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PRIORITY DIRECTIONS AND SOLUTIONS FOR ENHANCING THE FINANCIAL RISK MANAGEMENT SYSTEM IN THE INSURANCE MARKET OF UZBEKISTAN

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Abstract: Enhancing the financial risk management system is crucial for the stability and growth of Uzbekistan's insurance market. Key priorities include strengthening regulatory oversight, adopting international solvency standards, and promoting risk-based capital approaches. Implementing robust reinsurance mechanisms, advanced data analytics, and comprehensive corporate governance frameworks are vital solutions. These measures will bolster market resilience, protect policyholders, and foster sustainable development in line with global best practices.
Keywords: Financial Risk Management, Insurance Market, Regulatory Framework, Solvency Standards, Risk-Based Capital, Reinsurance, Market Resilience, Corporate Governance

INTRODUCTION

In global practice, extensive experience has been accumulated in the scientific study of insurance of risks, particularly in the mechanisms of insurance protection such as self-insurance, mutual insurance, and various types of commercial insurance within the evolutionary development of society.

The fundamental changes that have occurred in the world economy in the aftermath of the pandemic, as well as due to economic and political processes (wars, economic restrictions), require a reassessment of risk insurance mechanisms and their adaptation to the new economic realities.

In particular, it has become an urgent issue to develop alternative insurance mechanisms, determine the probability level of each type of risk on a global scale, and create systems that reflect the interrelationship between insurance systems and mechanisms in order to enhance the efficiency of insurance.

This study serves, to a certain extent, to implement the objectives outlined in the normative and legal acts aimed at improving the insurance sector, including: the Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022, “On the Development Strategy of the New Uzbekistan for 2022–2026”; the Decree of the President No. PQ-5265 dated October 23, 2021, “On Additional Measures for the Digitalization of the Insurance Market and the Development of the Life Insurance Sector”; the Decree of the President No. PQ-4412 dated August 2, 2019, “On Measures to Reform the Insurance Market of the Republic of Uzbekistan and Ensure Its Accelerated Development”; the Decree of the President No. PQ-108 dated March 1, 2024, “On Comprehensive Measures to Further Develop the Insurance Services Market”; and the Resolution No. 80 dated February 21, 2022, “On Approving the Unified Regulation on Licensing Certain Types of Activities through a Special Electronic System”, as well as other regulatory legal acts aimed at enhancing the insurance industry.

RESEARCH METHODOLOGY

In this scientific article, methods of systemic analysis and approach, logical and structural analysis, grouping and generalization, expert evaluation and forecasting, econometric modeling, as well as mutual and comparative analysis were used.

ANALYSIS AND RESULTS

In the modern economy, risk insurance mechanisms are becoming increasingly complex and are compelled to evolve under the influence of global events, pandemics, economic crises, and political instability.

Scientific research indicates that self-insurance, mutual insurance, and commercial insurance have served as crucial mechanisms for risk management at various stages of societal development.

In international practice, extensive experience has been accumulated in the following areas [1]:

– Risk-based supervision – a modern approach that regulates and monitors the activities of insurance organizations based on the level of potential risks they face and their impact on the financial system. Under this approach, supervisory authorities focus their resources on organizations and activities with the highest levels of risk.

– Insurance protection mechanisms – the integrated use of self-insurance, mutual insurance societies, and commercial insurance companies to minimize individual and corporate risks.

– Adaptation to new economic realities – in the context of the COVID-19 pandemic, international political crises, and economic restrictions, traditional insurance mechanisms have become insufficient. Therefore, global insurance markets are focusing on developing alternative insurance schemes, recalculating probability levels, and redistributing risks.

– Digitalization and technological integration – in advanced countries, insurance services are increasingly managed using big data, actuarial models, and artificial intelligence.

– Cyber risks and emerging areas – according to research by the IAIS, the Geneva Association, Allianz Research [2], and other centers, the assessment of cyber risks [3], global climate change risks, and cross-border financial threats is becoming a key priority for the future of insurance.

In the Republic of Uzbekistan, the solvency of insurers and reinsurers is regulated by the "Regulation on the Solvency of Insurers and Reinsurers" approved in 2008. This document defines the rules for ensuring the financial stability of insurance organizations, calculating the solvency margin, allocating assets, establishing reinsurance mechanisms, and managing risks.

The Solvency Margin standard of insurance organizations is a regulatory measure established to ensure the financial stability of insurance companies and their ability to fulfill obligations on time.

According to the legislation of Uzbekistan, the solvency margin standard reflects the ratio between an insurer's own assets and accepted liabilities, and this indicator must not be less than a coefficient of 1.0.

In calculating the solvency margin, two main approaches are applied:

– under the premium method, 20 percent of insurance premiums are taken as the key indicator;

– under the claims method, 10 percent of insurance indemnities and loss reserves are considered.

To prevent the excessive concentration of insurers' assets in a single source and to ensure diversification, strict limits have been established. For example:

– deposits in a single bank must not exceed 40 percent;

– participation in the share capital of a single company must not exceed 30 percent;

– investments in real estate must not exceed 50 percent;

– liabilities under a single insurance contract must not exceed 20 percent of the insurer's own funds and reserves.

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In developed countries, similar solvency regulations such as Solvency II and ICS (Insurance Capital Standard) are applied [4]:
– Solvency II – a mandatory regulatory framework within the European Union;
– Risk-Based Capital (RBC) – the approach used in the United States;
– ICS – developed by the International Association of Insurance Supervisors (IAIS) as a global capital standard.
The data in Figure 1 are aimed at providing a comparative analysis of the insurance systems of Uzbekistan, Europe (Solvency II), the United States (RBC Model), and the International ICS (IAIS) framework. In Uzbekistan, strict regulatory limits increase the safety of smaller companies to some extent but also constrain the overall growth potential of the market. In contrast, Solvency II, RBC, and ICS frameworks allow for more flexible management of asset diversification.
Furthermore, reinsurance mechanisms play a crucial role in the distribution and redistribution of insurance risks. Considering that the Presidential Decree of the Republic of Uzbekistan No. PQ-191 dated May 23, 2025, serves as an important legal foundation for the development of the national insurance market—particularly the reinsurance system—the main objectives include:
expanding the national reinsurance market;
increasing the market volume to 4 trillion soums;
boosting the export of reinsurance services by 30%;
attracting nearly 150 billion soums of foreign and domestic capital into the reinsurance sector;
establishing the "Uzbekistan Reinsurance Company" with a charter capital of 300 billion soums, distributed equally between the state (50%) and the private sector (50%);
and introducing a procedure that prioritizes the distribution of risks through national companies before entering into direct contracts with foreign organizations.

Figure 1. Table for Analyzing the Solvency and Risk Management of Insurance Organizations.

Indicator	**Uzbekistan (2008 Regulation)**	**Europe (Solvency II)**	**USA (RBC Model)**	**International ICS (IAIS)**
Main Model	Simplified Model Based on Capital Adequacy	Risk-Based Capital (SCR, MCR))	Risk-Based Capital System	Insurance Capital Standard
Minimal kapital talabi Minimum Capital Requirement	The minimum amount of charter capital is specified	MCR (Minimum Capital Requirement), SCR (Solvency Capital Requirement)	Based on the RBC formula	Global minimum capital standard
Calculation Method	Based on the Premiums Method and Payments	Market, credit, operational, and liquidity risks are calculated in a	Corresponds to main risk categories	Based on an international comparative methodology

	Method	complex manner		
Asset Allocation	Strict limits: within a range of 30% - 50%	No strict limits, a risk-based assessment system is applied	Flexible approach at the federal level	Flexible system based on risk level
Reinsurance	Mandatory diversification mechanism exists	Optional, but widely used	Very widely used	Globally coordinated mechanism
Flexibility Level	Low – rigid normative approach	High – risk models can be customized	Varies, depending on the risk category	High – based on international integration

In Uzbekistan, the mandatory nature of reinsurance reduces risks for insurance companies but also limits the operation of free market mechanisms. In contrast, Europe and the United States allow companies greater independence in choosing their own reinsurance strategies.

CONCLUSIONS AND RECOMMENDATIONS

Based on the above analysis, the following conclusions can be drawn:

The current regulatory and legal framework adopted in Uzbekistan in 2008 is based on a simplified model of capital adequacy and has not yet reached the level of international standards such as Solvency II, RBC, and ICS. The presence of strict limits and a low degree of flexibility has constrained the development of the insurance market. Transitioning to a modern, risk-based supervision (RBS) system is essential for ensuring the sustainable development of the insurance sector.

This article also highlights the inefficiency of reinsurance operations in Uzbekistan. The state policy on reinsurance reform aims to establish a national reinsurance company, expand the market size, and attract foreign capital. Further development of reinsurance mechanisms and the expansion of international cooperation would enhance the efficiency of risk distribution.

The limited financial capacity of insurance companies, the weakness of solvency standards, and the strict restrictions on asset allocation negatively affect financial stability. Strengthening the capital base, diversifying investment portfolios, and introducing modern risk management methods will play a decisive role in shaping the future of Uzbekistan’s insurance market.

International experience demonstrates that a risk-based supervision (RBS) framework ensures the stable development of the insurance market. The implementation of RBS in Uzbekistan will improve regulatory efficiency, optimize the allocation of resources, and enhance the risk management culture of insurance organizations.

The use of digitalization, artificial intelligence, big data analytics, and other innovative technologies in the insurance market increases the accuracy of risk assessment, reduces administrative costs, and makes insurance products more convenient and affordable for clients. Technological modernization is therefore a key factor in the development of the insurance market.

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