



LIFE INSURANCE MARKET IN UZBEKISTAN: ACHIEVEMENTS AND CHALLENGES

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Abstract

This article discusses the importance of the life insurance industry, shows its historical formation in Uzbekistan and the main stages of development. A consistent analysis of changes in legislation and regulation of the life insurance industry reveals the methodological aspect of market research. and also considers the prospects and problems of old housing in Uzbekistan. Based on the analysis of the current state and development problems, proposals are made for the further development of the life insurance industry.

Keywords: life insurance, insurance market of Uzbekistan, insurance premium, insurance payments, legal regulation of life insurance, history of life insurance in Uzbekistan, problems of life insurance development.

Introduction

Life insurance occupies an important place in the global economy. It accounts for more than half of the global insurance market. It should be noted that life insurance in different countries is developing extremely unevenly. Western Europe accounts for 37.5% of the market, North America for 22.0%, Japan and the newly industrialized Asian countries for 24.0%, while Latin America for only 2.0%, Central and Eastern Europe -0.8%, and the Far East and Central Asia - 0.3%¹. As can be seen from the above data, life insurance in the countries of Central Asia is in its infancy. In this regard, the trends in the development of the life insurance market of the largest (in terms of population) country in the region, the market of Uzbekistan, are of interest.

World experience shows that there is a close relationship between the socio-economic situation in the country and the level of development of personal insurance. The situation that developed in personal insurance in Uzbekistan in 1970-1980 was characterized by the following points:

- The presence of a significant unsatisfied demand and the mentality of the people contributed to the development of voluntary types of personal insurance - insurance premium income from them accounted for more than half of the total insurance premium;
- Despite the low standard of living of the population (in 1990, about 70% of the population had a total income below the subsistence level), about 200 million dollars of insurance premiums were received annually under accumulative life insurance contracts and about 150 million dollars of insurance coverage was paid;
- Each family in Uzbekistan had an average of 1.5-2 voluntary personal insurance contracts with an average sum insured of about 5 thousand dollars.

The foregoing allows us to conclude that almost the entire working population of Uzbekistan in 1970-1980. was covered by one of the microinsurance options. The General Directorate of State Insurance



(Gosstrakh) adapted to the needs and financial capabilities of its clients, primarily trying to make its service affordable. Microinsurance services were paid for by contributions, deducted from wages, and constituted a significant part of Gosstrakh's business.

In subsequent years, galloping inflation, a sharp drop in the standard of living and the purchasing power of the population, delays in the payment of insurance coverage significantly undermined the confidence of the population in insurance. Therefore, the primary task for Uzbekistan after gaining independence was to restore the public's confidence in the country's financial system, including insurance.

Independent Uzbekistan has chosen its own path of gradual economic reforms, in particular, it was among the first to index the payments of the population under contracts of long-term life insurance, children, by the day of marriage, which were in the institutions of the General Directorate of State Insurance as of January 1, 1992 and are valid as of January 1, 1996 d.1 However, the indexation did not quite live up to expectations - the population's confidence in insurance was not fully restored.

Interesting experience has been gained by the Republic of Uzbekistan in reforming the Main Department of State Insurance under the Ministry of Finance of the Republic of Uzbekistan. The main emphasis in reforming the State Insurance of the Republic was placed on the creation of large and reliable insurance companies with the participation of state capital. In this regard, the decisions of the President and the Government of the Republic of Uzbekistan on the basis of the State Insurance of the Republic created the State Joint-Stock Insurance Company (GASK) "Uzagrosugurta", which insures the risks of agricultural producers and is the successor of the State Insurance Company of the Republic, and the State Joint-Stock Insurance Company (GASK) "Kafolat", which is a universal insurance company. Moreover, at that time, all insurance companies could carry out activities both in risky and accumulative types of insurance. For an insurance company, the participation of the state in the authorized capital is a definite plus, because such an insurer gets access to an extensive client base of state-owned companies and companies with state participation. It should be noted that state participation alone is clearly not enough to achieve success in the insurance business. The leading position of insurance companies with state participation is explained by the following factors: a well-known brand, a wide distribution network and a solid customer base. They remain leaders for a number of years, but their influence on the country's insurance market is decreasing year by year.

The main parameter that makes it possible to judge the level of development of the insurance market is the total amount of collected insurance premiums. It should be noted that, according to this indicator, there was practically no insurance market as such in Uzbekistan until 1997 - all non-state insurance companies accounted for less than one percent of the total insurance premium.

Currently, the insurance market of the republic is in the stage of further development and reform. The state policy aimed at its support, modernization and development gives certain positive results. At the end of 2015, 31 insurance companies were registered on the insurance market of Uzbekistan, 2 actuarial organizations, 21 assistance companies, adjusters and surveyors, 2 insurance brokers provided services, more than 4.3 thousand employees worked in the staff of insurers⁴. It should be noted that among the existing insurers, three insurance companies operate in the life insurance industry (Life Insurance), the



remaining 28 - in the general insurance industry (Non Life Insurance). The lack of regional insurance companies continues to be a feature of the insurance market of the republic. The presence of a large number of divisions of insurance companies in the regions allows us to solve the problem of providing regions with insurance services.

It should be noted that the insurance market of Uzbekistan is experiencing a certain lack of capital intensity, which is primarily due to the small size of the own funds of insurers, including their authorized capital. This is due to the fact that until 1999 the insurance market in Uzbekistan was practically not regulated, there were no standards for the solvency and financial stability of insurance companies. This led to the fact that insurers were not interested in increasing their own funds. As a result, the total authorized capital of insurance companies over the period from 1991 to 2002 increased only 2.6 times.

The incentive for the accelerated capitalization of the insurance market of Uzbekistan was the adoption by the government in 2002 of standards for the minimum size of the authorized capital (capital) of insurers and their increase in 2007 in accordance with the Decree of the President of the Republic of Uzbekistan dated April 10, 2007 No. PP-618 "On measures for further reform and development of the insurance services market". During the period from 2002 to 2015, the amount of the total authorized capital of insurance companies in Uzbekistan, formed in soums, increased by more than 15 times, and formed in foreign currency - by 18%.

Further capitalization of insurance organizations remains an important direction of their development in the near future. Appropriate measures will be taken by the state to speed up this process.

Today, in the Republic of Uzbekistan, insurance is one of the most dynamically developing areas of domestic business, the volume of insurance operations in the market is steadily growing, insurance companies play an increasingly important role in the economy of the republic.

The main characteristics of the insurance market of Uzbekistan in recent years are presented in Table 1. At the end of 2021 the total volume of insurance premiums collected in the country exceeded 551.5 billion soums - more than 3.1 times higher than in 2016. The life insurance market grew by more than 11.3 times - from 2.1 billion soums in 2016 to 24 billion soums in 2021. Nevertheless, the share of life insurance in the total collection of insurance premiums remains small - 4.3%.

Table 1 Main characteristics of the insurance market of Uzbekistan for 2016–2021 (in billion soums)

	Insurers total	The total insurance premium	Total insurance compensation
2016	32	175.5	27.6
2017	36	231.6	45.1
2018	38	285.9	46.0
2019	33	338.5	66.9
2020	31	439.1	74.6
2021	31	551.5	111.0



The structure of the insurance market of Uzbekistan continues to be oligopolistic - the top five leaders account for more than half of the total insurance premium. The growth of the insurance premium by more than 126% compared to the previous year was ensured by the receipt of the insurance premium for voluntary types of insurance - more than half of the total insurance premium (Table 2).

Table 2 Structure of the total insurance premium for 2016–2021 (in billion soums)

Indicator name	2016	2017	2018	2019	2020	2021
Insurance premiums	175.5	231.6	285.9	338.4	439.1	551.3
<i>In that chile:</i>						
voluntary insurance	128.7	166.1	206.8	235.5	300.7	364.8
compulsory insurance	46.8	65.5	79.1	102.9	138.4	186.7

In terms of the ratio of insurance premiums for voluntary and compulsory types of insurance in the total volume of insurance premiums (31%), Uzbekistan is approaching the recommendations of leading scientists in the field of insurance business - at least a third of the total volume of total insurance premiums should fall on compulsory types of insurance.

It should be noted that life insurance, which is typical for a market economy, is very poorly developed in Uzbekistan. Relative indicators characterizing the life insurance market of Uzbekistan are not high - with the level of insurance penetration into the country's economy of about 0.28-0.3% of GDP, life insurance accounts for no more than 0.01% of GDP, while in the United Kingdom these indicators reached respectively 12.4 and 9.5%, in Japan - 10.1 and 8.0%, and in Taiwan - 18.4 and 15.4% of GDP (Table 3).

Table 3 Structure of the total insurance premium for life insurance for 2016-2021 (in billion soums)

Indicator name	2016	2017	2018	2019	2020	2021
Insurance premiums	2.11	4.75	5.95	9.43	19.1	24.1
<i>In that chile:</i>						
voluntary insurance	1.5	3.44	4.63	7.45	14.97	18.91
compulsory insurance	0.61	1.31	1.32	1.98	4.03	5.15

Another relative indicator characterizing the intensity of development of life insurance in Uzbekistan is also low - less than 10 dollars per capita. This is largely due to a decrease in effective demand for the services of insurers from the population of Uzbekistan. Most potential policyholders explain their refusal to purchase an insurance policy by other financial priorities, for example, the need to repay a loan or the desire to invest money in deposits of the country's commercial banks.

The domestic life insurance market is a market of undeveloped competition. In recent years, only three insurers specializing in life insurance have been operating here: IC DHO "O'zbekinvest Hayot", LLC "Temiryo'l Life" and SO DHO "Alfa Life", moreover, if IC "O'zbekinvest Hayot" is in the top ten in terms of the total insurance premium collected in 2015, and Temiryo'l Life LLC is in the top 20, Alfa Life is



one of the outsiders of the insurance market of Uzbekistan. IC "Alfa Life" by more than 6.7 times. This is due to the fact that IC "O'zbekinvest Hayot" carries out compulsory types of insurance.

The life insurance market, as well as the domestic insurance market as a whole, is characterized by significant geographical disproportions. The predominant volume of transactions (over 70% at the end of 2015) is concentrated in the city of Tashkent. A feature of the life insurance market in Uzbekistan is that traditional life insurance is not the main activity of domestic insurers. In recent years, the focus of their activity has shifted towards endowment insurance and annuity insurance, which is explained by the presence of tax incentives. Despite the tax incentives provided by the state, the development of life insurance in Uzbekistan is constrained by the presence of the following factors:

- Life insurance is long-term, and in conditions of high inflation, long-term investments are not of interest to the population;
- The level of public confidence in insurers is very low;
- A sufficiently broad social base for life insurance has not been formed;
- The accumulative function of life insurance can be implemented only if there is a developed investment market. In Uzbekistan, such a market is in the process of formation.

According to experts, the main obstacles to the development of traditional types of life insurance in the country are the lack of information and the low level of public confidence in insurance products. Both the population and domestic entrepreneurs should be aware of the need to purchase insurance coverage, understand the measure of their responsibility for preserving the life and health, as well as the financial well-being of their loved ones.

Since the breadth of the range of offered life insurance services directly depends on the awareness of the population and the level of consumer demand for these services in everyday life, domestic insurers need to be promoted, including through the media, to increase the interest of the population in insurance, to ensure the provision of the necessary information on traditional and new mass types of life insurance.

At the present stage of development, the life insurance market in Uzbekistan is not a seller's or consumer's market, but an insurance agent's market, and the main competitive advantage of the insurance product is the size of the commission. Domestic insurers (with rare exceptions) have not formed effective channels for promoting insurance products and have not learned how to work directly with the client.

The life insurance market, as part of the financial and credit sphere, is subject to state regulation and control in order to ensure its stable functioning, taking into account the importance of insurance in the process of social reproduction. Life insurance in Uzbekistan requires separate regulation, but not because of the severity of the problems (these are growth problems), but the importance of this sector for the entire domestic economy, not to mention the insurance activity as a whole. First of all, we are talking about the development of the legal framework for life insurance, taking into account world experience, namely, the legal provision of the possibility of participation of insurers in state pension insurance.



Changes in legislation, increased competition among insurers, low investment opportunities in the domestic financial market, tightening control over insurance activities put forward the search by domestic insurers of internal reserves for their development as the most important problem. One of the main directions of this search should be the improvement of technologies. The choice of one or another method depends on many factors determined by the specifics of a particular state (its tax and insurance legislation, accepted methods for valuing assets, the level of development of the industry). All this makes it difficult to directly copy foreign experience and requires the development of methods specifically for the conditions of Uzbekistan.

The issues of staffing the life insurance industry are particularly acute. Unfortunately, the insurer profession has been seriously discredited by the irresponsible activities of individual insurers. The current stage of reforming the insurance market of the republic requires the formation of an integrated effective system for training personnel for the insurance business. At the same time, it is very important to attract all available and potential resources, including foreign grants and technical assistance.

The successful and dynamic development of the modern insurance system is constrained by the shortage in the republic of qualified personnel with knowledge and experience in conducting insurance business in accordance with modern requirements. In order to further improve the skill level of officials of insurers and insurance agents, relevant regulatory documents have been put into effect. In addition, the training of specialists in the direction of "Insurance business" at the Banking and Finance Academy of the Republic of Uzbekistan has begun. The State Inspectorate for Insurance Supervision under the Ministry of Finance of the Republic of Uzbekistan conducts regular seminars on topical issues of insurance, including with the participation of foreign experts.

State regulation of the insurance business in the Republic of Uzbekistan provides for the accelerated development of the insurance market infrastructure as an important component of the national insurance system. The formation of a full-fledged life insurance market is impossible without the presence of organizations that would promptly and professionally assist insurers in the performance of their functions.

Thus, with a low level of a number of indicators of the functioning of the life insurance market in Uzbekistan in recent years, the possibilities for its further development are determined, on the one hand, by the ability of insurers to introduce new insurance services and implement a competent investment policy, and on the other hand, by the interest of domestic insurers in the availability and expansion of insurance coverage, the determining factors of which are the aging of the population and the increase in life expectancy. It has been established that the growth of the elderly population by 10.0% in relation to the able-bodied population increases the penetration of insurance by 12.0%, while the demand increases for savings policies and annuities that provide an increase in well-being at retirement age.

According to the structure of the population, Uzbekistan is a republic with a predominant part of the youth. For the younger generation of the republic, as well as for residents of economically developed countries, the priority areas are obtaining high-quality professional education, building or buying housing and improving the quality of life. Life insurance can help meet these needs.



Insurance, no doubt, is a very complex and specific business, and its condition depends on qualified management, on the possibility of free access to information relating to the real state of affairs in insurance companies, on the availability of a developed infrastructure.

In conclusion, it should be noted that the life insurance market of the republic is in the stage of further development and reform. The state policy aimed at its support, modernization and development gives certain positive results. The main task of the insurance companies of Uzbekistan in the near future remains to better meet the existing needs of individuals and legal entities in high-quality insurance protection.

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