

# INVESTMENT ACTIVITIES OF INSURANCE COMPANIES: PROBLEMS AND SOLUTIONS

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**ABSTRACT**--This article discusses the investment potential of the insurance market, the mechanisms for the formation of funds by insurance companies, the terms and conditions of insurance companies' reservation, the analysis of key financial and economic indicators of the insurance market, the approaches and views of foreign scholars on the insurance market. analysis of problems in the insurance market and stock markets, development prospects.

**Keywords** -- insurance, insurance market, stock market, insurance reserves, investment policy, investment portfolio, insurance premium, insurance coverage, loss ratio, liquidity, diversion.

## I. INTRODUCTION

In developing countries, insurance companies are one of the key players in the securities market. Statistical data shows that the income from insurance companies' activity in the financial markets is the main source for timely and full payment of insurance indemnities for those types of insurance with high level of damage. Funds raised through the insurance market or other financial markets will eventually be channeled to the manufacturing sector, where the overall social product will be produced and value-added, and all financial markets will eventually serve this purpose. In developed countries, cash flows are mainly channeled to the manufacturing sector through the securities market.

In addition, many foreign experts have widely promoted the idea of providing comprehensive financial services to clients within financial and investment insurance holdings. Customers are offered a comprehensive security of their finances, not several types of insurance or financial services. For example, offering comprehensive services such as retirement savings, life insurance, accumulated capital management, information services (discounts at financial supermarkets) to those who collect additional retirement savings. It is possible to provide comprehensive programs for large enterprises, small businesses and others.

Unfortunately, all of these problems in Uzbekistan are interpreted as "foreign experience and practice" or "market development".

Investment opportunities of insurance companies are not fully represented in the securities market, primarily due to the development of the stock market itself. Implementation of financial insurance products in developed countries is slow and our insurance companies' activities in this area are negligible.

Review of theoretical and empirical literature

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The insurance industry is very important for the development of the national economy as insurance companies act as institutional investors in the stock markets, accumulating large financial resources and ensuring the profitability of their activities.

Insurance companies acting as investors serve as intermediaries in attracting funds of the population and legal entities to the stock market and remain one of the stable sources of income for them and their profits.

Sangyong Hana, Gene C. Lai, and Chia-Ling Hoc have analyzed the practice of placing insurance reserves in the United States, including: Conservative approaches to the placement of insurance reserves in the United States. This is because the insurance reserves to be invested must adhere to the principles of transparency. Otherwise, regulatory authorities will treat these investments as harmful to shareholders and insurers. With this in mind, the investment activities of insurance companies are strictly regulated [1].

Chrysovalantis Gaganisa, Iftekhar Hasanb, Panagiota Papadimitrie, Mene-Laos Tasioue have conducted an analysis of the state of the insurance market after the financial and economic crisis, indicating high demand for insurance. This, in turn, determines the risk level of the insurance companies' investment portfolios. Proper investment policy by insurance companies plays an important role in this. Also, in recent years, in many developed countries, the policy of insurance companies in allocating reserves has been supported by the state and is creating new investment facilities [2].

AM Godin's research role in the financial system, as well as providing insurance protection to various financial institutions, is that insurance companies become one of the key players in the financial market through their investment activities and potential [3].

In the article LK Ulybina outlines about liberalization of the insurance market, the main condition for liberalization of the insurance market in the medium term is to develop long-term life insurance (types of insurance) that create internal investment resources. In the conditions of international integration and financial globalization of the insurance market, it is necessary to develop mechanisms (mechanisms) to counteract the outflow of cash from the domestic markets and to the domestic market. The main principle in the process of integration with international trade and financial organizations is liberalization of the insurance market, taking into account the priorities of the financial market development [4].

In his research, AA Kazakova comments on the problem of attracting individuals' funds in the national financial markets for investment and insurance markets. As a result of integration of insurance and stock markets, development of investment insurance products will occur. The development of this segment of the general market will lead to the development of the financial market, as the market is attracted by the deposits of the population and is characterized by the development of long-term life insurance. Such development results in the overall development of the national securities market [5].

## **II. ANALYSIS AND RESULTS**

The ability to accumulate financial cash flows and drive them towards economic development makes insurance companies a strong institutional investor.

Developed standards for insurance companies' asset allocation in developed countries, maximum and minimum quotas for insurance reserves, and a list of assets covered by insurance reserves have been developed. The standards developed are regulated by the level of economic development, the financial markets, and national traditions.

Investment directions of insurance companies are determined separately by life insurance and other general insurance.

In the European Union, the United Kingdom and the United States, the responsibility of regulating the insurance market is, to a certain extent, divided between state, local and regional authorities. Each state of the United States has independent insurance regulators. The EU countries have their own oversight bodies, but they follow the same general guidelines.

The characteristics of foreign experience in the formation of investment policies of the insurance companies are presented in Table 1 below.

In foreign countries, there are two approaches to state regulation of investment policy, which are reflected in the role and influence of the state in investment activity and tariff rates.

The first approach is an American school, where core activities may be harmful, but such losses can be offset by the return on investment activities.

The second is the European School Approach, in addition to investing activities, the underlying net insurance activities must be profitable.

**Table 1:** Features of the state control over the investment activity of insurance companies in foreign countries

Countries	Features of formation of investment policy of insurance companies
USA	<ol style="list-style-type: none"> <li>1. Some of the profits are invested in the state.</li> <li>2. Conditions of investment are established in the established order.</li> <li>3. The composition of the average assets is determined.</li> <li>4. Insurance companies provide investment loans for 15-20 years.</li> </ol>
Great Britain	<ol style="list-style-type: none"> <li>1. The rules for allocation of financial resources are established.</li> <li>2. The average composition of life insurance assets is determined.</li> <li>3. There is a state investment policy program.</li> <li>4. The value of the investment portfolio is constantly monitored.</li> </ol>
Germany	<ol style="list-style-type: none"> <li>1. The law on placement of reserves of insurance companies is valid.</li> <li>2. The principles of investing (security, profitability, liquidity, diversification, etc.) apply.</li> <li>3. Forms of placement and restrictions on them are established.</li> <li>4. Assets are transferred to trust management.</li> </ol>

*Манба: Second annual business risk report - insurance / Oxford Analytical / Ernst& Young. 2014. P. 4.*

As we know, the function of the securities market, including the stock market, is to mobilize the available resources of the population, government and institutional investors in various sectors of the national economy, to stabilize the economy, improve the circulation of the economy and the economy. influence on increase of incomes of business entities. In this regard, the importance of insurance companies acting as institutional investors influencing the financial market, including securities markets, is important.

In the financial system, insurance companies can act as financial intermediaries. Therefore, insurance companies are well represented in the financial market as an accumulator of financial resources and as a major source of investment - as an investor and as an institutional investor such as commercial banks and investment funds, and have great opportunities to operate effectively in the financial markets.

Looking at trends and factors in the development of the global insurance market, we can conclude that growth in the insurance and investment sectors is expected, despite recession in the economy.

Currently, freely available funds can be placed in commercial banks' deposits, securities, invested in enterprise and real estate. Structure and structure of the investment portfolio are usually regulated by means of establishing the minimum and maximum for each type of invested funds (Table 2).

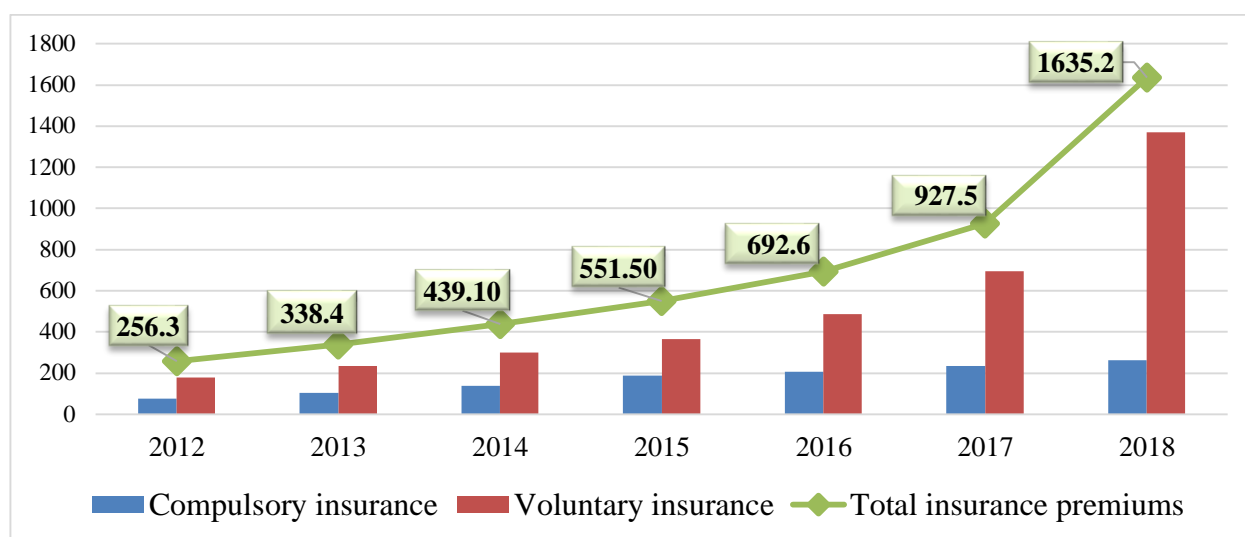
**Table 2:** Reserve rates of insurance companies (%)

asset types	Germany	France	Japan	USA	Great Britain	Russia	Uzbekistan
	-	-	-	-	-	<15	limitless
Government securities	<30	<65	<30	<49	<2	<30	-
Government entities and municipal securities	-	-	-	-	-	<50	<40
Bank deposits	-	-	-	-	-	<10	-
Investment Shares	-	-	-	<4	-	<20	<30
AJ stock and bonds	-	-	-	-	<60	<10	<30
Charter and other resources	-	-	-	<17	<2	<5	-
Certificates of housing	<20	<40	<20	<17	<20	<40	<50
Real estate	-	-	-	-	-	<10	-
Currency values	<10	<50	<55	<4	<2	-	<10
Loans	-	-	-	-	-	чеклов- сиз	>3

*Source:* As a result of analysis of foreign legislation, it was independently prepared by the author.

At the same time, according to the experience of the leading world companies, the investment portfolio of the company does not exceed 15% in the authorized capital of enterprises and real estate, 25-60% in securities, 15-30% in deposits in commercial banks, and 1-12% in other types of investments. marked.

According to the Ministry of Finance of the Republic of Uzbekistan, in 2018, three new insurance companies will start operating in the country. As a result, the number of insurance companies in the national insurance market reached 30. In 2018, the total amount of insurance premiums collected in the insurance services market of Uzbekistan increased rapidly, reaching 1.6 trillion soums, which is 76.3% more than in the previous year.

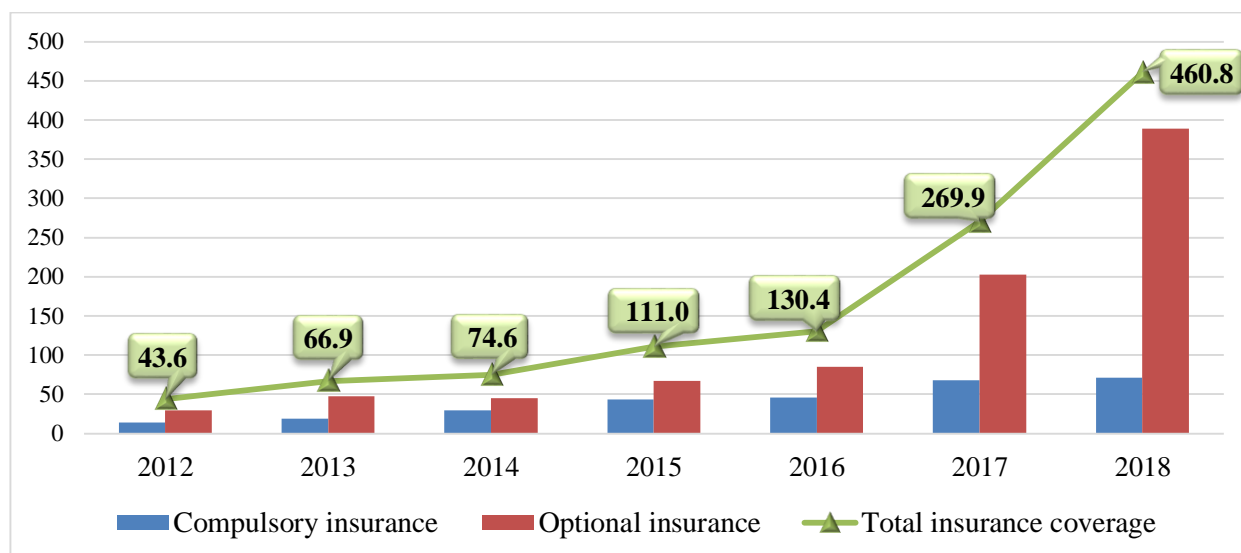


**Figure 1:** Dynamics of changes in insurance premiums by types of insurance, bln.

In the analyzed period, the main factors for the growth of the insurance market are the voluntary insurance market. There is an increase in life insurance premiums among voluntary types of insurance.

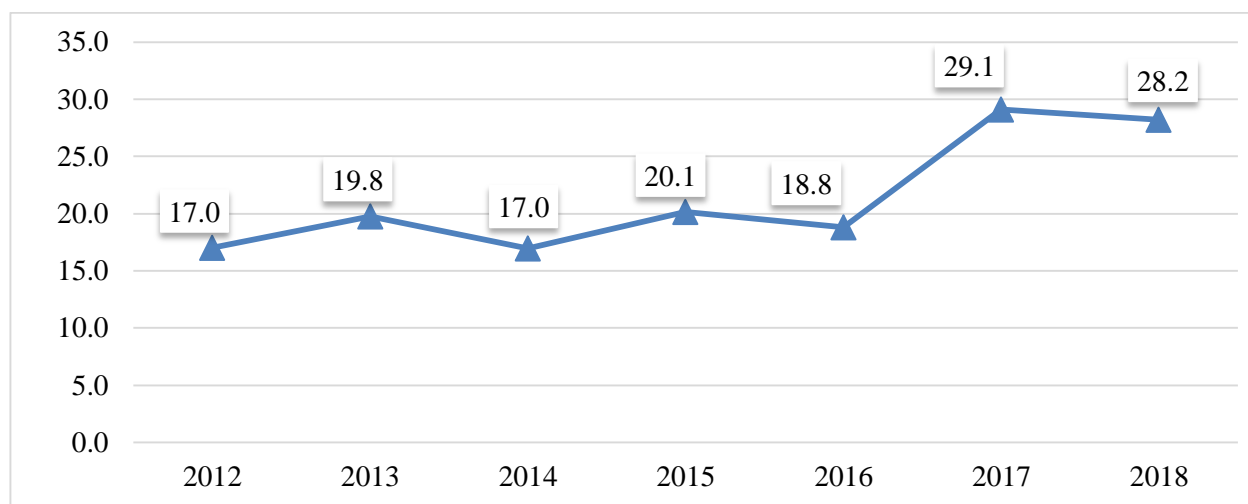
Following the results of 2018, the volume of insurance premiums collected from voluntary types of insurance increased by 98.0% compared to the previous year and amounted to 1.4 trillion soums. At the same time, there were positive trends in premiums on compulsory insurance, but the growth rate was only 13.0%.

Experts say 2018 has seen a rapid rise in insurance payments. In the reporting period, payments by companies increased by 71.0% and amounted to 460.8 billion soums. The main reason for such growth is the increase in insurance premiums for life insurance.



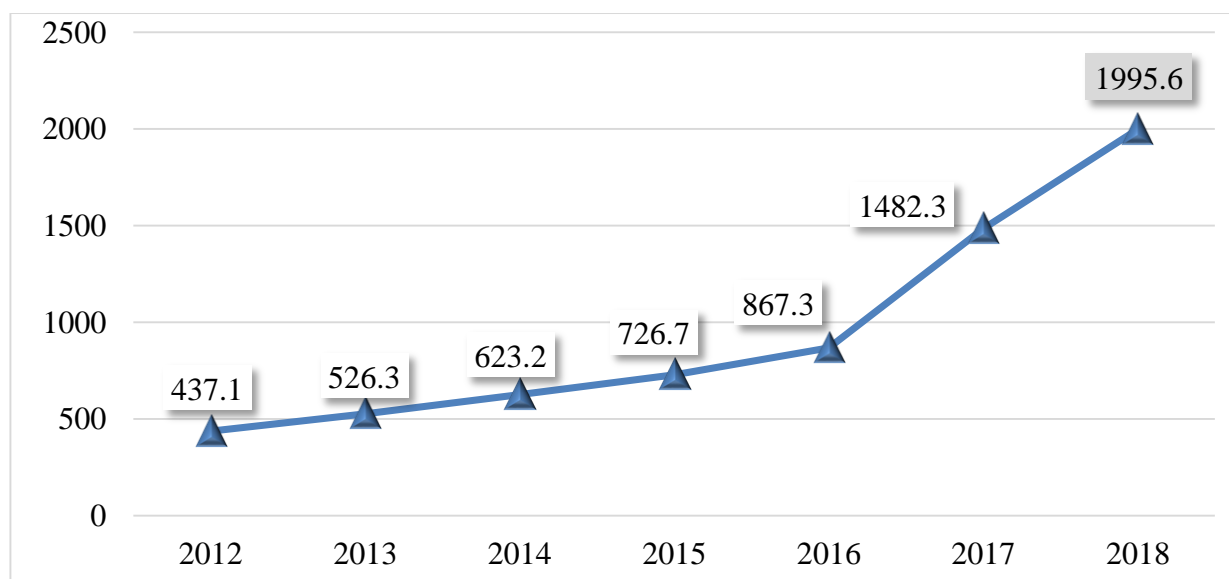
**Figure 2:** Dynamics of changes in insurance coverage by types of insurance, bln.

By the end of 2018, market insolvency of insurance premiums (ratio of insurance premiums to insurance premiums) stabilized at 28.2%. In 2017, this figure rose from 18.8% to 29.1%.



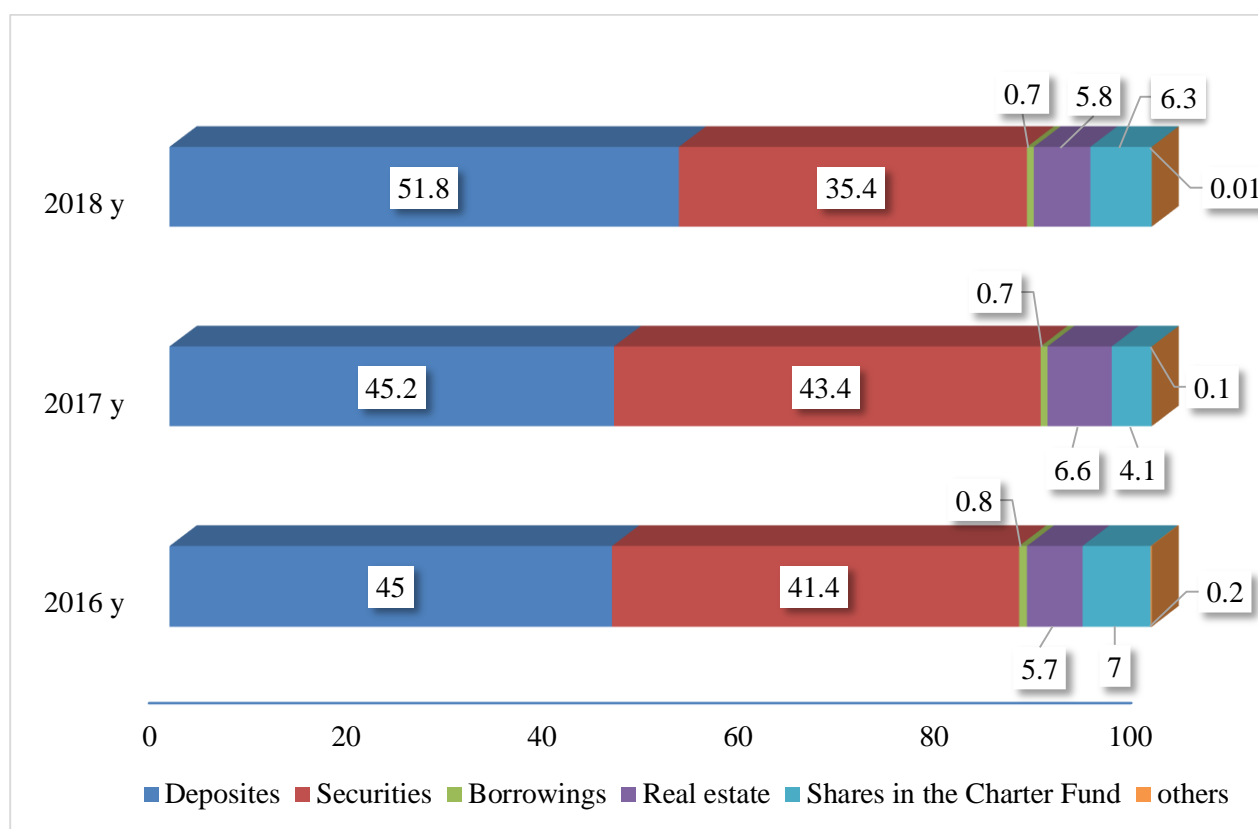
**Figure 3:** Dynamics of insurance premium loss rate, in percent [6]

At the end of 2018, the growth of the insurance companies' investment portfolio declined compared to the previous year. According to the Ministry of Finance of the Republic of Uzbekistan during the analyzed period, the current volume of the investment portfolio of companies increased by 35% and amounted to 1995,6 billion sums. Increase of own funds and incomes of insurance companies will allow them to form insurance reserves and increase investments.



**Figure 4:** Dynamics of changes in the investment portfolio of insurance companies, in bln.

A significant portion of the investment in 2018 was due to bank deposits. The volume of insurance companies' investments in bank deposits increased by 54.0% and made up 1044.3 billion sums. Investments in securities reached 706.6 billion sums, which is 10.0% more than in 2017. As a result, the share of bank deposits on total investments increased by 6.7% and amounted to 51.8%. The share of the securities decreased by 8.0 points and amounted to 35.4%.



**Figure 5:** Dynamics of Structural Change of Insurance Companies' Investment Portfolio, 6%

In addition, the amount of investment in real estate, equity funds, loans and more has increased in comparison with 2017. Investment in enterprises' equity increased by 2.0 times and amounted to 125.1 billion sums. The volume of loans increased by 44.0% and amounted to 13.9 billion sums. The volume of investments into real estate made up 115.5 billion sums, which is 18.0% more than last year. Other investments of insurance companies decreased by 80.0% and amounted to 0.2 million sums.

In general, in 2018, the share of bank deposits in the investment portfolio of insurance companies has significantly increased, and there has been a decline in investment in securities. These changes have a significant impact on the quality of the investment portfolio of insurance companies.

### III. CONCLUSIONS AND SUGGESTIONS

As a result of the above-mentioned opinion, we can say that the function of the stock market, including the stock market, is to mobilize free funds of the population, state and institutional investors, and to focus on various sectors of the national economy. using a funding source to stabilize the economy, improve the cash flow, and increase the incomes of the population and businesses. influence on the tribe. In this regard, the importance of insurance companies acting as institutional investors influencing the financial market, including the stock market, is important.

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Factors that have a negative impact on the development of the insurance industry are as follows:

in view of the financial capabilities of citizens and legal entities that are not effectively satisfied with the demand for insurance products; adequate development of compulsory insurance, which affects the development of the insurance market; low insurance premiums of reliable means for investing in reserves;

limited competition in critical areas of the market mechanism insurance premiums; a system of measures to improve the quality of education is not developed; the capital of the insurance companies is not enough, factors such as the lack of payment for improvements in the national reinsurance market, the outflow of capital abroad.

It is important to develop proposals aimed at solving the one mentioned above.

In conclusion, we can say that the insurance market is one of the growing market segments of the Republic, and it is also worth noting that it has a very important prospect from the point of view of attracting insurance companies to investment processes.

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