

Establishing a Payment Guarantee System in Capacity Building of Life Insurance

Yuldashev Nuriddin Toshmurzaevich

Karshi International University, Karshi, Uzbekistan

Abstract: This article discusses the feasibility of creating a system of guaranteeing life insurance payments in order to increase the potential of life insurance, the principles of establishing a system of guaranteeing life insurance payments in Uzbekistan, and the need for a system of guaranteeing life insurance payments to protect the rights of consumers of life insurance services and ensure the financial stability of insurance operations were explored.

Key words: life insurance, life insurance capacity, payment guarantee system, solvency, policyholders' rights, insurance operations, financial stability.



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Introduction

Ensuring the financial stability of the life insurance market is one of the main conditions for its effective development. In this regard, the protection of the rights of consumers of life insurance services is a priority task in the state regulation of the insurance industry. For the successful implementation of this task, the competent authorities regulating the insurance market use various methods that guarantee the protection of the legal interests of policyholders. One such method, which is used in the experience of developed countries, is to create a system that guarantees insurance payments to insurers in the event of insolvency.

Currently, there is no mechanism in Uzbekistan that guarantees life insurance payments. At the same time, the establishment of a system of insurance payment guarantees will create conditions for the rapid development of the life insurance services market and increase the population's confidence in life insurance. In this regard, in the current situation, analyzing the feasibility of establishing a system of life insurance payment guarantees by assessing their need and prospects is the most important direction for further reforming the national insurance market and ensuring its rapid development.

In addition, unlike general insurance, the insurance premiums collected in life insurance are refundable, that is, the insured event is inevitable. In unit-linked life insurance, whole life insurance, investment life insurance and pension insurance, large amounts of money are accumulated and are fully refundable with interest. This requires a system of additional

guarantees. Therefore, the creation of a system of guaranteeing payments for life insurance prevents the risk of citizens losing their long-term savings in life insurance and the loss of insurance protection in the event of the insolvency of insurers [1].

Literature review

A number of scientific studies have been conducted on the need to create a system for guaranteeing life insurance payments and its consequences, and some approaches can be presented.

In particular, according to O.D. Averchenko, the payment guarantee scheme is a mechanism for protecting the rights of consumers of insurance services and increasing confidence in the insurance market by preventing the consequences of bankruptcy of insurance companies [2].

A.Yu. Polchanov emphasizes that the prospects of life insurance companies in the insurance market are closely linked to the creation of a life insurance payment guarantee fund. According to him, the introduction of this mechanism in the national insurance market will lead to positive changes in stabilizing the activities of life insurance companies [3].

According to the approaches of the economist I. Karakulova, who studied the experience of foreign countries in the field of guaranteeing payments under life insurance contracts, since life insurance companies accumulate large amounts of financial resources, they require additional state regulation, which requires the creation of special systems for protecting the rights of policyholders. Since life insurance companies have a unique feature as fund intermediaries, they first attract client funds and only then make payments at a certain time or when an insured event occurs [1].

V. Chernyakhovsky according to him, mechanisms for guaranteeing the payment of insurance compensation or the implementation of insurance payments in the event of the insolvency of an insurance company are the most important factor in protecting the rights of users of insurance services [4].

According to Yu. Yu. Finogenova's scientific researches, the creation of a guarantee fund for insurance payments depends on the effectiveness of other mechanisms for the protection of policyholders (contractual, legislative, increasing the insurance culture of the population, legal protection, supervision of insurance activities). The higher their efficiency, the less the need for a guarantee fund. Therefore, in the author's opinion, the guarantee fund should be considered as a last-stage protection mechanism [5].

According to Yasui Takahiro, the main purpose of the insurance payment guarantee fund is to provide effective protection of the interests of the insured in case of financial problems that cause insolvency (bankruptcy) in the activities of insurers [6].

In our opinion, the establishment of a life insurance payment guarantee system strengthens the protection of the property interests of insured (beneficiary) natural persons, further increases the level of public confidence in the life insurance market, creates conditions for ensuring the financial stability of insurance operations and the stable development of the life insurance market.

Research methodology

The research used scientific abstraction, grouping, comparison, retrospective and prospective, empirical analysis and other methods. The article substantiates the importance and necessity of the life insurance payment guarantee system in the development of the life insurance market using the method of scientific abstraction, and predicts the scientific and practical importance of ensuring the financial stability of insurance operations. Also, using the method of comparative comparison, the organizational and legal foundations of the life insurance payment guarantee system in world

insurance practice and developed countries with the existing foundations in our country were compared and appropriate conclusions were drawn.

Analysis and results

At this point, it should be noted that currently, Uzbekistan has a mechanism for guaranteeing payments only for compulsory insurance types. In particular, a payment guarantee fund for compulsory civil liability insurance of vehicle owners has been established, an insurance partnership was formed by the insurers for compulsory insurance of the driver's civil liability. But, there is no system for guaranteeing payments for voluntary types of insurance, including life insurance, which is one of the important factors that reduces the population's trust in the insurance institution and hinders the development of insurance in the country.

In such circumstances, the National Agency for Prospective Projects, as an authorized body, is tasked with creating a life insurance payment guarantee system. In our opinion, it can develop the following solutions:

- 1) Establishing a life insurance payout guarantee fund. In this case, it is possible to use the experience of the payment guarantee fund for compulsory civil liability insurance of vehicle owners, which currently exists.
- 2) Creation of compensation mechanism on the basis of mutual insurance societies, whose participants cover each other's expenses.
- 3) Establish a payment guarantee fund at the Central (or other) bank with the direct participation of the state.
- 4) Establishment of the Association of Life Insurance Insurers and the Payment Guarantee Fund under it.

In our opinion, it is advisable to establish a life insurance payment guarantee fund in Uzbekistan as the most effective mechanism for protecting the rights and legitimate interests of policyholders. This is explained, first of all, by the fact that life insurance involves long-term financial relations between the insurer and the insured, and therefore policyholders need to be confident that the insurer will be solvency in the future.

In this regard, the most important task is to develop the Regulation "On the Life Insurance Payments Guarantee Fund" and draft Resolutions on its approval by the authorized state body regulating the insurance market. Due to the fact that to date there are no separate laws on life insurance in the legislation of the Republic of Uzbekistan, as well as the fact that the existing laws on insurance do not provide anything about the system of guaranteeing life insurance payments, the Regulation being developed requires a serious study of advanced foreign experience in this regard in determining the main areas of activity of the Life Insurance Payments Guarantee Fund, its operating principles, sources of its financing and the goals of using the fund's funds.

A study of foreign experience in organizing a system of guaranteeing payments for life insurance shows that such mechanisms for guaranteeing payments for this type of insurance are effectively used in the USA [7], Japan [8], Greece [9], Great Britain, Germany, Spain, Latvia, Malta, Poland, Romania and France [10]. In particular, the system of guaranteeing payments for life insurance in France, Germany and Poland is very similar.

Foreign experience shows the important role of the payment guarantee system in the world insurance market, therefore, life insurance payment guarantee funds have been established in many developed countries of the world.

In our opinion, the most important issue in the activities of the guarantee fund is the determination of the contributions paid by its participants. This issue is determined differently in different

countries. In particular, in some countries it is established in relation to the minimum amount of the authorized capital of the life insurance company established by law, in others - in relation to the existing authorized capital, in percentage terms - in relation to the total amount of life insurance contracts concluded during the year or the annual loss premium received from policyholders (etc.), and in some countries - in a fixed amount. For example, the amount of permanent contributions paid to the guarantee fund for life insurance payments is 0.05 percent of the technical reserves of the life insurance company in France, and in Japan - 4 billion for all participants of the fund. yen (33.7 million US dollars), 0.3% of insurance premiums in Korea, 1.33% of the authorized capital in Canada, 2.0% of the gross insurance premium in the USA, 1.0% of the gross insurance premium in Great Britain [6].

In Greece, the initial and permanent contributions to the Life Insurance Guarantee Fund are determined by law [9]. The main source of the Fund's resources is the amount of permanent contributions, which are regulated by law when necessary to fully fulfill the Fund's tasks. These contributions must not exceed 1.5 percent of the total annual insurance premiums received from policyholders for life insurance.

When the funds of the payment guarantee funds reach a certain amount, the contributions to the fund are stopped and it is replenished if payments are made from it.

The effectiveness of the life insurance payment guarantee fund worldwide is assessed by the indicator of compensation for losses caused to policyholders and beneficiaries as a result of the insurer's insolvency. Therefore, determining the actual amount of insurance compensation in such a situation is an important issue. For example, in the USA, there is a clearly regulated (upper) limit on the scope of guaranteeing payments by the fund in the event of insurer bankruptcy [11], where the maximum amount of compensation paid to the insured (beneficiary) for all life insurance programs should not exceed 500 thousand US dollars. The same is the case in Canada - 130 thousand US dollars, in France - 70 thousand euros, in Ireland - 65 percent of insurance claims, but not more than 825 thousand euros, in Japan - 90 percent of insurance claims, in Korea - 50 million won (39 thousand US dollars) [6]. It is definitely recommended to use this experience in the national insurance market, that is, to strictly determine the upper limit of the insurance compensation covered by the life insurance payment guarantee fund based on accurate account books.

Japan also has a separate guarantee fund to protect life insurance policyholders. It was first established in 1995 and was called the Life Insurance Policyholders Protection Fund. The following factors led to its establishment: economic globalization and the creation of conditions for the free movement of capital between countries; the growth of the elderly population in Japan, and the increase in average life expectancy. However, since the fund was unable to compensate insurance payments to policyholders of one of the insurance companies, this fund was reorganized in 1998 and replaced by the Life Insurance Policyholders Protection Corporation of Japan [12].

Participation in the Corporation is mandatory for all insurance companies with a life insurance license, including foreign companies, as a source of financing through annual contributions. It should be noted that if the Corporation's funds are insufficient to financially support a bankrupt life insurance company, the Japanese government may provide it with financial assistance.

The life insurance payment guarantee system implemented in foreign insurance practice performs the following main tasks:

- ensuring compensation, payment of insurance indemnity for insured events that occurred before the insurance company was declared bankrupt or during liquidation proceedings, and continuation of insurance coverage for policyholders;

- preserving the value of long-term life insurance contracts. In this case, policyholders may prefer to continue their insurance contracts rather than receive compensation payments from the payment guarantee fund. In this case, the insurance payment guarantee system will help transfer the life insurance portfolio to another insurance company that meets the established criteria of financial stability;
- prevent a decline in the confidence of existing and potential policyholders in the insurance industry. In the event of an insurance company's bankruptcy, not only its clients, but also policyholders of other insurance companies, must be confident that they will receive insurance payments on time and that the insurance industry will continue to operate uninterrupted, which will prevent panic in the market;
- ensuring the adequacy, transparency and fairness of insurance payments under existing insurance contracts of a bankrupt insurance company. For example, policyholders with more information can decide to continue servicing their insurance policy with another insurance company or receive compensation without any additional costs, unlike clients with less access to information sources [2].

As a result of analyzing the mechanism of operation of the insurance payment guarantee system in developed countries, as well as from the point of view of improving the legislative framework for the introduction of a life insurance payment guarantee system in Uzbekistan, in our opinion, the following principles should be followed in its organization:

- the principle of protecting the rights of consumers of life insurance services. This principle is of great importance from the point of view of reducing or compensating losses of policyholders as a result of the insolvency or bankruptcy of an insurance company. In order to correctly understand its essence, it is necessary to at least clearly understand what is meant by the terms "solvency" and "financial stability" of insurance companies;
- the principle of ensuring the stability of the life insurance market and confidence in it. This principle is closely related to the protection of the rights of consumers of life insurance services, since the insolvency of an insurance company negatively affects the level of confidence in its life insurance services. Increasing the confidence of policyholders in receiving insurance coverage under an insurance contract under any circumstances stimulates consumer demand for life insurance services and creates a stable environment for all participants in the life insurance market;
- the principle of creating incentives for a life insurance company to reduce its financial risks. In our opinion, it is of particular importance to increase or, conversely, reduce the amount of contributions paid by a life insurance company to the Payment Guarantee Fund, given the acceptance of high-risk insurance objects in the provision of insurance services, the high risk level of insurance operations, an insufficiently diversified insurance portfolio, and an ineffective reinsurance system;
- the principle of not negatively affecting the level of competition in the life insurance market. In this case, the initial contribution paid to the Payment Guarantee Fund is an important factor in starting an insurance business and can affect the competitive environment between existing insurance companies and new participants in the insurance market. Therefore, when forming the fund's assets, appropriate measures should be taken to maintain equal conditions of competition in the life insurance market and ensure the effective entry of new insurance companies into the market;
- the principle of fair and proportional distribution (redistribution) of the fund's assets. This, in turn, means, firstly, that the insurance company's obligations as a result of its insolvency should not be covered by other participants of the fund, and secondly, that the fund should

strictly determine the maximum amount of guarantee payments or compensation for one insured person (beneficiary) under one life insurance contract. In practice, it is very difficult to determine the level of fairness in the distribution (redistribution) of the funds of the guarantee fund for these payments. However, a certain degree of fairness and proportionality can be achieved by determining the amount of contributions paid to the fund by a particular insurance company depending on the level of riskiness of its activities or the expected losses from its bankruptcy, as well as by strictly monitoring the financial stability and solvency of the insurance company.

- the principle of ensuring the functioning of the system of guaranteeing insurance payments under life insurance contracts. From the point of view of the requirements of this principle, in our opinion, the fund should be entrusted with the following tasks: to make guarantee and compensation payments at the expense of the fund's funds in order to ensure insurance payments under life insurance contracts concluded before the insurers became insolvent; to collect fund funds at the expense of legally established sources; to provide explanations to beneficiaries about their rights, the procedure for their implementation and protection; to advise beneficiaries about the activities of the fund; to submit proposals to the authorized body on the application of measures of influence on insurers in relevant cases; to inform the public about its activities through the media; to establish cooperation with relevant organizations of foreign countries on issues within the competence of the fund; to ensure the timely payment of insurance payments under life insurance contracts and to take measures to protect the rights of beneficiaries;
- the principle of effective financing of the activities of the life insurance payment guarantee fund. In our opinion, the fulfillment of the requirements of this principle should be given a central place in determining the effective organization of the fund's activities or the full achievement of the goals set for it. Here we are talking about the sources from which the fund should be financed. In this regard, as a result of studying the activities of life insurance payment guarantee funds in foreign countries, in our opinion, it is expedient to determine the following as sources of financing of such a fund to be established in our country: initial, regular and special contributions of fund members; fines levied on fund members for failure to pay contributions on time; income from placing fund funds in government securities of Uzbekistan; income from investing temporarily free funds of the fund in accordance with legislation; charitable contributions of legal entities and individuals; funds received through international financial assistance programs; funds received from the sale of assets of its liquidated participants within the amount of payments covered by the fund.

Conclusions and suggestions

In our opinion, it is appropriate to implement the following measures in order to create an effective system of guaranteeing life insurance payments in our country and to achieve its goals:

1. In order to organize a system of guaranteeing life insurance payments in Uzbekistan, it is necessary, first of all, to create its legal and regulatory foundations and revise the legislative framework for life insurance. Solving this problem is one of the most important priorities today, because if this process is not legally regulated, it creates not only the risk of abuse, but also distrust of the entire insurance industry.
2. To achieve the effectiveness of the life insurance payment guarantee system, it is not enough to establish a guarantee fund, therefore, in addition to it, the following should be implemented:
 - it is necessary to further improve the control functions of state regulation of the life insurance market, that is, to ensure compliance with the requirements for authorized capital established by law. Such actions will not only create equal competition conditions in the insurance market, but will also lead to the exit of insurance companies that cannot meet the relevant

requirements from the market, since they will not ensure the minimum level of retention of attracted funds in the event of unforeseen events;

- the payment guarantee fund may not cover all the risks that arise, therefore, in order to ensure the financial stability of life insurance companies and the continuous growth of their assets, to review the mandatory standards for ensuring the solvency of insurers in the life insurance industry and the size of the formation of insurance reserves, early detection of a decrease in the level of reliability of a life insurance company, unreasonably low levels of insurance tariffs should not be used;
- Gradually increasing the overall capitalization level of life insurance companies. This will ensure the financial stability of the company and, accordingly, protect the interests of savers, as well as increase investment potential and competitiveness. On the contrary, an insufficient level of capitalization can lead to the bankruptcy of insurance companies. This will potentially undermine the confidence of policyholders not only in the insurance market, but also in insurance services.

3. Before establishing a life insurance payment guarantee fund, it is necessary to solve a number of problems that exist in the insurance business:

- At present, it is impossible to accurately assess the likelihood of the fund's effective operation, since there have been no insolvent or bankrupt companies in the life insurance market in recent years;
- the small number of life insurance companies, which especially affects the formation of fund assets. The effectiveness of the fund's activities, of course, depends on its provision with sufficient funds.
- the establishment of an inactive fund increases the total costs of member insurance companies, since participation in it is a necessary condition for the performance of its activities in the life insurance market;
- in terms of life insurance companies, the position of 8 companies in the total insurance premiums collected in 2019 is different, that is, 1 company has a share of 36.6 percent, 4 companies have a share of 11-16 percent, and 3 companies have a share of 1-4 percent of the insurance premiums collected in the life insurance market. In this case, regardless of the criterion by which the contributions paid to the fund by life insurance companies are determined, it affects the level of competition in the life insurance market.

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