



## Management of Financial Resources of Insurance Companies

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### ABSTRACT

In modern conditions of economic development, insurance is becoming one of the most dynamic branches of economic activity, which contributes to the protection of the property interests of enterprises and citizens, the security and stability of business. The role of insurance is especially important in the context of the ongoing economic reforms in Uzbekistan, since the availability of insurance coverage stimulates the development of market relations and business activity, improves the investment climate in the country. The economic efficiency of an insurance organization depends, first of all, on the management of financial flows and on the work to minimize the risks that threaten the company's activities.

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**The relevance of the topic** is determined by the need to regulate the activities of the insurance company, which should be carried out by managing its financial flows, as they reflect the current state of the company, allow predicting and planning the results of future activities.

The Action Strategy for five priority areas of development of the Republic of Uzbekistan in 2017-2021 indicates the need to introduce new tools in the field of financial services and ensure a competitive environment among organizations in the financial sector, including insurance companies, paying

attention to the growth of quality, types, volumes and range provided insurance services and thereby creating additional sources for the implementation of investment projects, based on world experience in the future to introduce new, modern types of insurance<sup>1</sup>.

The current state of the insurance market of Uzbekistan, the degree of development of its infrastructure already now require further improvement of the existing system for the formation and use of financial resources. The solution of this problem will favorably affect both the results of the financial activity of domestic insurers and the state of the insurance market of the republic as such.

**The purpose of the study** is to develop recommendations for improving the efficiency of financial management of insurance companies.

In accordance with the goal of the study, the following **tasks** are solved that determine the structure of the work:

- ✓ consider the composition and structure of the financial resources of the insurance company;
- ✓ explore the process of formation of financial results in insurance;
- ✓ study the principles underlying the legal regulation of insurance activities, in particular, the procedure for the formation and use of resources of insurance companies;
- ✓ give a general description of the National company of export-import insurance "Uzbekinvest" and analyze the financial performance of its activities;
- ✓ consider the features of the investment policy of insurance companies;
- ✓ develop recommendations for improving financial management of insurance companies.

**The object of the study** is the financial and economic activities of the National Export-Import Insurance Company "Uzbekinvest" in the conditions of the modern insurance market.

**The subject of the study** is the efficiency of financial resource management of the National Company of Export-Import Insurance "Uzbekinvest" and insurance companies operating in the modern insurance market, as well as a set of theoretical and practical mechanisms for its increase.

**The theoretical and practical basis of the study** was the results obtained in the course of the study, which can be used in the implementation of financial management in insurance organizations, as well as state insurance supervision authorities in monitoring the performance of insurance companies.

An insurance company, along with other financial market institutions, is an organic element of the financial system of the economy. The principle of accumulation and subsequent distribution of significant cash flows determines the composition and structure of the capital of an insurance company. The financial resources of the insurance company are largely represented by attracted capital, which is a group of temporarily free funds of the insurer. Therefore, the financial mechanism of insurance is interesting from the point of view of using such attracted resources as a source of investment.

The insurance premium is a payment for the insurer's acceptance of the obligation to compensate the insured or the successor within the stipulated limits for the amount of possible losses caused by the hazards covered under the insurance contract.

Insurance companies are considered not only as companies that provide insurance coverage to their

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<sup>1</sup> Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. DP-4947 "On the Action Strategy for the Further Development of the Republic of Uzbekistan"

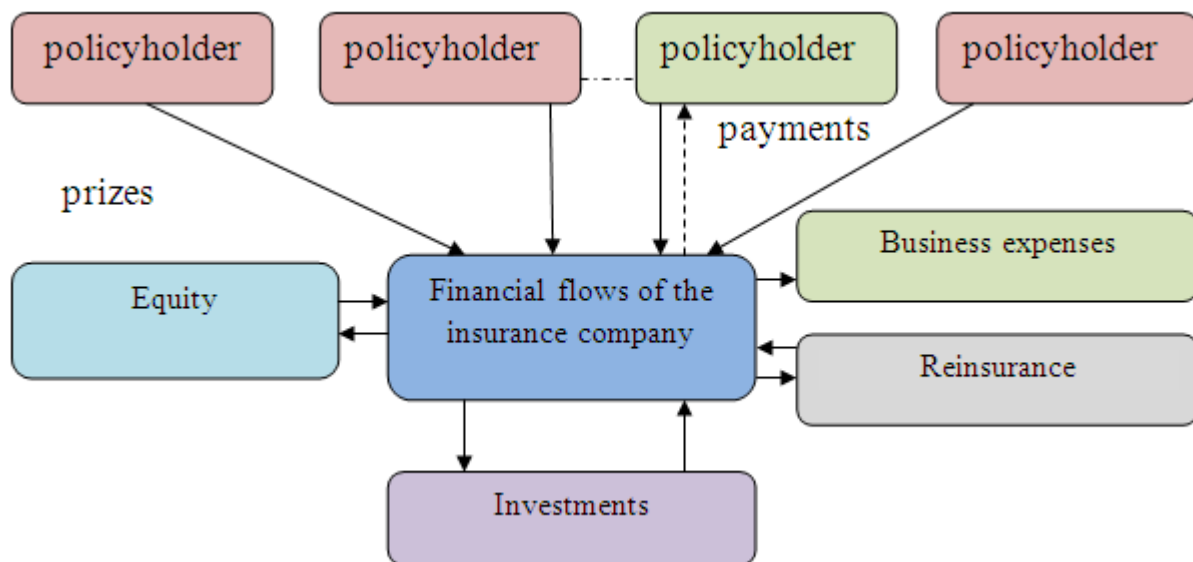
customers, but also as investors who, as a result of their activities, dispose of temporarily available cash. From financial assets received from policyholders in the form of insurance premiums, insurance companies create insurance reserves, which, in the event of an insured event, are used for insurance payments<sup>2</sup>.

The insurance payment is compensation for damage paid to the insured by the insurance company in the event of an insured event.

The mechanism of formation and use of the capital of an insurance organization was studied by the German professor G. Lukarsh, who showed how the financial resources of insurance companies are formed. The process of formation and use of the financial resources of the insurance company is shown in fig. 1.

Financial resources - financial resources that ensure the development of the enterprise (in this study we are talking about an insurance company) in a certain time period. In the process of managing financial resources, not only their total volume is important, but also the amount of cash flow, the intensity of its movement over a certain time period.

**Figure 1. The mechanism of formation of financial resources of an insurance company**



To make management decisions with financial resources, you must have:

- ✓ classification of income and expenses, profits and losses in order to determine the sources of income and directions for their use;
- ✓ the ability to analyze external and internal factors affecting the efficiency of the insurer;
- ✓ the ability to quickly use information in a form convenient for the financial manager.

An insurance company must have a certain amount of equity capital. The size of the equity capital of an insurance company is regulated by the regulatory acts of the supervisory authorities for insurance activities when they are licensed. The minimum allowable amount of equity capital established in this way performs the function of ensuring the solvency of the insurer for future obligations.

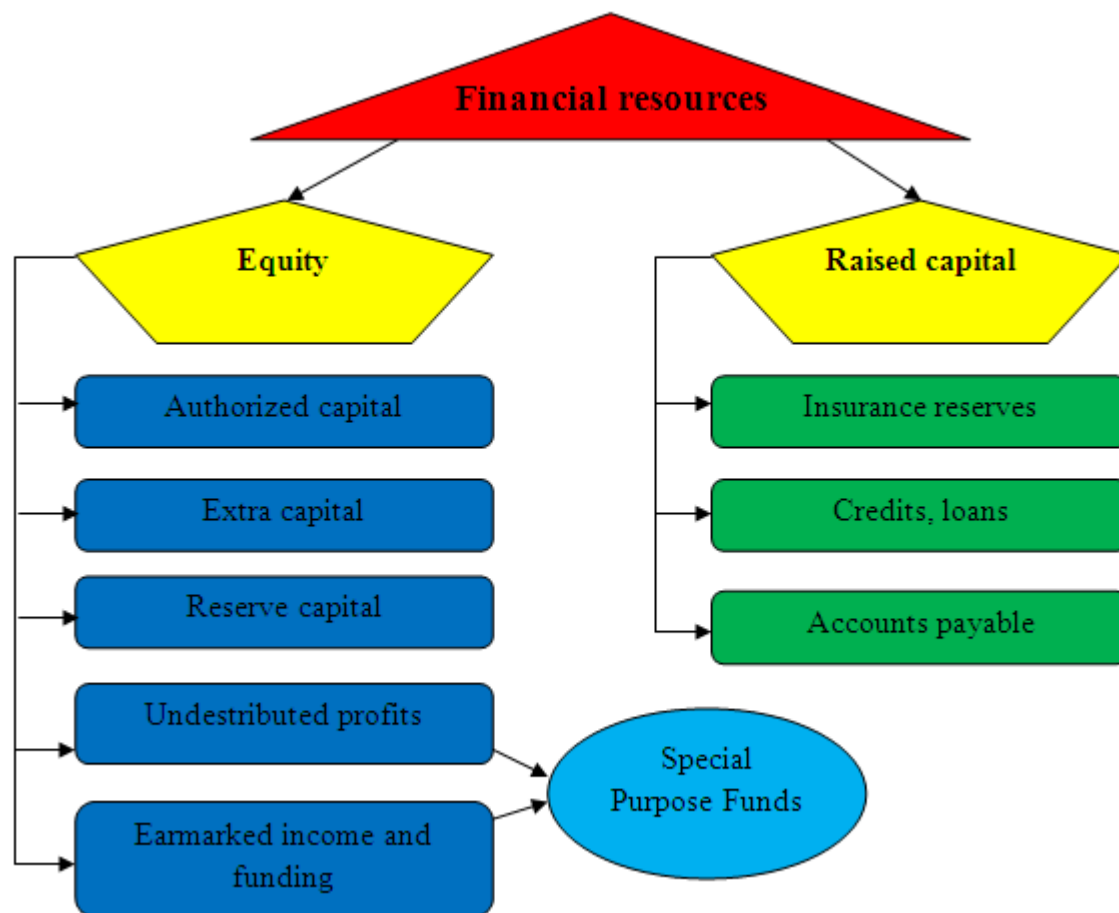
<sup>2</sup> Boksova J. Gross Written Premium of Insurance Companies in Cee Countries – Mismatching Problems in Financial Statements // Procedia Economics and Finance. – Volume 34. – 2015. – P. 424 (<https://www.sciencedirect.com/science/article/pii/S2212567115016500>)

In conditions when insurance operations do not bring profit, investment income serves as a source of covering losses and generating profits for the insurance company. As a result, we can conclude that the financial resources of an insurance organization are formed as a result of the movement of counter cash flows due to the prevailing receipt of funds from various sources over their placement in directions. The financial resources of the company guarantee the fulfillment of the assumed obligations under insurance contracts, ensure the financial stability of the insurer and determine its prospects in the insurance market.

The volume and structure of the financial resources of the insurance company must correspond to the size and structure of the risks taken for insurance.

All funds involved in the turnover of the insurance company are divided into own and attracted. Equity capital includes authorized, additional reserve capital, retained earnings, earmarked earnings and special purpose funds.

The structure of the financial resources of the insurance company is shown in fig. 2.



**Figure 2. The structure of the financial resources of the insurance company**

The main direction of further reformation of the insurance market of the Republic of Uzbekistan is its gradual liberalization along with the strengthening of the foundations of regulation and supervision of insurance activities in the republic. As international experience shows, liberalization carried out without accompanying regulations and supervision, especially in countries with economies in transition,

contributes to the situation of chaos in the market. In this regard, the task of further development of the system of legal regulation of insurance activities in the republic becomes especially urgent.

### **Conclusion.**

Carrying out insurance operations involves the accumulation of insurance premiums, and the collection of contributions from all participants in the insurance fund is accompanied by the fulfillment of the obligations of the insurer for insurance payments only to some of them. From the amount of collected insurance premiums, the expenses of the insurance organization for doing business, which are included in the tariff structure, are financed. At the same time, the volume and structure of the financial resources of the insurance company must correspond to the size and structure of the risks accepted for insurance.

The circulation of funds of an insurance organization is not limited to the implementation of insurance operations; in addition, insurance organizations are also engaged in investment activities. This allows you to designate the funds in the turnover of the insurer, used for insurance operations and investment activities, as an indicator of its financial stability.

The requirements for the minimum amount of the authorized capital of insurers are periodically reviewed upwards by the insurance supervisory authorities. This is done in order to ensure the solvency of the insurance company, in the event of an insured event, if necessary, insurance payments to policyholders.

Therefore, it is considered extremely important to manage the process of formation and use of the financial resources of an insurance organization in order to maintain its financial stability, as well as to ensure that the insurance organization can meet its obligations, primarily to policyholders.

In the management of financial resources, the role of the subject of financial management of the insurance company is significant, which selects the elements of the system and forms its structure in order to most fully meet the requirements of the internal and external environment.

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