American Journal of Economics and Business Management

Vol. 7 Issue 11 | pp. 1-14 | ISSN: 2576-5973

Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

The Role of Financial Stability of Insurance Companies in Economic Development

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Abstract: Financial stability represents the capacity of enterprises to effectively manage financial resources, ensuring continuous production and service delivery. This study explores the insurance system as a critical business sector where financial stability plays a pivotal role, highlighting its dual function as a means for securing operations and attracting investments into the national economy. Despite the significant role of insurance companies in fostering economic development, limited research exists on their contribution to financial stability and investment mobilization. This research aims to analyze the interplay between financial stability and the insurance sector's investment potential. Using a mixed-method approach, the study examines financial indicators and industry practices. The findings reveal that stable financial management in insurance companies enhances investment flows and supports sustainable economic growth. The implications underscore the importance of robust financial policies and innovative strategies for strengthening the role of the insurance sector in economic development.

Keywords: Financial stability, Insurance market, Economy, Finance, Investment, Development of economy.

Citation: Khalikulova Shirin. The Role of Financial Stability of Insurance Companies in Economic Development . American Journal of Economics and Business Management 2024, 7(11), 1100-1104.

Received: 5th Oct 2024
Revised: 5th Nov 2024
Accepted: 12th Nov 2024
Published: 19th Nov 2024

1. Introduction

The financial stability of the insurer is understood as the preservation of the optimal qualitative and quantitative condition of assets and liabilities, which allows the insurance company to ensure the uninterrupted implementation of its work, its development. The value of a system of insurance and of the main component, the insurance market grows in conditions of continuous development of the world economy and a global financial system. First, in world practice, the system of insurance is one of the largest sources of investments into the economy by the formation of certain funds and the relations of redistribution of means of the managing subjects. Secondly, insurance one of the main forms of management of the difficult risks having tendencies to growth in the modern economy [1].

Except that, ensuring the protection of property interests of the insured persons causes the process of continuous reproduction that promotes ensuring economic and financial stability [2]. It is necessary to emphasize that "the general turnover of the modern global insurance market makes 2.4 trillion dollars of the USA". Experience of the developed countries testifies o increase of the role of insurance in the effective solution of social and economic tasks [3].

2. Materials and Methods

The development of the insurance industry in Uzbekistan can be seen in the implementation of the UZBEKISTAN-2030 strategy. The presidential decree outlines actions to develop the social and administrative spheres. In 2024, the implementation of state medical insurance mechanisms will begin in Tashkent, and the president also ordered the implementation of the insurance model of medicine throughout Uzbekistan by the end of 2026 [4].

The development of a system of insurance differs in the existence of internal and external factors of its implementation. The extent of development of a system of insurance is predetermined by action on a macro or micro level, an also interrelations of subjects of a system of insurance [5]. The activity of the insurance organization occupies the main place in the development of a system of insurance. Large-scale development of a system of intermediaries in insurance provides integration of insurance services into all spheres and branches of economy [6]. The efficiency of a system of insurance is indissolubly connected with the liberalization of the economy. Therefore the particularly important becomes the determination of features and properties of development of processes of globalization in the system of insurance [7].

In the process of analyzing the financial stability of an insurance company, it should be remembered that financial stability is "... an economic category that characterizes the insurer's ability to fulfill its obligations in full based on the rational use of its own and borrowed capital"

Correct and rational organization of the insurance company's finances is a determining factor for its successful operation. Financial processes (capital formation processes) within insurance companies cannot be analyzed using the same approaches as those used for industrial companies. This is due to the specifics of the services provided [8].

1. For industrial companies producing goods, the company's payments precede the receipt of income in the time perspective. The provision by the insurance company of an intangible benefit called insurance coverage leads to premium payments that the policyholder pays to the insurance company. The situation when payment for a service is made before it is provided is a reverse ("inverted") economic cycle. This procedure takes place in insurance and in some sectors of the "classical" sector. The reverse economic cycle in insurance significantly complicates the calculation of insurance premiums and is the reason for the emergence of mathematical reserves [9].
2. The payments and costs of a manufacturing enterprise are in most cases clearly defined in their amount and structure, whereas its income depends on market success and is therefore uncertain. From the point of view of payment flows, the element of uncertainty in the expected results of an industrial enterprise depends on the incoming payments. The dominant component of uncertainty in the expected results for an insurance enterprise is determined by the stochastic nature of payments for insurance claims.
3. The creation of capital for investment financing is a pressing financial problem for a manufacturing enterprise. In contrast, in insurance finance the central problem is the efficient use of the volume and structure of funds. Financial resources must be sufficiently saved (reserved) and, in accordance with future (unknown) payment needs, differentially invested.
4. Research into enterprise economics is aimed at developing such economic instruments as enterprise activity planning, financial management, control or

investment calculation. The task of financial management of an insurance enterprise is a problem of decision-making under risk conditions.

The financial resources of an insurance company are the aggregate of temporarily free funds of the insurer, which are in business turnover and are used to conduct insurance operations and implement investment activities. The financial resources of an insurance company consist of two main parts – equity and attracted capital, with the attracted part of the capital significantly prevailing over equity. Equity capital consists of the authorized capital, additional capital, reserve capital, retained earnings, social fund and accumulation fund. Equity capital is formed by making contributions from founders and subsequent replenishment from profits from insurance activities, income from investing funds, and also by additional issue of shares. Attracted capital consists of insurance reserves, reinsurance credit and accounts payable. The activities of an insurance company are based on the creation of cash funds (insurance reserves), the source of which are the funds of policyholders received in the form of insurance premiums [10].

3. Results

In order for an insurance company to operate stably, it is necessary that in the short and long term there is equality or excess of income over expenses, i.e. for each type of insurance the equivalence condition must be met, which can be written as follows:

Premiums + Investment income - Reinsurers' share in premiums > Payments + Expenses - Reinsurers' share in payments. This means that the amount of premiums collected for a given type of insurance must be greater than or, at a minimum, equal to the amount of payments for insurance events and the expenses of the insurance company minus the income received from investing temporarily free funds, taking into account reinsurance:

Premiums > (Payments - Investment income) + Expenses + Reinsurers' share in premiums - Reinsurers' share in payments.

As can be seen from this ratio, the insurance premium (gross premium) must contain two components. The first component (net premium) is intended to create insurance reserves from which payments to policyholders will be made. The second component (load) serves to cover business expenses, as well as to form the planned profit of the insurance company [11]. Deductions to the reserve fund are allocated separately from the planned profit.

The degree of financial stability of an insurance company (high or low) is determined by how much adverse impact from internal and external phenomena (factors) it can withstand. By influencing any of the company's areas of activity, it can indirectly change the company's financial stability. The financial condition of a company is determined by many factors. Financial stability factors are internal and external phenomena that affect the financial condition of a company. These include all phenomena of politics, economics, management, legal and tax fields, as well as microeconomic phenomena that affect the financial condition of a company. Factors are measured quantitatively using absolute and relative indicators [12]. The indicators allow us to judge the degree of financial stability of a company in dynamics and in comparison with other companies. Any of the factors, depending on the impact of certain components of the risk environment, can become dominant in the dynamics of the financial condition of an insurance company. Thus, the condition of an insurance company is characterized by a set of a huge number of indicators, which generally depend on each other [13].

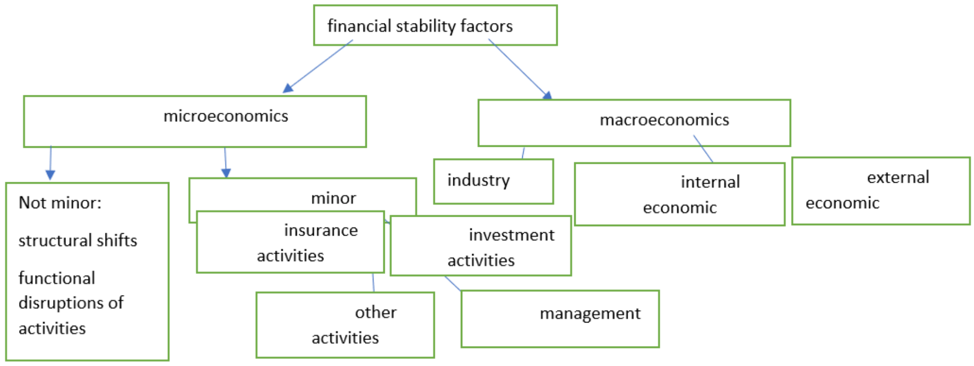

Figure 1. Made by the author

4. Discussion

The financial stability of an enterprise implies a characterization of the degree of risk of the company's work from the position of balance, excess of income over costs. It acts as an integral part of the stability of the enterprise, the balance of financial flows, the availability of funds that allow the enterprise to maintain its work for a certain period of time, in particular, when servicing loans received, manufacturing products [14]. The financial stability of an insurance company is considered as a certain state of the financial resources of an insurance company, in which the company fulfills its obligations to policyholders on time and in full, thanks to its own and attracted funds [15-18].

The financial stability of an insurance company presupposes the stability of its financial position, which is ensured by a sufficient share of equity in the financing sources. The external manifestation of such stability lies in the solvency of the organization, its ability to fulfill obligations to pay the insured amount, insurance compensation to the policyholder, the insured person under insurance contracts.

The most important macroeconomic factors (see Fig. 1) that can influence the financial stability of an insurer are:

1. the industry factor, which includes the influence of legislation and the development of the market as a whole and the niche occupied by the company;
2. the country factor, which implies the influence of economic, social and political processes in the country on the insurance market and an individual company;
3. the international factor, including the influence of international treaties and agreements in the field of insurance and the sovereign rating of the country [19].

In the context of the economic reform being carried out in Uzbekistan, the process of reforming the insurance industry is taking place. The measures that have been taken are key in the formation of a modern, full-fledged and competitive insurance services market, they contribute to the development of entrepreneurial activity, as well as the protection of property and health of citizens [20].

5. Conclusion

In the context of the economic reform ongoing in Uzbekistan, the process of reforming the insurance industry is taking place. The measures that have been taken are key in the formation of a modern, full-fledged and competitive insurance market; they contribute to the development of business activities, as well as the protection of property and health of citizens. Process of analyzing the financial stability of an insurance company, it should be remembered that financial stability is "...an economic category that characterizes the insurer’s ability to fulfill its obligations in full based on the rational use of its own and borrowed capital”. The objective need to increase the stability of the system of insurance relations, as a mandatory condition for their effective functioning and development, leads to the need for continuous improvement not only of the subjects of management in the field of insurance and the links of the insurance mechanism, but also of the financial mechanism and the economic mechanism as a whole.

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