provide them. In addition, in the current difficult economic situation, potential consumers of financial services prefer a short period of time to send their funds, so the enthusiasm for savings largely arises in the banking segment. This makes their further development relevant by increasing the competitiveness of life insurance companies in the financial market, as well as by promoting the benefits, accumulative and protective functions of accumulative life insurance products.

Literature review

A large number of scientific studies have been carried out on the development of life insurance, including the general characteristics of endowment life insurance, as well as the features of life insurance operations in them, methodological approaches have been studied in the analysis of endowment life insurance programs, identification of shortcomings in the current legislation, stimulation of consumers of endowment life insurance products [1-4].

An analysis of the views of such scientists as T.A.Fedorova, N.G.Adamchuk and A.L.Lelchuk, on the financial aspects of life insurance, allowed us to determine the following key features of endowment life insurance: the long-term nature of life insurance operations, the use of discounting mechanisms, the formation of savings, the procedure for organizing life insurance reserves, the composition of insurance risks [5-7]. In particular, the organizational features of accumulative life insurance are based on the presence of the principle of unlimited insurable interests, the procedure for determining the sum insured, the absence of the principle of double insurance, and the deprivation of the insurer of the right to subrogation and recourse.

E.V.Semenova expanded the definition of theoretical aspects of the organization of accumulative life insurance by identifying the genesis of scientific views on life insurance in the economic science of the XIX-XXI centuries, and noted that the allocation of a new period in the justification of the essence of life insurance is carried out by revealing its new consumer features, improving the forms of organization of insurance protection, determining its organizational and financial features, as well as the conditions for organizing accumulative life insurance [4].

E.V.Semenova expresses her author's definition as follows: "Cumulative life insurance refers to relations to protect the property interests of individuals (insured persons and insured persons) associated with obtaining negative or favorable consequences from the realization of insurance risks on the principles of payment (insurance premium), repayment (insurance security), urgency (term of insurance) and profitability (additional investment income)" [4].

According to M.M.Mukhlynina, the main task of accumulative life insurance is not income, but protection and creation of a "safety cushion". This is one of the most conservative investment tools that gives a minimum return, but at the same time guarantees the safety of your funds. Cumulative life insurance is the maintenance and increase in the capital of the insured person by combining life insurance with savings programs [8].

To explain endowment life insurance D.V.Bryzgalov uses the specialized term "risk-free personal insurance", which in insurance theory is characterized by the absence of the harmfulness of an insured event as an event. He argues that with the help of such life insurance, the insured satisfies the need for additional income to maintain the situation at the usual level [9].

O.Yu.Donetskova used economic, legal and sociological approaches to compare deposit banking services and insurance services in her research, which analyzed the calculations of bank interest and insurance rates, defined legal relations, studied social indicators, and also compared the functions and tasks that are implemented by bank deposits and endowment life insurance [10].

A number of authors rightly note the underestimation of insurance products for the population. So, T.V.Bolshunova noticed ignoring the social effectiveness of insurance. In her opinion, insurance provides a huge investment potential that can improve the quality of life of the population, improve the working conditions of workers and provide them with high-quality insurance protection [11].

A.V.Sulimenko, exploring the factors hindering the development of life insurance, revealed a lack of correlation between the supply of modern endowment life insurance services and the demand for traditional types of insurance. In his opinion, achieving an equilibrium supply and demand for

accumulative insurance services requires close interaction between the state, insurance companies, employers, the insured and the guarantee fund [12].

In our opinion, based on the generalization of the above approaches to determining the features of endowment life insurance and its essence, we can give the following definition: "Encumulative life insurance is a financial mechanism for the implementation of insurance protection, which gives the insured the opportunity to accumulate and in any case (in case of death or surviving to a certain age or term) to receive the full sum insured with interest".

Analysis and discussion of results

Cumulative life insurance is a type of conventional insurance services provided by insurance companies.

This type of life insurance originally appeared in Western Europe, where the majority of the population effectively uses life insurance, that is, draws up an insurance contract, directing part of the salary to insurance premiums and is included in the economic life of the country. Of course, the conclusion of an insurance contract is voluntary.

It should be noted that this type of life insurance in Uzbekistan is considered, on the one hand, a relatively young type of insurance, on the other hand, to this day, life insurance companies are the insurance product that occupies the largest share in the insurance portfolio. This is due to the fact that the main purpose of endowment life insurance is to accumulate money for certain dates or events (wedding, education, childbirth, coming of age, etc.).

The difference between accumulative life insurance and other financial instruments is that not a single instrument provides insurance protection during accumulation. In addition, no financial instrument will allow the investor to receive the accumulated amount without significant losses before the end of the accumulation period. This means that such an opportunity is provided only by accumulative life insurance. In particular, it sets out the conditions for early receipt by the insured of the entire amount that he should receive upon expiration of the insurance contract.

It is well known that endowment life insurance is not highly profitable, and the reason for this is that in its original form it is not an investment instrument, but a combined product. If an insured event (state of death) occurs with the insured during the term of the contract, the insurance company assumes additional costs for the fulfillment of its obligations. That is, the policyholder receives the total amount of insurance, even if he paid a premium only for the first month of the accumulative amount. This amount is covered from the reserve formed by the insurance company through the payment of premiums by the insured.

Usually, in endowment life insurance, an insured event is an important event in the life of the insured or his family. They may be as follows:

- survival of the insured (insured person) until a certain date;
- death of the insured person during the term of the contract;
- loss of ability to work by the insured (insured person) and his entry into the appropriate disability group (usually into disability groups 1 and 2);
- death of the insured person as a result of an accident.

Cumulative life insurance reduces the negative consequences of risks through the implementation of its functions, in particular, the protection function allows the insured to provide high-quality protection of his life and health, the compensatory function - to compensate for material losses, the cumulative function - to reduce the impact of various risks. In this regard, endowment life insurance is considered as a comprehensive solution to the problem of ensuring people's safety [10].

The most important factor in the development of accumulative life insurance is the interest of the population in accumulation. In other words, the task of accumulative life insurance is to serve as a financial mechanism for accumulating and increasing free funds of the population. From this point of view, the content and purpose of endowment life insurance programs should correspond to the interests and reasons for the formation of savings of the population. Only in this case, the population will direct its own funds for accumulative life insurance. Based on long-term studies, it can be said that the population forms savings for the following reasons (Figure 1).

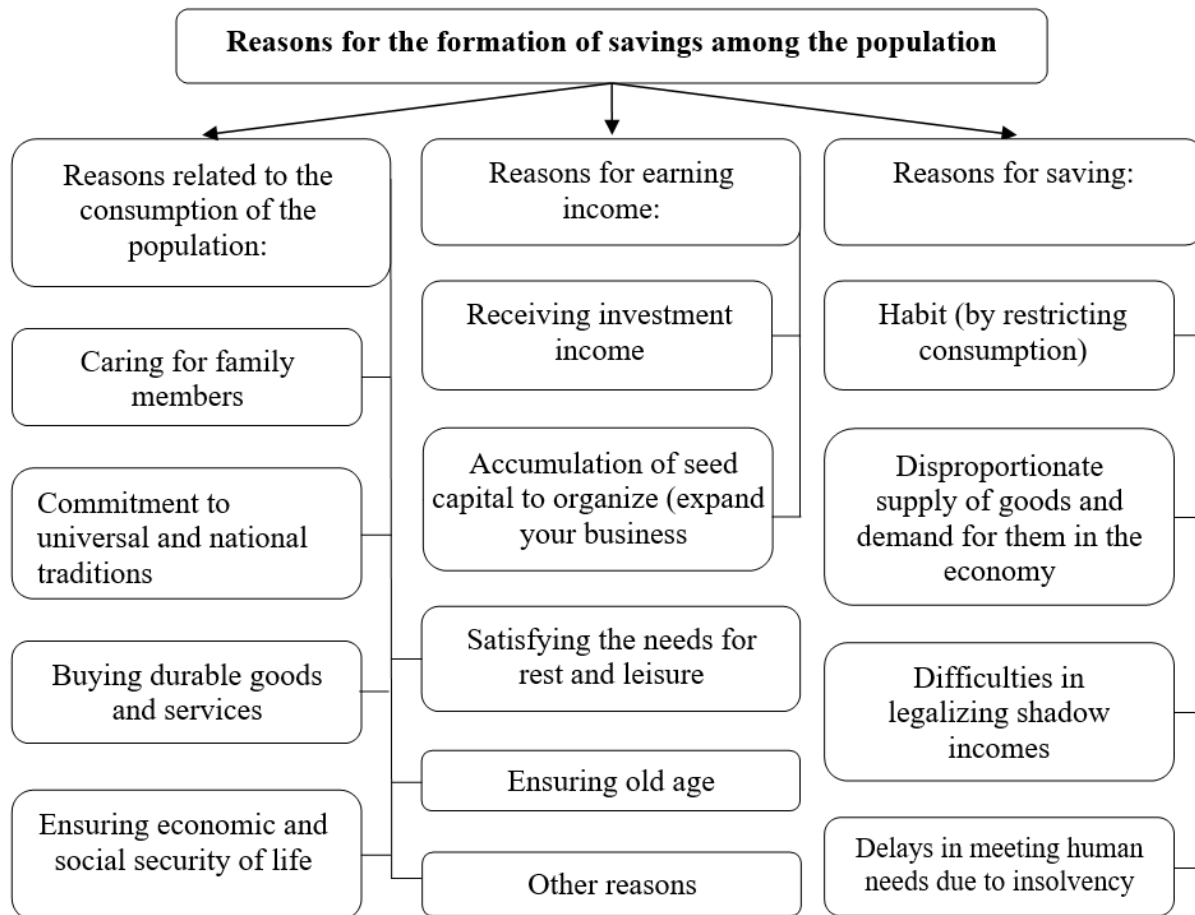


Figure 1. Reasons for the formation of savings among the population¹

In general, the endowment life insurance program embodies all the advantages of insurance and ordinary investment insurance products.

However, it should be noted that today there are a number of difficulties in the implementation of endowment life insurance programs. For example, low real incomes of the population, low solvency of potential insurers, low profitability of accumulative life insurance policies, distrust of insurance companies, unstable macroeconomic situation, low quality of service provided by insurance intermediaries, etc. [13].

Given the tendency of the population to accumulate and protect against risks, life insurance companies are expanding endowment life insurance services in the national insurance market. In this regard, the advantages of accumulative life insurance in competition with bank deposits can be expressed using the

¹ Prepared by the author

following table, which discusses the issues of storing and accumulating household funds, obtaining investment income, protecting life and health, as well as indemnifying losses and using tax benefits.

Table 1. Comparative table of benefits of long-term endowment life insurance (for individuals)²
(at the expense of a thousand soums)

Name of indicator	Without insurance (2020 year)	In case of insurance	
		2020 year	2018 year
Annual salary paid to an individual	48 000 ,0	48 000,0	48 000,0*
Insurance premium paid during the insurance period (sum of insurance premiums (half salary))	0,0	24 000,0	24 000,0
The tax base	48 000 ,0	24 000,0	24 000,0
Income tax for individuals**	5 760 ,0	2 880,0	3 074,8
Salary for 1 year	42 240 ,0	21 120,0	20 925,2
Insurance payment received at the end of the insurance period in hand (with bonuses, on average 5%)	0,0	25 200,0	25 200,0
Total amount of money earned	42 240 ,0	46 320,0	46 125,2
Difference (financial benefit)	-	4 080,0 (19,3 %)	6 600,0 (35,5%)

* After the deduction of 8% of the insurance premium to the pension fund in 2018;

** personal income tax rate in 2018 on a scale of 7.5%, 16.5%, 22.5%; in 2020 - 12%.

The above table data is an example of insurance of a 30-year-old person for a period of 367 days with the condition of paying insurance premiums in the amount of 2000.0 thousand soums per month, in accordance with it, we can see what financial benefit an individual receives when he sends a part his salary for endowment life insurance. In particular, in this example, if 24,000.0 thousand soums of wages are not directed to life insurance, then 21,120.0 thousand soums will be received when withholding income tax and, conversely, when this amount is directed to life insurance, at the end of the insurance period, this amount, together with bonuses, will amount to 25.0 thousand soums. This means that the salary in the amount of 21,120.0 thousand soums, which was not received and directed to life insurance, brought 4,080.0 thousand soums, that is, 19.3 percent of the financial benefit.

In this regard, it should be noted that in terms of the impact of changes in the income tax rate on life insurance, in this table we analyzed how much financial benefit was received in 2018 by orienting part of the salary to endowment life insurance. As a result, the figures we revealed showed that the part of the salary directed to life insurance was exempted from the 22.5% rate on the high income tax rate, and at the end of the insurance period, 46,125.2 thousand soums were received. According to our calculations, in 2018, the wages received for 1 year without insurance (from 48,000.0 thousand soums) amounted to 39,525.2 thousand soums. This means that in 2018, when the unpaid salary (which is 18,600.0 thousand UZS when taxed) was directed to endowment life insurance, it brought 6,600.0 thousand UZS, that is, 35.5 percent of the financial benefit.

² This table was compiled by the author as an example, based on conditional numbers.

With the help of this table, which summarizes the benefits of endowment life insurance, our conclusions are as follows:

- at present, other financial instruments (including bank deposits) in the general account do not bring 19.3% of profit;
- it is true that the bulk of the profits achieved in this case come from income tax breaks, but tax breaks do not harm the budget, on the contrary, they are more effective. Because funds allocated for endowment life insurance are invested in the economy and, as a result, are returned to the budget in the form of income tax, value added tax and other taxes;
- analyzes show that the higher the income tax rate or tax incentives, the higher the profitability of endowment life insurance;
- in this example, the life of the insured person is protected, that is, during the insurance period, for example, 6,000.0 thousand soums are accumulated over three months, and in the event of death, the beneficiary receives 24,000.0 thousand soums of the sum insured (even if not accumulated). In this case, the profitability of endowment life insurance is 4 times (400 percent).

Life insurance is one of the fastest growing segments not only of the national insurance market, but of the economy as a whole. The growth rate of life insurance premiums in 2019 exceeded 140.6 percent, and in 2015-2019 - at least 155% annually. Life insurance premiums increased from 0.017% of GDP in 2015 to 0.12% in 2019, and the share of life insurance premiums in total insurance premiums increased from 6.0% in 2015 to 25.3% in 2019. However, in 2020, for all these indicators, there was a slight decrease of almost two times compared to 2019. This situation can be explained by the dramatic impact of the COVID-19 Pandemic on life insurance industries.

Cumulative life insurance is one of the most convenient and reliable ways to make long-term investments in the world. In Western Europe, the USA and Japan, this type of life insurance is very popular, its share is 60-70 percent of the entire insurance market, and approximately 90 percent of the population have endowment life insurance policies. However, in Uzbekistan this insurance product is not popular enough among the population. This is evidenced by the main indicators of life insurance companies in 2020 (Table 2).

Table 2. Key indicators of life insurance companies in 2020³

Life insurance companies	Insurance premium, billion soums	Insurance market share, in %	Insurance payment, billion soums	Ratio of insurance payment to insurance premium (4/2*100), in %	Number of insurance contracts	Average insurance premium (2/6), thousand soums
1	2	3	4	5	6	7
LLC "New Life Insurance"	89,9	26,9	88,9	98,9	17914	5018,4
LLC "Uzbekinvest Hayot"	74,9	22,4	86,8	115,9	11644	6432,5
LLC "Agros Hayot"	62,9	18,8	48,2	76,6	415644	151,3

³ Prepared on the basis of statistics from the Ministry of Finance of the Republic of Uzbekistan. URL: https://mf.uz/ru/?option=com_content&view=article&id=354 (date of access: 10.10.2021).

JSC "Euroasia Life"	36,8	11,0	25,0	67,9	5035	7308,8
LLC "Kafolat Hayot"	22,8	6,8	18,4	80,7	14427	1580,4
DRL SO "Alfa Life"	21,5	6,4	38,0	176,7	4239	5072,0
LLC "Apex Life"	17,6	5,3	6,8	38,6	1219	14438,1
LLC "Alskom Vita"	8,0	2,4	5,9	73,8	665	12030,1
Total	334,4	100	318,0	95,1	470787	710,3

As Table 2 shows, in the life insurance market, insurance payments are 95.1% of insurance premiums, and for all life insurance companies, the average figure is 91.1%. This indicates that endowment life insurance products dominate in the insurance portfolio of some life insurance companies. This is due to the fact that the insurance premiums collected for this type of life insurance are returned with interest. However, in the insurance portfolios of other insurance companies, the role of accumulative life insurance is not sufficiently formed.

Conclusions and offers

In summary, I would like to note that endowment life insurance reduces the consequences of risk, provides additional financial assistance, improves the quality of life of a person, allows him to invest by attracting long-term resources of the population and setting long-term targeted savings.

As a result of our research on the areas of development of endowment life insurance, the following scientific proposals and practical recommendations have been developed:

1. The study of the features of foreign experience in life insurance and the analysis of aspects related to consumer preferences in relation to life insurance allowed us to determine the directions for the development of endowment life insurance in Uzbekistan:

- effective use of the microlife insurance business model in the domestic life insurance market as a way to minimize the impact of the factor of low effective demand and access to formal solutions to protect the property interests of various segments of the population;
- development of programs and adoption of projects for micro-life insurance in the system of social insurance and social security on the basis of public-private partnership. This is the main direction of state support for the domestic life insurance market;
- effective use of the methodology of behavioral economics in order to determine methods for stimulating consumer demand for endowment life insurance, as well as continuous systematic analysis of consumer demand for this type of insurance.

2. To diagnose consumer demand for endowment life insurance, collect and systematize information on savings and insurance behavior of the population in Uzbekistan, it is necessary to use survey methods that are widely used in foreign insurance practice. These questionnaires reflect the following information: the socio-economic characteristics of the respondents, their involvement in insurance relations, the most commonly used methods (forms) of making savings, factors influencing the savings and insurance behavior of the population.

3. Based on the analysis of foreign studies aimed at studying consumer demand for endowment life insurance, it is necessary to implement the following recommendations in order to stimulate consumer demand for endowment life insurance by increasing the attention of customers to life insurance companies in Uzbekistan and increasing their competitiveness:

- creating an innovative product design and increasing its transparency. At the same time, it is necessary to take into account the flexibility of consumer demand, predict changes in demand over time, simplify the underwriting process through the use of digital technologies and internetization;

- improvement of the process of sales of endowment life insurance product, development of a sales promotion system through the provision of additional services;
- providing information and knowledge about the insurance product to consumers in various directions and increasing their insurance culture and literacy through advertising;
- study, analysis and diagnostics of consumer preferences. At the same time, it is necessary to predict the future needs of policyholders by studying the behavior of the population in the use of savings and insurance coverage, analyzing the state and dynamics of sales of insurance products.

4. For the further development of accumulative life insurance, it is necessary, first of all, to formulate a full-fledged civil legislation that protects the interests of the insured (insured person), establishes the procedure for the participation of the insured in the profits of the insurer, the conditions for annuity payments, the rules for the implementation of long-term life insurance. In addition, a life insurance contract must necessarily be based on an anti-inflationary mechanism either in the form of a currency or in the form of a special bonus system.

5. Establishment of a separate procedure and principles of calculation for the formation of reserves for accumulative life insurance. To solve this problem, it is necessary to clarify the classification of life insurance products, develop a mortality schedule and create model rules.

6. In connection with the accelerated growth of the life insurance market in our country, the agency for the development of the insurance market is faced with the task of paying special attention to the issues of its regulation and protection of the rights of policyholders. In this regard, for the development of endowment life insurance, it is necessary to solve the following problems:

- absence of investment life insurance programs in the domestic insurance market;
- insufficient qualification of specialists in the sale of life insurance programs;
- the need to increase the solvency and financial stability of life insurance companies;
- improvement of the taxation regime and other problematic aspects.

In our opinion, the implementation of the above proposals in practice will serve to expand the access of insurers to the segment of consumers not covered by life insurance, stimulate consumer demand and increase the importance of endowment life insurance for the population.

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