

## Some Questions of Regulation and Self-Regulation of Insurance Activity

Sherov Sanjar Radjabovich

, Republic of Uzbekistan, Tashkent city,

Tashkent Institute of Finance, Senior Lecturer of the Department "Finance"

**Annotation:** *In the article, based on the system approach, the author notes that the formalization and application of any parameters in the correlation of state and market regulation seems impossible in connection with a sufficiently strong interpenetration of their mechanisms. And it was concluded that a comprehensive and effective regulatory mechanism, both in the context of a single industry and in the whole of the entire financial and economic system, should represent the optimal combination of state and market regulation on the basis of interaction with institutions of self-regulation and co-regulation.*

**Keywords:** insurance, insurance, regulation, regulation of insurance activities, state regulation of insurance activities, insurance regulation models, self-regulation, self-regulation organization, self-regulation norms, co-regulation, co-regulation forms, institution, insurance institution

In the conditions of innovative development of the economy, the State sets important strategic tasks in front of insurance industry. For their implementation, the State regulation of

the insurance industry is required, which is expressed primarily in the regulation of ensuring solvency and bona fides of insurance parties in execution of their obligations before consumers of services, i.e. before policy holders.

Problems of the State regulation of the economy, as a mechanism of interaction "the State- economy" are determined by the objective characteristics of the system and assume implementation of relevant measures in conjunction with simultaneous formation of unified development strategy of financial and economic system. Only with this systematic approach, interrelation between all levels of the State regulation is formed. Adaptation of set tasks to industry conditions provides control over implementation of impact measures for the State regulation of the insurance industry.

Study of government regulation issues from the position of the system approach assumes analysis of interaction the State - economy, as a social system, as well as definition of the economy as a whole and, in particular of insurance, as system and

subsystem . The problem of the State regulation of the insurance market is one of the most topical in the theory and practice of insurance.

Repeatedly in special literature, a systematic approach was applied to the study of the State regulation issues of insurance activities [1]. The main emphasis by the researchers was made on external regulation, however, the market component of the regulation process of insurance activity was not practically taken into account.

The purpose of the study within the scope of this article is to develop recommendations, aimed at ensuring the development of interaction system of the State regulation and self-regulation of the insurance industry, with the use of systemic approaches.

In the conditions of market economy, any party is under the influence of external environment. The force, nature and scope of its impact is defined by both objective conditions and properties of the party itself. In this connection, it is possible to disagree with quite categorical statement that State regulation of the economy, including insurance system, is science-based, within the framework of systemic approach, self-protection of social

structure against inherent self-destroying trends of market economy mechanism [2]. In our opinion, functioning of the State and the market as constituent elements of socio-economic system is not mutually exclusive, but complementary.

Regulatory models are abstract to a large extent, a priori possible impact of external factors and influence of other systems are not taken in to account. In such approach, the economic system is presented closed and balanced that, on the merits, is a perfect model. Along with this, there is another point of view, which, in our view, quite corresponds to reality: "for economic evolution processes stability and linearity have not universal, but very limited nature»[3].

Irregularity and instability are peculiar for open economic systems, which are in interaction with other systems and subsystems. In this sense, Synergetic, which is a relatively new trend in social researches, provides the ability to use a wider scientific approach. Active use of synergistic approach began in the 60-ies of the XX century thanks to the developments of synergistic effect study. The possibility of applying this method in other researches is assumed. [4]. For the study of complex economic phenomena

methodological approach of economic synergy was justified, within which non-equilibrium systems were investigated, as well as non-linear processes of their evolution[5].

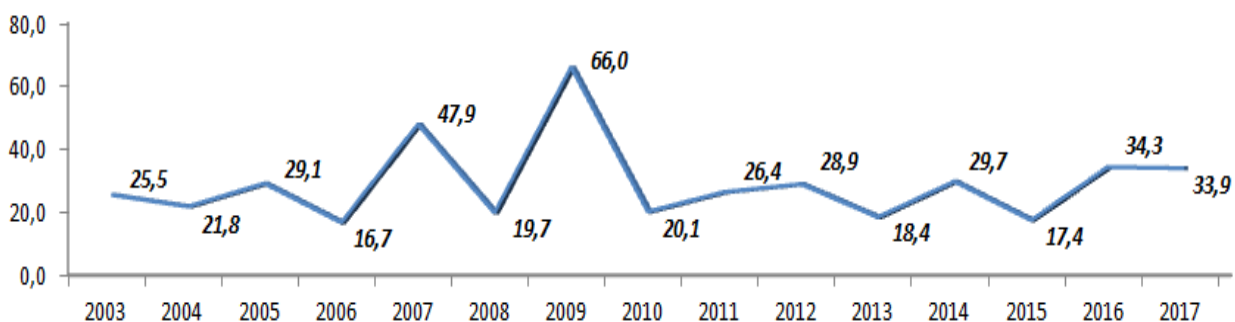
Under the influence of various factors, the economic system may become unstable. Sustainability of the economic system is reached at some time intervals, subject to the availability of relevant components, which are sometimes defined as "the mechanisms of self-regulation" [6].

At the basis of development of social systems, which include economics and insurance, there are processes of self-organization, self-structuring and self-regulation. They are open systems that are in constant communication with environment, capable of self-

organization, based on regulation and self-regulation.

The State regulation serves as an organizing factor in the process of self-organization of economic systems. The state restores violated links in the economy and creates additional links of feedback mechanism.

Insurance as the scope of financial relationships is an open complex system with linear dynamics of development and periodically recurrent states of relative stability. For insurance activity, the growth rate of insurance premium characterizes manifestation of equilibrium. As evidenced by the growth rate of insurance premium volume, in Uzbekistan over the past 15 years, the fluctuations in this ratio have ranged from 16.7 to 66 points (Figure. 1).



**Fig.1. Insurance premium volume growth rates in Uzbekistan for 2003-2017 years, in per cents[7].**

According to the results of the year 2017, insurance market of Uzbekistan continued to show high growth rate,

which made up 33.9% compared to the previous year indicator. According to the Ministry of Finance of the Republic of

Uzbekistan in 2017, volume of insurance premiums, collected by insurance companies of the country, reached 927.5 billion soums. This volume of insurance premiums was collected by 27 insurance companies that acted on the market, of which 4 companies operated in the life insurance industry and remaining 23- in the general insurance industry.

Relative imbalance in the insurance industry is expressed in mismatch of supply and demand for individual insurance products. Manifestation of equilibrium includes considerable fluctuations in unprofitability, caused by differences in the composition and structure of the insurance portfolio of insurance companies. Study of the development process, functioning and adequate regulation of insurance as an open, complex system, prone to imbalance phases, is important because insurance by its nature is intended to withdraw the status of uncertainty in the socio-economic environment for all economic agents without exception.

Analysis of economic literature on issues of regulation in insurance has shown that current regulation system includes: State regulation and self-regulation[8].

State regulation in insurance may be

differentiated according to the following criteria:

- methods of impact;
- forms of impact;
- nature of impact;
- level of impact; the degree of the State involvement;
- content of measures on Insurance Institution entities.

Property of the market as somewhat self-regulatory system is not equivalent to such quality as self-education. The market is an institution, its day-to-day operation offers a complete system of rules. From the point of view of modern economic analysis, the most effective markets are well –organized markets. "Markets cannot function effectively without a legal system, without coercive power of the State, without well-functioning payments system, without set of rules that determines the quality and conditions of admission to the market» [9].

In the most developed societies, organizations of self-regulation occupy intermediate position between management of the economy by the State and the market organization . Under self-regulation legislator understands independent and proactive activity,

carried out by the entrepreneurs, the content of which is the development and establishment of standards and regulations, as well as control of the specified activity[10]. As a result of their activity, maximum realization of economic entities interests is achieved. The effectiveness of self-regulation standards leads to a decrease in costs, related to the implementation of the State regulation, which contributes to the flexibility and maneuverability of the forms of the State administration.

Self-regulation is a complex institution, which combines system methods of administrative and corporate regulation. Principles, governing activities of economic agents and containing provisions that are not reflected in the legislation, can be referred, to a certain extent, to self-regulation.

Self-regulation standards can extend, clarify, complement, in some situations, reinforce the norms of the State regulation. Often self-regulation works in areas where there is no or insufficient legislative regulation. Self-regulation is called a hybrid form of institutional agreements[11]. One should not mix categories of self-regulation and a self-regulation organization.

Self-regulation organizations may occur not only as a result of transfer of part of the State bodies powers, but also they may be formed independently from them. Initiators and creators of self-regulating structures are usually directly organizations of entrepreneurship. If organization of self-regulation is created on the initiative of the State, it regulates substantive aspects of their activities. Need to create organizations of self-regulation may be due to the need for the limited State regulation replenishment, as well as self-regulatory organization may be a reaction to the danger of the State Regulation toughening»[12].

In the insurance industry, self-regulatory organizations originate from the trade unions, which were one of the first forms of social organizations.

One of the main reasons of emergence of organizations of self-regulation in Uzbekistan is to protect interests of the economy. Motive is the need for integration on a voluntary basis in order to achieve greater effect through collective actions. Carriers of agreed economic interests join in associations, unions, pools, etc.

Association of professional participants of insurance market of Uzbekistan,

established in accordance with the Decree of the President of the Republic of Uzbekistan PP-618 of April 10, 2007, refers to the category of such organizations in the insurance industry. The Association, in essence, represents corporate interests of associated professional actors in the insurance market.

Currently, organizations of self-regulation develop and approve industry standards, insurance regulations, conduct certification of specialists, carry out analytical work. Modern organizations of self-regulation collaborate closely with governmental bodies of legislative and executive power, including issues of law making activity.

The purpose of creation of self-regulatory organizations may be solution of specific tasks. For example, increase in financial capacity that contributes to improving the financial sustainability of economic entities. In insurance, this function is performed by insurance pools. Participation in the pool is one of the administrative barriers in the insurance market, because it is often a requirement in determining insurance companies, admitted to major and dangerous risks insurance[13].

It should be noted that self-regulation rules are more flexible than the State rules, they cause fewer costs. Effectiveness of the self-regulatory organizations is provided by the ability to influence on the system of the State regulation. In particular, organizations of self-regulation may protect and represent interests of its members in the State bodies and international organizations.

Self-regulatory organization, however, are not a panacea, because there are certain objective boundaries of their influence.

One of the negative effects of self-regulation can be "double regulation effect". In highly competitive fields of activity, which is the insurance industry, control of legislative consolidation of the benefits of individual economic entities on the basis of self-regulatory organizations is required.

In the conditions of developing market, self-regulation cannot replace the State regulation because it does not possess the necessary instruments for macroeconomic regulation. Lately, however, there is a tendency to transfer certain functions and powers of the State regulation to the level of self-regulation.

In management practice along with the

Institute of self-regulation, there are forms of co-regulation that represent the combination of public and non-state regulation. Unlike self-regulation, co-regulation implies a wider range of the process actors[14]. It is a mixed form, alliance of the State regulation and representatives of private business. It is a transitional form from State regulation to self-regulation. Co-regulation items can be applied in the sphere of economic disputes settlement.

Thus, integrated and effective regulatory mechanism both in the context of industry and in entire socio-economic system in general is an optimal combination of public and market regulation, based on interaction with the institutions of self-regulation and co-regulation.

In conclusion, it should be noted that in our opinion, formalization and use of any parameters, proportions in the ratio of (State and market) Regulation is impossible in connection with strong enough relationship and interpenetration of these mechanisms. Relative specification is possible only at the level of direct regulators of financial and economic processes because every single regulator has a specific nature, source of

origin, functionality and scope of implementation.

Eventually, at the level of self-regulation, functions of methodical nature should be focused, such as development and monitoring of compliance with professional standards and standards of corporate governance and ethics, and questions of liability. Advisory functions can be performed by bodies of co-regulation. Administrative control must be assigned to government agencies.

Ultimately, no matter how formalized and calculated "shares" of State regulation, self-regulation and co-regulation, performing its functions by the Insurance Institute in the context of innovation development of the economy remains priority and main objective.

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