



**PROSPECTS FOR THE INTRODUCTION OF ISLAMIC INSURANCE IN THE  
REPUBLIC OF UZBEKISTAN**

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**Abstract**

This research paper provides the introduction of Islamic insurance mechanisms in Uzbekistan, as well as new opportunities for the economy and the country.

**Keywords:** Islamic economics, Islamic model, Islamic insurance, functions of banks, prospects for the introduction.

**I. Introduction.**

The Islamic finance sector is one of the fastest growing in the world. Islamic finance is used in more than 50 countries around the world. The total assets of more than 1,500 Islamic financial institutions currently operating around the world exceed \$2.5 trillion. Islamic banking is in demand primarily in Muslim countries. Most of the potential clients of these banks are concentrated in South, Southeast and Central Asia and Africa. In addition, such organizations can be found in Europe, the USA and Australia. In Uzbekistan, where Muslims make up more than 90% of the population, there is a great demand for this type of financing [1-3].

Islamic banking is a segment of the financial industry, which is characterized by a number of features: the prohibition of interest-bearing loans, transactions with uncertainty, investments in the production of alcohol, the processing and sale of pork, gambling, etc. It is based on operations with goods or assets, and not with money as such.

**II. Methods of Research**

The functions of banks in the Islamic model do not differ from the traditional one (they ensure the operation of payment systems and act as financial intermediaries). But Islamic banking is a financial system based on the principles of Sharia law. The two fundamental principles of Islamic banking are the sharing of profits and losses and the prohibition of the collection and payment of interest by creditors and investors. And the main activities are trade, rent and partnership.

Prohibition of interest rates. In the Islamic financial system, first of all, "riba" is prohibited. This is any predetermined rate that depends on the terms and size of the loan. Such a ban is explained by Muslim laws on social justice and equality. Islam encourages profit but condemns



the use of interest for profit. After all, such activity does not lead to the creation of a product and does not increase the welfare of society.

Since the bank does not charge interest for lending money, it becomes, in fact, an investor, not a lender. Thus, the owner of the capital and the entrepreneur share the risks associated with the implementation of the project.

Money is potential capital. They become real capital when they are invested in production activities.

Prohibition of speculative behavior. In this regard, any gambling is prohibited, as well as work with derivative financial instruments (derivatives), since transactions with them are characterized by significant risk.

The principle of inviolability of contracts. According to the rules of Islamic banking, the fulfillment of contractual obligations is the most important for the parties to the transaction. This reduces the risks for all participants.

According to various estimates, about 15-20% of the population of Uzbekistan do not use the traditional credit system for religious reasons. According to the survey, which involved 2,235 business representatives and about 5,000 people, 38% of business entities and 56% of individuals do not use traditional bank lending services because of their religious beliefs [4-8]. Uzbekistan does not yet have any laws regulating Islamic financial products and services. The current banking and tax legislation is not adapted for banks operating on the principles of Islamic law, as well as software systems for banks.

According to experts, in order to introduce Islamic finance products, Uzbekistan needs changes to the current banking legislation, tax and civil codes. It is important to train personnel in this area and improve the literacy of the population. Experts in the sphere agree that the Islamic finance system will provide an additional opportunity to activate the economy and trade by attracting free funds to the real sector of the economy [9].

According to the Islamic Development Bank, Islamic banking can attract up to \$10 billion annually to Uzbekistan if the necessary legislative norms appear.

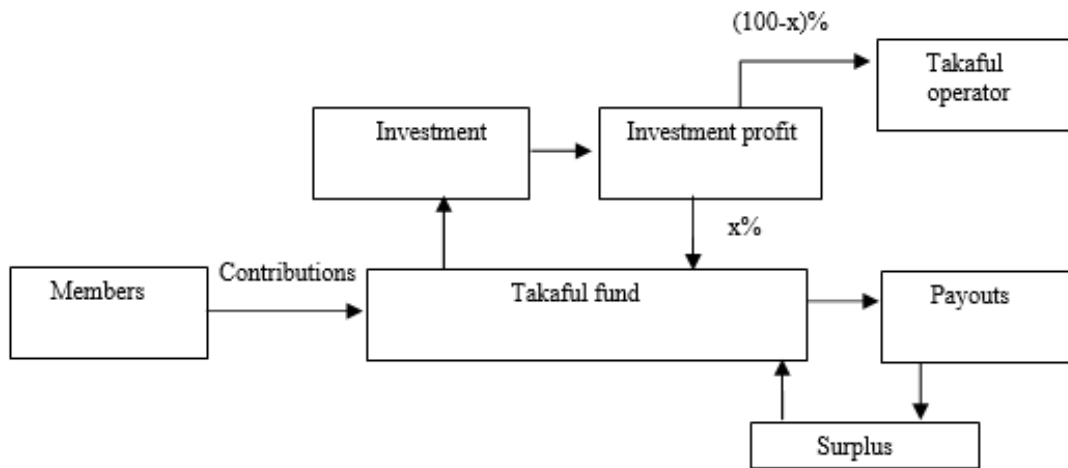
The Central Bank of Uzbekistan plans to develop a draft law on non-bank credit institutions, which will include the concept of "Islamic finance". Such a proposal was voiced by President Shavkat Mirziyoyev during a message to parliament on December 29, 2020. "The time has come to create a legal framework for the introduction of Islamic financial services. Experts from the Islamic Development Bank and other international financial organizations will be involved in this," the President said [10].

Today, there are 30 commercial banks, 137 leasing and more than 30 insurance companies in Uzbekistan, 10-12 of which are ready to continue their activities on the principle of "Islamic window" and have begun practical work in this direction [11-12].

In 2018, the government of Uzbekistan turned to the Islamic Corporation for the Development of the Private Sector with a request to provide advisory assistance to launch Islamic windows in several banks of the republic. ICD is in the final stages of launching Islamic windows in two Uzbek banks: Asia Alliance Bank and Trustbank. It is expected that the windows in these two banks will be launched in 2021. Seven more Islamic windows will be launched by early 2022.



Islamic finance in Uzbekistan is represented by the projects of the Islamic Bank for the development of the private sector, which has been cooperating with banks for a long time. In 2018, the Bank of Uzbekistan for the first time made a deal within the framework of Islamic trade finance. The International Islamic Trade and Finance Corporation, which is part of the Islamic Development Bank Group, and Asia Alliance Bank signed an agreement on trade finance on the basis of the "mudaraba" principle.



**Fig.1.** Pure mudaraba

As a rule, the share of the takaful operator in many companies exceeds the share of participants. This is due to the fact that the company bears operating expenses.

This model has become widespread in Malaysia, especially at an early stage in the development of Islamic insurance in the country.

The fundamental difference between the modified mudaraba and the pure one is that the takaful operator and participants share not the profit received from the results of investment, but the surplus (the amount formed after the payment of compensation to those participants for whom an insured event occurred).

Just as takaful is an alternative to traditional insurance, re-takaful is an alternative to Islamic reinsurance.

The German scientist K. Pfeiffer points out that reinsurance allows the insurer to minimize the following risks:

Risk of accidental losses:

- uneven fluctuations in the amount of insurance payments;
- uneven receipt of applications for insurance payments from policyholders during the insurance year;
- natural disasters and accidents that cause extremely large damage, when the insurer is forced to pay obligations for insurance payments under a large number of insurance contracts as a result of one insured event (cumulative losses).

Risk of change:

- exchange rate fluctuations and inflation can cause prices and wages to rise and, as a result, to increase the value of insurance premiums, the risk of which was originally taken into insurance (especially in liability and health insurance);



– Technological development may lead to the fact that the risks initially accepted for insurance will not correspond to new hazards, as well as the agreed insurance premium rates.

Risk of errors:

– incorrect assumptions made when calculating the premium rate (for example, erroneous interpretation of statistical data).

There are two parties to an Islamic reinsurance contract:

1. The insured or direct (direct) insurer intending to transfer part of the insured risks. In this capacity, the takaful operator acts.
2. An insurer who assumes a certain share of the risk from a takaful operator (insured). This side is called the re-takaful operator. As a general rule, the role of a re-takaful operator is an organization that specializes exclusively in taking risks in reinsurance. However, if the current legislation allows, then a direct insurer (takaful operator) can also act as a reinsurer.

The development of Islamic reinsurance in the world directly depends on the degree of development of takaful itself. With the growth in the number of takaful operators in the world and the increase in the scale of their activities, the need for Islamic reinsurance inevitably increases.

### III. Results

Islamic finance will play an important role in the development of the country's national financial sector. In particular, an important place is occupied by the introduction in Uzbekistan of new promising directions for the development of the securities market, alternative instruments of the Islamic financial securities market, increasing the investment attractiveness of the state, as well as Islamic financing of banking products.

A landmark event for the world of finance in Uzbekistan will be the holding of the annual meeting of the Board of Governors of the Islamic Development Bank, which will be held in Tashkent from 1 to 4 September. The meeting will mainly discuss measures to ensure the availability of coronavirus vaccines, ways to solve the current economic problems caused by the pandemic, and mechanisms to promote a comprehensive economic recovery both in member countries and globally.

### IV. Conclusion

Islamic insurance attracting the social and economic benefits of modern insurance, in a special form in accordance with the religious beliefs of Muslims in the developing economies of a number of predominantly Muslim countries. Therefore, the development of Islamic insurance is crucial, both for social integration in non-Muslim countries, and also economic development in a number of emerging market economies.

According to experts, Islamic insurance can become “insurance of the future”, thereby strengthening its role in the global market. The most likely outcome of Islamic insurance in Uzbekistan is an exit to the world and regional markets of goods and services.

The study of various aspects of Islamic insurance and the possibilities of its use in domestic practice is relevant. This expands the list of organizational and legal forms of business entities that operate in the insurance market of Uzbekistan. This is in tune with the trends in the



development of the insurance services market in the world and will lead to the expansion of the range of insurance products due to the inclusion of insurance against the risks of non-payment in the event of an insured event, and this will affect the stabilization in society.

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