

The Current State and Future Prospects of Corporate Governance Development in Insurance Organizations of Uzbekistan

Farrukh R. Khasanov

Senior lecturer at Tashkent State University of Economics, (PhD)

f.xasanov@bk.ru

Abstract: The article examines the features of the formation and development of the corporate governance system in insurance organizations of Uzbekistan. The main problems hindering the effectiveness of the corporate governance system have been identified, and also proposed recommendations for improving corporate governance mechanisms in the insurance sector.

Key words: corporate governance, insurance organizations, insurance market, joint stock company, shareholders, governing bodies, regulatory policy.



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Introduction. In a market economy, the insurance sector is considered a crucial component of the financial system. It plays a role in ensuring economic stability, mitigating financial and other risks for citizens and legal entities, and channeling investment resources into the economy. From this perspective, effectively organizing the activities of insurance companies and implementing high-quality corporate governance over them is one of the important factors.

In recent years, the insurance market in our country has been undergoing reforms, a favorable environment for foreign investors has been created, and measures are being implemented to privatize state-owned companies. However, problems such as the incomplete formation of effective corporate governance mechanisms in this sector, insufficient independence of management and supervisory boards, and low levels of accountability and transparency among stakeholders remain pressing issues.

As Uzbekistan's economy undergoes liberalization, the insurance market is gradually integrating into global processes, necessitating the modernization of corporate governance structures in accordance with international standards. This article aims to examine the current state of corporate governance in Uzbekistan's insurance organizations, analyze existing challenges, and propose directions for future development.

Literature review. In economic literature and scientific articles, research and studies on corporate governance systems have been conducted, leading to the development of relevant conclusions and proposals in this field. Kh. Chupanova, in her scientific research, has presented various analyses

demonstrating the impact of corporate governance on increasing the value of insurance organizations. In her opinion, when formulating incentive criteria within the corporate governance system, it is advisable to include aspects of business processes, customer relations, and personnel development in addition to financial indicators [6].

In book “Corporate Governance: Principles, Policies and Practices” B. Tricker, an expert and scholar in the field of corporate governance, highlighted the distinctive aspects of corporate governance in financial institutions, using insurance organizations as an example [7].

In article “Modern Models of Insurance Company Management” D. Baxriev examines the issues of ensuring financial stability through the implementation of modern management models in insurance companies. The author analyzes factors influencing company management, investment potential, and the financial activities of insurance companies [8].

Methods. In conducting this research, methods such as expert assessment, generalization, comparison, historical and logical approaches, analysis, and statistical data grouping techniques were utilized.

Analysis. Corporate governance is a system of mechanisms that regulates relationships between shareholders, managers, and other stakeholders. This system plays a crucial role in determining the organization's strategic development, managing risks, efficiently utilizing resources, and ultimately increasing profits. In international practice, a well-established corporate governance system enhances foreign investors' confidence, ensures financial stability, and strengthens the organization's social responsibility.

In a market economy, the effective operation of companies depends on their internal management system, particularly on the efficiency of corporate governance. Corporate governance is a system that regulates an organization's strategic management and the relationships between stakeholders, shareholders, and management. Insurance organizations, as a crucial component of the financial system, ensure financial stability and foster an environment of trust. From this perspective, establishing an effective corporate governance system in insurance organizations is considered one of the essential tasks.

The reform of the corporate governance system in insurance organizations in Uzbekistan was implemented through the Law of the Republic of Uzbekistan No. 730 “On Insurance activities” adopted in a new edition on November 23, 2021. In accordance with the requirements of this law, it was established that insurers (reinsurers) must be organized in the form of joint-stock companies. It is worth noting that prior to this requirement, out of a total of 42 insurance organizations operating in the insurance market, 35 were functioning as limited liability companies, and only the following 7 insurance organizations were operating as joint-stock companies:

- ✓ Joint-stock company “O‘ZAGROSUG‘URTA”;
- ✓ Joint-stock company “KAFOLAT SUG‘URTA KOMPANIYASI” Aksiyadorlik Jamiyati;
- ✓ Joint-stock company “ALSKOM SUG‘URTA KOMPANIYASI”;
- ✓ Joint-stock company “KAPITAL SUG‘URTA”;
- ✓ Joint-stock company “O‘zbekinvest eksport-import sug‘urta kompaniyasi”;
- ✓ Joint-stock company “Universal sug‘urta”;
- ✓ Joint-stock company “INGO Uzbekistan”.

One of the main goals of the transition of insurance organizations to the organizational and legal form of a joint-stock company is to ensure transparency in their activities. This, in turn, allows

policyholders and investors to familiarize themselves with the financial statements, profitability indicators, and important facts of the insurance organization's activities based on open data.

In addition, a joint-stock company, compared to a limited liability company, provides an opportunity to increase the capitalization of the organization and a number of other opportunities. We can see this based on the differences presented in the table below.

Distinctive aspects of Joint-Stock Companies and Limited Liability Companies¹

№	Strategic priority	Opportunities of a joint-stock company (JSC)	Opportunities of a Limited Liability Company (LLC)
1.	Mechanism for attracting capital	Through the issuance of shares, public (IPO) and private (private placement) investments are attracted from domestic and foreign investors	Shares are distributed only among the participants. New member enrollment restricted
2.	Participation in the securities market	Shares can be traded on local and international exchanges, providing an opportunity to establish liquidity and market value	Shares are sold privately. They are not traded on the stock exchange
3.	Investorlar soni bo'yicha erkinlik	Freedom regarding the number of investors	The number of participants should not exceed 50
4.	Corporate governance model	Systematic and transparent management is ensured through the supervisory board, executive body, corporate secretary and audit committee	Management depends on either a single person - the director, or on the meeting of participants
5.	Opportunity for international cooperation	Accounting is conducted based on IFRS which increases confidence for investors and partners	The account is maintained in accordance with the local standard. IFRS application is optional
6.	Financial transparency and reputation	Mandatory audits, public financial reporting, and protection of shareholders' rights ensure a high level of trust	The LLC reports only to the tax authorities, there is no public control
7.	Employee Stock Ownership Plan (ESOP)	Employees can be offered motivational packages (stock options) through shares	Creating motivation through shares in an LLC is complex and limited
8.	Strategic business modeling	Holdings, transnational structures can be created	The establishment of such a network within a LLC is restricted both legally and practically
9.	Market competitive advantage	Corporate standards have been implemented based on brand value and investor requirements	The LLC lacks such a system, and corporate mechanisms are insufficient in competition

¹ Developed by the author based on analyses

The joint-stock company form is a business model of strategic scale, aimed at attracting investment, based on international cooperation, corporate governance, and market transparency. Evidently, a joint-stock company has significant legal, financial, and organizational advantages compared to a limited liability company.

Indeed, as a result of the implemented reforms, the capitalization level of domestic insurance organizations has grown sharply over the past short period. Specifically, at the end of 2021, the total authorized capital of insurance organizations amounted to 1.54 trillion soums, while by the end of 2024, this indicator reached 2.96 trillion soums². The growth over these 3 years was nearly twofold. In ensuring this indicator, the requirements for the minimum authorized capital of insurers, as established in the decrees of the President of the Republic of Uzbekistan No. PP-4412 “On measures to reform and ensure the accelerated development of the insurance market of the Republic of Uzbekistan”, dated August 2, 2019 and No. PP-108 “On Comprehensive measures for the further development of the insurance services market”, dated March 1, 2024 play a crucial role. However, simultaneously, the transition of insurance organizations to a corporate governance system in the form of joint-stock companies has served to rapidly increase their level of capitalization.

International corporate governance systems, particularly the principles and governance indicators developed by the OECD (Organisation for Economic Co-operation and Development), serve as the foundation for effective management of insurance organizations³.

The OECD document “Principles of Corporate Governance” is based on the following fundamental principles:

- **Transparency** - openness and accurate documentation of information regarding the company's activities;
- **Accountability** - management's responsibility to answer to shareholders and other interested parties for decisions made;
- **Fairness** - respect for the rights of all stakeholders;
- **Accountability** - the company's ability to fulfill its social, environmental, and economic obligations.

These principles are considered essential for ensuring the effective operation of insurance organizations, particularly through the implementation of IFRS and management control mechanisms.

Despite the numerous advantages of the corporate governance system in the form of a joint-stock company, the activities of some local insurance companies in this direction often take on a merely formal character. Analysis shows that insurance companies in many cases limit themselves to fulfilling state requirements, neglecting strategic development and communication with stakeholders. All of these issues are manifesting themselves in the following areas:

- ✓ near absence of the institution of independent directors;
- ✓ lack of clear delineation of responsibilities between the supervisory board and the executive body (management);
- ✓ underdeveloped system of internal audit and risk assessment;
- ✓ weak communication with customers and shareholders;

² <https://napp.uz/ru/pages/statistics-and-analysis-for-im>

³ OECD (Organisation for Economic Co-operation and Development) principles (2015). https://www.oecd.org/en/publications/development-co-operation-report-2015_dcr-2015-en.html

- ✓ weakness of the legal framework - absence of clear and mandatory standards for corporate governance;
- ✓ shortage of specialists - there is a lack of experts with in-depth knowledge in the fields of insurance and corporate governance;
- ✓ insufficient utilization of information technologies;
- ✓ unregulated conflicts of interest.

In order to address the aforementioned issues and further enhance the corporate governance system in local insurance organizations, it is crucial to implement the following:

1. **Development and implementation of a corporate governance code:** Each insurance company must develop and adhere to a corporate governance code based on its internal regulations.
2. **Expansion of the independent directors institution:** Companies should ensure that at least 30% of their board of directors consists of independent experts, auditors, and financial specialists.
3. **Strengthening the internal audit system:** In each insurance company, the internal audit department should operate independently and report directly to the board of directors.
4. **Implementation of information technologies:** Companies need to create opportunities for monitoring financial reporting, management decisions, and service quality through online systems.
5. **Developing communication with stakeholders:** Strengthening engagement with shareholders, customers, and employees, increasing trust through annual meetings and transparent reporting.
6. **Harmonizing state control and independent rating systems:** It is considered beneficial to apply assessments from independent rating agencies alongside standards established by the state.

Conclusion. The corporate governance system in Uzbekistan's insurance market is a crucial factor in economic and legal development, playing a decisive role in ensuring the industry's stable and effective operation. Currently, the management system of insurance organizations faces several challenges, with the most significant issues being the lack of independent supervisory boards, transparency of information, weakness of internal audit systems, and matters related to state oversight.

International experiences, particularly the OECD principles of corporate governance and the models of countries with highly effective insurance systems, define crucial directions for developing the insurance sector in Uzbekistan. Implementing risk management systems based on international standards, enhancing competition, and establishing an independent supervisory system will lead to the efficient functioning of these processes.

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