
Directions for Ensuring the Financial Stability of Insurance Companies in Uzbekistan

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Abstract: This article explores the strategies for ensuring financial stability in the insurance sector of Uzbekistan amid global economic challenges. It emphasizes the critical role of insurance in mitigating risks, fostering entrepreneurship, and contributing to the country's socio-economic development. The study examines the progress achieved, focusing on the Presidential Decree No. PQ-5265 (2021) and the performance of leading companies like Uzbekinvest. Key challenges, such as aligning with international standards and addressing skill gaps, are identified. The article concludes by advocating for digital transformation, workforce development, and international collaboration as pathways for sustainable growth in Uzbekistan's insurance market.

Key words: Insurance sector, financial stability, digitalization, risk management, Uzbekistan, insurance premiums, voluntary insurance, economic infrastructure, global standards.

INTRODUCTION

In today's context of global economic challenges and crises-arising from natural disasters and other uncontrollable forces the financial and macroeconomic stability of national economies is increasingly impacted. This necessitates the enhancement of financial systems, particularly the insurance sector and the operational efficiency of insurance companies.

In this regard, the Presidential Decree of the Republic of Uzbekistan No. PQ-5265, dated October 23, 2021, titled "On Additional Measures for the Digitalization of the Insurance Market and the Development of the Life Insurance Sector," addresses key issues and shortcomings in insurance activities while setting the following objectives:

- Allowing all types (classes) of insurance to be implemented electronically.
- Developing a unified information system and creating the necessary infrastructure to ensure its operation, financed through the Insurance Payout Guarantee Fund.
- Recommending the Ministry of Finance to develop proposals for directing funds, formed from insurance premiums for voluntary pension insurance and long-term (five years or more) life insurance types, into inflation-linked government securities for investment purposes.

The development of a market economy is closely linked to the establishment of economic infrastructure. Insurance activities form a vital part of this infrastructure, ensuring social protection on one hand, and safeguarding the interests of economic entities from risks on the other, through contractual mechanisms and documents.

BASIC PART

Insurance activity is designed to protect the interests of individuals and legal entities and to cover losses resulting from financial risks. This need gives rise to insurance relations, which, regardless of their form, involve the creation and development of insurance funds. These relations represent a complex and extensive financial and monetary economic phenomenon.

Insurance activity has become one of the most critical elements of market relations. It involves the professional players of the insurance market executing insurance operations. In Uzbekistan, the focus on developing entrepreneurship and business has increased the number of participants in this sector. Consequently, as entrepreneurship expands, various risks emerge, and societal contradictions influence how entities perceive insurance activities and risk transfer.

According to the data presented, in 2021, 47 insurance companies concluded a total of 6,841,354 insurance contracts, which is 115.2% of the number of contracts signed in 2020.

The total insurance sum across the republic amounted to 1,159,259.7 billion UZS, representing a 28.7% increase (or 258,393 billion UZS) compared to 2020. Voluntary insurance accounted for 71% (822,717.7 billion UZS), while mandatory insurance comprised 29% (336,542.0 billion UZS).

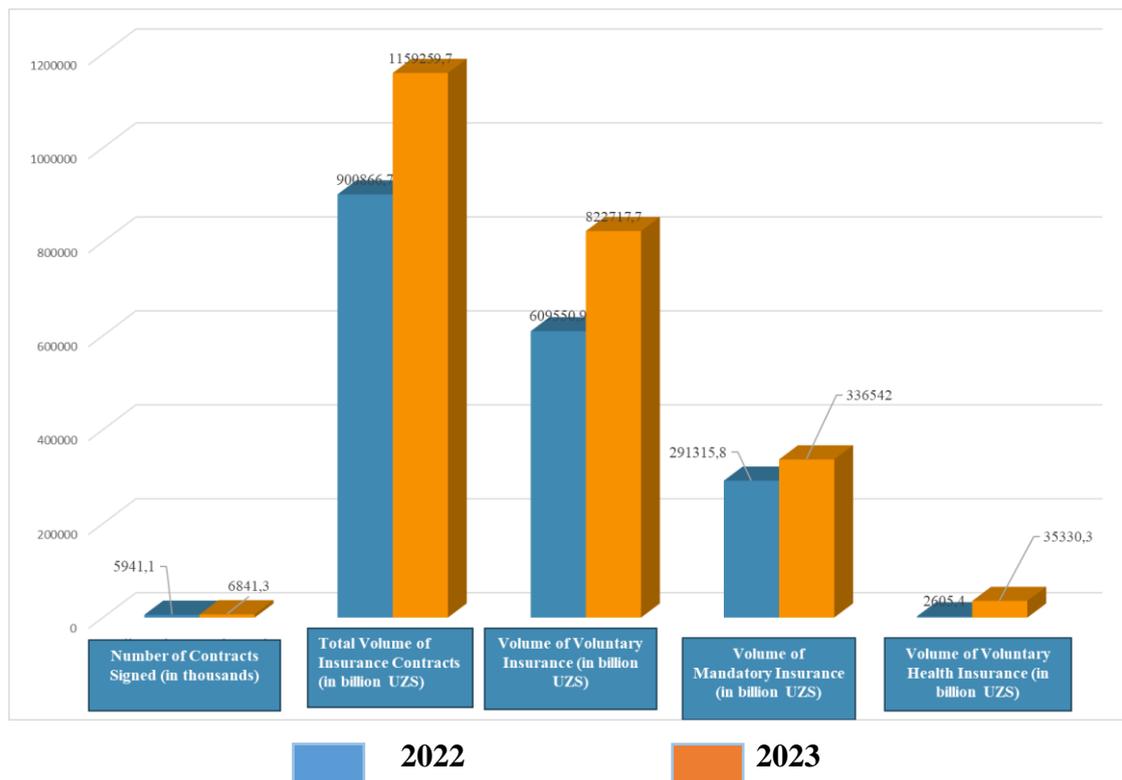


Figure 1: Volume of Insurance Contracts Signed in 2022 and 2023

The volume of voluntary health insurance in 2022 amounted to 2,605.4 billion UZS, increasing significantly to 35,330.3 billion UZS in 2023. The number and volume of contracts and the companies engaged in insurance activities showed a growth trend.

Additionally, in the current year, the premiums collected by the National Insurance Company Uzbekinvest increased 2.3 times compared to the previous year. This growth highlights the company's economic importance in ensuring stable development in export and socio-economic sectors. As part of its commitment to supporting national products, Uzbekinvest provided \$1.2 billion worth of insurance protection for exporters.

In May 2023, Moody's Investors Service Ltd. (USA), an international rating agency, officially announced the upgrade of Uzbekinvest's financial strength rating forecast from Ba3 "Stable" to Ba3 "Positive". This makes Uzbekinvest the first company in Uzbekistan's banking and financial sector to receive a Ba3 financial strength rating from Moody's.

The company's main strength lies in its implementation of a "mahallabay" (neighborhood-based) system. Through active outreach in remote areas of the republic, Uzbekinvest ensures insurance coverage for residents and small business owners. By involving youth and university students as insurance agents, the company not only contributes to the stable development of the insurance sector, a crucial link in the financial system, but also helps increase youth employment levels.

Challenges in the Insurance Sector

Despite the upward trend in the number of insurance companies, the volume of premiums collected and their standing in national and international standards remain low. Notably, Uzbekinvest is the first and only Uzbek insurance company to collaborate with leading global insurance and reinsurance companies such as Allianz SE (Germany), Zurich Insurance Group (Switzerland), Tokio Marine (Japan), AXA (France), People Insurance Company of China (China), Korean Reinsurance Company (South Korea), Marsh (USA), Willis, AON, and UIB (UK).

To address this, it is essential to:

- Align the operations of all insurance companies in the market with international and national standards.
- Enhance the involvement of qualified and young professionals in smaller insurance companies through agency initiatives.
- Create opportunities for employees to improve their skills abroad.

Future Directions

The concepts of a “Digital Economy” and “Green Economy” highlight the growing importance of artificial intelligence in addressing contemporary global economic challenges. The insurance sector should adopt modern technologies and systems to optimize business processes, significantly reducing time and resource costs. This includes:

- Risk assessment.
- Decision-making processes.
- Optimization of document management and key operational stages.

By implementing these innovations, the insurance industry can enhance efficiency, improve risk management, and foster long-term growth.

CONCLUSION

The insurance sector in Uzbekistan is undergoing significant transformation, driven by government policies and private-sector initiatives. Notable growth trends include increased contract volumes and insurance sums, highlighting the sector's expanding role in the economy. However, challenges such as low alignment with global standards and skill shortages must be addressed to sustain this progress.

Adopting modern technologies, enhancing workforce capabilities, and fostering partnerships with international insurers are crucial for ensuring the sector's financial stability. Companies like Uzbekinvest serve as models for leveraging innovation and global collaboration, showcasing the potential of Uzbekistan's insurance industry to achieve long-term growth and contribute to economic resilience.

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