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Foreign Experience of Insurance Market and Fund Market Basic Directions of Mutual Activity

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Abstract:
The article discusses the activities of the insurance market in the stock market and international experience. The insurance market is one of the institutional stock market investor. Income from investment activities will be used to finance insurance operations, including reimbursement of types of insurance, development of new types of insurance, as well as training and retraining of personnel.

Keywords: *Institutional investor, issuercompany, deposit, repo transaction, accounts receivable, catastrophic bond, securitization.*

I. Introduction

In Western practice, insurance companies are serious financial players in the economy and in the stock market. At the same time, investments in the stock market are made by insurance reserves and own funds of insurance companies. At the same time, the annual investment of insurance companies in securities may be significantly higher than the amount of insurance premiums collected.

II. Literature Review

From foreign scientists N.I. Ivanov and Robert Yosifovich Bacho have done research on the interrelationship between the insurance market and the stock market and have published their articles. In particular, N.I. The theme of Ivanov's thesis in 2006 for his PhD in economics is the investment activities of insurance companies in the stock market.

Research methodology

The methodology of this article is used in abstractions, deduction, classification, generalization, comparative, dynamic series, theoretical interpretation and analytical methods. In particular, with the help of abstracts, studying foreign experience, scientific and practical recommendations will be developed to improve the activity of the insurance market of Uzbekistan in the stock market. Dynamic Range Analysis, for its part, has been used to draw conclusions based on the 2018 Kazakhstan market and other analyzes.

III. Analysis and Results

The distinctive feature of insurance companies as buyers in the securities market is that they can invest in short- and long-term or high-risk or high-risk operations depending on their market potential, but in practice they are very conservative. This activity will depend not only on economic and political but also on the marketing situation in the market. In any case, the state regulatory authorities will not allow insurance companies to fall into the hands of investors engaged in speculative financial transactions. Also, long-term investments do not allow such activities. At the same time, the insurance supervision bodies encourage insurance companies to limit their investment in the investment process and pursue a cautious investment policy. In Germany, for example, investing in high-risk securities is prohibited, and in the US it is generally prohibited to place more than 1% of assets in such a group of securities. In the UK, investment in a variety of non-government securities is limited to 1-5%.In addition, some countries have direct guidelines for investing insurance companies in

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government securities, which not only protect their insurers' funds, but also promote the sustainable placement of public debt. The development of stock markets in many Western countries can be seen in the diversity of the investment instruments offered by them. For example: the diversification of stock markets in insurance companies of the Republic of Kazakhstan is an example of this. (Table 1)

Table 1
The structure of insurance assets of the insurance sector of Kazakhstan[1]

Indicators	01.01.2018 y		01.01.2019 y		The change between the beginning and the end of year %
	mln.tenge	Total %	mln.tenge	Total %	
Cash	42068	4,5	40739	3,9	-3,2
Deposits	208348	22,5	190438	18,2	-8,6
Securities	424820	45,9	543778	51,9	28,0
REPOoperations	52891	5,7	71014	6,8	34,3
Insurance premiums to be received from the intermediaries	31436	3,4	29411	2,8	-6,4
Fixed assets	18921	2,0	17560	1,7	-5,7
Reinsurance assets	110237	11,9	111843	10,7	1,5
Accounts receivable	12243	1,3	10401	1,0	-15,0
Other assets	25379	2,7	33327	3,2	31,3
Total assets	926043	100	1048510	100	13,2

[1]Prepared by the author based on the data of the Kazakhstan insurance regulator www.nationalbank.kz

Transparency of investment policy in Western countries should prevent insurance companies from engaging in risky investment policies, as such policies may jeopardize the sale of insurance products. Insurance companies have no right to carry out risky investment policies in the securities market, even if they buy clients' risks. Insurance companies may lose the confidence of their clients as a result of suspicious transactions in order to get high profits, which is an unacceptable mistake in the stock market. Insurance companies as the main fundraisers of the financial sector will have to enter the securities market opposite, which means they will be issuers of their securities.

Insurance companies operate under common requirements, and their issuance in the securities market is virtually indistinguishable from that of other industries. The scale of total issuance activity and insurance, especially in secondary securities markets, is much lower than that of banks or large financial and industrial groups. However, the role of open joint-stock companies in some of the largest insurance companies is overestimated. This direction has no value to Uzbekistan, for example, the sale of shares of an insurance company in the United States or Germany on the open market.

In addition, insurance oversight bodies may establish additional rules for insurance companies to issue reports to shareholders and to issue additional securities. For example, the Federal Department of Insurance in Germany protects the interests of not only insurers, but also shareholders of the insurance company, in the event of a dispute, shareholders may file a complaint with the supervisory authority to provide them with advice and other services to resolve the existing disputes.

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However, today, insurance companies not only raise capital through the stock market, but also carry out risk redistribution activities through securities issuance. A number of western reinsurance companies are widely practicing the issue of so-called “catastrophic” bonds as mixed financial instruments. For bond buyers, they promise high returns (as opposed to ordinary bonds), but in the event of a particular disaster (such as an earthquake or other large-scale disaster), bondholders can sometimes lose some or all of their investment.

The insurance company offers the stockholder a lottery game, with the investor earning a high interest rate, given the rare occurrence of earthquakes. In addition, such “catastrophic” bonds are devoid of macroeconomic indicators in the market, and profitability is not dependent on these indicators. And in the event of an accident, the insurance company will have the funds provided.

However, such activities of insurance companies cannot be classified as emissions because it is not the sale of bonds but rather the distribution of risk through reinsurance that is close to its essence. In foreign literature, this economic phenomenon is called "secularization."In our opinion, such operations have great prospects in the future, as this will increase the potential of the insurance market and provide coverage for high risks. At the same time, the number of stages of re-distribution and the cost of its organization (as compared to reinsurance channels) will be reduced, and as a result, the cost of servicing insurance companies will decrease.

The use of such innovative operations in the national insurance market would be very beneficial for us, since the absence of reinsurance companies would have a positive impact. However, due to the low level of capitalization of the stock market, such opportunities are not yet available.

One of the important conditions for securing the attractiveness of securities is that the issuer has an insurance contract with a reliable insurance company. For example, investment risk insurance by ordinary investors increases investor confidence. This is because in relation to an ordinary investor, an insurance company conducts a thorough and consistent expert examination of an investment before it can insure that it is more reliable than an ordinary investor.

Under the laws of many countries, insurance companies, banks, and credit institutions can act as collateral, meaning that customers will be able to fulfill their obligations. In this case, if the insurance company is unable to meet the client's obligations, the insurance company will pay the customer's debt to third parties.

Large insurance companies' collateral is a good indication of the reliability of their investments, which is why it is one of the common practices of insurance companies in international relations. The development and use of the insurance system is the key to the economy's free-of-charge crisis, and therefore creates the conditions for the development of the securities market.

As mentioned above, the stock market is highly susceptible to changes in macroeconomic cycles and volatility of market conditions. Insurance as a financial mechanism that ensures sustainable development of the market economy, as well as ensuring the continuity of production processes, helps to optimize the stability and balance of macroeconomic factors.

In case of large-scale natural or man-made disasters across large territories, the insurance mechanism will have a positive impact on the country's financial capacity as it compensates for losses. In addition, it is one of the main financial institutions that provide the economy with "long" money as a result of the stable investment activities of insurance companies. That is why, in developed countries, there is a direct assessment of the development of the monetary system of the country and the level of inflation and investment, especially in terms of the level of development of insurance types.

One of the main tasks of the State Inspection of Insurance Supervision is to determine the procedure for the formation and placement of insurance reserves by insurers and the procedure for reporting

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by insurers on the formation and placement of insurance reserves.

In the development of insurance companies' activities, their profits from additional investment activities are very important. Therefore, it is advisable to state regulation of insurance companies' investment activity. This is because the income from investing activities has a direct role in expanding the insurer's insurance services or opening branches and representative offices of insurance companies. Currently, the state regulation of insurers' investment activity is carried out in the following ways:

- improvement of the legislative base of investment activity;
- the application of the tax system, through the provision of tax rates and differentiated preferences for taxpayers and objects of taxation;
- by accelerating the application of fixed assets depreciation;
- by setting standards and rules;
- using antimonopoly measures;
- conducting a credit policy and pricing policy;
- Determination of conditions of possession and use of land and other natural resources;
- by establishing a mechanism for examining investment projects;
- Monitoring of the implementation of investment projects included in the Investment Program of the Republic of Uzbekistan and others.

Investment activity in the market economy is carried out by citizens, legal entities (enterprises, firms, joint stock companies and other types of owners) and the state.

When starting an investment, every property owner plans to achieve a common goal - profit, efficiency - in the first place. In carrying out this activity, it is important that economic data be based on marketing knowledge not only in the chosen field, but also in the economy as a whole. Because in a stabilized economy, the organization of investment activity without deep knowledge of its basic circulation, money circulation, finance, credit and banking, tax policy is associated with risks and can be crushed in a short period of time.

The importance of insurance companies in the economy, their need to regulate insurers' investment operations from the requirements of insurance products sold to each insurer.

The object of regulation of insurers' investment activity is insurance reserves formed with the purpose of fulfillment of obligations of insurers to insurers. Investments in accordance with the laws of the Republic must meet the conditions of differentiation, return of profits and liquidity. In addition, the current world practice is also governed by other principles.

Insurance reserves are temporary turnover of special insurance resources and are not considered as income of the insurer. They are the basis for the insurance companies through their investment activity, which is the source of income for the commercial insurance fund through the use of part of the proceeds.

The funds raised in investment activity will be used for financing of insurance operations, including compensation for types of insurance, development of new types of insurance and training and retraining of personnel.

According TO ORDER OF THE MINISTER OF FINANCE OF THE REPUBLIC OF UZBEKISTAN from July 3, 2009 of No. 68 and Regulations on investment activity of the insurer and the reinsurer and Resolution of the President of the Republic of Uzbekistan dated April 10, 2007 N PP-618 "About measures for further reforming and development of the insurance services market" Requirements for investment activity of the insurer and reinsurer are established. This Regulation does not apply to state social insurance organizations. According to this Regulation, the following shall be the objects of investment activity of the insurer (reinsurer):

- Government securities of the Republic of Uzbekistan;
- Government securities of foreign countries;
- bank certificates (deposit certificates);
- Deposits to credit institutions;

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- movable and immovable property (buildings, structures, equipment and other material values) and their rights;
- share of participation in the authorized capital of legal entities;
- Securities issued by foreign issuers and licensed to carry out trading activities in the securities market, issued or allowed to circulation on the territory of the Republic of Uzbekistan or issued by the relevant authorized body in accordance with the legislation of the Republic of Uzbekistan.

The insurer (reinsurer) may make investments in other objects of investment activity that are not contrary to the legislation.

In carrying out investment activity the insurer (reinsurer) is obliged to:
a) following Requirements for placement of insurers (re-insurers) assets determined by "Regulations on solvency of insurers and re-insurers" confirmed by ORDER OF THE MINISTER OF FINANCE OF THE REPUBLIC OF UZBEKISTAN from April 22, 2008 of No. 41 and Requirements to the order of placement of insurance reserves as defined by the "Regulations on insurers' insurance reserves" confirmed by ORDER OF THE MINISTER OF FINANCE OF THE REPUBLIC OF UZBEKISTAN from November 20, 2008 of No. 107;
b) securing availability of financial, technical and information resources;
c) to open a written report of the person responsible for investing funds;
d) ensuring compliance of the responsible person with the qualification requirements established by this Regulation.
The primary source of financing for the insurance company is the authorized capital. Under the laws of the Republic, before obtaining a license, 90% of the authorized capital of the company is required to be formed in cash. Recently, we can observe the formation of paid premiums, reinsurance payments and investment income.

The Government of Uzbekistan pays great attention to the development of the insurance sector and the principle of gradual reforming the insurance market is being implemented. During the period of independent development of Uzbekistan laid the foundation for the legal framework of insurance and development of market structure in the insurance industry. In recent years, a number of positive steps have been taken to further deepen and liberalize the country's insurance services market. At the 6th session of the Oliy Majlis of the Republic of Uzbekistan on April 5, 2002 the Law "On insurance activity" was adopted. This law provides for the implementation of investment activities of insurance companies.
Realization of the priority directions of economic reforms in the Republic of Uzbekistan envisages and institutional changes aimed at intensification of investment activity, wide attraction of foreign investments, expansion of export potential and promotion of exports. The modern stage of development of the insurance market has defined the natural demand for the development of insurance services provided by a wide range of insurance services that meet international insurance business practice. Providing these services in the Uzbek market is to protect the interests of all types of businesses and the general public.
Insurance companies have the opportunity to carry out their investment activities in addition to their core activities. As a rule, insurance services of insurance companies have their own peculiarities, that is, the client first pays the insurance fee to the insurer by entering into a contract. Expiration of the insurance contract indicates full service. Consequently, the nature of the financial resources movement in insurance companies results in the fact that insurance companies have a large amount of temporary free assets, which can be invested during the term of the contract, which can be invested to generate additional income. Insurers may invest these funds in various facilities for additional income. The accumulation of large financial resources under the supervision of insurance

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companies suggests that they play an important role in the development of the economy. Accumulation of financial resources by insurers will make insurance a key factor in the economy through active investment policy. In other words, insurers translate passive funds from various policy holders into active capital in the financial market.

2-table
Norms for allocation of insurance companies' reserves (%)[2]

Types of assets	**Germany**	**France**	**Japan**	**The USA**	**Great Britain**	**Russia**	**Uzbekistan**
Government securities	-	-	-	-	-	<15	unlimited
Government subjects and municipal securities	<30	<65	<30	<49	<2	<30	-
Bank deposits	-	-	-	-	-	<50	<40
Investment payments	-	-	-	-	-	<10	-
Securities and bonds of Join stock companies	-	-	-	<4	-	<20	<30
Participation in the authorized fund and	-	-	-	-	<60	<10	<30
Sertificates of households	-	-	-	<17	<2	<5	-
Mortgages	<20	<40	<20	<17	<20	<40	<50
Currency	-	-	-	-	-	<10	-
Loans	<10	<50	<55	<4	<2	-	<10
Accounts	-	-	-	-	-	Unlimited 1	>3

[2] Prepared by the author based on analysis of foreign and national legislation

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At the same time, according to the experience of the leading world companies, the investment portfolio of the company does not exceed 15% in the authorized capital of enterprises and real estate, 25-60% in securities, 15-30% in deposits in commercial banks, and 1-12% in other types of investments. marked.

IV. Conclusions and Suggestions

In summary, we can say that the following factors determine the investment opportunities of the insurance company:
- insurance premiums collected;
- insurance portfolio size;
- usefulness or detriment of the insurance services being carried out;
- state requirements for formation of insurance reserves;
- insurance contracts concluded;
- own capital.

Investment opportunities of the insurance company are formed almost exactly. The major part of the investment potential is own funds. Insurance reserves are constantly changing depending on the payment of insurance indemnities.

The investment portfolio system of the insurance company must ensure its financial stability and is usually determined by the rules of insurance supervision. It specifies the order of placement of temporary free funds of insurance reserves.

It is well known that the set of investment projects by which insurance companies can invest in them depends on the level of capital market development. Currently insurers 'temporary free funds may be placed in commercial banks' deposits, securities, invested in enterprise and real estate. Structure and structure of the investment portfolio are usually regulated by establishing the minimum and maximum for each type of investment.

It is important to note that in order to improve the activity of insurance companies in the stock market in Uzbekistan it is necessary to reduce government restrictions and introduce various types of financial instruments.

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