

State of Inclusive Insurance in Uzbekistan

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Abstract— *The article is devoted to studying the current state of inclusive insurance in the Republic of Uzbekistan, identifying problems and developing proposals for their solution.*

In the insurance portfolio of domestic insurers, insurance products are widely represented that can be formally classified as inclusive insurance, but inclusive insurance has not received sufficient development in the republic. This article examines the main problems of development of inclusive insurance in Uzbekistan.

Keywords: *Development problems, insurance, inclusive insurance, life insurance and general insurance industries.*

I. INTRODUCTION

Inclusive insurance is an approach to insurance that is intended to make insurance products and services available to individuals and entities that might otherwise be excluded or underserved by traditional insurance providers.

This type of insurance aims to provide insurance products and services to low-income and vulnerable populations, including those living in rural or remote areas, women, as well as legal entities with insufficient circulating capital.

Inclusive insurance can be considered as a special direction of insurers' activity on sale of specific inclusive insurance products and providing relevant services. The goal of inclusive insurance is to provide everyone with access to affordable insurance products that can help protect against unforeseen events such as illness, disability, or natural disasters. Inclusive insurance is particularly important in developing countries, where many people do not have access to insurance products and where the lack of coverage can have serious economic and social consequences.

II. MAIN BODY

The concept of inclusive insurance is not new. It has its roots in microfinance, where low-income individuals and groups are given small loans to help them start or grow a small business. In recent years, inclusive insurance has attracted attention as a way to increase access to insurance products and services for a wider range of people.

For the purpose of this article, inclusive insurance will be understood as insurance that is accessible to the low-income part of the population, as well as small and private businesses. The relevance of inclusive insurance for Uzbekistan is primarily justified by the scale of the poor population, which at the end of 2022 amounted to 17% of the total population. According to the official data of the Statistics Agency under the President of the Republic of Uzbekistan, real per capita income amounted to 2255 USD.

According to the Central Bank of the Republic of Uzbekistan, 38.7% of household respondents classified themselves as a group with incomes of 2-4 million UZS per month, which is the equivalent of 163-325 USD, the level of well-being of the main part of households remains relatively low, but at the same time technically equipped. On the one hand, according to the State Statistics Committee of the Republic of Uzbekistan, there are 48 cars per 100 households in Uzbekistan, and households are equipped with televisions, refrigerators, air conditioners and washing machines. 100% of the working-age population has mobile phones, the provision of personal computers is growing, on the other hand, household property is practically not insured. The situation is similar with personal insurance, this is explained by the fact that the main item of expenditure of these households is the cost of basic necessities and consumer goods.

According to the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, 9.1% of small businesses operate in agriculture, industry – 20.9%, construction – 11%, trade and food – 34.1%, cargo transportation – 5.2% and other areas of activity – 19.7%. More than 62% of those employed in small businesses in the country are engaged in individual entrepreneurship, and only about 16% are small enterprises and microfirms, which are the main client base of insurance companies. At the same time, contracts of compulsory and imputed insurance are mainly concluded – civil liability insurance for vehicle owners, employer's liability insurance, property insurance issued in foreign currency.

Thus, private and small businesses do not actually use insurance mechanisms as an element of their own risk management system, but use insurance mainly as a means of accessing credit resources. Insufficient financial literacy of representatives of private and small businesses, especially representatives of agricultural sphere, and insufficient understanding of the essence of insurance services limit the

use of insurance by private and small businesses to protect their property interests.

In addition to the above, Uzbekistan, like other countries in the Central Asian region, is extremely vulnerable to natural disasters, which include earthquakes, landslides, mudslides, floods and droughts. Along with the unique geographical location of Central Asia, it should be noted that natural disasters in this region are inevitable.

On the territory of Uzbekistan, one of the largest natural disasters in terms of its consequences is an earthquake. For example, the strong earthquakes that occurred during the 20th century in Andijan (1902), Tashkent (1902), Tashkent (1946 and 1966), and Gazli (1976 and 1984) resulted in large economic losses and human casualties. The earthquake that occurred in Tashkent in 1966, caused losses of about 300 million dollars. Adjusted for inflation in current dollar terms, the damage would have amounted to about \$50 billion equivalent. If a similar earthquake were to occur today, it would likely cause much greater losses due to the significantly increased value of at-risk facilities in the capital.

The World Bank, UN International Strategic for Disaster Reduction and Central Asia Regional Economic Cooperation estimate that in Uzbekistan, economic losses due to natural disasters average \$92 million per year, which in absolute terms is the highest in Central Asia.

As noted above, the relevance of the development of inclusive insurance also confirms the exposure of the territory of the republic to emergencies with significant losses from their occurrence.

Inclusive insurance involves the provision of insurance services in conditions of low public awareness, low incomes and unavailability of insurance services in the regions. Therefore, inclusive insurance products should contain standardized terms and minimum document requirements to facilitate people's understanding of the product and the process of settling insurance claims. Inclusive insurance in accordance with the legislation of Uzbekistan can be applied to both property insurance and personal insurance and can be provided for 1,2,3,7,8,9,9,9 and 18 classes of the general insurance industry and 7 classes of the life insurance industry.

Domestic insurers, in accordance with the Standard Insurance Rules approved by the Association of Professional Participants in the Insurance Market of Uzbekistan (Minutes of the Association's Council Meeting No. 2 dated April 08, 2009), have developed and offer citizens of the republic more than 50 types of insurance products that can be formally classified as inclusive insurance.

It should be noted that insurance products offered by domestic insurers under 8 (property insurance against fire and natural disasters) and 9 (property damage insurance) classes of insurance are modified products that were offered to the population during the initial development of the insurance industry in Uzbekistan. Only in recent years, insurance products similar to FLEXA insurance contracts -

complex risk contracts - Fire, Lightning, Explosion, Aircraft Impact - have started to be introduced.

Voluntary property insurance contracts available in the insurance portfolio of domestic insurers can serve as a basis for inclusive insurance contracts in general and microinsurance contracts in particular.

Currently, almost all domestic insurers, both in the general insurance and life insurance industries offer personal accident insurance with sums insured starting from 1 million UZS (USD 81) and premiums from 10 thousand UZS (USD 0.8). In addition, there are health insurance options with sums insured from 5 million UZS (USD 407) and premiums from 500 thousand UZS (USD 41).

Also, insurers in Uzbekistan, operating in the general insurance industry, offer property insurance of housing (real estate) against all risks with the sum insured from 50 million UZS (USD 4,065) and insurance tariff less than one percent, as well as home property insurance against the listed risks with the sum insured from 5 million UZS (USD 407) and insurance tariff from 0.5 to 1 percent.

It should be noted that the above amounts of insurance sums are oriented to the population with a daily income from 40 thousand UZS (USD 3.2) and can be adjusted in agreement with the insurer both less and more with a corresponding change in the amount of the insurance premium.

Inclusive insurance in the field of personal insurance in the Republic of Uzbekistan can be carried out in accumulative and risky types.

In the accumulative form, inclusive insurance is provided on 1-3 classes of life insurance industry (life and annuities, marriage and birth, long-term life insurance) and annual sum insured not less than USD 100 in sum equivalent (microinsurance). Insurance with smaller amounts of insurance becomes economically impractical for the insurer.

Despite the availability of microinsurance insurance products, domestic insurers licensed to carry out insurance activities in the life insurance industry do not enter into such contracts due to the lack of effective demand from individuals, almost all domestic insurers in the life insurance industry offer "salary" insurance - a scheme for optimizing the taxation of policyholders.

Insurers operating in the life insurance industry offer insurance products for various types of mixed cumulative insurance with an insurance amount starting from 1 million UZS (about USD 100).

Thus, domestic insurers currently have insurance products for the above-mentioned types of insurance that are aimed at low-income clients and which, according to formal criteria, can be classified as inclusive insurance or microinsurance.

However, these types of insurance are practically not represented in the insurance portfolio of domestic insurers due to:

1. lack of effective demand from the population due to the low standard of living and insufficient level of

insurance culture;

2. lack of sales channels oriented at realization of insurance products on inclusive insurance and microinsurance - practical absence of retail sales network on these types of insurance products;
3. low professional level of employees of insurance companies engaged in the sale of insurance products to the public;
4. cancellation of benefits and preferences on the part of the state (the benefit is retained only for accumulative insurance in the form of a reduction in the tax base of individuals by the amount of insurance premiums paid by the policyholder).

The number of people living below the poverty line, low income levels and high unemployment represent a great potential for inclusive insurance. A distinctive feature of the poor, low-income and vulnerable segments of the population of Uzbekistan is that almost all of them own housing (real estate) and the introduction of mandatory housing insurance against natural disasters and the associated sales of voluntary insurance products could generate a significant demand for related types of inclusive insurance.

In addition, the mentality of Uzbek citizens is focused on the constant accumulation of funds “just in case”, and this accumulation of funds is off-bank (at home “under the pillow”, various options for mutual financial assistance, etc.), since the people do not trust either banking or insurance structures. Options for cumulative microinsurance with reinsurance from reliable foreign reinsurers or under a state guarantee could stimulate the demand of the poor, low-income and vulnerable segments of the population for these types of insurance.

In Uzbekistan, the market of inclusive insurance, including microinsurance, at the moment is not organized.

But, in our opinion, in the conditions of

1. increasing requirements to the quality of social protection of the population;
2. gradual transition of the health care system to a market-based system;
3. increase of existing and emergence of new social risks;
4. further strengthening of property inequality.

Inclusive insurance and, first of all, microinsurance, can become an effective element of the system of social protection of citizens. We proceed from the hypothesis that for the effective development of inclusive insurance in Uzbekistan requires the interest and participation of the state.

Moreover, in Uzbekistan there are both technical and organizational conditions for the development of inclusive insurance - the republic possesses to a certain extent developed infrastructure of the insurance market.

In the current, highly competitive environment, large insurance companies will also be interested in developing this line of business, including for diversification of business lines.

III. CONCLUSION

In view of the above, we propose:

1. Creation of specialized insurance companies to provide inclusive insurance services to the poor and vulnerable groups of the population, as well as small and private businesses with insufficient working capital.

In this case, it is proposed to define a specific list of insurance services, categories of population and legal entities, with exemption of the activities of these insurance companies from mandatory taxes and fees, due to the social component of their activities.

2. Establishment of a specialized Fund to allocate subsidies to cover the cost of insurance premiums for business representatives, who have a shortage of working capital, and low-income segments of the population, to insure their property against natural disasters and human-caused losses.
3. Organization of activity of mutual insurance societies in places of compact residence of the population with the conditional name - "Emergency Insurance Assistance" providing for:
 - a) establishment of societies on a voluntary basis;
 - b) voluntary membership in the society;
 - c) payment by each member (family, household) of this organization of a quarterly contribution to the insurance fund of the society;
 - d) payment of insurance indemnities from this fund to the families - members of the society, who have suffered damage of real estate in connection with natural and man-made catastrophes and disasters;
 - e) administration of these societies will be carried out by a public council elected by the residents of the mahalla itself from among the most reputable citizens;
 - f) exemption of these societies from all types of taxes, compulsory payments and bank commissions.

4. Introduction of modern digital technologies into the practice of domestic insurance companies. Expected innovations in the insurance industry are the development of online insurance and the introduction of electronic sales of insurance policies for mass, accessible to the general public types of insurance.
5. Development and implementation of a large-scale State Program for the development of insurance culture of the population, which provides for a 3-year cycle of active advertising and awareness-raising campaign among the general public.

In our opinion, the development and implementation of the above-mentioned proposals and mechanisms will allow to ensure accelerated introduction of inclusive insurance - an important instrument of financial and social protection of the population and increase the level of insurance coverage in our country and other countries with transition economies.

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