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THE IMPORTANCE OF INSURANCE ACTIVITIES FOR COMMERCIAL BANKS

Niyozov Zuxur Davronovich
Samarkand Institute of Economics and Service, Uzbekistan
niyozovzuhur@gmail.com Tel:+99890 1929058

Rasulov Dilshod Numonovich
Samarkand Institute of Economics and Service, MBI-124
Rasulovdilshod10@gmail.com Tel:+99899 1128555

Abstract: This article analyzes the role of insurance mechanisms in the operations of commercial banks, their importance in bank risk management, and the economic efficiency of integrated cooperation between banks and insurance organizations. The study examines the role of insurance instruments in reducing credit, operational, and financial risks encountered in banking activities. The prospects for bank-insurance cooperation were evaluated using examples from the banking system of Uzbekistan and international practice. The findings indicate that the effective use of insurance mechanisms contributes to strengthening banks' financial stability, reducing the share of non-performing loans, and enhancing customer confidence.

Keywords: commercial bank, insurance, risk management, banking risks, bancassurance, credit insurance, financial stability.

Introduction

Today, the stability and efficiency of the economy largely depend on the effectiveness of the services provided by commercial banks and insurance companies. These financial institutions not only facilitate capital circulation between individuals and legal entities but also play a crucial role in strengthening economic security. Commercial banks support economic activity through lending, payments, and investment financing. Meanwhile, insurance companies enhance economic stability by preventing various risks and compensating for losses.[1]

In a context where large-scale crises are manifesting in the economies of developed countries, cooperation between commercial banks and insurance companies is becoming increasingly relevant, as it brings mutual benefits by minimizing business risks and implementing joint investment activities. This kind of cooperation is carried out through the bank-insurance "bancassurance" model, first used in France in the late 1970s, which involved selling insurance services through the commercial banking network.[2]

Currently, the cooperation between commercial banks and insurance companies represents broad-based collaboration, leading to mutual benefit through the following factors:

- Offering new financial products by integrating banking and insurance activities;

[1] Xizmatlar sohasini strategik rivojlantirish orqali hududlarda barqaror iqtisodiy o'sish va aholi farovanligini oshirish imkoniyatlari" xalqaro ilmiy-amaliy konferensiyasi 4-qism, Z.D.Niyozov, D.N.Rasulov, "Tijorat banklar va sug'urta kompaniyalarining iqtisodiy hamkorligining ahamiyati jihatlari" maqola, Samarqand-2025, p. 164-168.

[2] Инновации и инвестиции" журнал, Макрова.О.М. "Направления взаимодействия страховых компаний и коммерческих банков в современных условиях" статья. Москва-2017, p. 43-46.

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- Reducing transaction costs and information losses;
- Attracting additional clients and strengthening control over their financial flows through deep marketing analysis;
- Increasing the competitiveness of the financial services market globally;
- Improving the quality of banking and insurance services.

"Despite the dominant position of banks, they do not cover certain segments of the population. During and after the privatization process, their activities may be more directed toward high-income large enterprises and individuals. This necessitates the development of NCO (Non-Bank Credit Organizations) to serve small businesses and low-income populations."

Literature Review

To further develop the insurance market, enhance the accessibility and quality of insurance services by widely implementing modern information technologies, and improve sector regulation, the National Agency for Prospective Projects is instructed to submit the following pro posals to the Presidential Administration of the Republic of Uzbekistan by January 1, 2025, based on the study of advanced foreign practices:

- Gradual introduction of mandatory insurance for legal entities' real estate against natural and man-made disasters;
- Step-by-step implementation of takaful principles and products;
- Gradual expansion of compulsory insurance types;
- Introduction of "green insurance" products;
- Expanding and further developing the coverage of voluntary medical insurance. [3]

According to Doctor of Economic Sciences, Professor Q.M. Quldoshev, positive initiatives are being undertaken under the leadership of the state to develop the activities of insurance organizations in Uzbekistan and to secure a strong position in national and international insurance markets in the future. Positive changes occurring in all aspects of the country's socio-economic life today are increasing the role of the insurance sector—an integral part of the financial system—and creating objective conditions for simplifying and improving operations in this field.[4]

Professor I.K. Abdurakhmanov emphasizes that just like any economic activity is aimed at making a profit, the main goal of commercial banks is also to make a profit. This, of course, is associated with risk. Risk is one of the key elements of entrepreneurial activity and is a multifaceted concept with broad meaning. Therefore, to ensure the efficiency of banking operations and maintain their financial stability, commercial banks are engaging in cooperation with insurance organizations by thoroughly studying the existing risks in the economy and their potential impact on banking activities.[5]

Research Methodology

The research utilized observation, comparison, statistics, and economic analysis methods. Data was analyzed regarding the development of the insurance market and the activities of commercial banks in the context of the implementation of modern digital technologies in a digital economy.

Analysis and Results

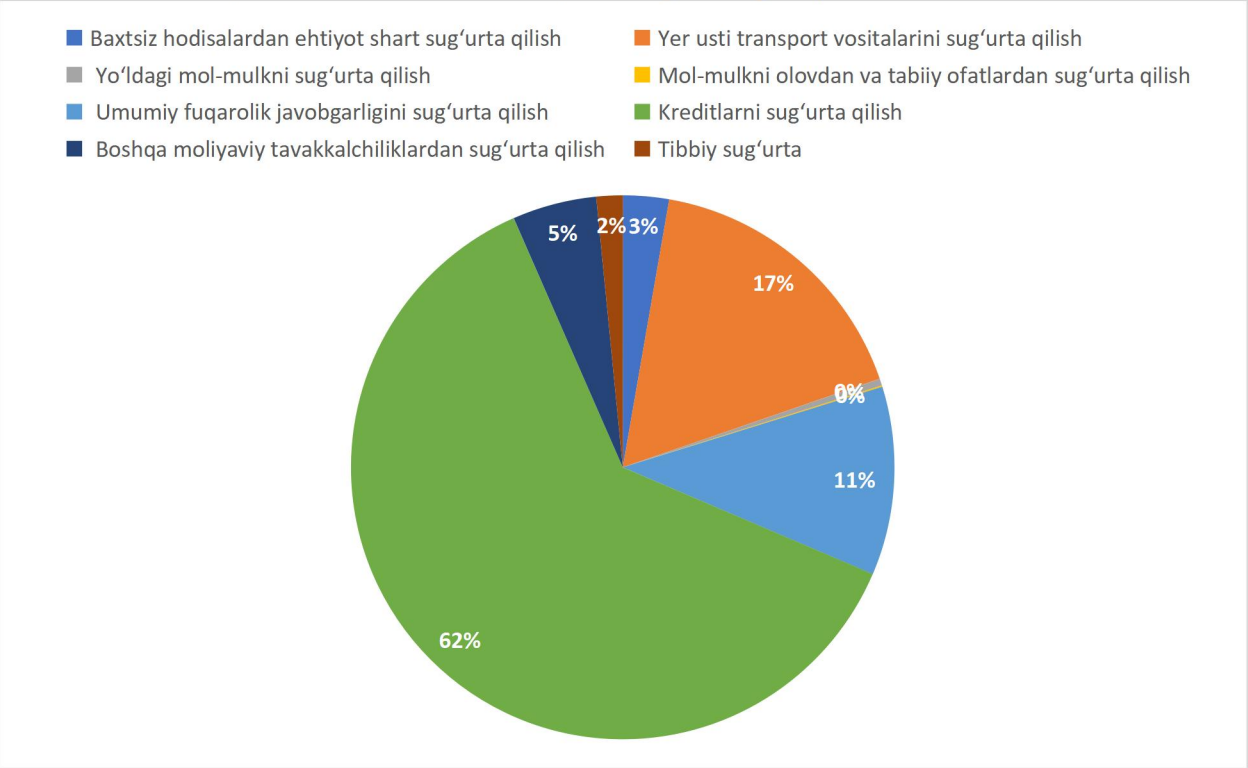
[3] "President of the Republic of Uzbekistan on Comprehensive Measures for the Further Development of the Insurance Services Market" 01.03.2024, PQ-108.

[4] Qo'ldoshev.Q.M "O'ZBEKISTON SUG'URTA BOZORI" ilmiy-qo'llanma, UzBridge elektron jurnali (2020). p. 1–4

[5] ABDURAXMONOV.I.X, "SUG'URTA NAZARIYASI VA AMALIYOTI", O'quv qo'llanma, "Iqtisod-moliya" Toshkent,-2018. 3-6, 418.

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In the overall dynamics of insurance premiums by insurance classes in 2025, the credit insurance class accounted for the largest share. This demonstrates that a substantial portion of insurance companies' revenues is generated through cooperation with banks and that the integration of banking and insurance services (the bancassurance model) is being widely implemented.



№1 picture. Distribution of Insurance Premiums by Insurance Class

APEX INSURANCE JSC actively participates in insuring loans issued through the following banks:

• Apex Bank (~30%): Holds one of the largest shares as the company's principal strategic banking partner.

• Kapitalbank (~23%): Maintains a very high volume of insurance contracts due to its leading position in auto lending and online microfinance loans.

• Anorbank (~20%): Also has a significant flow of insurance contracts as one of the leaders in auto lending and online microfinance loans.

• Other Banks (~15%): This group includes state-owned and private banks cooperating in mortgage and agricultural lending, including Agrobank, Xalq Banki, Ipoteka Bank, and others.

The estimated analytical distribution model of **O'ZBEKINVEST Insurance Company** based on its participation in the lending market, mortgage financing, and major corporate projects is presented below:

• National Bank of Uzbekistan (NBU) (~35%): Represents the largest share due to major investment projects, export loans, and corporate insurance portfolios financed through NBU.

• Agrobank and Xalq Banki (~20%): O'ZBEKINVEST is a leading insurer of agricultural, small business, and family entrepreneurship loans issued through these state-owned banks.

• Ipoteka Bank (~18%): As one of the country's largest mortgage lenders, it has a substantial share in residential property and collateral insurance contracts.

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• Asakabank and SQB (~15%): Includes insurance contracts related to industrial, construction, and large-scale auto lending projects.

• Private Banks (~12%): Covers online microfinance loans and retail loans issued through private and digital banks.

GROSS INSURANCE COMPANY JSC is particularly active in retail services, online microfinance lending, and auto lending. Its estimated analytical market-share model based on cooperation with banks and insurance market indicators is shown in the following pie chart (Figure 2).

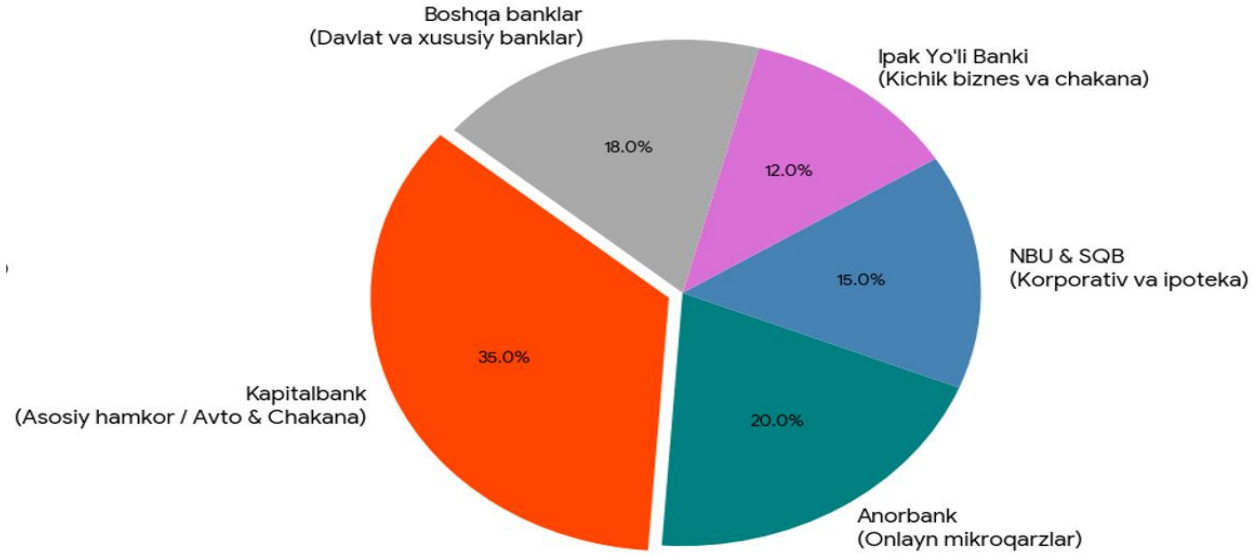


Figure 2. Share of contracts signed by Gross insurance company by bank.[6]

Conclusions and Recommendations.

1. The research findings demonstrate that insurance has significant economic importance in the operations of commercial banks.
2. Insurance is an effective instrument for reducing banking risks, improving the quality of loan portfolios, ensuring financial stability, and protecting customer interests.
3. Developing cooperation between banks and insurance companies, expanding the implementation of the bancassurance model, and improving digital insurance products should become key priorities for the development of Uzbekistan's financial system.
4. Furthermore, improving credit-risk insurance mechanisms, developing cybersecurity insurance, and introducing international best practices will contribute to enhancing the stability of the banking system.
5. In the operations of insurance companies in Uzbekistan's insurance market, "credit insurance" products are more prevalent than other types of insurance products. One of the main reasons for this is the close cooperation between commercial banks and insurance institutions.

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