UNDP Insurance and Risk Finance Facility

Inclusive insurance and risk financing in Uzbekistan
Snapshot and way forward 2022

Why this report?

This report summarizes the key findings of an inclusive insurance and risk finance country diagnostic carried out by UNDP's Insurance and Risk Finance Facility (IRFF). The objective of this summary report is to present a high-level overview of the following information:

1. **Key risks**, especially climate risks, Uzbekistan faces
2. The current state of **inclusive insurance**
3. The current state of **risk finance**
4. **Recommendations to advance** inclusive insurance, risk finance and overall development in Uzbekistan

This summary is intended to serve as a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and key stakeholders, including insurance sector actors, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities, and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:
If you wish to discuss the findings and recommendations of this report, reach out to:

irff@undp.org

Key messages

1. **Risks:** Earthquakes, floods, droughts, and mudslides.

2. **Inclusive insurance:** Current offerings are lower-premium and lower-coverage versions of traditional products offered by insurers, with negligible uptake by target markets for inclusive insurance.

3. **Risk finance:** No sovereign disaster risk mechanisms are being used, nor is there a cohesive risk financing strategy. Losses are funded by the Government via the annual Reserve Fund and donors (funding gap estimated at up to **16 trillion Uzbekistan sum (UZM) or US$1.5 billion annually**).

4. **Key recommendations include:** Build the capacity of local insurers to design and deliver client-centric products, diversify the country’s approach to disaster risk financing and integrate insurance and risk finance into national development and climate strategies.

Uzbekistan's development and risk profile

Key macroeconomic and development indicators

With 34.9 million people, Uzbekistan is the most populous country in the Central Asian region.[1]

12–15%
of people living in poverty (**under $1.90 per day**).[2]

36%
of adults reported operating an **account** at a formal financial institution.[3]

3.4%
of people have insurance and just **14 percent** are aware of insurance.[4]

49.5%
of the population is **rural**[5] and largely dependent on subsistence agriculture production.[6]

>28%
of the country's GDP is generated from agriculture and it has grown **2.7 percent** p.a. in the past 5 years.[7]

Key risks and hazards

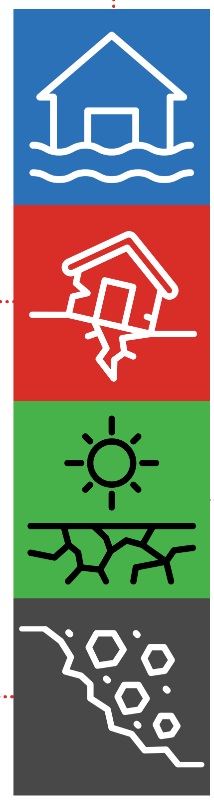
Earthquake/seismic risk

Seismic risk is high across **14.6 percent** of the country's land area. High-risk areas account for **50 percent of the population** and 66 percent of GDP.[8]

Significant earthquakes have happened:

- In 1966 in Tashkent (5.1 on Richter scale), which caused an estimated loss of $300 million in 1966 dollars[9]
- In 1984 in Gazli (7.0 on Richter scale), which injured 100 people
- In 2011 in Ferghana Valley, which caused 15 deaths
- In 2013 in Samarkand, which caused $25 million in damage.

Probable maximum loss from earthquakes is estimated to exceed **UZM 11.9 trillion ($1.1 billion)**[10] yearly (approximately **2.4 percent** of the country's GDP in 2020).[11]



Mudflows, landslides, heavy rains and strong winds

Mudflows, heavy rains, landslides and cyclones cause significant damage.

Significant events have included:

- The 1991 Angren Landslide, which left 60 dead
- The 1998 Ferghana Mudflow, which caused 100 deaths
- The 2012 Ferghana Mudflow, in which 1,300 people had to be evacuated.

Large-scale circulation flows will increase by up to **5 percent** to the end of the century, leading to more mudflows and landslides.[12]

Flooding

The rural population is increasingly subject to floods.

Areas most affected by floods include Andijan, Ferghana and Tashkent, which together account for **29 percent** of the population (approximately **9.8 million people** as of 2020).[13]

Probable maximum loss from floods is estimated to exceed **UZM 4.2 trillion ($390 million)** yearly (approximately **0.8 percent** of GDP in 2020).[14]

Drought and desertification

Rising temperatures (**1.6° to 3.1°** higher on average in 2019 than the long-term average) lead to drought and exacerbate desertification.[15]

- Since 2000, several extreme droughts have resulted in **50 percent to 75 percent** of crops having zero yields in drought-stricken areas.[16]
- In a 2006 World Bank study, 94 percent of farmers surveyed reported drought-related shocks.[17]
- In 2000–2001, drought caused estimated losses of $130 million.[18]
- **90 percent** of agricultural outputs are uninsured.

Today, **70 percent** of the country's land area is prone to droughts, affecting **76.3 percent** of the population.[19] By 2050, yields of major crops are projected to decline between **25 percent and 63 percent** compared to 2000–2009 levels.[20]

Inclusive insurance[21]: Status

Context

Some domestic insurers **offer insurance products targeted at low-income clients** (with a daily income of UZM 40,000 / $3.70 or less). These products are typically lower-sum assured, lower-premium versions of traditional products and have negligible uptake.

Gender inequality in the insurance market is reported as high[22] and gender disaggregated data is unavailable.

Rural and regional insurance outreach is limited; insurance penetration in **Tashkent city is over three times higher** than in any other region.[23]

Enabling environment

Highlights from the enabling environment for inclusive insurance in Uzbekistan

Regulations

Insurance Act and regulations relevant to inclusive insurance[24]

Insurance activity is governed by the Insurance Act (2021, No. ZRU-730)[25] effective as of February 2022, which replaced the Insurance Act of 2002.[26] The legal framework of the insurance industry is made up of the Civil Code, various presidential decrees and resolutions, and regulatory documents from the Ministry of Finance. Key challenges under the existing legal framework include the following:

- There is no specific legal structure or formal definition for inclusive insurance. Under the Insurance Act, insurers do offer low-premium and low-benefit products that can be purchased by people with low incomes. However, without a specific legal framework, there are no standards to help define for insurers a proportionate approach to these low-risk activities.
- Rules governing mutual insurance are also absent.
- There is no special legal framework on compulsory insurance.

Policies / Plans

National Strategy for Increasing Financial Inclusion for 2021–2023 (approved July 2021)

The National Strategy for Increasing Financial Inclusion for 2021–2023 is focused on financial products in savings, credit and payments, in particular for low-income and rural populations. Insurance is not mentioned in the document. The Government is strongly motivated to implement the actions outlined in the strategy, and once implemented, it could create a substantial platform for improved inclusive insurance. The strategy covers distribution and client access through technology platforms; improved physical access to clients; increased financial literacy; consumer protection; client-centricity; monitoring structures to improve effectiveness; and more.

On measures to reform and ensure the accelerated development of the insurance market

In Presidential Resolution No. PP-4412 of 2019, "On measures to reform and ensure the accelerated development of the insurance market of the Republic of Uzbekistan", Uzbekistan's Government launched the "accelerated development of the insurance market in 2019–2022 target indicators".[27] This measure includes specific targets for insurance penetration and numbers of products, and provides for the development of e-insurance policies and new IT solutions to improve efficiencies and reduce costs.

Agriculture Development Strategy for 2020–2030 (Approved in 2019)[28]

Presidential Resolution No. PP-4575, "On measures for implementation of the tasks defined in the Strategy of Agricultural Development of the Republic of Uzbekistan for the period of 2020–2030", was signed in 2020 and included instructions to improve credit and insurance mechanisms in accordance with the strategic priorities and needs of the agri-foods sector. The resolution specifically called for "the introduction of new types of risk insurance in agriculture".[29]

Stakeholders

Association of Professional Participants of the Insurance Market of Uzbekistan (Insurers Association)

The Insurers Association also plays an important role in developing the insurance market, and Presidential Resolution No. PP-4412 includes an aim of "strengthening the role of the Association to revitalize and improve the efficiency of insurers' activities."[31] The Association restarted activities under new management in 2020. However, at the end of 2020, just 16 of 40 licensed companies were members and the association was understaffed. It will take time and capacity-building for it to become a well-functioning and effective organization.

Insurance Market Development Agency (IMDA)

IMDA, under the Ministry of Finance, is responsible for supervising and developing the insurance market. President Shavkat Mirziyoyev noted in July 2019: "The sector needs not a controlling body, but one that would introduce the latest standards, create a truly competitive environment for all participants, develop the insurance market."[30] IMDA has also been instructed to create a single insurance portal to collect regular information on the state of the market. As of 2021, IMDA was undergoing changes in its management, hiring new staff and identifying funding for practical training to build staff capacity.

Supply-side snapshot

Insurance (traditional and inclusive) coverage: Fast facts

42 licensed insurance companies (8 life and 34 general or non-life) were operating in Uzbekistan (31 December 2020).

> 31% of premiums and 46 percent of insurance payments (claims) were accounted for by state-owned companies.[32]

52% of the market is shared by the **top five general insurers**, making the market highly concentrated..[33]

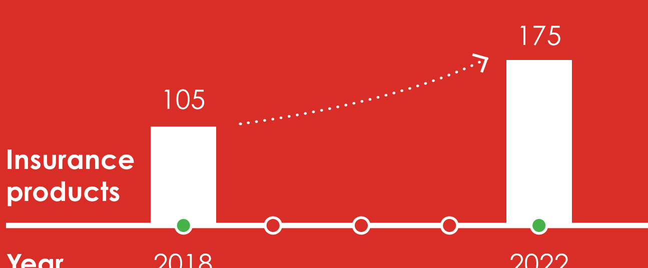
0 insurance companies were exclusively engaged in reinsurance (as of 2020).

UZM 2,212 billion ($205 million) total insurance premiums were collected including:

- UZM 1,852 billion ($172 million) voluntary insurance (84 percent of total) and UZM 360 billion ($31 million) compulsory insurance (16 percent)[34]
- General insurance (84 percent) and life insurance (16 percent) premiums.

Products: Quick facts

The total number of **insurance products** is targeted to increase to 175 by 2022 from 105 in 2018.[35]



Inclusive insurance in Uzbekistan is not defined, but some domestic insurers do offer insurance products targeted at low-income clients.

Sales of these products have been negligible.

Insurance products: Fast facts

Agricultural insurance

The sole provider of agri-insurance is Uzagrosugurta, a state-owned joint stock company. Other insurance companies stopped providing agriculture insurance after heavy losses on agriculture portfolios and increasing levels of risks impacting on agriculture.

A government subsidy for insurance premiums covers cotton and wheat crops only.

Index-based or parametric agriculture insurance products are only available on a limited and pilot basis: Tashkent State Economic University (TSEU) and GROSS Insurance company in Uzbekistan have been piloting index insurance on a small scale since 2019, facilitated by the Insurance Lab at TSEU.[36]

Disaster insurance

Limited coverage is offered primarily under a group product categorized as FLEXA (fire, lightning, explosion, and aircraft damage).

No dedicated index insurance products are targeted specifically for key disasters such as earthquakes, droughts, or floods.

Property insurance

Housing (real estate) coverage against all risks is offered with an insured amount of UZM 50 million ($4,300) and an insurance rate of less than 1 percent.

Home property insurance for specific risks with an insured amount of UZM 5 million ($430) is available, with an insurance rate of 0.5 percent to 1 percent.

Life insurance

Almost all domestic insurers, both in the general and life insurance industry, offer **personal accident insurance** with insured amounts from UZM 1 million ($93) and insurance premiums from UZM 10,000 ($0.93).

Options for **health insurance** include an insured amount of UZM 5 million ($430) with insurance premiums from UZM 500,000 ($46).

Life insurance products of various types start with insured amounts of UZM 1 million ($93).

Demand-side snapshot

Demand assessment

Current demand for inclusive insurance is unknown without further research. Demand factors include lack of awareness of insurance (only **14 percent** of respondents to a 2020 International Finance Corporation survey were aware of insurance products), as well as limited consumer trust in insurance companies (in the same survey, only **31 percent** reported having trust for insurance).[37]

Sovereign disaster risk financing:[38] Status

Disaster risk assessments[39]

An impact assessment study conducted by the World Bank/ Global Facility for Disaster Reduction and Recovery (GFDRR) estimated probable maximum losses from earthquakes and floods at **UZM 16 trillion ($1.5 billion)**, equivalent to **3.2 percent** of Uzbekistan's GDP in 2020.[40]

Existing legal frameworks and policies

	Regulatory framework
***Ex ante* and adaptation**	Law 824-I of 1999, On protection of the population and territory from natural and man-made disasters (National Law on Emergency Situations)[41] Automated System for Warning and Information (ASWI) that is an emergency warning and notification system for disasters
Preparation and response	Presidential Resolution No. PP-4794, On measures to radically improve the system for ensuring seismic safety of the population and territory of the Republic of Uzbekistan[42] CabMin Resolution No. 515 to provide civil protection from natural disasters through a state system of prevention and actions in emergencies
***Ex post* and recovery**	CabMin Resolution No. 747, on the procedure for compensation for natural disaster-related damages

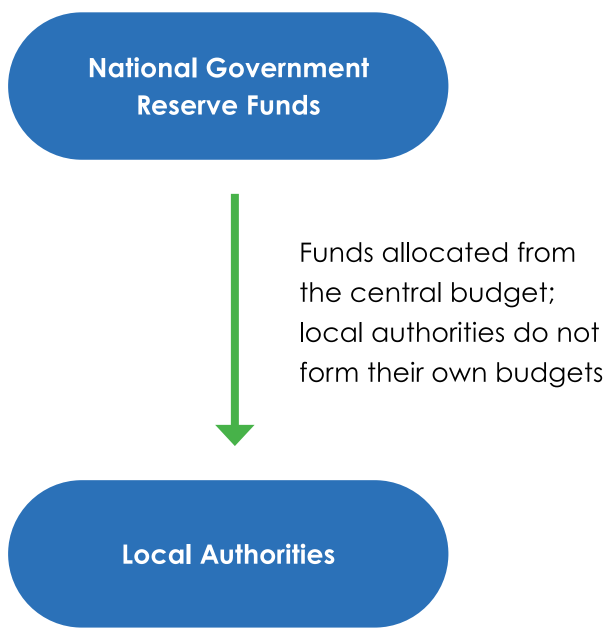
Existing disaster risk finance mechanisms and instruments

The diagnostic did not identify any sovereign risk transfer solutions currently in place in Uzbekistan, nor any form of transfer of risk to international insurance, reinsurance or capital markets.

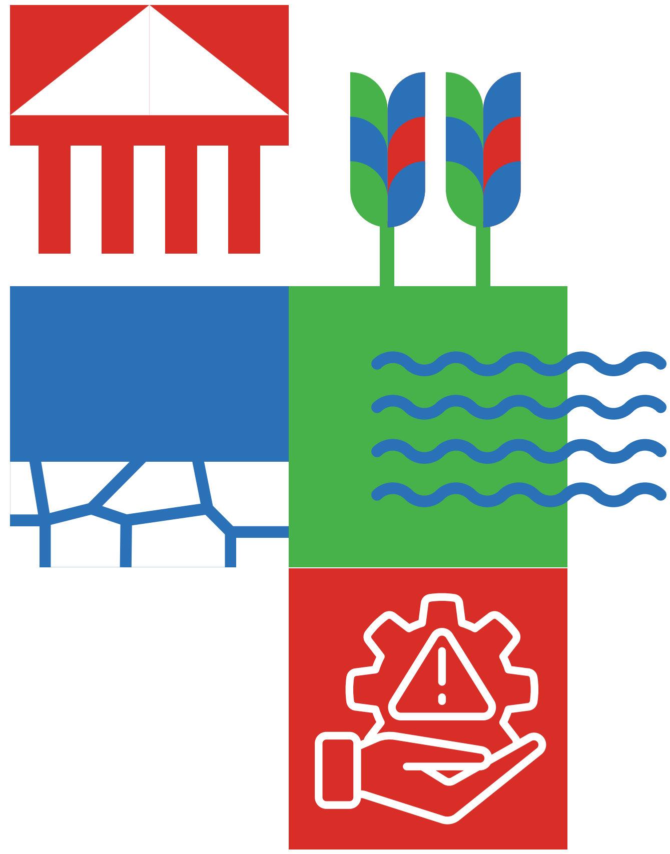
Funding. According to Article 7 of the National Law on Emergency Situations, funds for financing risks in Uzbekistan come from the following sources:

- Reserve Funds of the Cabinet of Ministers
- Funds for emergency situations of regional authorities
- Emergency funds of line ministries.

The Law establishes that the Cabinet of Ministers is responsible for the allocation and, ultimately, the development of financial and material reserves to address emergency situations in the country, as well as to eliminate their consequences.



Existing institutional frameworks

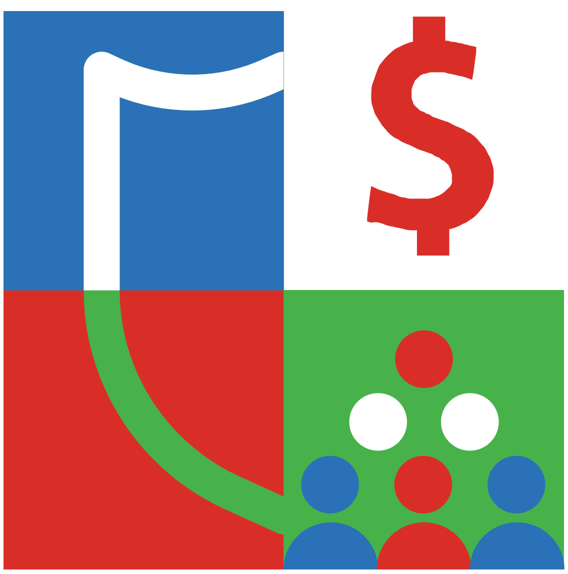


The Ministry of Emergency Situations (MES) is the authorized agency responsible for the prevention and elimination of natural and man-made emergencies. It coordinates disaster risk management and recovery efforts at the national level.

The unified system of MES is comprised of:

- The Central Office and the Emergency Management Departments of the Republic of Karakalpakstan, the regions and the city of Tashkent (also known as the “territorial departments”)
- The Centre of Hydrometeorological Service
- The Republican Centre for Seismic Monitoring
- Other subordinate organizations.

MES implements disaster risk management and recovery through the State System of Prevention and Action in Emergency Situations (SSPAES).



Funding gap analysis

The contingency budget consists primarily of the Reserve Funds, which are set aside to cover expenses not mentioned in the budget, including disasters. The Reserve is non-accumulating, and compared to estimated probable maximum losses from earthquakes and flood perils, the funding gap is significant.

Way forward for inclusive insurance and risk financing

Developing effective inclusive insurance and risk finance initiatives requires three components:

1. a clear understanding of the market
2. a supportive enabling environment
3. a client-centred offer from suppliers and distributors.

The following recommendations are based on these three criteria.

1 Understanding the market for inclusive insurance and risk financing

The existence of demand for inclusive insurance products and for risk financing tools for government

1.1 There is essentially no demand research available to help insurers understand the needs, features or key segments of the low-income market.

Support the development of public and private demand information.

- IMDA and the Insurers Association should work to understand the needs of the market and the perceptions and motivations of inclusive insurance target markets on the public-good level, first through a detailed market research study and thereafter through regular market research.
- Larger insurers should be encouraged to invest in internal teams for market research, especially for inclusive insurance target segments.
- IMDA should leverage the work of the National Strategy for Increasing Financial Inclusion for 2021–2023 and develop and issue an addendum to the strategy that specifically addresses insurance.

1.2

No structured approach has been undertaken to collect and analyse available historical risk data.

Enable access to and analysis of historical risk data.

- The current approach to improve insurtech should be expanded to foster more effective analysis of historical data, especially for disaster risks.
- IMDA, as well as MES and its subordinate agencies, including the Centre of Hydrometeorological Service, can strengthen the actuarial profession (which is still in its early stages, since basic legal frameworks were defined only in 2007–2009)[43] by providing the insurance industry with a group of professionals with better analytical skills.
- The Banking and Finance Academy, or a training entity of the Insurers Association, should work to improve the ability of insurers to leverage historical risk data, as supported by Presidential Resolution No. PP-4412 (2019).

1.3

Awareness and trust in insurance services and insurers is low.

Build trust and awareness in the market.

- Capacity-building should take place among insurers and the Insurers Association around human-centered design market segmentation, designing valuable products and effective claims payment.
- IMDA, policymakers, and donors should support raising public awareness about insurance services and inclusive insurance products.

1.4

Insufficient distribution channels, limited technology solutions and limited access to training reduce the ability of insurers to expand both in rural and urban areas.

Build capacity of the insurance industry and support stakeholders to address key challenges.

- The implementation of Presidential Resolution No. PP-4412, which aims to improve the system for training insurance specialists throughout their careers, should be supported.
- IMDA, the Insurance Association, and MES should lead the design and implementation of capacity-building efforts, especially around solutions for low-income and rural Uzbeks and in terms of effective and efficient delivery methods.
- IMDA should either develop an insurance training centre or leverage the national university system to develop and implement capacity-building programmes for insurance market participants, including IMDA staff. Working with universities might be more efficient and quicker to get off the ground.
- Development and donor organizations should provide wider capacity-building for public policy officials involved in inclusive insurance and risk finance, in particular in the Ministry of Finance, IMDA, MES, the Ministry of Economic Development and Poverty Reduction, the Ministry of Agriculture and the Insurance Association.

2

Enabling environment for inclusive insurance and risk financing

The need for legal, regulatory, policy and macro-level frameworks to support the development of inclusive insurance and risk financing

2.1 Regulatory and policy framework for inclusive insurance

A. Inclusive insurance is in its infancy due in part to the lack of a specific regulatory structure.

Support the development of a legal framework for inclusive insurance.

- An assessment of the regulatory framework should be conducted with reference to the core principles of the International Association of Insurance Supervisors (IAIS), using its Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets to identify key gaps and opportunities.[44]
- A definition of inclusive insurance that matches the realities of Uzbekistan should be developed.
- Once the definition is codified, a specific legal structure (within the insurance legal structure) should be created to facilitate the development and expansion of the inclusive market, including in the areas of distribution, policy simplicity, marketing, premium setting, claims requirements, appropriate controls and others. This approach should apply to disaster financing and consumer protection, in the context of inclusive insurance and risk finance.
- These efforts should be led by IMDA and the Insurance Association, with support from specialists or international organizations such as the Access to Insurance Initiative (A2II), the IAIS's implementation arm on inclusive insurance.

B. The inclusive insurance market lacks dedicated development policy, and as a result there are no holistic legal, regulatory or policy frameworks for its expansion.

Integrate inclusive insurance into wider development strategies.

- IMDA, with other stakeholders, should lead an effort to include insurance within the structure and activities of the National Strategy for Increasing Financial Inclusion for 2021–2023.

C. Heavy losses and high risk in agriculture insurance have led to insurers avoiding offering agri-insurance products, so 90 percent of agriculture output is not insured.

Develop a strategy for agriculture risk management.

- Driven by the Ministry of Agriculture, a forward-looking strategy of agriculture (and livestock) risk mitigation, adaptation and resilience should be developed to facilitate insurers' informational needs.
- The strategy should include components to improve the protection of producers' property interests, increase financial sustainability for producers and insurers, and ensure continuity of insurance protection for the production of all types of agriculture products.

2.2 Disaster risk financing and fiscal impact

A. Risk financing, in particular disaster insurance, is not well integrated into public financial management and development finance policies and programmes.

Diversify and integrate the approach to disaster risk financing.

- MES should explore a rational, multi-layered approach to risk financing – including fiscal allocations, reinsurance, capital markets, donors and other risk financing options – and use this to improve its budget.
- MES should develop and implement a formal risk financing strategy, including collecting and studying available historical data as well as risk modelling future events. The Centre of Hydrometeorological Service and the Republican Centre of Seismic Forecasting Monitoring have an important role to play in this process. The new seismic station (in Karasai) should facilitate this effort.

B. Very few individuals or businesses in the country, particularly vulnerable communities, have used disaster risk insurance solutions to cover their damages.

Improve awareness and knowledge of disaster risk insurance.

- Financial education programmes should be tied to existing formal financial or non-financial products that most people can access and use, for example, by making them available when opening a bank account or buying crop inputs or construction materials.[45]
- Best international practices should be shared with the Ministry of Finance, IMDA, sectoral ministries and agencies, state-owned enterprises, insurance companies and the public.
- Building codes and compulsory insurance should be better elaborated and enforced within legal structures to allow for specific compulsory types of risk coverage, including third party liabilities, as well as property coverage especially around seismically active areas and those prone to floods, mudflows or drought.

C. Relevant data on damages, economic losses and insured assets are not available, making it difficult to assess funding gaps by disaster type and sectors affected.

Develop a system of collecting, sharing and analysing data regarding disaster events and financing (including insurance coverage information).

- This system should work across government institutions and other stakeholders and sectors (key sectoral ministries, agencies and state-owned enterprises in areas such as energy, transport, communal services, roads, construction and tourism) and should be overseen by MES.
- Agencies should be required to collect data on disasters within their area of activity and submit them to MES for consolidation and analysis.

D. Agriculture Development Strategy for 2020 to 2030 needs research support in facilitating progressive agriculture schemes.

Conduct an agriculture risk assessment and design study for an agriculture risk management scheme.

- To support and facilitate implementation of the Agriculture Development Strategy for 2020–2030, UNDP should work together with the Ministry of Agriculture to carry out this risk assessment and design the study.
- The study should address current as well as medium- and long-term approaches to agriculture risk adaptation in the face of climate change.

E. The National Law on Emergency Situations does not address adaptation measures.

Expand the focus of National Law on Emergency Situations to include adaptation approaches using insurance and financial solutions for mitigating the financial impacts of disasters.

- Regulatory changes to fill this gap should be developed between policymakers and UNDP to improve preparation for disaster events.

3 Supply and distribution of inclusive insurance and risk financing tools

The existence of inclusive insurance and risk financing products and tools, along with providers to offer them.

3.1 Inclusive insurance supply and distribution

A. There are no subsidies on premiums for insurance products for poor and vulnerable customers who are unable to afford insurance products.

Explore public-private smart subsidy schemes.

- Premium subsidies should be non-distortionary and have a clear exit strategy. These could offset the costs of development of inclusive insurance risk management approaches, but should always be implemented as SMART subsidies with a clear non-distortionary exit plan.
- Subsidies should be managed outside of IMDA (due to conflict issues) and as part of an inclusive insurance strategy (see 2.1b above), and should have clear key performance indicators and oversight, as well as clear links to risk reduction mechanisms.
- Subsidies might be especially effective for agriculture and catastrophic risk covers.
- Subsidies, if determined necessary and then provided, should be sourced and overseen by the Government in cooperation with UNDP.

B. **Technology for distribution and for improving efficiencies of suppliers remains limited.**

Motivate technology-based solutions for both insurers and customers.

- The donor community can motivate and support relevant insurance, banking, telecommunications, and other regulatory agencies, as well as technology and insurance companies, to coordinate efforts and implement international best practices in this area.
- Tech Hacks, contests and other efforts could be implemented once a facilitative environment is in place.

C. **Index-based or parametric insurance products are nascent in Uzbekistan.**

Support the introduction of index-based insurance products.

- The TSEU Insurance Lab and its pilot programmes should be supported. IMDA and MES especially should carefully monitor the pilots in order to take advantage of lessons learned.
- IMDA should consider insurance sandboxing[46] opportunities, which should be closely linked to the Insurance Lab.

3.2 Existing risk financing mechanisms and instruments

A. **Current available budget funds (from the Reserve Fund) do not cover probable maximum loss from earthquakes or floods.**

Develop and implement a broad risk financing strategy (as noted in 2.2a) to address potential liabilities.

- Developing a broad risk financing strategy, as well as other strategies recommended within this diagnostic, will require significant coordination and enhanced responsibilities, especially among IMDA and MES (with its various sub-agencies).
- The Government and donors must focus on effective and efficient funding of interventions in the risk financing strategy and the institutions that will manage them, including assessing the sustainability of programmes without permanent donor funding.
- The Government's system of public-private partnerships should be leveraged to build effective cooperation with local insurers and international organizations.

Endnotes

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