



THE DEVELOPMENT OF INSURANCE FOR THE RISK AT ENTREPRENEURSHIP CAREER: THE ANALYSIS OF FOREIGN EXPERIENCE

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ABSTRACT

In the article, the historical development of business risk insurance is covered by the example of foreign countries, and some commentary on the use of this type of insurance is provided in the legislation of Uzbekistan. In addition to describing the models used to insure business risk, the author expressed his views and the ways how they can be implemented.

KEY WORDS: *Business risk, insurance, carrier liability insurance, life insurance, property insurance, insurance payout, insurance coverage, passenger, luggage, damage.*

DISCUSSION

Providing transportation services is one of the types of business activities. A person acting as a carrier shall carry out his activities under a relevant license. The activities of passengers, luggage and freight services are always based on a certain risk and may always cause the risk of injury to the life, health and property of the passenger. This, in turn, creates the civil liability of the carrier. And the carrier may not be prepared to compensate for this type of unforeseen and unexpected damage and may not have sufficient resources to cover the loss. In this case, insurance serves to ensure the property interests of carrier and effectively compensate for the damage to passengers.

If we focus on the insurance of business (transportation services are also business activities), these processes go back a long way. According to the experts, the first insurance shoots occur under the laws of Hammurabi, and it has similar rules for insurance against the robbery of caravans which belong to Babylonian travelers¹. It is also found in religious books (Torah) that such agreements were made in Palestine and Syria. They are intended to cover property damage associated with damage to cargo in caravan, loss of donkeys caused by wild animals and robbery. Clearly, the emergence of insurance is linked to the need to protect the property interests of individuals.

Subsequently, the development of insurance will proceed from the distribution of losses among members of a particular community, which is based on

a professional principle, consisting of a system of permanent payments that can be a source of payment for unforeseen circumstances that may cause damage to guild members². In this case, the losses would be compensated irrespective of the reason for their occurrence. These could include casualties (fire, floods, shipwrecks, animal deaths), and social events (robbery or plunder).

In addition to the guild's property insurance and the payment of a certain incident, the payout for the illness of a member of guild, and when he/she passed away the payout to his/her widow and children has evolved together, which has led to a gradual privatization of personal and property insurance which is now recognized as a separate type of insurance in many foreign countries.

For the very reason of protecting the professional benefits of united people, the insurance of sea transportation emerged which is the oldest of all types of insurance activity that has emerged and rightly so, as part of the protection of the interests of persons united by the principle of common interests³. In this connection there was an active trade by sea, and the damage that could be inflicted upon traders was under the constant invasion of the natural forces. Naturally, they were looking for ways to reduce their losses. The earliest insurance policy was issued on October 23, 1347, as a letter of credit in Genoa⁴. Prior to departing

¹ Серебровский В. И. Очерки советского страхового права // Серебровский В. И. Избранные

труды по наследственному и страховому праву. М., 2003. С. 278.

² Троицкая И.В. Теория и практика правового регулирования страхования в сфере

предпринимательства в зарубежных странах //

³ Журавин С. Г. Краткий курс истории страхования. М., 2005. С. 8.

⁴ Ингосстрах: опыт практической деятельности / Под ред. В. П. Кругляка. М., 1996. С. 10.



for maritime trading, the merchant loaned the goods at a higher interest rate than the usual interest rate. In the event of a shipwreck, he is exempt from paying the principal and interest on it. It is evident that the loan amount is a specific type of insurance payment to be paid in the event of an accident, while a high percentage served as a certain form of insurance premium. The interests of entrepreneurs are also protected in other active forms of property insurance, such as fire insurance, crop insurance, livestock death insurance and so on. It is noteworthy that the types of insurance have been implemented not only within the Guild community but also by insurance companies that provide insurance protection services to a wide range of stakeholders from time to time (Insurance Camera in France, Fire Insurance Association in England).

Development of economy and commodity-money relations, scientific-technical progress, introduction of new techniques with the use of machines have led to increased risks for economic entities. It was not possible to cover these risks within the prevalent professional organizations that make mutual payments. Insurance gradually became a "big form of business"⁵, insurance companies were established in the form of joint-stock companies, which allowed consolidation of large funds and use of these funds in other activities, in particular lending and investment activities.

Increased demand for insurance has also led to an increase in insurance companies offering insurance services. Insurers began to attract insurers by offering them insurance coverage against traditional property risks (fire, theft, etc.), as well as additional risks associated with insured property. In 1792, for the first time in England, insurance against indirect losses as a result of an accident occurred under a fire insurance contract⁶. Subsequently, the consequence of this practice was the expansion of the range of insurance objects. In 1817 insurance societies in Germany began to provide for compensation for damage caused by the failure to pay rent for property damaged or lost by fire.

In 1821, for the first time in England, a completely new insurance product was offered to protect the property interests of entrepreneurs. In the event of an insurance event that makes it impossible to continue normal business activities, businessmen have been introduced to pay in the form of cash for each compulsory downtime. This type of insurance is still in use today and is widely used in the US and UK with the term *per diem* business interruption⁷ policy. It is clear that insurance against disruptions in production has

been introduced to its content as a system of insurance measures aimed at minimizing entrepreneurial risk from the first half of the 19th century.

In 1825, France began to apply civil liability insurance, which resulted from the rapid development of production as a result of technical revolutions⁸. With the increase in industrial production, production risks increased, as well as increased risk of accidents in the business. The role of civil liability for breach of contractual obligations has also increased. In this regard, in the late 19th century, insurance companies began providing insurance services to their clients through delicacy and contractual liability insurance.

Thus, in the early twentieth century, business insurance was confined to the real estate business as a result of business activity or to the scope of property insurance. But then insurance coverage began to be presented not only to the damage or destruction of property, but to a wider range of risks. Indirect losses on property insurance in the event of a certain insurance event were initially covered under this insurance agreement (contract). In other words, insurance against production failures or expected loss of income was initially associated with property insurance and as additional services provided to the insurer under the basic contract.

However, the premium paid under a normal property insurance contract allowed the insurer to say that it was less than the insurance premium under the contract, which obliges the insurer to indirectly reimburse the insurer as a result of the insurer's risk. Separating this service into a separate insurance product would take some time and create an understanding of this. In fact, by 1899 the rules for industrial accident insurance had been developed in England, and the losses incurred by it would be covered by the economic turnover of the insurer⁹. This practice of indirect damage insurance is common in many European countries. In the USA, another system for calculating the loss from production stoppage, i.e. the insurer's gross profit, is adopted¹⁰.

Although the risk of non-profits in foreign countries and indirect loss insurance is still largely related to property insurance and is carried out under one contract¹¹, researchers point out that these types of insurance have different legal characteristics and the need to distinguish between these two types of

⁵ Сплетуков Ю. А., Дюжиков Е. Ф. Страхование: Учебное пособие. М., 2004. С. 32.

⁶ Страховая компания "Minerva Universal". См.: Business interruption insurance // Swiss Re publications. 2007. P.

⁷ Dictionary of Insurance Terms / Harvey W. Rubin. NY, 2000. P. 375.

⁸ Mastering Risk. Volume 1: Concepts / Executive Editor James Pickford. Prentice Hall, Financial Times, 2001. P. 35.

⁹ Business Interruption Insurance // Swiss Re publications. 2007. P. 6.

¹⁰ Business Interruption Insurance // Swiss Re publications. 2007. P. 6

¹¹ Commercial Package Policy, Boiler and Machinery insurance and McGraw-Hill, 1998. P. 542, 549



insurance are needed and they have already been raised¹².

Classification of types of insurance in foreign countries is connected with the features of formation of the insurance market mentioned above. In particular, a number of states have insurance in two main areas: life insurance and other insurance not related to life insurance. At the same time, other than life insurance, it is usually the insurance of risks that are defined by a wide range of rules, which, by the name, are. In our opinion, this approach to the types of insurance is based on formal criteria and not on the generality of the insurance object. Life insurance services cover all types of risks associated with the life or death of a citizen, including his / her death before reaching a certain age. Anything other than life insurance includes any other risks.

In common law-enforcement systems, business interests of entrepreneurs are traditionally protected not only in life insurance but also in life insurance. For this reason, it is worth noting that insurance in Uzbekistan is not insurmountable, that is, the risk of injury or death of an important person in the enterprise. This type of insurance contract covers losses related to loss of market revenue, market share, innovative benefits, or a credit line based on the bank's personal trust to the insurer. In addition, the company will be reimbursed for the training and internship of the substitute¹³. This type of reimbursement is also provided in the event of an insured employee's life insurance.

The main protection of business interests is provided by the insurance other than life insurance. There are three main types of insurance aimed at protecting the property interests of businessmen:

1. Property Insurance;
2. Liability and Casualty Insurance;
3. Multi-Peril Insurance.

Property insurance will cover the following losses:

- Damage or destruction of property;
- Income lost due to property damage or loss;
- Other additional expenses related to damage or destruction of property;
- Damage or destruction of goods (including marine insurance) as a result of a vehicle accident.

Liability insurance will cover losses related to:

- Make payments to persons whose rights have been violated as a result of actions of the Insurer
- Payment of judicial expenses;

- Indemnification of indirect losses related to the "stupid popularity" of the insurer that caused the insurance event¹⁴.

Mixed insurance will cover the costs of damage to the insured property, as well as the costs of doing business according to the rules of civil liability.

For example, Commercial Automobile Policy covers cases where a vehicle is damaged, stolen, or liable to a third party for damage to the insured vehicle by an insured vehicle¹⁵.

Clearly, in the US and UK insurance practice, insurance protection follows the way of separating insurance products based on the risks presented, which may be specific (fire, flood, etc.) or cover a wide range of property insurance contracts (for example, transport insurance). At the same time, direct and indirect losses can be covered under any type of insurance product.

Insurance laws in other countries vary greatly for historical and political reasons. Today, the process of convergence of insurance legislation of member states within the European Union and development of a single insurance contract law is in process¹⁶. In particular, one of the EU Directives for Insurance Regulation provides industry classification by type of insurance, with insurance coverage other than US law: life insurance and life insurance¹⁷.

From the point of view of protecting the interests of entrepreneurs' property, credit insurance is of particular interest. This type of insurance can be made in the form of commercial risk insurance¹⁸ and the bank's risk of non-repayment of the loans issued to the supplier under the contract in the event of bankruptcy or insolvency of the counterparty.

This Directive also provides for other types of insurance that are important to the business insurer. These include: uninsured profit risk (widely interpreted in this risk practice, applied to significant risks, and not always associated with commercial activity), insurance against the risk of unnecessary expenses (eg, innovation or business expansion); insurance against unforeseen commercial expenses, loss of rent or other income related to property, as well as other indirect damage insurance.

¹² Risk Management and Insurance / C. Arthur Williams, Jr, Michael L. Smith, Peter C. Young. Irwin, McGraw-Hill, 1998. P 549

¹³ Risk Management and Insurance / Scott E. Harrington, Gregory R. Nichaus. McGraw-Hill, 2003. P. 32.

¹⁴ Risk Management and Insurance / Scott E. Harrington, Gregory R. Nichaus. McGraw-Hill, 2003. P. 501–516.

¹⁵ Insurance Law: Cases and Materials / John Lowry, Philip Rawlings. Oxford — Portland Oregon: Hart Publishing, 2004. P 139

¹⁶ Тарабарин Б., Чанс К. Регулирование договора страхования в рамках права Европейского Союза // Страховое право. 2001. № 1. С. 45.

¹⁷ Теория и практика страхования: Учебное пособие / Под ред. К. Е. Турбиной. М., 2003. С 84.

¹⁸ Усачева А. Кредитное страхование в рамках Европейского Союза // Страховое право. 2002. № 2. С. 34, 39.



The list of insurance services aimed at protecting the property interests of entrepreneurs is constantly expanding. With the emergence of new risks that pose a threat to business entities, insurance companies have also begun to cover the additional risks under their first insurance policies. It is mainly related to business activities and is related to the introduction of new technologies, e-commerce and other innovative activities¹⁹. At the same time, the amount of insurance premium set for these new types of insurance services reduces the attractiveness of the service to potential insurers.

As a result, large industrial and commercial companies seek to establish captive insurance companies (Captive Insurers), which serve the interests of corporate founders or their guarantors²⁰. The main advantage of risk insurance in lenders is the low cost of insurance. The decrease in the cost of insurance is achieved through an independent assessment of the insurance risks, which are useful for the underwriting policy of the parent company, as well as tax savings²¹. In addition, subsidiary insurance companies may place risks that ordinary insurers cannot undertake because they do not have valuation practices. The attractiveness of Keptiv companies in insurance of business risks is determined by the large number of such insurers that occupy 11% of world commercial insurance²². In addition, their numbers are growing at a steady pace²³.

Based on the above legal doctrines, the legislation of Uzbekistan and foreign countries, based on the delicacy of liability and the carrier's liability insurance for damage to life, health and property of the passenger, the following three models of civil liability insurance: restriction model and compensation model and innocent damage coverage models have been established²⁴. In the model of common law in the

countries of common law, the insurance payment is made only in the presence of the carrier's fault and the carrier's innocence is not the basis for compensation for the damage caused by the vehicle. In the Compensation model, on the other hand, there is an increased liability for carriers and the carrier's liability for any damage to life, health or property of the passenger. In the Injury Compensation model (New Zealand, Canada, Quebec and Manitoba, some states in the USA, etc.), insurance premiums are high, and carrier damage is covered by compulsory insurance.

In conclusion, it should be noted that the current practice of carriers' civil liability insurance in Uzbekistan is similar to the third model. In Uzbekistan, insurance companies are also covered by compulsory insurance of carrier's life, health and property damage. This means that as a subject of entrepreneurship the property of carriers is effectively used as a means of insurance of compensation for damage caused to passengers.

¹⁹ Mastering Risk. Volume 1: Concepts / Executive Editor James Pickford. Prentice Hall, Financial Times, 2001. P. 229–236.

²⁰ Risk management and insurance / Scott E. Harrington, Gregory R. Nichaus. McGraw-Hill, 2003. P. 557–559.

²¹ Most Keptic companies are registered in offshore areas. In addition, some US states have preferential tax terms for insurers (for example, Vermont, Colorado, and South Carolina). See Risk Management and Insurance / Scott E. Harrington, Gregory R. Nichaus. McGraw-Hill, 2003. P. 558.

²² Pilla, David. Captivating Growth // Best's Review. May, 2007

²³ The rate of annual deposition of peptides is 5%. See: Сычев А. Ю. Финансовое управление рисками в зарубежной практике // Страховое дело. 2004. № 1. С. 37.

²⁴ Корнеева О.В. Правовое регулирование возмещения вреда, причиненного здоровью потерпевшего в результате дорожно-транспортного

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