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ANALYSIS OF FINANCIAL STATE AND INVESTMENT ACTIVITY TRENDS OF INSURANCE COMPANIES IN EMERGENCY MARKETS

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ABSTRACT **DOI No: 10.36713/epra15815** **Article DOI: https://doi.org/10.36713/epra15815**

The article describes the problems and solutions of increasing investment activity of insurance companies operating in emergency economy. In addition, trends in the financial situation and investment activity of insurance organizations were analyzed. The main purpose of this article is to develop scientific proposals and practical recommendations aimed at improving the investment performance of insurance companies.

KEYWORDS: ***insurance, investment, investment activity, insurance market, insurance company assets, financial status, insurance products***

INTRODUCTION

The global insurance industry, particularly in developed countries, stands at the intersection of financial stability, investment dynamism, and innovation in risk management. As scholars, policymakers, and industry leaders navigate the complexities of this landscape, understanding the intricate interplay between the financial state of insurance organizations, their investment strategies, and the emergence of novel insurance products becomes imperative.

The financial stability and performance of insurance organizations in developed countries are of paramount importance in ensuring the resilience of the global financial system. Amidst evolving regulatory landscapes, shifting market dynamics, and emerging risks, understanding the financial state of insurers, their investment activities, and the development of new insurance products has become a focal point for scholars, policymakers, and industry stakeholders alike. This literature review aims to provide insights into these critical areas by synthesizing recent research findings and scholarly contributions.

The first section of this review delves into the financial state of insurance organizations, exploring factors that influence their stability and profitability. By examining regulatory frameworks, capital adequacy requirements, underwriting practices, and risk management strategies, scholars have sought to uncover the key determinants of insurers' financial health in developed countries. Additionally, this section highlights the role of macroeconomic conditions, interest rate movements, and catastrophic events in shaping insurers' financial resilience and performance.

The second section of this review focuses on the investment activities of insurance organizations, shedding light on their asset allocation strategies and investment decision-making processes. Scholars have analyzed insurers' approaches to diversification, risk management, and the incorporation of alternative investments such as private equity, real estate, and infrastructure. Moreover, this section discusses the challenges posed by low interest rates and the implications for insurers' investment portfolios and profitability.

The final section of this review explores the emergence of new types of insurance products in developed countries, driven by technological advancements, changing consumer preferences, and evolving risk landscapes. Cyber insurance, parametric insurance, and peer-to-peer insurance platforms are among the innovative products that have gained prominence in recent years. Scholars have examined the design, implementation, and implications of these products, highlighting their potential to address emerging risks and meet the evolving needs of consumers.

By studying the investment activities of insurance organizations in world practice, it serves to develop proposals and recommendations aimed at ensuring the entry of local insurance companies into international financial markets, introducing an advanced corporate management system, obtaining international ratings, and improving the investment activities of insurance organizations in our country.

LITERATURE REVIEW

The financial state of insurance organizations in developed countries is a topic of significant interest and scrutiny among scholars, policymakers, and industry practitioners. This review explores recent literature on the financial performance of insurance companies, their investment activities, and the emergence of new types of insurance products in developed countries.

Research by Cummins and Weiss (2020) provides insights into the financial performance and stability of insurance organizations in developed countries. They argue that factors such as regulatory frameworks, capital adequacy, underwriting practices, and risk management strategies significantly impact the financial health of insurers. Additionally, studies by Berger et al. (2018) and Grace et al. (2019) emphasize the importance of macroeconomic conditions, interest rate movements, and catastrophic events in shaping insurers' financial resilience and profitability.

The investment activities of insurance organizations have been extensively studied in the literature. Chen and Wong (2017) analyze the asset allocation strategies of insurers in developed countries, highlighting the trend towards diversification and risk management. They note a shift towards alternative investments such as private equity, real estate, and infrastructure to enhance portfolio returns and manage investment risks. Moreover, research by Merton (2018) explores the implications of low interest rates on insurers' investment decisions, emphasizing the challenges of generating sufficient investment income in a low-yield environment.

The insurance industry in developed countries is experiencing a wave of innovation, with the introduction of new types of insurance products to address emerging risks and consumer demands. Cyber insurance has gained prominence in recent years, driven by the increasing frequency and severity of cyber threats (Derrig et al., 2019). Similarly, parametric insurance products have emerged as a response to the growing need for quick and transparent payouts in the event of specified risks, such as natural disasters (Michel-Kerjan et al., 2017). Moreover, peer-to-peer insurance platforms are disrupting traditional insurance models by leveraging technology to facilitate risk-sharing among individuals (Richter et al., 2020).

The literature reviewed highlights the dynamic nature of the insurance industry in developed countries, characterized by ongoing efforts to maintain financial stability, optimize investment strategies, and innovate insurance products. While insurance organizations face numerous challenges, including regulatory pressures, economic uncertainties, and technological disruptions, they continue to adapt and evolve to meet the evolving needs of consumers and navigate an increasingly complex operating environment.

METHODOLOGY

The methodology used in this study was to analyze the financial situation of insurance organizations, to improve investment activities and to develop a new type of insurance product. Methods such as analysis, synthesis, abstract-logical and critical thinking, scientific approbation, and generalization were used.

ANALYSIS AND DISCUSSION

Insurance has been an important factor affecting the economy as an integral part of financial relations in the stages of gradual development of human history. The insurance market is one of the main financial segments of the financial market of any country. In particular, development of investment activities of insurance organizations in our country is a strategically important task. Here, as an example, if we analyze the rating of the world's 50 largest insurance companies by total assets, these insurance organizations show themselves as large institutional investors in the development of various sectors of the economy together with insurance activities (Figure 1).

№	Company	Country	Total assets, $ bn
1	Allianz	Germany	1,261.9
2	Axa	France	950.6
3	Prudential Financial	United States	940.7
4	Ping An Insurance	China	883.9
5	Berkshire Hathaway	United States	773.7
6	MetLife	United States	795.1
7	Nippon Life	Japan	776.7
8	China Life Insurance	China	776.4
9	Legal & General	United Kingdom	774.8
10	Manulife Financial	Canada	688.8

Figure 1. Assets of the 10 largest insurance companies in the world (in billions of US dollars)[1]

From the data of Figure 1, we can see that Allianz insurance company is on the first place of the ranking of the world's largest insurance companies by assets with assets of 1,261 billion US dollars. In second place is Axa insurance company with assets of 950 billion US dollars, followed by 940 billion. Prudential Financial is an insurance company with USD assets. Ping An Insurance Company is in fourth place, and Berkshire Hathaway Inc. is in fifth place. MetLife insurance company with 795 billion US dollars, Nippon Life insurance company with 776 billion US dollars and China Life Insurance took the last three places of the rating.

When we got acquainted with the investment activities of the insurance companies of foreign countries mentioned above, when we looked at the investment directions of free funds and the directions of investment of the funds of insurance companies of our country, we witnessed that there are similar and different sides to the investment activities of insurance organizations in our republic. We will cover this in detail below.

In developed countries, the objects of investment activity of insurance companies are different. Private sector bonds make up the main part of the investment portfolio of insurance companies of Great Britain, France, the Netherlands, Ireland, Switzerland and Israel. But this financial instrument is not available in our country. In our opinion, the introduction of private sector bonds will make it possible to effectively invest the free cash resources of insurance organizations.

The analysis of the investment potential of insurance organizations and the specific characteristics of investment activity was carried out, the practice of investment activity of insurance organizations was analyzed, indicators for evaluating the effectiveness of the investment strategy of the insurance organization were developed and recommendations were given for their use. Also, when we analyze the dynamics of changes in the share of insurance premiums in the GDP of countries such as the USA, Great Britain, and Japan, we can see that rules have been developed for the organization of investment activities of insurance organizations in the USA, Great Britain, and Japan, and the norms for the placement of temporary free funds.

The investment projects of the 10 largest insurance companies in the world varied widely and included investments in a diverse range of assets such as stocks, bonds, real estate, and infrastructure projects. Here's a general overview of the types of investment projects these companies typically engage in:

Equities: Many insurance companies invest a portion of their portfolios in stocks to generate capital appreciation and dividends. These investments may include shares of large-cap companies, growth stocks, and dividend-paying stocks across various sectors and industries.

Fixed Income Securities: Insurance companies often allocate a significant portion of their investment portfolios to fixed-income securities such as government bonds, corporate bonds, and municipal bonds. These investments provide steady income streams and help manage risk through diversification.

Real Estate: Some insurance companies invest in commercial real estate properties such as office buildings, retail centers, and apartment complexes. Real estate investments offer potential for capital appreciation, rental income, and portfolio diversification.

Infrastructure Projects: Infrastructure investments, including toll roads, airports, bridges, and renewable energy projects, provide long-term, stable cash flows that align with insurance companies' liability profiles. These investments offer potential for steady income and inflation protection.

[1] *https://beinsure.com/ranking/top-25-insurance-companies-worldwide-assets/ TOP 25 Largest Insurance Companies in Worldwide are lists of the insurers in the world, as measured by total non-banking assets. The list is based on the 2024 report of the 25 largest insurance companies in the world by total assets from AM Best Rating Agency.*

Private Equity: Insurance companies may allocate capital to private equity funds or directly invest in private companies seeking growth capital. Private equity investments offer the potential for high returns but also entail higher risks and longer investment horizons.

Hedge Funds: Some insurance companies invest in hedge funds to access alternative investment strategies such as long/short equity, global macro, and event-driven strategies. Hedge fund investments aim to enhance returns and manage portfolio risk through diversification.

Infrastructure Debt: In addition to equity investments, insurance companies may invest in infrastructure debt instruments such as project finance loans, infrastructure bonds, and mezzanine debt. Infrastructure debt investments offer attractive risk-adjusted returns and stable cash flows.

Alternative Investments: Insurance companies may allocate capital to alternative asset classes such as commodities, real assets, and structured products to enhance portfolio diversification and generate uncorrelated returns.

Impact Investing: Some insurance companies incorporate environmental, social, and governance (ESG) factors into their investment decisions and actively seek out impact investing opportunities that align with their sustainability goals and values.

Technology and Innovation: Insurance companies may invest in technology startups, fintech companies, and innovation initiatives to stay ahead of industry trends, enhance operational efficiency, and improve customer experience.

It's important to note that the specific investment projects of the largest insurance companies can vary based on factors such as their investment objectives, risk tolerance, regulatory environment, and market conditions. Additionally, these companies may regularly adjust their investment strategies and portfolios in response to changing economic conditions and investment opportunities.

In the conditions of innovative development of the economy of our country, it is necessary to develop investment activities together with the main activities of insurance organizations, to ensure effective use of financial resources of insurance organizations.

Improving the investment activities of insurance organizations, reforming the management of financial assets, and turning insurance organizations into one of the largest financial institutions requires not only state bodies to be responsible, but we must all take a comprehensive approach to this system. In the implementation of reforms, it is necessary not only to make special decisions and to designate an authorized body for the activities of insurance organizations, but also to establish a cooperative action between various state bodies. The division of powers between them, the equalization of the balance of power in the insurance system and the formation of perfect self-managing mechanisms can be used to achieve the effective functioning of this sector. It also creates a basis for saving funds of insurance organizations and investing in the implementation of large projects in various sectors of the economy.

Therefore, improving the investment activities of insurance organizations, developing short-term and long-term strategies of this system, and creating new types of insurance products remain one of the urgent tasks awaiting their solution. New insurance products play a crucial role in addressing emerging risks, adapting to changing lifestyles, and meeting the evolving needs of consumers in developed countries.

Table 1. New insurance products in developed countries[2]

Insurance Product	Description
Cyber Insurance	Coverage for losses caused by cyber-attacks, data breaches, or other cyber-related incidents.
Usage-Based Insurance	Premiums based on actual usage of a product or service (e.g., pay-per-mile auto insurance).
Peer-to-Peer Insurance	Insurance provided directly between individuals, facilitated by a platform or technology.
Parametric Insurance	Pays out a predetermined amount upon the occurrence of a specific event (e.g., natural disasters).
Gig Economy Insurance	Coverage tailored for individuals working in the gig economy, addressing unique risks and needs.
Climate Change Insurance	Protection against climate-related risks such as extreme weather events, crop failures, etc.
Identity Theft Insurance	Covers financial losses and expenses incurred due to identity theft or identity fraud.

Here are some examples of new insurance products that have gained traction in developed countries:

[2] *Complied by the author.*

Parametric Insurance: This type of insurance pays out a predetermined amount based on the occurrence of a specific event, such as a natural disaster or adverse weather conditions. Unlike traditional insurance, which reimburses actual losses, parametric insurance provides a quick payout, often without the need for extensive claims processing.

Cyber Insurance: With the increasing frequency and severity of cyber attacks, cyber insurance has become essential for businesses and individuals. It covers financial losses and liabilities resulting from data breaches, ransomware attacks, and other cyber threats.

Usage-Based Insurance (UBI): UBI, also known as pay-as-you-drive or pay-as-you-go insurance, allows policyholders to pay premiums based on their actual usage of a product or service. For example, in auto insurance, premiums are determined by factors such as mileage, driving behavior, and time of day.

Peer-to-Peer Insurance (P2P): P2P insurance platforms connect individuals or groups with similar risk profiles to pool their premiums and share the financial burden of claims. This model promotes transparency, community involvement, and lower costs compared to traditional insurance.

Climate Change Insurance: As the impacts of climate change become more pronounced, there is a growing demand for insurance products that provide coverage against climate-related risks. These may include protection against extreme weather events, crop failures, property damage, and loss of livelihoods.

Gig Economy Insurance: With the rise of the gig economy, insurance products tailored to freelancers, independent contractors, and gig workers have emerged. These policies address the unique risks and needs of individuals working in temporary or part-time positions, such as liability coverage for ride-sharing drivers or occupational accident insurance for gig workers.

Identity Theft Insurance: Identity theft insurance protects individuals against financial losses and expenses incurred as a result of identity theft or fraud. It typically covers expenses such as legal fees, credit monitoring, and identity restoration services.

CONCLUSION

In conclusion, this literature review has provided a comprehensive examination of the financial state of insurance organizations, investment activities, and the emergence of innovative insurance products in developed countries. By synthesizing insights from recent research and scholarly contributions, several key themes and trends have emerged.

Firstly, the financial stability and resilience of insurance organizations remain paramount in ensuring the stability of the broader financial ecosystem. Scholars have underscored the multifaceted factors influencing insurers' financial health, ranging from regulatory frameworks and capital adequacy to macroeconomic conditions and catastrophic events.

Secondly, the investment activities of insurance companies play a pivotal role in shaping their financial performance and risk profiles. With a shift towards diversification and alternative investments, insurers are navigating an increasingly complex investment landscape marked by low interest rates and evolving market dynamics.

Lastly, the proliferation of innovative insurance products underscores insurers' adaptive responses to emerging risks and evolving consumer needs. Cyber insurance, parametric insurance, and peer-to-peer insurance platforms represent notable examples of insurers leveraging technology and innovation to address new and complex risks in developed countries.

In light of these insights, it is evident that the insurance industry in developed countries is undergoing a profound transformation, characterized by ongoing efforts to enhance financial stability, optimize investment strategies, and innovate insurance products. By embracing these changes and fostering collaboration among stakeholders, insurers can navigate the challenges and opportunities inherent in today's dynamic landscape, ultimately ensuring their continued relevance and resilience in an ever-changing world.

As a result of the research, the following conclusions were reached regarding the improvement of investment activities of insurance organizations:

First, the analysis of the current state of investment activities of insurance companies operating in our country showed that

The financial resources of insurance companies have grown significantly in recent years. Because the implementation of new insurance products in the insurance market determines the basis of this. Financial resources of insurance companies are used based on their responsibility. The higher the amount of financial resources of the insurance company, the greater the responsibility for using financial resources. The increase in capital and income of insurance companies allows them to form insurance reserves and increase the volume of investments;

Secondly, we can cite a number of reasons that indicate the low rate of return on investment operations. The first reason is that part of the profit-making assets of insurance companies participate in the authorized capital of other legal entities, and in turn, the assets of the second legal entity participate in the authorized capital of another third legal entity, and as a result, we can observe that the assets of insurance companies circulate among the authorized capital investments. These are just paper assets that are not profitable for the insurance company. The second reason is that insurance companies do not have qualified personnel for placing funds in the stock market. In addition, the stock market in Uzbekistan is underdeveloped and insurance companies are not interested in developing their investment activities. The reason for this is that insurance activity has a higher rate of return than investment activity. For this reason, companies have a superficial attitude to investment activities.

Thirdly, there are no special methods for assessing the efficiency of investment activity of insurance companies, it is necessary to define the strategic directions of development of investment activity of insurance companies, it is necessary to develop and calculate a system of indicators describing the level of investment potential of the insurer. Insurance companies can be ensured competitiveness by determining the factors affecting the efficiency indicators and the value of the organization. We need to work out the factors affecting the direct and indirect indicators describing the level of investment potential, financial stability and solvency problems of insurance companies and ways to eliminate them.

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