

COMPETITION IN THE INSURANCE MARKET OF UZBEKISTAN

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ABSTRACT

This article is dedicated to the analysis of competitiveness on insurance market of Uzbekistan. It studies theory of competitiveness, main factors for impacting insurers. Also represented some methods of measurement of competition degree amongst insurance companies. Tried to measure degree of competition on Uzbek insurance market. As main parameters to determine competitiveness we have chosen the indicators of financial activity. As a result, we found the best and the worst companies on the market, specified their disadvantages and advantages. Regression analysis and comparison analysis were used for analyzing the initial data.

Keywords: competition, insurance, competitiveness indicators, Uzbekistan, rating

INTRODUCTION

As competition in the insurance services market of Uzbekistan is high, seeking for new methods of enhancing competitiveness is considered to be a topical issue. Thus, justification of methodological approaches at analyzing competitive advantages of insurers has become important. Factor analysis of enhancing competitiveness of the insurance industry for the case of Uzbekistan as well as the system of indicators hasn't been thoroughly considered in the researches up to this day. This article is devoted to the determination of the main factors for attracting more clients. Such general scientific methods as correlation analysis and logical comparison have been used in the research process. As main factors for finding rating of insurance companies have been chosen: insurance premiums, reserve capital, investments in the economy, insurance payouts, insurance liabilities and other indicators. Practical applicability of research is determined by their practical application in the performance of insurance companies.

LITERATURE REVIEW

Competitiveness is considered to be one of the main categories in economics because it includes all aspects of performance in the market. These aspects are reflected in company's products, which compete with rival counterparts in the insurance market.

Competitiveness represents a complicated structure. Many factors comprise its composition. Rodionov (2016) refers the following factors of insurance company competitiveness: technology level, state of capital, qualification and practical experience of the personnel, management system, marketing strategy, prestige of the insurance company and its profitability level.

"Competitiveness of the company" has many definitions developed by economists. Fatkhutdinov (2002) determines it as «the peculiarity of objects that characterizes the degree of satisfaction of specific needs in comparison with the best similar objects represented in the market». Komkov (2007) supposes that "competition" contains initial comparison of objects

among themselves in conditions of competition. By the view of Yuryeva (2010), competitiveness of a company is a complex concept, which is determined by the system and quality of management, quality of products, wide range, stable financial status, ability to innovate, effective use of resources, human resources performance, the level of marketing research, image of the company.

Porter (2005a) says that competitiveness is determined by the ability to develop continuously, initially to gain a competitive advantage by changing the basis on which the competition is implemented. Then to keep this advantage, constantly improving product, production methods and other factors, and so quickly in order to make competitors be unable to catch up and overtake. This improvement and updating represent a continuous process that enables to create a competitive advantage (Porter, 2005a).

Thus from the point of view of Porter (2005b): competitiveness of the product is the ability of the production to be more attractive to the consumer compared to other products of the same type, due to its qualitative and cost characteristics.

A preliminary assessment of the competitiveness enables to simulate its level, to develop solutions to improve the competitiveness of products. However, in the process of the research it has been found out that presently, insurance companies of Uzbekistan and many other companies don't have any possible approaches and economic-mathematical methods to the determination of competitiveness of the company itself or its products on the market.

In our research we accept the definition of "competitiveness" developed by Zhuk (2011). Competitiveness is the maintenance of the strategic indicators of the company in the state of sustainability ensuring economic efficiency of business on the level acceptable to the founders. Such parameters may be: financial stability or solvency, the composition and structure of branches, number of agents, the growth of insurance premiums, the expansion of market share, etc.

It should be noted, that in general, competitiveness has a relative character and can be revealed in the result of comparison of the analyzed object with two competing objects. The comparison should be accurate and complete by the considered aspects.

There are various approaches to the assessment of competitiveness. Yashin (2004) mentions 6 approaches which can be applied in the competitiveness assessment:

- a. study of the competitiveness from the point of view of comparative advantage – for example, the company specializes in the production and export of those goods, which production requires cheaper resources than the goods produced by other companies because of the existing advantage of territorial location.
- b. assessment based on the equilibrium theory of the company – as the theory of Marshall, if in terms of equilibrium, when the company has no incentive to shift to another state, it reaches the maximum possible volume of production and sales at maximum market demand. Under such circumstances, the company does not have excessive profit.
- c. structural analysis – in which the company operates on the basis of the monopolization of the industry in the economy. In this case, the advantage comes from low costs in already existing companies, and, on the contrary, relatively high costs in emerging companies.
- d. functional approach – is determined by the correlation: costs – price; capacity utilization, production volume, profit rate, etc.
- e. assessment of the competitiveness of the manufacturer by quality of products – here there are used the polygonal sides of the product quality to identify criteria that meet the needs of consumers for specific products of the company;

- f. matrix method of competitiveness assessment proposed by “Boston consulting group” – based on the construction of the matrices and initial choice of strategy. For example: cost effectiveness – the effect of differentiation; formation of the share in the market – using market share, etc.

Next section is devoted to the consideration of main types of technique of economic-mathematical analysis of the insurance company competitiveness and represents the justification of the selected methodology on the basis of existing initial data.

METHODOLOGY

Economic-mathematical assessment of the competitiveness can be conducted using several instruments. The main methods which can be applied in analyzing insurance market of Uzbekistan are stated below:

Concentration ratio (Calkins, 1983) – characterizes the share of several large companies in the volume of the market. It is determined as a percentage relation of the volume of services, a certain number of the largest participants of the market to the total market capacity.

$$CR_n = \sum_{i=1}^n k^i$$

Here, CR_n – concentration index, n – number of companies, k^i – market share of each company.

If an analyzing expert has complete information, it is better to apply the coefficient of the concentration index of Herfindahl-Hirschman to find out the role of small participants in the insurance market. The Herfindahl-Hirschman index can be used as a measure of concentration, however, this index does not illustrate the market share, but reflects the allocation of “market power” among selected entities. It is calculated by the following formula:

$$HHI = \sum_{i=1}^n k_i^2$$

where, HHI – Herfindahl-Hirschman index, k_i^2 – share of the company in the industry, in %.

The Herfindahl-Hirschman index is used by anti-monopolists as a target to determine possibilities of merging two or more companies.

Mergers are classified in three groups:

HHI less than 1000. The market is assessed as unconcentrated, and the merger is allowed.

HHI more than 1000 but less than 1800. The market is considered to be low-concentrated. However, HHI level is over 1400 and can require additional verification of the expediency of the merger.

HHI exceeds 1800. The market is considered to be highly-concentrated and the merger may not be approved based on relevance of the market monopolization.

Market concentration and the degree of competition development are determined on the results of analysis using this method.

Assessment of competitiveness based on the level of sales (Krotkov and Yeleneva, 2001) – in this case, competitiveness may serve as a relative share of sales (Boi) of the assessed product in comparison with the rival and is calculated by the formula:

$$Boi = \frac{M_0}{M_0 + M_1}$$

where, M_0 – volume of sales for a certain period of time; M_1 – volume of sales of the competitive production for the same period.

The level of competitiveness can be assessed as the probability that in this market the consumer, making a purchase, prefers this product to the product which it is competing with.

Probability Boi – is preference of one product to its rival.

Assessment method of Fatkhutdinov (Fatkhutdinov, 2002) is assessment of competitiveness through integrated, gradual and elementwise studies of leading companies.

Competitiveness level of the industry is calculated by the following formula:

$$K_o = \frac{\sum_{i=1}^n vi \cdot ki^2}{\sum_{i=1}^n vi}$$

Here, K_o – level of industry competitiveness; vi – the market share of this production; ki – competitiveness of the production in the market, shares in the units of measure.

Competitiveness assessment on the rating basis – when compiling the competitiveness rating of companies, parametric analysis is used, however, normative conclusions are made on the basis of the quantitative conclusion, that is, on selected criteria weight by their relative significance. The total score of the company, which is the basis for determining the final places in the ranking, is calculated by the system of indicators.

The company rating is determined on the basis of the calculation of their total score on the following formula:

$$TM = \sum_{i=1} Mi \cdot Bi$$

TM – final score of the company gained by the results, Mi – company score on the i -indicator, Bi – weight of i -indicator.

Thus, to analyze competitiveness of the insurance companies in the insurance market of Uzbekistan, the last method of the market analysis will be used. The statistical data for this research was provided by the Ministry of Finance of the Republic of Uzbekistan from their database free of charge for conducting research in the insurance business. The data is of the secondary character and looks like cross-section.

ANALYSIS OF THE COMPETITIVENESS OF INSURANCE COMPANIES OF UZBEKISTAN

Analysis of competitiveness of insurance companies of Uzbekistan will consist of four main stages. The first stage of the competition analysis represents determination of the main parameters of competition. The second stage is the determination of the weight of each parameter in competitiveness based on regression analysis. The third stage is the calculation of the rating of competitiveness of each insurance company. The fourth step is compilation of a consistent priority list of insurance companies on the basis of the obtained results.

In general, indicators of the following insurance companies – Alfa life, Alskom, Asia insurance, Gross insurance, Kafil sugurta, New life insurance, Sugurta UZ, Temir yul sugurta, Xalq sugurta, Ingo Uzbekistan, Kapital sugurta, Kafolat sugurta, Mega invest, Usagrosugurta, Uzbekinvest, Universal sugurta, Hamkor sugurta – have been accepted for the analysis.

The following main indicators of insurance companies have been selected for analysis:

- a. insurance premiums;
- b. authorized capital;
- c. reserve capital;
- d. investments in the economy;
- e. insurance payouts;
- f. insurance liabilities;
- g. profit (before tax) from general economic activities.

The amount of the received insurance premium in the annual value is considered to be an efficient indicator of the competitiveness of the insurance company.

Regression analysis method has been used to determine the weight of each indicator. Average-weighted coefficients represent the weight for each parameter of competitiveness. The following table illustrates the weight of each indicator determined after data processing using computer software Eviews 8.0.

Table 1. Significance and weight of indicators

Indicator	Weight	Significance	Impact
Insurance Premiums	17.81	significant	positive
Authorized Capital	-	insignificant	
Reserve Capital	10.82	significant	negative
Investments In The Economy	11.47	significant	positive
Insurance Payouts	18.41	significant	positive
Insurance Liabilities	9.88	significant	negative
Profit (Before Tax) From General Economic Activities	-	insignificant	
Other Indicators	31.61	significant	positive

Table 2. Rating of insurance companies in Uzbekistan

Uzbekinvest	1	Asia insurance	7	New life insurance	13
Usagrosugurta	2	Gross insurance	8	Alfa life	14
Kafolat sugurta	3	Universal sugurta	9	Mega invest	15
Alskom	4	Ingo Uzbekistan	10	Sugurta UZ	16
Kapital sugurta	5	Xalq sugurta	11	Kafil sugurta	17
Temir yul sugurta	6	Hamkor sugurta	12		

Thus, the analysis shows that the selected indicators of competitiveness are significant for the final result of competitiveness. The most competitive insurance companies in Uzbekistan in the TOP 5 are the following: Uzbekinvest, Usagrosugurta, Kafolat sugurta, Alskom, Kapital sugurta. According to our assessments, the most uncompetitive insurance companies are the following Mega invest, Sugurta UZ, Kafil sugurta.

CONCLUSION

Research of competitive advantages of insurance companies has enabled to make the following conclusions:

1. efficient functioning of the insurance companies depends on many factors;
2. it is possible to maintain competitiveness only at continuous improvement;
3. in the insurance business competition is mainly achieved with the help of quality of customer services and further servicing of concluded contracts;
4. the following indicators are the criteria of assessing competitiveness of insurance companies in Uzbekistan: authorized capital, reserve capital, volume of investments, insurance payouts, insurance liabilities and the volume of insurance premiums received from clients;
5. the following insurance companies are considered to be the most competitive insurance companies in Uzbekistan: Uzbekinvest, Uzagrosugurta, Kafolat sugurta, Alskom, Kapital sugurta;
6. the following insurance companies are considered to be the least competitive insurance companies by the results of 2016: Mega invest, Sugurta UZ, Kafil sugurta.

The following recommendations may be given to the insurance companies with the low level of competitiveness: necessity of the further reduction of fixed costs, digitalization of client service process, enhancing the confidence towards the auto service centers, private clinics and other partners.

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