GOSPODARKA I INNOWACJE

LABORATORIUM WIEDZY Artur Borcuch

Volume: 22 | 2022

ISSN: 2545-0573

INSURANCE AS A METHOD OF NEUTRALIZING FINANCIAL LOSSES FROM DESTRUCTIVE UNPREDICTABILITY LEADING TO LOSS OF BUSINESS PROFIT (INCOME)

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A R T I C L E I N F O.

Keywords:
Insurance, events, risk, economic risk, credit and financial transactions, credit insurance, consumer credit, export, import, export credit insurance.

Abstract

The article discusses methods for neutralizing financial losses from destructive unpredictability, leading to the loss of financial resources. One of the methods of neutralizing financial losses is insurance. Therefore, the article notes that in recent years, legal entities and individuals have begun to pay attention and use the services of insurance organizations more often. The purpose of this is to minimize financial losses. Particular attention is paid to consumer credit insurance and the use of voluntary export credit insurance in order to promote the development of foreign economic relations, stimulating and increasing the competitiveness of exports.

Introduction.

Ensuring the stable development of economic entities has opened up wide scope for the economic initiative of insurance organizations. The activities of insurance organizations [1] have become predictable even in the context of the coronavirus pandemic. In this regard, insurance organizations began to pay more attention to the production of innovative insurance products. This, in particular, applies to policyholders who are most in need of innovative insurance services.

In this regard, it should be recalled that insurance as a method of neutralizing financial losses is possible only because destructive events, which are pure chance for a single business organization, have the character of a pattern for a large group of them. Fire, accident, theft - these are rare, but repeated events with a mathematical pattern. It is this regularity that makes it possible to create a fund within the framework of an insurance organization in advance to eliminate the consequences of each individual event. Thus, insurance is based on the mathematical law of large numbers. Therefore, insurance on a commercial basis can only be arranged when it covers a large number of objects that are exposed to the same hazards, but cannot be affected by them simultaneously [2].

However, sometimes, excessive hopes are associated with insurance, trying to eliminate the economic risk with its help. But the desire to get rid of normal economic risk generally contradicts the very nature of entrepreneurship. Strictly speaking, only the presence of risk, the unpredictability of the result, justifies the acquisition of entrepreneurial activity, since with a guaranteed absence of risk, the return on capital for all entrepreneurs would be the same and would be equal to bank interest. Another thing is that every prudent entrepreneur must insure against losses caused by forces beyond his control.

Literature review. Foreign scientists have extensive research experience in this area. Insurance of financial risks are considered in the works of foreign scientists as I.A. Blank, I.A. Zatolokin, V.D. Gupalo -Khvedzevich, U. J. Keynes, J. Stigler, J. Galbraith , K. Meyer , Francois Kielbolt , Michel Badoc and others.

According to E.V. Vlasov and V.A. Pamurzin "Financial risk affects the economic development of the enterprise negatively, implying an outflow of funds from the accounts of the enterprise. This is accompanied by a decrease in the liquidity of funds, their turnover and, as a result, a decrease in the profitability of activities.

In his scientific research O.D.Dagbaeva , E.Ts.Garmaeva et al. described the following : " There are many different ways to mitigate financial risk: insurance, creating a contingency reserve, diversification, limiting, avoiding, hedging ".

Research Methodology. In the course of the study, the topic was studied based on the development prospects with insurance as a method of neutralizing financial losses in our country, using methods such as analysis and synthesis, logical analysis.

Analysis and results. Some risks of accidental loss are common to all business activities, eg fire. Others are specific to certain areas. The totality of insurance against general and specific risks is a necessary insurance set for a particular sector of the economy. World practice has developed an insurance package for each enterprise in the socio-economic sphere, in particular, for the banking sector and commodity exchanges.

First of all, it is necessary to name the types of innovative insurance products that are common to almost all insurers. These types of innovative products include:

- insurance against destruction or damage to buildings as a result of various kinds of accidents, such as fire, explosion, earthquake, flood, etc. Among them, the most destructive in 2020 was the flood in Sardoba (Surkhandarya region) [3]. In this regard, there is a need to insure the buildings themselves. It is quite obvious that the tenant should also be interested in insuring himself against such dangers in order to protect himself from the costs of renting a new premises;
- insurance of the contents of service buildings against the risks of death and damage, including theft;
- insurance against loss of profit, i.e. such insurance that can compensate for the reduction in profits due to disruption of the production process in the event of destruction or damage to office buildings, their contents;
- insurance of banknotes and securities against theft and destruction;
- vehicle insurance;
- Civil liability insurance, i.e. one that guarantees compensation for personal property damage caused by a third party, various kinds of events, the responsibility for which may be assigned to the organization.

Examples of the emergence of civil liability include the great a bunch of [3]. For example, the responsibility of the homeowner may arise if an object falls on a passer-by from a roof or from a window, if a fire that has arisen in the premises spreads to a neighboring building, if a car belonging to the organization crushes a passer-by.

For the performance of these types of insurance, it is characteristic that they provide protection against the consequences of physical labor caused by an object or people. However, the conduct of credit and financial transactions is associated with other risks that arise from the nature of these transactions. Here, the main risk arising from the nature of banking operations is the non-payment of the borrower. Domestic practice shows that it is this risk that many commercial banks would like, first of all, to neutralize through insurance. However, a number of emerging insurance companies are considering credit insurance as a means of rapid accumulation of insurance funds.

However, one must be aware that both bankers and insurance officials must warn against overestimating the possibilities of credit insurance. Insurance can fulfill its role as a reliable guarantor only where chance manifests itself. This is consumer credit [4], which makes it possible for citizens to purchase durable goods. By issuing a consumer loan, the seller is practically deprived of the opportunity to check the solvency of buyers [5]. Of course, in the current situation in our country, trading on credit is not relevant, but with the normalization of the economic situation during the coronavirus pandemic, merchants and banks will be able to appreciate consumer credit insurance.

In our opinion, it is unreasonable to require bank credit insurance from an insurance company. The reliability and solvency of the borrower is better than no other institution can know the bank. After all and evaluation of these factors and risk-taking is the profession of a banker, for which he receives a reward. This is – adequate entrepreneurial risk, which is the source of the banker's entrepreneurial profit.

Common sense suggests that the ability to provide commercial credit is one of the factors for increasing competitiveness. However, the installment exporter and his banker are at risk of default or late repayment by the importer. Export credit insurance can protect exporters from this risk. Export credit insurance bodies exist in many Western countries [6].

The risks covered by export credit insurance fall into two main categories: economic and political. The first category refers to the bankruptcy of the importer or its prolonged insolvency, as well as its evasion of payment obligations. The second category includes various kinds of state measures and events that impede the fulfillment of contracts by importers: embargo, moratorium on payments, etc. It should be noted that the second category is not an insurance operation. Compensation for losses from the realization of this risk can only be made at the expense of the state budget in the interests of increasing the competitiveness of domestic exporters. In order not to complicate the operation, in Western countries, the same insurance company provides simultaneous protection against economic risks, but at the same time, risk liabilities are shifted to the state, and exporters' contributions for insuring such risks are transferred to the state budget.

There is no such export credit insurance system in our country yet. So far, “Uzbekinvest” is the only insurance organization that has experience in foreign exchange insurance, and, guided by its commercial interests, sometimes accepts economic risks for insurance, but does not have the opportunity to insure political risks at its own expense. Meanwhile, it is recognized that credit insurance, organized on the same principles as in Western countries, would be useful to encourage exports.

On the events in March 2020 (COVID -19), our country needed export credit insurance. For such a need raises the question of the adoption of the Law "On State Insurance of Export Products" [7]. The law should provide for the introduction of voluntary export credit insurance in order to promote the development of foreign economic relations, stimulate and increase the competitiveness of exports.

So, an export credit insurance contract could be accepted by banks as collateral for lending to foreign economic operations.

In the situation that has developed since March 2020 (COVID -19), the prospect of implementing the ideas laid down in the law may become very uncertain. However, it can be argued that in the future, insurance of export credits and foreign investments will make its way.

At the same time, you should be aware that the world practice has developed a number of insurance guarantees to protect against specific risks associated with banking activities [8].

The policy has a more popular value in the world. It provides for compensation for losses caused to the bank (see Fig. 1).

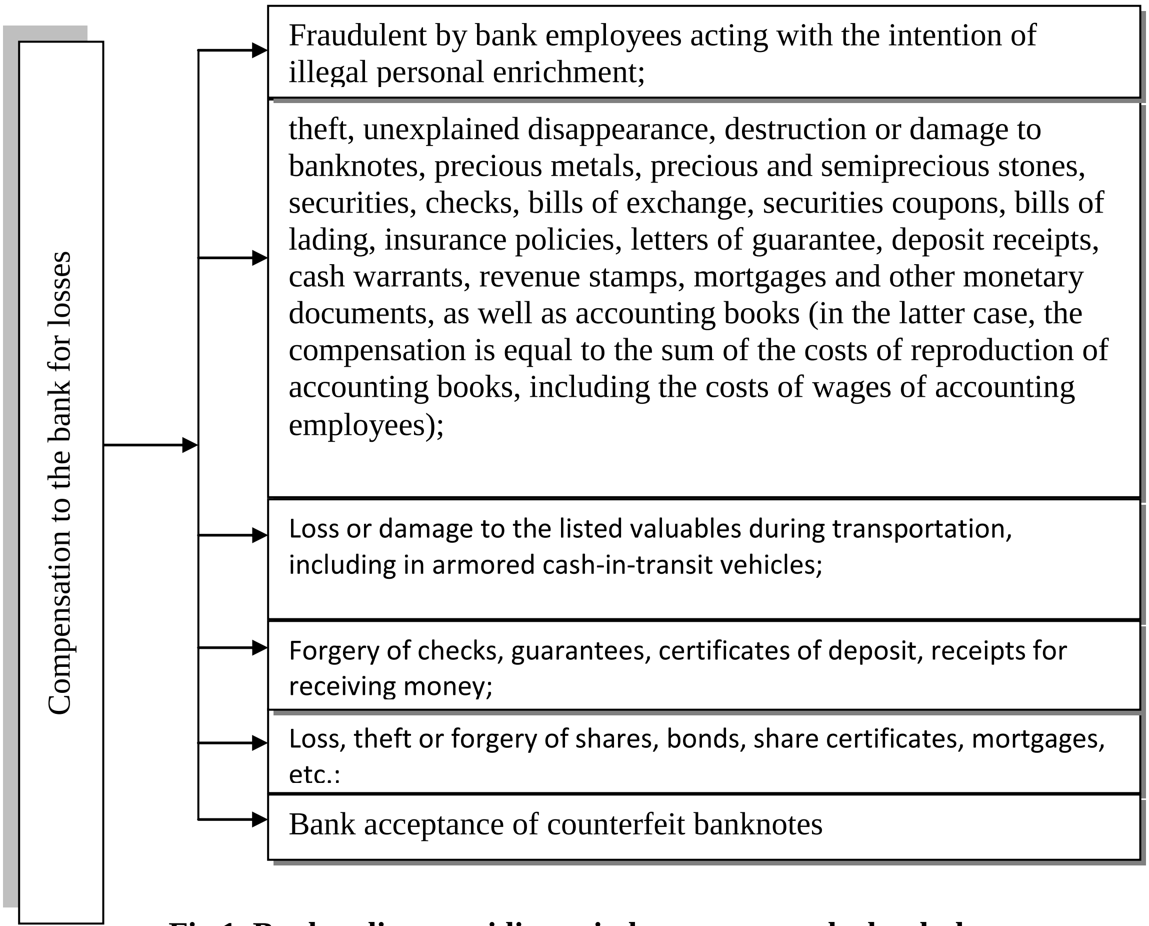

Fig.1. Bank policy providing reimbursement to the bank damages

A separate type of insurance protects banks from extortion.

The introduction of information technology (IT) into banking practice has created a risk of computer fraud [9]. Insurance has not left aside this risk. First of all, information fraud can be committed by employees of the insured bank itself. In foreign countries, losses from such crimes are covered by the standard bank policy, the contents of which have just been described. However, the practice of recent years has shown that the computer systems of banks are not invulnerable to unauthorized persons, among whom may be, for example, former employees of the bank or consulting firms. Special conditions have been created in the West to protect banks and other financial institutions from computer fraud by unauthorized persons insurance [10].

Insurance services are not limited to the named types of insurance. In the West, such insurance protection of banking operations has been built, which can block all channels of financial losses that are not dependent on the bankers themselves. For example, a mortgage insurance policy guarantees the bank compensation for losses incurred due to the fact that the borrower did not fulfill the obligation assumed to insure the mortgaged property against fires. There is also insurance in the event that a bank employee executes a telephone order transmitted by an intruder who imitated the voice of a bank client. These types of insurance services are, as it were, innovative for us.

For stockbrokers, too, some of these types of insurance are of value. Some are designed specifically for the commodity exchange. Thus, losses from the disruption of the supply of exchange goods as a result of government measures or a drop in crop yields can be insured. Losses of investors caused by insolvency or fraud of a member of the exchange can be insured; exchange members may also be insured against losses associated with the insolvency of one of them.

Conclusion and suggestions. In Uzbekistan, as in other countries with economies in transition, commercial banks and exchanges are taking their first steps, of course, and insurance of credit and financial transactions has not yet received any noticeable development. Until now, insurance companies have occasionally insured export credits against economic risks, and through their foreign subsidiaries, economic and political risks in respect of loans received abroad by organizations. However, insurance companies were ready to provide financial and credit institutions, as they realized their insurance needs, with the most diverse types of insurance coverage, tested by Western practice.

As for insurance against, so to speak, "classic" risks, such as fires or accidents, their insurance in the Republic and at the moment does not constitute any problem. In particular, insurance companies will readily provide a variety of insurance guarantees to a wide range of domestic and foreign clients.

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