



The Importance of Compulsory Insurance in the Insurance Market of Uzbekistan

F. Sh. Hamraeva

Tashkent Financial Institute

ABSTRACT

The article analyzes the role of compulsory insurance in the domestic insurance market, theoretical foundations, implementation practices, its specific features and principles, problems, the share of compulsory insurance in the national insurance market in general and trends, and draws scientific conclusions to address existing shortcomings. and practical recommendations are given.

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Types of compulsory and voluntary insurance are basically similar to each other in methodological and organizational forms, but have features and principles that distinguish and distinguish them (Table 1).

Table 1. Features and principles of compulsory and voluntary insurance¹

Features of types of voluntary and compulsory insurance	Principles of compulsory insurance
In voluntary insurance, the insurance liability depends on the insurance premiums of the insured. In compulsory insurance, insurance premiums do not depend on insurance liability	1. Compulsory insurance is established and regulated by law, according to which the insurance organization must insure the relevant objects and the insured must pay the established insurance premium.
In voluntary insurance, the term of the insurance contract is terminated when the insured ceases to pay insurance premiums, and in compulsory insurance, the insured cannot terminate the insurance contract, where the obligation is established by law and the relationship is carried out within the law.	2. Full coverage of the objects established by law
	3. Automatic insurance of objects specified in the law on compulsory insurance
In voluntary insurance, insurance companies comply with the terms agreed in the insurance contract, and in compulsory insurance, the state may, at its discretion, make changes in the terms of insurance contracts by making appropriate regulatory decisions.	4. Implementation of compulsory insurance regardless of the payment of insurance premiums
	5. Continuity of compulsory insurance (unlimited period of introduction of compulsory insurance)
In case of reduction of solvency of insurance companies in voluntary insurance, bankruptcy management is established, in case of reduction of insurance solvency in compulsory insurance, it is eliminated from state target funds or by increasing insurance premiums.	6. Strict determination of insurance coverage on compulsory insurance

One of the factors of sustainable development of the country is the insurance system. Insurance acts as a financial shock absorber in the event of adverse events in the activities of the population and enterprises, as well as ensures the social, financial and economic stability of society, including its financial institutions. Compulsory insurance, depending on its social and economic nature, is closely related to the risks affecting the interests of the general public or the state, and is carried out on the basis of the legislative characteristics of each country.

Currently, the objective need for compulsory insurance for the insurance market of Uzbekistan is due to the following factors:

- The ability to provide assistance in emergencies is limited due to the small amount of financial resources allocated for social policy;
- Obsolescence of technologies and fixed assets used in almost all industries, which in turn does not guarantee a safe work process and the risk of harm to the environment.

According to the analytical data of the Ministry of Finance of Uzbekistan, the total volume of insurance premiums collected by insurance companies in 2021 showed a relatively high growth rate and amounted to 3.7 trillion soums, which is 68.6% more than last year (Figure 1).

¹ It was formed by the author as a result of research.

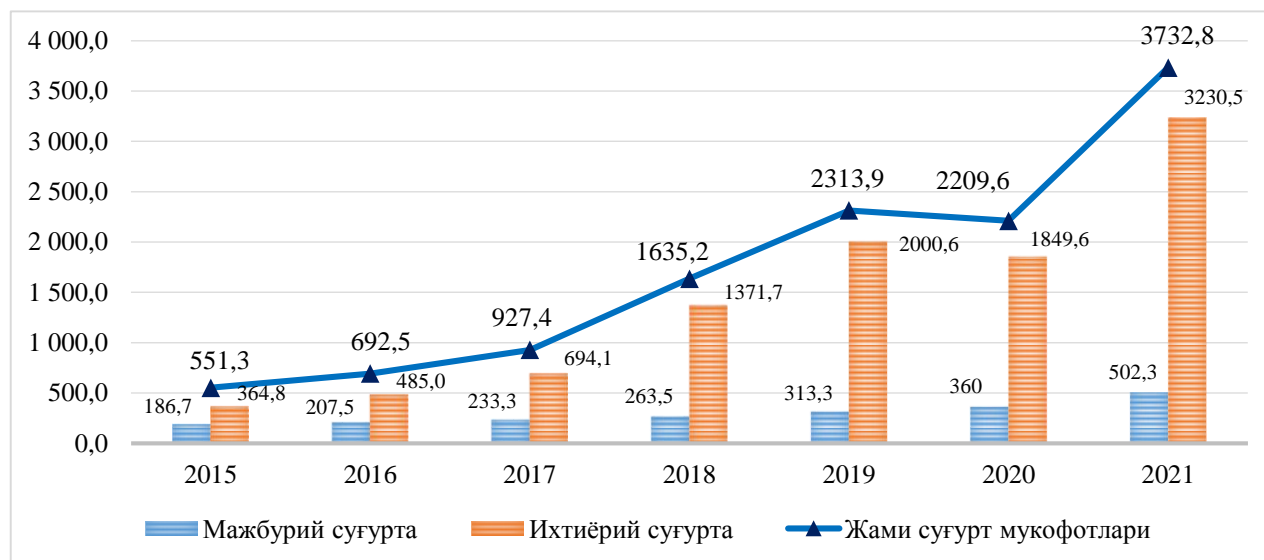


Figure 1. Dynamics of change of insurance premiums by types of insurance (in billions of soums)²

The main factors of growth of the insurance market in the analyzed period were provided by the types of voluntary insurance services.

There are a number of economic indicators that affect the growth of insurance premiums, such as average wages, gross domestic product, taxes, monetary policy, and more. However, based on the experience of developed European countries, it can be said that it is impossible to develop the insurance industry without taking mandatory measures. Such mandatory measures will be implemented with the introduction of compulsory types of insurance, which in turn will lead to the development of the entire insurance industry.

Through the compulsory insurance system, the state participates in solving social problems of society development. Compulsory liability insurance of vehicle owners at the present stage, compulsory insurance of hazardous waste facilities (in the next stage, the introduction of compulsory health insurance is on the rise), the introduction of insurance against certain occupational accidents are both economically justified and socially oriented policy. . This is due to the economic situation of the state and the need to increase the social protection of the population in a market economy. At the same time, it is important to consider compulsory insurance as a temporary measure aimed at solving the social problems of society during the transition period.

In 2021, there was a rapid increase in insurance coverage. During the period under review, payments by companies increased by 67.1% and amounted to 1232.3 billion soums. Such a drastic change can be explained by the increase in insurance coverage payments under life insurance contracts in 2021 (Figure 2).

² Prepared by the author on the basis of data from the Ministry of Finance.

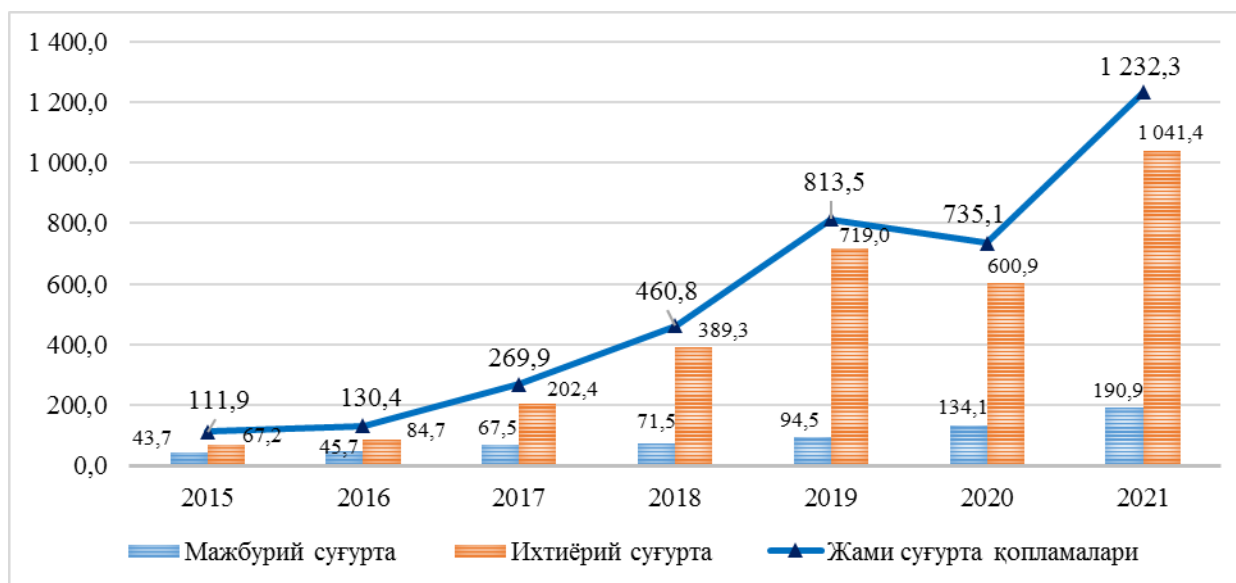


Figure 2. Dynamics of change of insurance coverage by types of insurance (billion sums)³

From the picture data we can see that there is a growing trend of the share of voluntary insurance in the composition of insurance coverage. During the analyzed period, coverage by voluntary insurance increased by 73.3% and amounted to 1041.4 billion soums. The growth of coverage for compulsory insurance was also 42.3%, respectively.

Through the types of compulsory insurance, the area, scope and coverage of insurance will increase, ie the rate of insurance premiums will decrease due to the involvement of many insurance entities in the field of compulsory insurance. It should be noted that the current loss rate on compulsory insurance in 2021 was 0.38% (in international practice, this figure averages 50-55%). This, in turn, determines the profitability of compulsory insurance, as mentioned above, ie 62% of the collected funds will remain at the disposal of the insurance company. In the future, this will allow reducing insurance rates.

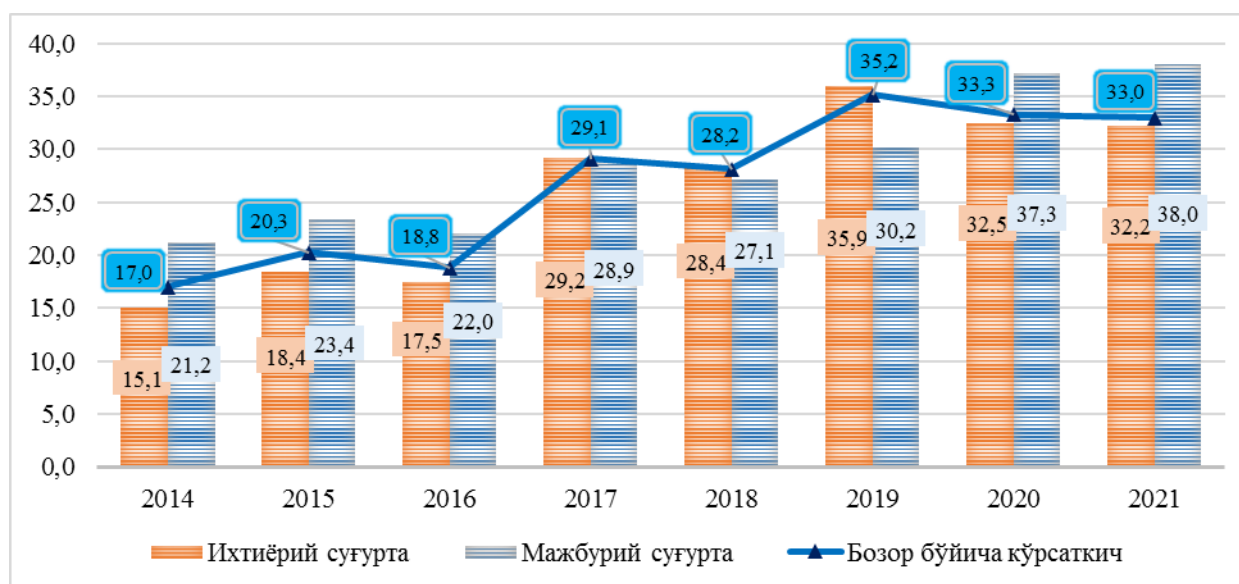


Figure 3. Loss level of insurance premiums (in percent)⁴

³ Prepared by the author on the basis of data from the Ministry of Finance.

In many cases, through compulsory insurance, the state can implement its own special guaranteed and social programs. This primarily applies to the field of social insurance (pension insurance, health insurance). First of all, it is useful for the state to use the insurance mechanism in solving social problems. First, the number of people in need of state support is declining. Second, the state budget will be used more efficiently and fairly, in particular, the possibility of full-fledged social coverage of the poor will increase.

In the current conditions of developing economy of Uzbekistan, the objective necessity of compulsory insurance closely contributes to the implementation of its social functions, its contribution to the formation of insurance culture, the formation of a stable financial base for insurance companies, as well as the proper organization of insurance.

It should be noted that in the current state of the national insurance market, the role of compulsory insurance in covering the risks of all risk groups and businesses, as well as significantly reducing state budget expenditures to compensate for losses caused by emergencies and natural disasters is invaluable. In this regard, it is necessary to legally establish the principles of compulsory insurance in the territory of the Republic of Uzbekistan and to limit the current practice of compulsory insurance on the basis of by-laws, as well as to accelerate the integration of previously adopted types of compulsory insurance. At the same time, the compulsory insurance system should be aimed at protecting the important property interests of the state in ensuring the protection of high-risk objects of the economy and require low budget funds.

There are about 40 types of insurance in the field of compulsory insurance, depending on their economic importance, only a few of which are provided with a legal implementation mechanism, and the rest are not defined by law, so their implementation needs to be harmonized with international procedures.

At the present stage, the main directions of state policy on the development of compulsory insurance are:

- Formation of a legal framework for compulsory insurance in the market of insurance services;
- development of methodology of compulsory insurance;
- creation of effective mechanisms for state regulation and control of insurance activities;
- Ensuring the integration of the national insurance system into the international insurance market by studying the experience of foreign countries. In our opinion, the formation of a methodological, objective and statistical database of compulsory insurance, which exists today, in turn, can be the basis for the introduction of the following types of compulsory insurance:
 1. Insurance of buildings and structures against fire and natural disasters;
 2. Agricultural risk insurance;
 3. Liability insurance of manufacturers and service providers;
 4. Professional liability insurance (notaries, medical staff, lawyers, realtors, etc.).

In addition, a well-established system of compulsory insurance serves to mobilize national savings in the country and to invest in the economy.

⁴ Prepared by the author on the basis of data from the Ministry of Finance.

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