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RUSTAM AZIMOV

JSC EIIC, Uzbekistan

ABDULAZIZ ABDULLAEV

JSC EIIC, Uzbekistan

PROBLEMS AND PROSPECTS OF INSURANCE RISKS OF INVESTMENT PROJECTS IN UZBEKISTAN

Abstract:

An important priority, which is crucial for the growth of the potential and competitiveness of the economy of independent Uzbekistan, is the implementation of an active investment policy for the introduction of strategically significant projects aimed at modernization, technical and technological renewal of the leading basic industries, development of a powerful modern network of transport and infrastructure communications.

The reasons that determine the need for investment in the transforming economy of the country are: renewal of the existing material and technical base, increase in production volumes, development of new types of activities. Any of the above-mentioned directions implies the investment of significant funds and a certain time between the decision to implement the activity, the moment of investment of funds and the moment of their return upon achievement of the set goals. Therefore, the risk factor of financial losses, damage and reduction of the overall economic efficiency of entrepreneurial activity under the influence of external and internal factors is of significant importance in investment activity. The occurrence of a direct correlation between the efficiency of investment activity and the level of risks implies the need to use effective risk management mechanisms, one of which is insurance.

It should be mentioned that Uzbekistan was one of the first post-Soviet countries to insure risks of investment projects. Effective insurance of investment project risks is possible in the presence of either sufficient capital and experience of insurers and developed infrastructure of the insurance market, providing high-quality pre-insurance expertise of investment project risks, or the state policy of support of such insurance. The system approach to insurance of risks of investment projects, professional activity of domestic insurers allowed to provide optimal protection of insurance interests of private entrepreneurs and small business entities during realization of their projects in different branches of economy of our republic.

Keywords:

Investment, Insurance, Investment project risks, Risk management

JEL Classification: A12

Introduction

The number of investment projects and the amount of funds invested in the economy of Uzbekistan annually show dynamic growth. In 2017, the number of investment projects amounted to 111 units, and by the end of 2023, this indicator amounted to 1 402 units, with an increase of 12.6 times. The volume of funds for investment projects in 2017 amounted to 3 349 million USD, while at the end of 2023, this figure reached 19 523 million USD, with a growth rate of almost 5.8 times.

Direct investments in the real sectors of Uzbekistan's economy are distributed in the following shares: manufacturing - 36.3%, natural resources extraction - 12.6%, energy - 10.5%, transportation - 3.6%, information technology - 1.8%, other - 18.1%.

At the same time, the main factors determining the necessity of further expansion of investments in the transforming economy of the country are as follows: renewal of the existing production and social infrastructure, modernization of economic sectors and the development of innovative activities.

Any of the above directions implies mobilization of significant financial resources, as well as a time lag between the decision to implement investment projects, investment of funds, realization of the project and return of the investments upon achievement of the goals of the investment project.

Therefore, the factor of risk of financial losses, damage and reduction of overall economic efficiency of entrepreneurial activity under the influence of external and internal factors is of significant importance in investment activity.

Making investment decisions under conditions of risk situation and uncertainty is an integral part of financial and economic activity of any enterprise regardless of its scale and specificity.

Investors encounter a variety of risks while financing certain projects, such as: technogenic risks and climate risks, political risks, changes in the pricing conjuncture, changes in the legislation of the invested country, etc.

Investment risk insurance contracts imply coverage by the insurer of losses that may arise to the insured as a result of various circumstances, including those mentioned above. The following are covered by insurance: insurance of entrepreneurial risks, insurance of movable and immovable property, risks of liability for damage to the property and personal interests of third parties in the course of realization of an investment project, etc.

The necessity of development of insurance of investment risks determines the presence of impressive development prospects of this insurance industry and high potential, representing, in addition, a wide and, importantly, profitable field of activity for professional participants of the domestic market of insurance services.

Assessment of the efficiency of investment projects and risk management of investment activity were considered by such foreign and domestic scientists as: P. Bernstein, Y. Brigham, D. Pickford, I. Schumpeter, M. Erhardt, R. Azimov, I. Abdurakhmonov, M. Askarova, S. Umarov, B. Shamsuddinov and others.¹

¹ Bernstein P. *Against the Gods: Taming Risk*. - 2nd ed., / Transl, from English. -M.: "Olymp-Business", 2006., Brigham Y., Ehrhardt M. *Financial Management*. 10th ed. / Edited by E. A. Dorofeev. St. Petersburg: Piter, 2007, Damodaran A. *Investment Evaluation. Tools and techniques for valuing any assets*. M., 2004., Pickford J. *Risk Management* / Translated from English by O.N. Matveeva M.: "Vershina", 2004, Markowitz H.M. *Portfolio Selection // Journal of Finance*. — 1952. — March., R.S. Azimov. *Insurance in Uzbekistan: history, current state, challenges in the process of development, insurance of foreign economic activity*. Monograph. -T: "TURON-IBOL", 2021, 168 p.,

Meanwhile, in the domestic economic literature, issues of establishing an effective model of investment risk insurance continue to remain underdeveloped despite the fact that they are of high practical importance for attracting investment resources in the economy of the country.

The risks inherent to investment projects refer to the risks that arise during their implementation. Investment risk is associated with the specificity of an entrepreneur investing financial resources into various projects. In turn, the implementation of an investment project involves the use of material, labor, financial, and informational (intellectual) resources. Therefore, the risks of investment projects are connected to the threat of total or partial loss of these resources.

As a result, the risk of an investment project can be characterized as a danger of potentially possible, probable loss of resources or shortfall of income in comparison with the option designed for rational use of resources in the implementation of the project. In other words, the risk of an investment project is the threat that the entrepreneur will suffer losses in the form of losses, that an entrepreneur will incur losses in the form of additional expenses in excess of those envisaged by the investment project, or will receive income lower than projected.

Insurance of investment risks has been developing at a moderate pace in recent years and currently plays a relatively low role in the overall structure of the domestic insurance market - about 5%². Main indicators of insurance of investment risks on the example of “Uzbekinvest” Insurance Company are presented in **Table 1**.

Table 1.**Investment risk insurance indicators**

Indicators	2017	2023	Growth
Volume of foreign investments in the Republic of Uzbekistan, billion USD	2,4	22,0	917%
Number of enterprises with foreign investments, units	5 517	17 958	325%
Number of enterprises insured by Uzbekinvest, in units	350	2 369	677%
Share of Uzbekinvest, in %	6,3%	13,2%	209%

Abdurakhmonov I.Kh. Theory and practice of insurance. Textbook/ - T.: “Iqtisod moliya”. 353 - 354 p., Askarova M.T. On the prospects of development of the insurance services market of the Republic of Uzbekistan // Market, Money and Credit. - 2001. - № 2. -pp.36-37, Mirsadykov M.A., Ashrafkhanov B.B. Modern state and tendencies of development of the insurance market of Uzbekistan // Insurance business. 2001. № 11, Iminov T.K. “Sug’urta bozori islohotlari rivojlanish bosqichida. //Xalq so’zi”, 2021 8 January, №5 (7785) Umarov S.A. Management of insurance activity in the conditions of transformation/// Market, Money and Credit. - Tashkent, 2007. - № 8(123). - p. 38, Shennaev H.M., Khalikulova G.T., - T.: Yangi Nashr, 2012. - 212 b., Azimov R.S., Shamsuddinov B.R. Insurance market of Uzbekistan in the conditions of large-scale economic reforms J. Insurance business. Moscow, 2020, No. 3. - pp. 24-30., Shennaev H.M. Training manual for insurance agents. - T.: “PRINTXPRESS”, 2010 – 208 p.

² Umarov H.S. Insurance market of Uzbekistan: main problems and trends of development. Abstract of the dissertation for the degree of Candidate of Economic Sciences - M.: - p.27.

The analysis of the above table shows, that as of today the growth of the number of enterprises with foreign investments outpaces the growth of their insurance coverage, which testifies to the lagging activity of insurers and their insufficient work to provide comprehensive insurance services to foreign investors.

At the same time, currently, domestic insurance companies provide all necessary types of insurance demanded by the subjects of investment projects, in particular, insurance of:

- construction and installation, commissioning risks and warranty obligations;
- various types of property;
- equipment against breakdowns;
- civil liability;
- life and health of employees.

Taking into account the current situation, we emphasize the following main problems of the investment risk insurance market:

1. Low level of solvent demand on the part of potential subjects of investment process, which is the main problem not only of the investment risks insurance sector, but also of the whole domestic insurance market.

2. Lack of qualified personnel in the field of investment risks insurance.

3. Insufficient insurance culture of the majority of potential policyholders, including lack of insurance traditions, low awareness of insurance issues in general, and of the main types and rules of insurance of investment risks in particular.

4. Lack of adequate legislative base for the system of investment risks insurance, in terms of eliminating existing gaps with clarification and clear distinction of the concepts of “investment” risk and “entrepreneurial” risk. Thus, foreign investors do not have the opportunity to insure the risks of entrepreneurial activity, as this type of risks, as of today, only a resident of the Republic has the right to insure.

With regard to ensuring a full cycle of investment risk insurance for each separate phase of investment project realization, we recommend:

- insurance of activity risks in the pre-investment phase (for example, insurance of professional liability of developers of project estimate documentation);

- insurance of activity risks at the investment phase (insurance of construction risks, insurance of non-payment risks under the contract, etc.);

- insurance of activity risks at the production phase (property insurance, insurance of environmental risks and other types of liability insurance, insurance against production downtime, etc.);

- insurance of activity risks during the investment project closure phase (for example, insurance of risks of dismantling of construction and technological equipment).

Specific types of insurance may be applied at certain stages within a particular phase of the project cycle. For example, in the production phase, insurance of contractor's post-launch warranty obligations may be applied for 1-2 years after the commissioning of the facility.

A comprehensive approach and flexible tariff policy combined with fast policy issuance and loss settlement can solve the problems of investment project risk insurance. The cost of insurance in each specific case depends on the type and set of risks, franchise, loss history and other conditions.

As a result of the conducted research, we have developed recommended basic conditions of insurance of risks of investment projects, which are given in **Table 2**.

Table 2.**Main conditions of insurance of investment project risks³**

Investment objects	Insured objects	Recommended sum insured	Average insurance tariff, %
Malls / shopping locations	Inventory in stock	Based on purchase price	For a full package 0.15-0.38 depending on the type of goods
	Goods in the sales area	By average monthly balance	0.3-0.5
	Business interruptions	Depends on the period covered and the expenses to be covered (e.g., operating expenses, salaries of employees, payments to agencies, rent, taxes and fees, interest on loans, etc.) and profit. The calculation is based on an annual base	For a full package 0.13-0.35
	Responsibility for the quality of goods and services	5-10% of annual turnover	0.6-1 depending on the type of goods
Wholesale and small wholesale companies	Inventory in stock	By purchase (acquisition) price	0.6-1 depending on the type of goods
Construction companies	Construction and installation works	By law	Up to 0.5
Manufacturing companies	Production equipment under standard risks	At market value or net book value	0.24-0.36 - for flammable production; 0.18-0.26 - for others

³ Methodical manual "Technique and methods of analyzing the innovation project, risk assessment"/M.A.Mirsadykov, - T.: UNDP "Support in the field of innovation policy and technology transfer". 55p.

Investment objects	Insured objects	Recommended sum insured	Average insurance tariff, %
	Production interruptions	Depends on the period covered and the amount of costs covered	0.25-0.35
	Goods in stock	At cost price	0.21-0.32
	Responsibility for the quality of goods, works (services)	3-7% of annual turnover	0.5-0.9
Companies providing services	Business interruptions	Depends on the period covered and the amount of costs covered	0.5-2 depending on the type of activity

The cost of insurance services for small investment projects is higher than for large projects. This is mainly due to the fact that insurance of risks of small investment projects increases insurance companies' costs associated with the conclusion of new insurance contracts, assessment of risks, and identification of risks. Recommended tariffs for insurance of major risks of investment projects are given in **Table 3**.

Table 3.

Recommended tariffs for insurance of various risks of investment projects, %⁴

Property insurance	Insurance of leased property	Insurance against interruption in production	Professional liability insurance	Insurance of pledged property
0,11-0,25	0,12-0,8	0,1-1,85	0,1-2	0,11-1,25

Comparison of domestic and foreign experience shows, that the general logic of insurance protection against risks of investment projects develops in the same direction as in international practice.

The differences are mainly in the insufficiently developed legislative base of insurance, underdeveloped and inflexible domestic insurance policies, and insurers' lack of experience in insuring risks of investment projects. As well as insufficient advertising and marketing promotion of insurance of risks of investment projects among private entrepreneurship and small businesses.

⁴ Methodical manual "Technique and methods of analyzing the innovation project, risk assessment"/M.A.Mirsadykov, - T.: UNDP "Support in the field of innovation policy and technology transfer". 55p.

When deciding to conclude an investment risk insurance contract, it should be borne in mind that the best method of insurance - is not the conclusion of a single insurance contract against all anticipated risks, but a comprehensive system of protection of the organization.

Such a system depends on the specifics of work and specialization of the investment project, but in general terms, in our opinion, should look as follows:

- insurance of movable and immovable property, i.e. buildings, structures, equipment, ready products in warehouses etc. against all possible losses specified in the insurance contract;
- insurance of cargo flows, i.e. all cargoes received and sent by the enterprise;
- liability insurance, including general civil liability of the employer to employees (the risk of an employee being injured in an accident at work);
- personnel insurance, i.e. insurance by the company of employees' life, temporary incapacity for work or disability.

In view of the above, it is proposed to apply the following recommendations in insurance of risks of investment projects:

1. Conducting a comprehensive substantiation of the investment project, including procedures for identification, measurement and assessment of risks through their quantitative and qualitative analysis, as well as their minimization and control through the adoption of operational decisions on adjustment in case of their occurrence.

2. Making quality decisions by management of investment projects based on a systematic approach and taking into account regional specifics. This will reduce the level of external risks and create conditions favorable to improving economic security.

3. Prospects for increasing the role of domestic insurance organizations in investment insurance are related to cooperation and creation of insurance pools (including with international insurance companies):

- for distribution of risks in insurance of large investment projects;
- significant expansion of reinsurance boundaries;
- consolidation of efforts within the framework of the Association of Professional Insurance Market Participants of Uzbekistan for implementation of effective insurance system within the whole republic.

We hope that the practical implementation of the main provisions and recommendations of our study can have a positive impact on the development of insurance of risks associated with investment projects.

We also believe that the recommendations and proposals developed in this paper should be regularly updated as the economic environment and market mechanisms change and as new developments and approaches to investment project risk insurance emerge.