



THEORETICAL BASIS OF INSURANCE AND ITS FIELDS

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Abstract

This article examines the theoretical foundations of insurance and the formation of its branches. Insurance as a socio-economic institution has an interesting history of development, which dates back to ancient times, the emergence of civilization and the formation of the first signs of statehood. Also, scientific and theoretical research of foreign and local scientists who have studied the theoretical foundations of the formation of insurance and its branches.

Keywords: insurance, insurance market, insurance companies, insurance premiums, Risk, uncertainty, socio-economic institute of insurance.

Introduction

The insurance system is of great importance in the sustainable development of sectors of the economy in our country and in protecting them from potential risks in their financial activities. The emergence of a wide range of insurers in the insurance market, the offer of new insurance services in the interests of these entities in attracting potential customers to insurance protection, the growing competitive environment between them - has a positive impact on the development of the insurance process. Insurance as a socio-economic institution is distinguished by the fact that it has an interesting history of development, which dates back to the emergence of civilization in ancient times and the formation of the first signs of statehood. Before the advent of insurance, its objective conditions arose, which led people to enter into a certain socio-economic relationship of protection, and later such a relationship began to be called insurance. Insurance has a long history and during the period of its development it has changed from a non-commercial form to a commercial type. Insurance is the oldest category of socio-economic relations between people, and it is also an integral part of production relations. Dangerous situations and accidents have constantly harmed the material and intangible interests of man. The forces and phenomena of nature, the fear and helplessness in the face of other life-threats, as well as the desire to prevent and deal with their consequences, forced people to unite their forces and capabilities. At the same time, an insurance system (mechanism) began to emerge,





the main essence of which was the distribution of losses among the majority through the combination of opportunities, funds and capital, and as a result, insurance began to acquire the characteristics of economic relations.

The following accidents are recognized as insured events, ie in the event of the following, the insurance company will pay you the insurance premium:

- a) Accidental severe poisoning, bone loss or fracture (except for pathological bone fractures), burns, colds from poisonous plants, chemicals, drugs, poor quality food products (except food poisoning - salmonellosis, diarrhea, etc.) , as a result of electric shock, constriction, tick-borne encephalitis (tick-borne encephalomyelitis) or poliomyelitis (if these events occurred during the insurance period), the Insured's health is permanently impaired, ie the injured organ is damaged;
- b) Bone loss, fractures, complete rupture of muscles, tendons, ligaments, damage to internal organs, burning of the soft tissues of the face, injury or cold, the formation of cosmetically significant scars or pigment spots, concussion, as well as damage to the soft tissues of the body and limbs, the formation of large scars or wide pigment spots, tooth loss, perforation of the eardrum to a degree that does not lead to hearing loss, a deep injury that does not lead to a decrease in vision;
- c) death of the insured person for the reasons specified in subparagraph "a" and as a result of accidental entry of a foreign object into the respiratory tract, drowning, anaphylactic shock, heat stroke, overcooling (except for deaths from colds).

Literature Review

Theoretical and methodological issues of economic risk assessment are reflected in the research work of J.M. Keynes, F. Knight, J. Neumann, O. Morgenshtern, J. Schumpeter and other well-known economists. Although J.M. Keynes did not specifically study the problem of risk in his book *The General Theory of Employment, Interest, and Money*, he did discuss economic decision-making, credit risk, and inflation risk in the face of uncertainty. In his book *Risk, Uncertainty, and Profit*, F. Knight explores the relationship between risk, uncertainty, and corporate profit in perfect and imperfect competition. J. Neumann and O. Morgenshtern approached the concepts of uncertainty and risk from the perspective of game theory. Well-known Austrian economist J. Schumpeter in his book *"Theory of Economic Development"* studied the factors that cause constant changes in the economic system, focusing on the classification and grouping of risks based on the study of economic dynamics. The study of risk management in the CIS countries has become extremely active at the end of the last century. In particular, I.T Balabanov in his research the content and organization of risk management, methods, directions and strategies to reduce the





level of risk, their insurance, K.V Baldin methodological, organizational and technological basis of risk management in decision-making, S. M.Vasin and V.S. Shutov studied the risks in business and their classification, methods of risk detection and analysis, the features of risk management in the enterprise strategy. Historically, the exact time of the emergence of insurance in human society, in particular the type of business, is unknown.

It is also said that the first insurance contracts (agreements, contracts) aimed to protect the economic interests of traders from accidental looting, natural disasters on land or at sea. Some scholars, such as Denisova (2003), Kulkov (2008), Ermasov (2014), and Akhvlediani (2015), state that insurance originated about five thousand years ago: "The oldest insurance rules that have come down to us are written in one of the books of the Talmud. If the donkey's animal dies, the Talmud commands the other shepherds to give him another animal (not money). Suvorov (1997) notes that operations as the beginning of insurance activity took place in Sumer 5,000 to 6,000 years ago (the region where Mesopotamia is located - in the south of present-day Iraq, where Ur, Uruk, and Lagash formed the first class society and state). In this case, local traders are provided with financial guarantees or funds (in the form of debt or "from the general treasury") to protect their interests in case of loss of cargo during transportation. Scientists Reicher (1947), Shiminova (1989), Greshinko (2001), Gvozdenko (2006), and Boronchieva (2016) point out that the primary forms of insurance were reflected in the laws of King Hamurapi of Babylon about 4,000 years ago. Later, one-time agreements on mutual assistance between merchants and shipbuilders in the event of a sudden natural disaster, looting, or theft were developed in Phoenicia, Ancient Greece, India, and Ancient Egypt, countries along the Persian Gulf coast. Pasyukov (2014) points out in his research that, according to Demosthenes (384-322 BC), a merchant who borrowed in Athens was forced to return it to the lender if nothing happened to his goods (as agreed before the "journey"). At the same time, he repaid the loan in excess. Here we can see the first signs of insurance, i.e. the amount of additional interest paid by the lender is directed to the formation of funds to lend to traders.

Analysis and Results

Theoretical and methodological principles of insurance activity have also been studied by Baymuratov (2018). In his opinion, in a number of developed countries of the world, insurance is considered as an irreplaceable main mechanism in the distribution (redistribution) of risks by entities in the implementation of mutually beneficial financial and economic relations. Umarov (2012) in his research work on the





development of insurance in Uzbekistan in the context of economic modernization, modern concepts of insurance theory stem from the fact that the basis of insurance is the insurance risk of a potential insurer. Of course, there is no doubt that the basis of insurance is risk. It should be noted that in his research, Umarov proposes to call the concept of risk "risk." In our view, his proposal seems a bit controversial. The reason is that an entrepreneur can take a risk to make a profit. Perhaps in this sense, it is possible to agree with Umarov. However, natural disasters, such as earthquakes, lightning strikes, or floods, which are commonly used in insurance activities, are justifiably referred to as risks. Thus, we have tried to study the scientific views and approaches developed by researchers in the CIS, including Uzbekistan, on the theoretical issues of insurance in developed countries and on behalf of developing countries. The most important of the scientific findings of the study is the fact that the research conducted by scientists and experts from developed countries, mainly based on empirical analysis, mathematical modeling methods, rich in mathematical apparatus. Mathematical modeling and empirical analysis methods are not widely used in the research of CIS and Uzbek scientists on the coverage of insurance theory. There are huge opportunities in the insurance industry. The tasks set by President Shavkat Mirziyoyev are clear, but the main problem is their systematic and correct implementation. Based on the above, I would like to assist in the implementation of the following:

1. Increase the size of the insurance premium from \$ 190 million to \$ 550-600 million in two years (after amendments to the law on my proposals);
2. Increasing the confidence of the population and entrepreneurs in insurance by regulating the process of consideration of insurance claims, the introduction of mechanisms for fair assessment of the insured event and prompt payment of payments;
3. Preparation of financial statements in accordance with international standards;
4. Insurance balance market system and its reporting;
5. Creation of official (state) electronic reporting system;
6. Expanding the mechanisms of investment activities of insurance companies;
7. Development of new insurance products based on international standards (for example, professional liability insurance in medicine, construction, law for the transition from a punitive system to economic relations);
8. Involvement of international insurance experts from the United States in seminars in Tashkent to improve the skills of specialists in Uzbekistan;
9. Provide practical assistance to specialists in internships in insurance companies in the United States in order to train modern personnel in the field of insurance;





10. Establishment of a training and certification center in the actuary, underwriting and other insurance markets with the help of foreign experts in order to train modern personnel for the industry;
11. Implementation of international standards of corporate governance based on intellectual capital (human capital, organizational capital, relationship / client capital);
12. Reducing the level of the shadow economy in the financial sector;
13. Reducing the outflow of funds abroad through reinsurance;
14. Prevention of fraud in the field of insurance (fraud increases the cost of insurance for all policy holders);
15. Establishment of Mutual Insurance Companies for mutual insurance companies, especially for the agricultural sector;
16. Supervision of foreign insurance companies. Preparation of a report on the regulation of external operations of local insurance companies;
17. Establishment of an information and analytical journal of the insurance market.

Table 1 Classification of problems of development of compulsory insurance

External problems	Economic	Inflation
		not supported by the state
		low financial capacity of the insured
	Legal	Insufficient provision of insurance coverage at the legislative level
		Lack of legislative and methodological framework for the full formation of the insurance market
		Lack of a system of measures to improve the legislation on taxes and fees in the field of insurance services
	Political	General political instability
At the level of the insurance company	Nationwide	The predominance of controls over regulatory tools that help develop insurance companies
		Limited oversight functions within the Ministry of Finance and lack of specialists
		Inefficient centralized management of the insurance system
	On the scale of the insured	Formation and placement of insurance reserves
		Fraud actions by insurance companies
		Monopoly in the insurance market
Exactly the problems of compulsory insurance	the of	Insurance market information closure and lack of information on the legislation by the insured
		Distrust of insurance companies
Exactly the problems of compulsory insurance	the of	Incomplete formulation of legislation on compulsory insurance
		Introduction of compulsory insurance from the point of view of ministries (by law)



It is also advisable to classify compulsory insurance by the following criteria:

- 1) According to the types of insurance: compulsory commercial insurance; compulsory state insurance;
- 2) Depending on the organization of the insurance fund: social insurance funds; insurance funds of insurance companies;
- 3) Depending on the form of insurance products: mass; for a particular category; individual insurance products.

Insurance has a long tradition of mixed evaluation in the general public and political opinion (see MULLER [1978]). Its economic and social importance is undisputed in all market economies. Its technical design and actual performance, however, have been subject to much complaint and criticism, which in turn have led to a remarkable extension of legal constraints, state regulation and control of the insurance market. Although some of these problems may in fact be due to questionable practices in acquisition and claim settlement, it is well known that most of the difficulties with insurance cannot be related to incorrect behavior of insurance companies. Instead, it is insurance itself, this "awkward good", as it has been called (Pfeffer [1956], p. 6), which causes many problems. Difficulties start right away with the diverse efforts of insurers and insurance theorists to explain what is really involved when a risk is covered by insurance. In textbooks and other writings on insurance (see, e.g., Möller [1962]; Farny [1965] Mehr/Cammack [1976] ; Vaughan/Elliott [1978]) much effort has been spent to develop elaborate and comprehensive definitions of insurance. For example, Pfeffer and Klock ([1974], p. 3) offer the definition: "Insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured."

This characterization of insurance stresses a major aspect which can be found implicitly or explicitly in most other definitions, namely the reduction of risk through some transfer mechanism. In fact, Trowbridge ([1975], p. 1) sees risk transfer to be "at the very heart of the typical insurance arrangement". While the central concept of risk transfer may be convenient for some purposes of theoretical analysis, because of its high level of abstraction it is neither operational nor suitable for the practical needs of insurance business. In fact, insurance business has never considered it a very convincing argument to explain to customers that the premium is to be paid in exchange for the transfer of risk. Thus, insurance definitions usually provide an explanation of what is actually involved in risk transfer. These operationalizations then either point to the coverage of economic losses by insurance, as Pfeffer and Klock ([1974], p. 3) do, or they describe the transfer as flows of money (Trowbridge [1975],





p. 1). Insurance business prefers to emphasize the money transfer of insurance arrangements. Particularly in advertising and sales activities it is quite common to represent the payments in case of loss as the actual primary service rendered by insurance.

The managerial problems of insurance production originate from the well-known factum that the insurance product is not a material good but a special kind of service. Hence, the economic conditions and processes of generating this service possess their own properties. Traditionally, the "standard model" for thinking about production processes is, however, the industrial plant. Many experiences and techniques developed in industry have been transferred, sometimes even prescribed to insurance business. So it is not really surprising that the implementation of those concepts and techniques in insurance business very often yields unsatisfactory results, sometimes causes outright difficulties. This applies, for example, to central parts of the accounting systems, to production and manpower planning. Just the other side of this same coin is the management of information processing and communication technologies. Insurance companies have implemented computers on a large scale and undoubtedly gained considerable increases in productivity. Again, however, insurance companies are taking over and adapting more or less successfully to their specific requirements concepts and techniques which have been developed on "foreign territory ". This time it is the software systems philosophy, the core of computer implementations, which is primarily developed according to the technical and marketing objectives of computer industry.

Conclusion

An analysis of the current compulsory insurance in the national insurance market and the study of its characteristics allowed to identify the following shortcomings:

- 1) territorial disproportion in the activities of insurance companies;
- 2) almost no or weak state control;
- 3) the absence of regional insurance companies in the market.

In our view, this article can serve as a guide for scientists studying the theoretical foundations of insurance activity in the future to conduct research in the following new scientific-theoretical directions. First, a theoretical study of the mathematical application of the theory of games and risks, taking into account the real situation in the insurance business of Uzbekistan; Second, to study the application of the theory of unfavorable choice in insurance activities in the context of Uzbekistan. This requires the cooperation of researchers in the field of insurance, mathematics,





probability theory, game theory. Third, extensive research is needed on the application of information asymmetry in insurance activities.

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