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STRATEGIES FOR COST MANAGEMENT AND INCREASING PROFITABILITY IN INSURANCE COMPANIES

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Abstract: This article examines the economic essence of income and expenses as the main factors ensuring the financial stability of insurance organizations. The structure of income derived from insurance activities, as well as the company's operational and investment expenses, are analyzed. Based on the research findings, scientific proposals have been developed to optimize the financial results of insurance organizations and improve cost management.

Keywords: Insurance premium, investment income, underwriting, insurance reserves, operating expenses, financial stability, insurance contribution, loss ratio.

INTRODUCTION

In a market economy, insurance organizations act not only as risk management institutions but also as major investment entities. The financial success of an insurance company depends on its ability to generate income and manage expenses efficiently. At the current stage of reforming the insurance market in Uzbekistan, increasing the level of capitalization of companies and ensuring their profitability remain pressing issues. This necessitates a scientifically grounded analysis of the balance between income and expenses.

LITERATURE REVIEW

Among foreign scholars who have studied the financial system of insurance organizations, J. Hampton and E. Vaughan highly evaluate the role of investment activity as the main source of income for insurance companies. Local economists such as H. Shennayev and B. Safarov have examined ways to increase revenues in the Uzbek insurance market by improving underwriting efficiency and optimizing insurance tariffs.

In addition, the Law "On Insurance Activity" establishes the legal framework for recognizing income and expenses. The study of financial results and profitability of insurance organizations represents a distinct area of economic research. In particular, Nobel laureate Kenneth Arrow, in his works on risk theory, demonstrated that the profitability of insurance companies depends on how effectively they can manage information asymmetry. According to him, the more information an insurer has about a client, the lower the underwriting costs.

Modern Western economists J. Cummins and M. Rubio-Misas (2021), in their analysis of insurance company revenues, introduce the concept of "economies of scale." According to their research, large insurance companies can reduce operational expenses (Expense Ratio) by 15–20% more than smaller companies due to digitalization.

Analysts at Swiss Re Institute (2023–2024), in their annual reports, propose a new model for managing insurance expenses under inflationary pressure. According to this model, during periods when the profitability of traditional insurance products declines, companies should offset overall losses through investment income.

Among local scholars, Professor Sh. Z. Abdullaeva emphasizes the importance of commission income from reinsurance operations within the structure of insurance revenues. Furthermore, A.A. Mo'minov analyzes the positive impact of adopting International Financial Reporting Standards (IFRS) in

managing insurance company expenses. According to his conclusions, IFRS 17 ensures transparency in revenue recognition and helps limit unjustified administrative costs.

At the same time, in recent years, InsurTech researcher R. Kaas has studied the role of artificial intelligence and big data technologies in minimizing insurance costs, statistically demonstrating that these technologies can reduce fraud-related expenses by 10–15%.

METHODOLOGY

In preparing this article, methods such as logical consistency, comparative analysis, statistical grouping, and financial ratio analysis were applied. The object of the research was the financial flows of insurance organizations. Data sources included the Ministry of Economy and Finance of the Republic of Uzbekistan and annual financial reports of insurance companies.

In conducting this research, a systematic approach, comparative economic analysis, and quantitative forecasting methods were utilized. The methodological framework of the study was structured through the following step-by-step approaches:

Dynamic and Systematic Analysis Method

The income and expenses of insurance organizations were examined as an interrelated system. Vertical analysis was used to determine the share of insurance premiums and investment income within total revenues, as well as the proportion of administrative and claim expenses within total costs. Horizontal analysis helped identify growth and decline trends of these indicators over the past 3–5 years.

System of Financial Ratios and Indicators

To evaluate the efficiency of insurance activities based on international standards, the Combined Ratio methodology was applied. This methodology integrates two key indicators:

Loss Ratio: The ratio of insurance claims to net insurance premiums, used to assess the quality of underwriting policy.

Expense Ratio: The ratio of operating expenses to premium income, used to evaluate the efficiency of company management.

Econometric Modeling and Correlation Analysis

To determine the impact of insurance premium volume on the growth of investment income, correlation analysis was conducted. This method allowed for identifying whether the stability of company revenues depends more on sales volume or asset profitability.

The study compares the traditional methods of revenue recognition (cash or accrual basis) with the new international standard — the Contractual Service Margin (CSM) model under IFRS 17. This approach made it possible to evaluate the effectiveness of profit distribution over time in insurance contracts.

Benchmarking Method - key financial indicators of the Uzbek insurance market were compared with average indicators of developed countries (Germany, USA) and CIS countries (Russia, Kazakhstan). This benchmarking approach helped assess the international competitiveness of local insurance organizations.

DISCUSSION AND RESULTS

The income of insurance organizations is mainly formed in two directions:

- Income from insurance activities: This includes insurance premiums, commission fees received from risks transferred to reinsurance, and changes in insurance reserves.

- Income from investment and other activities: This consists of interest and dividends earned from placing temporarily free funds in bank deposits, securities, and real estate.

The expenses of insurance organizations are structurally divided into the following categories:

- Insurance expenses: Insurance claims (payments), allocations to reserves, and premiums paid for reinsurance.

- Operating expenses: Commissions paid to insurance agents, employee salaries, advertising, rent, and administrative costs.

Analysis shows that many companies in Uzbekistan still rely primarily on insurance premiums (underwriting income). However, in international practice (for example, in the experience of Swiss Re or Munich Re), the main profit is generated from investment portfolios. In local conditions, the high level of operating expenses (sometimes reaching 35–40% of total income) significantly reduces net profit.

Since 2023, the IFRS 17 standard, which has been gradually introduced globally (including in Uzbekistan), has brought revolutionary changes to the accounting of insurance income and expenses. Under this standard, insurance companies no longer recognize all received premiums as immediate income. Instead, the concept of Contractual Service Margin (CSM) has been introduced.

New approach: Revenue is recognized gradually as insurance services are provided over time. This prevents artificial overstatement of profits and provides investors with a more transparent view of the company's financial condition.

In the modern insurance market, a new source of income is emerging - "Green insurance" and ESG investments. Insurance companies are offering lower tariffs to enterprises that adopt environmentally friendly technologies in order to reduce risks and costs.

- Investment trend: By allocating assets to green bonds, insurance companies not only generate stable income but also improve their reputation with international rating agencies such as Fitch and Moody's.

Studies indicate that approximately 10–15% of insurance expenses are associated with fraud (such as staged accidents). This highlights the importance of implementing advanced monitoring systems and digital technologies to minimize such losses.

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis of the balance between income and expenses of insurance organizations, the following conclusions can be drawn. Today, the financial stability of insurance companies depends not only on the volume of collected premiums but also on the quality of asset management and the level of digital transformation of operational costs. In Uzbekistan's insurance market, a relatively low Loss Ratio combined with a high Expense Ratio reduces net profit margins.

To improve financial performance, the following measures are recommended:

- Diversification of investment activities: Direct insurance reserves not only into bank deposits but also into high-yield corporate bonds and the stock market.

- Cost reduction through digitalization: Expanding online insurance policy sales systems can reduce commission and administrative expenses by up to 15–20%.

Strengthening underwriting policy: Revise tariffs for insurance products with high loss ratios to improve overall profitability.

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