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PROBLEMS AND SOLUTIONS IN THE DEVELOPMENT OF INNOVATIVE INSURANCE SERVICES: THE CASE OF UZBEKISTAN

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ABSTRACT
The insurance sector in Uzbekistan is undergoing dynamic changes as a result of digital transformation, regulatory reforms, and efforts to align with international standards. Despite positive trends such as increased capitalization, diversification of insurance products, and wider adoption of electronic contracts, the sector faces significant challenges. Low public trust, weak insurance culture, limited regional coverage, and insufficient promotion of voluntary insurance products continue to hinder the full realization of the market's potential. The insurance penetration rate and insurance density in Uzbekistan remain significantly below global averages. This article examines the key problems impeding the development of innovative insurance services in Uzbekistan and proposes comprehensive solutions aimed at enhancing digitalization, fostering financial literacy, diversifying product offerings, and strengthening regulatory frameworks. Drawing comparisons with international best practices, the study highlights strategic pathways to foster a resilient, inclusive, and innovation-driven insurance market.

KEYWORDS: *Insurance market, digital transformation, insurance penetration, insurance density, innovative insurance services, financial literacy, regulatory reforms, Uzbekistan.*

INTRODUCTION

In the global context of digital transformation, the insurance industry is experiencing profound and dynamic changes. These shifts are driven by the urgent need to enhance competitiveness in an increasingly volatile and technologically advanced market. Across the world, insurers are revising their traditional business models, actively integrating new digital technologies, forming strategic partnerships, and reimagining customer engagement approaches. This transformation reflects not only a response to evolving consumer expectations but also the necessity of staying resilient amid rapid technological and economic shifts.

According to 2022 data, the global insurance industry's contribution to total internal product value added stood at approximately 2.6%, illustrating the sector's significant role in supporting economic stability and growth. However, this figure varies widely across different regions, particularly between developed and developing countries. In Uzbekistan, for instance, the insurance industry's share in total value added has historically ranged from 0.34% to 0.7%, indicating a relatively modest level of market penetration compared to the global average.

Similarly, disparities are evident in life insurance indicators. Globally, the average life insurance payout per person is estimated at around $650–700 USD, reflecting the high level of maturity and trust in insurance products in advanced economies. In contrast, in many developing nations, the average payout remains significantly lower, around $150 USD. Uzbekistan's figures lag even further behind, with an average life insurance payout of approximately $15 USD per person, highlighting both limited market development and prevailing challenges in public awareness, affordability, and product innovation[1].

These stark differences underscore the critical need for innovation in Uzbekistan's insurance sector. Without embracing technological advancements, diversifying products, and expanding financial literacy, the industry risks falling further behind global trends. Therefore, understanding the barriers hindering innovative insurance services and proposing effective solutions is essential to foster the sector's growth and integration into the broader economy

LITERATURE REVIEW

The rapid digitalization of financial services has significantly influenced the insurance industry, encouraging innovation in product development, distribution channels, and customer engagement strategies. Numerous

[1] *www.mf.uz*

empirical studies have examined the role of technological advancements and innovation in transforming insurance markets globally.

For instance, Lee and Shin (2018) conducted a comprehensive analysis of fintech's impact on traditional insurance models, concluding that digital transformation drives efficiency, reduces operational costs, and enhances customer experience. Their empirical findings suggest that companies integrating artificial intelligence (AI), blockchain, and mobile technologies into their operations witnessed an average revenue growth of 12% compared to non-digital competitors.

Similarly, the research by PwC (2021) emphasized that insurtech startups are reshaping customer expectations by offering personalized and flexible insurance products. Their survey of 9,000 insurance consumers across different markets revealed that 80% of respondents preferred digital-first insurers, highlighting a shift toward on-demand and usage-based insurance models.

In developing countries, however, the adoption of innovative insurance models faces additional barriers. According to Ahmed and Khan (2020), limited financial literacy, underdeveloped technological infrastructure, and regulatory constraints significantly hinder the spread of digital insurance products. Their study of South Asian markets indicated that innovative insurance penetration remained below 10%, despite increased smartphone adoption.

In the context of Central Asia, including Uzbekistan, empirical studies remain scarce but growing. A recent survey by the Asian Development Bank (ADB, 2023) reported that only 18% of the Uzbek population had access to any form of insurance, and digital insurance products accounted for less than 5% of total policies sold. Key obstacles included low public trust, insufficient product diversification, and a lack of digital platforms adapted to local consumer needs.

Moreover, Mamatkulov (2022) investigated innovative trends in Uzbekistan’s financial sector and found that government initiatives to promote digital finance — including mobile banking expansion and fintech regulatory frameworks — have not yet fully translated into the insurance sector. His findings stress the need for targeted reforms, public-private partnerships, and investment in consumer education to unlock the full potential of digital insurance in Uzbekistan.

Overall, existing empirical literature consistently underscores that while innovation offers significant opportunities for revitalizing the insurance industry, the realization of these opportunities in developing countries like Uzbekistan requires overcoming structural challenges related to market readiness, technology adoption, and consumer engagement.

ANALYSIS AND DISCUSSION

The insurance industry in Uzbekistan has experienced dynamic growth over the past five years, driven by extensive legal reforms and the introduction of modern digital technologies. Between 2017 and 2022, the number of insurance companies in the country increased by 51.8%, reaching 41 companies, while more than 30 organizations providing related services entered the market. The authorized capital of insurance companies rose 5.8 times, totaling 1.88 trillion soums by 2022. The number of insurance policies issued grew by 1.4 times to 8.4 million, largely due to the transition to electronic contracts, making insurance services more accessible and user-friendly for clients. These achievements highlight the role of digital transformation and regulatory strengthening in accelerating the modernization of the insurance sector.

Innovative insurance services, particularly digital policy issuance and online claims management, have significantly enhanced operational efficiency and client satisfaction. From 2017 to 2022, the total amount of insurance payouts increased by 9.6 times, reaching 2.6 trillion soums in 2022. This surge reflects improved financial stability among insurance companies and growing public trust in insurance services. Additionally, the number of regional branches increased by 1.5 times to nearly 2,000 units, contributing to service availability and economic activity in the regions. Insurance companies today offer more than 110 types of insurance products, including new digital products in health, property, travel, and business risk insurance, demonstrating a clear shift towards innovation and client-centered solutions.

Despite these advances, the contribution of the insurance industry to Uzbekistan’s GDP remains relatively low compared to developed economies. In 2022, the insurance sector’s share in Uzbekistan’s GDP was estimated at 0.34% to 0.7%, whereas in countries like the United States and the United Kingdom, the figure exceeds 7-8%.

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This gap underscores the need for continued innovation, deeper digitization, and broader financial literacy programs to enhance insurance penetration. Expanding the use of digital platforms, introducing usage-based and on-demand insurance products, and fostering partnerships with fintech and healthtech companies are essential steps to align Uzbekistan's insurance sector with international standards and fully realize its economic potential.

However, with rising income levels, increased financial market awareness and development, and the advent of digital technologies, the share of insurance services in GDP in these countries can increase. Insurance plays a critical role in ensuring financial stability and protecting the interests of the population and business entities. As economic conditions and financial literacy improve, its contribution to GDP is likely to grow. Analytical data on the growth rate of GDP and insurance premiums in Uzbekistan, as well as future tasks, are presented in Figure 1.

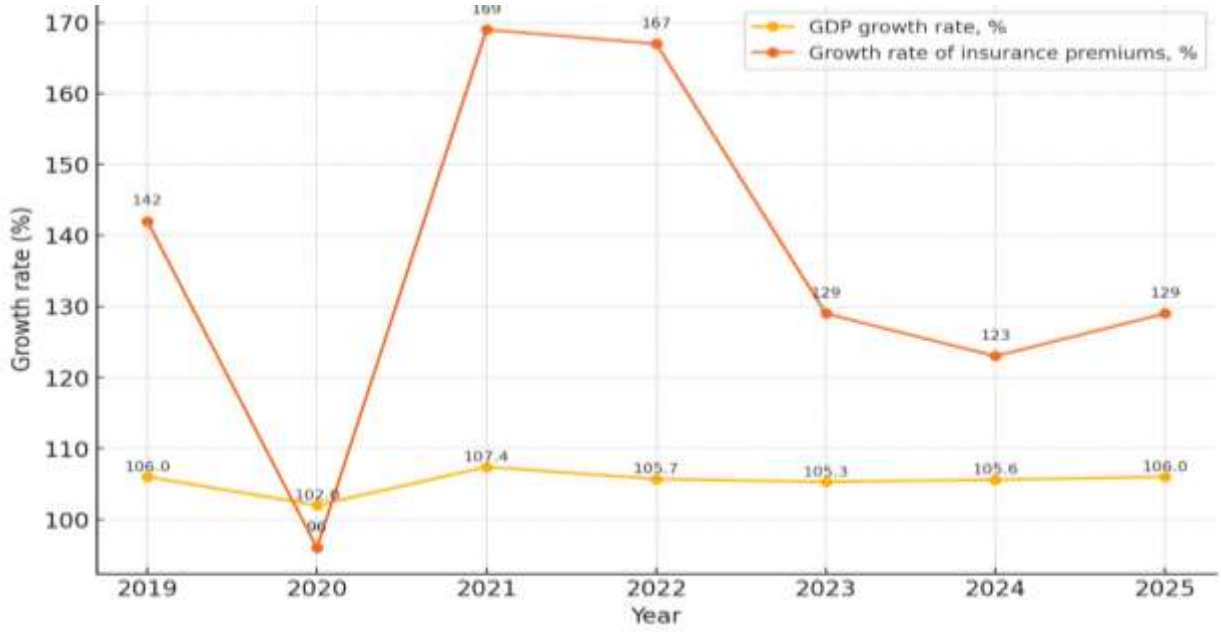


Figure 1. Analytical data on the growth rate of GDP and insurance premiums, as well as future tasks, in %.[2]

** Appendix 2 to the Law of the Republic of Uzbekistan No. O'RQ-813 dated December 30, 2022.

In the global practice of risk management, the insurance penetration rate — measured as the ratio of total insurance premiums to gross domestic product (GDP) — is recognized as one of the most important macroeconomic indicators reflecting the significance and maturity of the insurance sector. Leading countries demonstrate high insurance penetration levels, showcasing the advanced integration of insurance services into their economies. In Taiwan, insurance premiums account for an impressive 19% of GDP, followed closely by Hong Kong at 17–18%, South Africa at 14%, South Korea at 13%, and Finland at 12%. In major developed economies such as the United States and Japan, this figure stands at around 9.5–10%, while the European Union averages approximately 8%. Meanwhile, emerging markets in Latin America, Eastern Europe, and Africa show lower rates, typically ranging between 2% and 3.5%, reflecting both developmental and structural factors affecting insurance market expansion.

In comparison, Uzbekistan's insurance penetration rate remains modest. In recent years, the indicator has fluctuated between 0.34% and 0.7% of GDP, signaling significant room for growth and modernization in the sector (see Figure 2).

[2] *It was developed by the author based on the information from www.mf.uz.*

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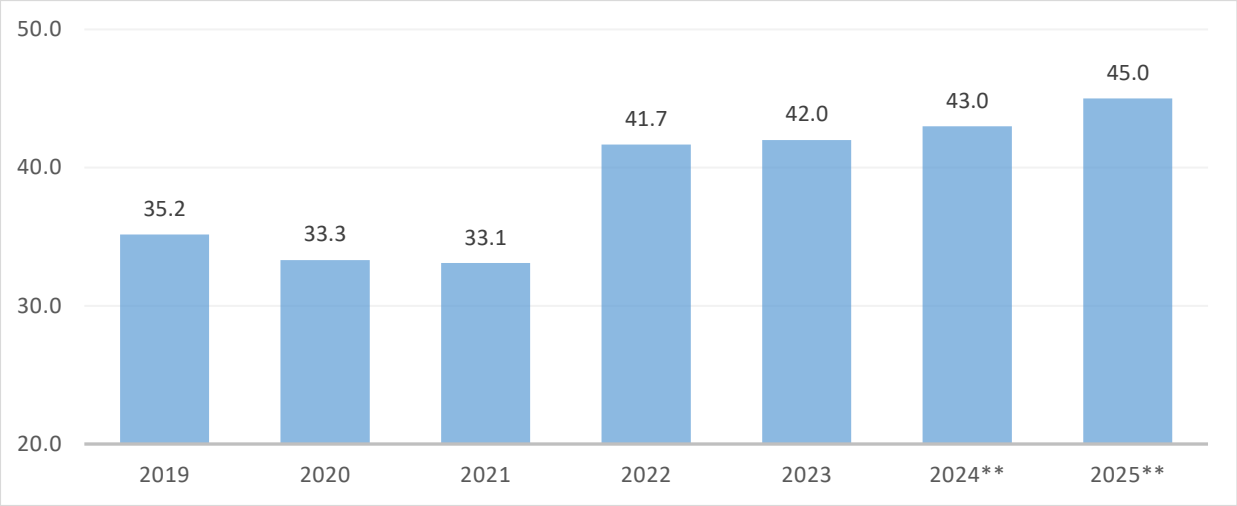


Figure 2. Analytical information on the share of insurance services in GDP and future tasks, in percentage[3]

** Appendix 2 to the Law of the Republic of Uzbekistan No. O'RQ-813 dated December 30, 2022.

Despite ongoing reforms and the increasing number of insurance companies and products, Uzbekistan's penetration rate is still considerably lower than that of developed and many emerging economies. This underscores the need for further systemic improvements, including widespread digitization, enhanced financial literacy programs, diversified insurance offerings, and regulatory alignment with international best practices. Strengthening these areas is critical to boosting the role of insurance in Uzbekistan's risk management system for both legal entities and individuals.

The growth in premiums for mandatory types of insurance in the 2020s is explained by the introduction of compulsory insurance for vehicle owners' civil liability, employers' civil liability, and carriers' civil liability (Figure 3).

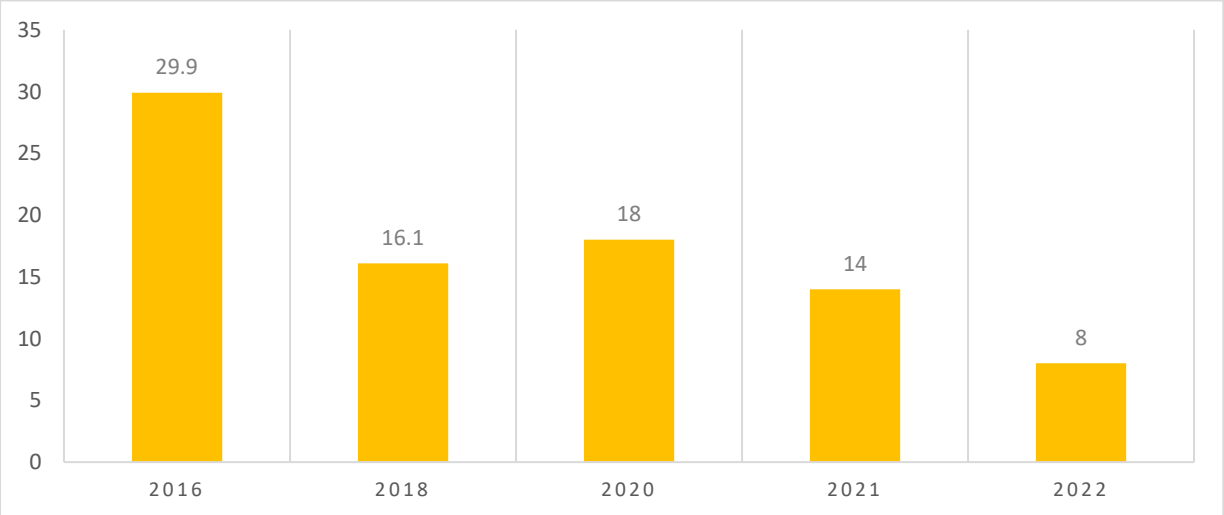


Figure 3. Share of Mandatory Insurance Types in the Total Volume of Insurance Premiums (%)[4]

The significance of insurance in modern economies is determined not only by the insurance penetration rate but also by insurance density, which measures the average insurance premium per capita. Globally, this figure has reached approximately 650–700 USD in recent years, reflecting high levels of insurance engagement and risk protection in developed markets. In contrast, developing countries show far lower figures, with an average of around 150 USD, of which only 80 USD is typically attributed to life insurance premiums. Uzbekistan's insurance

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density remains considerably low, exacerbated by structural issues within the national market. A critical indicator of this is the extreme market concentration: 52% of all insurance premiums originate from Tashkent, even though the capital houses only 7.7% of the country's population. This imbalance highlights a severe underdevelopment of insurance services in rural areas, where property, health, and life insurance remain largely inaccessible. Factors contributing to the limited engagement include low public trust in insurers, a weak insurance culture, the insufficient promotion of affordable insurance products like health and civil liability insurance, and the absence of systematic marketing strategies. Furthermore, the lack of targeted incentives to encourage insurance uptake among small businesses and private entrepreneurs has restricted the diversification of the sector. Addressing these challenges is critical for the sustainable development of innovative insurance services in Uzbekistan, as a broader and more inclusive insurance market would not only improve financial resilience among the population but also foster economic stability and attract greater investments into the country's emerging insurance ecosystem.

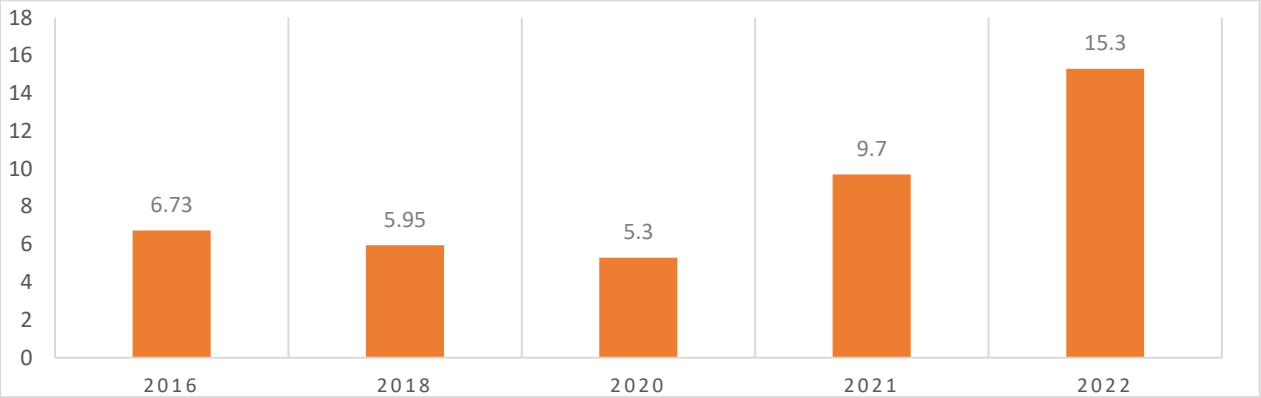


Figure 4. Insurance Density in Uzbekistan, in USD[5]

A critical observation in the structure of Uzbekistan's insurance market is that most local insurance companies primarily fulfill the existing demand generated by the banking sector, rather than proactively creating new demand among individuals and small and medium-sized enterprises (SMEs). This passive market behavior significantly limits the growth potential and diversification of the sector. A crucial aspect of developing a resilient and innovative insurance ecosystem lies in optimizing the balance between voluntary and compulsory insurance products.

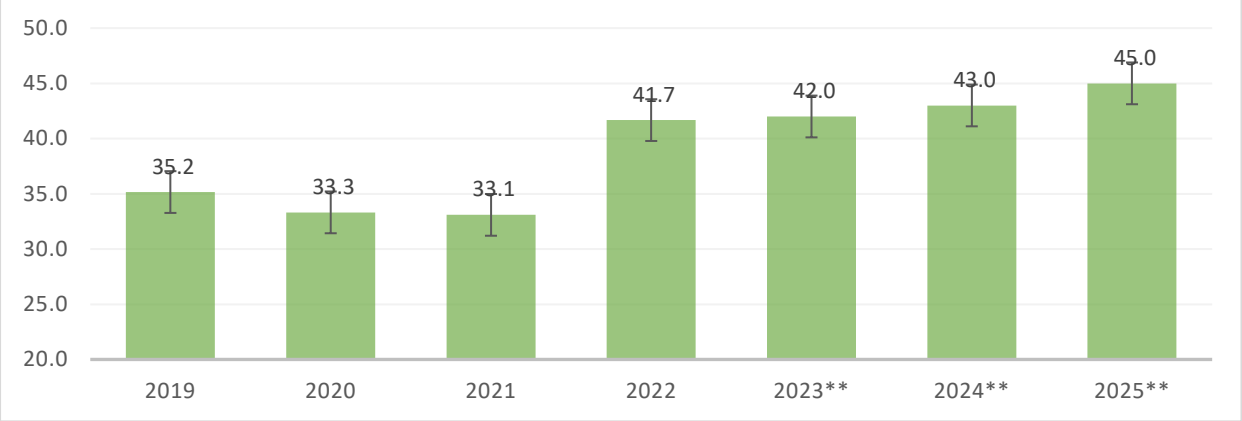


Figure 5. Ratio of Insurance Claims to Insurance Premiums (Loss Ratio), in Percentage [6]

Source: ** Appendix 2 to the Law of the Republic of Uzbekistan No. O'RQ-813 dated December 30, 2022.

In economically advanced countries, compulsory insurance premiums constitute over one-third of total collected premiums, demonstrating the effectiveness of mandatory frameworks in expanding risk protection coverage. In Uzbekistan, however, the dominance of compulsory over voluntary insurance remains less pronounced, indicating untapped opportunities to promote broader public engagement in insurance. Furthermore, the role of insurance as a fundamental component of risk management systems is reflected through the loss ratio — the proportion of claims paid to premiums collected. In 2022, Uzbekistan's loss ratio stood at approximately 42%, suggesting that

[5] *It was developed by the author based on the information from www.mf.uz.*
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while insurers are increasingly fulfilling their obligations, there remains significant room to enhance risk assessment, product innovation, and service delivery. Strengthening voluntary insurance uptake, particularly among SMEs and rural populations, would be a vital step toward deepening insurance penetration and fostering a sustainable, innovation-driven insurance sector in Uzbekistan.

Despite notable progress in the modernization of Uzbekistan's insurance sector, several systemic problems continue to hinder its full development and the spread of innovative insurance services. One of the most pressing issues is the low level of public trust in insurance companies, exacerbated by limited transparency and weak consumer protection mechanisms. Additionally, the overall insurance culture among the population remains underdeveloped, particularly in rural areas, where awareness about the benefits of risk coverage is minimal. Many insurance companies also display a passive market behavior, focusing primarily on compulsory insurance linked to bank loans rather than promoting voluntary products tailored to individual and SME needs. Furthermore, the lack of diversified digital channels and innovative products restricts the sector's ability to attract younger, tech-savvy clients. These challenges are compounded by a highly concentrated market structure, where over half of insurance activities are confined to Tashkent, limiting regional development and financial inclusion.

Table 1. Key problems and proposed solutions for the development of innovative insurance services in Uzbekistan [7]

Problems	Solutions
Low level of public trust in insurance companies	Improve transparency, accelerate claims processing, and strengthen consumer protection mechanisms
Weak insurance culture and limited public awareness, especially in rural areas	Implement nationwide financial literacy programs focused on the importance of insurance
Predominance of compulsory insurance linked to bank loans; lack of voluntary product promotion	Develop and promote voluntary insurance products, including health, microinsurance, and SME-targeted policies
Insufficient digital infrastructure and lack of modern, accessible insurance platforms	Accelerate digital transformation by investing in mobile applications, online platforms, and insurtech partnerships
High market concentration in Tashkent, limited regional development	Expand regional insurance services through incentives for rural operations and mobile insurance solutions
Lack of diversified insurance offerings adapted to emerging consumer needs	Introduce innovative and flexible insurance products such as usage-based and on-demand insurance models

Addressing these challenges requires a comprehensive set of reforms aimed at enhancing both supply and demand dynamics within the insurance market. First, insurance companies must invest in building public trust through greater transparency, faster claims processing, and improved customer communication. Parallel to this, it is crucial to introduce and actively promote innovative, affordable insurance products — particularly microinsurance, health insurance, and small business risk insurance — specifically designed for rural and underserved segments. Digital transformation should be accelerated by developing mobile platforms and integrating insurtech solutions that simplify product access and improve user experience. Additionally, government support in the form of financial literacy programs, incentives for voluntary insurance uptake, and the creation of favorable regulatory frameworks aligned with international best practices can significantly enhance insurance penetration. These strategic measures will collectively contribute to building a resilient, inclusive, and innovation-driven insurance sector in Uzbekistan.

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[7] *It was developed by the author.*