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Eureka Journal of Business, Economics & Innovation Studies (EJBEIS)

ISSN 2760-4950 (Online) Volume 2, Issue 1, January 2026

https://eurekaoa.com/index.php/6

IMPROVING THE FINANCIAL STABILITY OF INSURANCE COMPANIES THROUGH THE CAPITAL MECHANISM

Moyliyev Murod Bakhtiyorovich,
Doctoral (PhD) Student at Tashkent State University of Economics.
moyliyev.murod.mm.70@gmail.com

Abstract

Financial stability is one of the key prerequisites for the sustainable development of insurance companies, as it determines their ability to meet obligations to policyholders and withstand various financial risks. In modern conditions, the role of capital as a fundamental element of financial stability is significantly increasing. This article examines the theoretical and practical aspects of improving the financial stability of insurance companies through the capital mechanism. Particular attention is paid to the structure and sources of insurers' own capital, including authorized capital, additional capital, reserve capital, and retained earnings, as well as their impact on solvency and risk absorption capacity. The study analyzes the relationship between capital adequacy indicators and the financial performance of insurance companies, emphasizing the importance of effective capital management in ensuring long-term stability. Based on the analysis, key directions for improving the capital mechanism are proposed, including optimization of capital structure, strengthening capital adequacy requirements, and enhancing regulatory and supervisory practices. The results of the study may be used in developing strategies aimed at increasing the financial stability and competitiveness of insurance companies in the insurance market.

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Keywords: Insurance companies, financial stability, capital mechanism, capital adequacy, solvency, own capital, capital structure, risk management.

Introduction

The insurance sector plays a significant role in ensuring economic stability by redistributing risks and mobilizing financial resources within the economy. The financial stability of insurance companies is a crucial factor that determines not only their ability to fulfill contractual obligations to policyholders but also the overall resilience and credibility of the insurance market. In the context of increasing economic uncertainty, market volatility, and regulatory tightening, maintaining an adequate level of financial stability has become one of the most pressing challenges for insurance companies worldwide.[1]

Capital serves as the core element of insurers' financial stability, acting as a buffer against unexpected losses and a key determinant of solvency. Adequate capitalization enables insurance companies to absorb underwriting, investment, and operational risks, thereby ensuring continuity of operations even under adverse economic conditions.[2] From this perspective, the capital mechanism - encompassing capital formation, allocation, and management - plays a decisive role in strengthening insurers' financial resilience.

In recent years, international regulatory frameworks have increasingly emphasized capital adequacy as a primary instrument for safeguarding the financial stability of insurance companies. In particular, the risk-based capital approach embedded in Solvency II and the standards developed by the International Association of Insurance Supervisors highlight the importance of aligning capital levels with the risk profile of insurers. [3] These regulatory developments underscore the strategic role of capital mechanisms in maintaining solvency and protecting policyholders' interests.

Despite the growing regulatory focus, many insurance companies continue to face challenges related to inefficient capital structures, insufficient own capital, and

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limited flexibility in capital management. Such issues may weaken financial stability and reduce insurers' ability to respond effectively to financial shocks. [4] Therefore, improving the capital mechanism is essential not only for regulatory compliance but also for enhancing long-term sustainability and competitiveness in the insurance market.

Literature Review and Conceptual Framework

The financial stability of insurance companies has been extensively examined in economic literature, where solvency and capital adequacy are identified as its key determinants. Scholars emphasize that capital serves as the primary buffer against unexpected losses and plays a crucial role in ensuring insurers' ability to meet policyholder obligations (Harrington & Niehaus, 2004). Well-capitalized insurance companies demonstrate higher resilience to underwriting and investment risks, which strengthens their long-term financial stability (Cummins & Nini, 2002).

Recent studies increasingly focus on risk-based capital approaches introduced by international regulatory frameworks such as Solvency II and the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS). These standards highlight the importance of aligning capital levels with insurers' risk profiles and improving capital management practices to enhance financial stability (IAIS, 2019; Cummins, 2012). Empirical evidence confirms that effective capital adequacy and optimized capital structures positively affect insurers' solvency and operational sustainability (Vaughan & Vaughan, 2014).

Despite the extensive literature on insurance stability, the capital mechanism is often treated as a supplementary regulatory requirement rather than an integrated management system. Issues related to the composition of own capital-authorized capital, additional capital, reserve capital, and retained earnings-and their combined impact on financial stability remain insufficiently explored (Skipper &

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Kwon, 2007). This highlights the need for a comprehensive approach that considers the capital mechanism as a central factor in ensuring financial stability. Based on the reviewed literature, this study adopts a conceptual framework in which the financial stability of insurance companies is directly influenced by the effectiveness of the capital mechanism. The capital mechanism is defined as a system of capital formation, structure, and management that determines capital adequacy, risk absorption capacity, and solvency. Improved capital structure and efficient capital management enhance key financial stability indicators, while regulatory requirements act as an external moderating factor. This framework provides the theoretical foundation for analyzing how improvements in the capital mechanism contribute to the financial stability of insurance companies.

Analysis and Results

This section examines the financial stability of insurance companies in Uzbekistan, focusing on the impact of the capital mechanism on solvency and overall financial performance.

Table №1. Market capitalization of insurance companies in Uzbekistan. (in billion UZS).[5]

Insurance companies	Market capitalization
“KAFIL- **INSURANCE**” JSC	80,7
“Alfa Life **Insurance Company**” JSC	40,31
“ALSKOM **Insurance Company**” JSC	82,92
“TEMIRYOL- **INSURANCE** ” JSC	127,95
“Alfa invest **Insurance Company**” JSC	83,17
“APEX INSURANCE” JSC	900
“SEMURG INSURANCE” JSC	55
“NEO INSURANCE CORP” JSC	80

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From the table, it can be observed that among the analyzed companies, the highest market capitalization of UZS 900 billion belongs to **APEX INSURANCE JSC**, indicating that this company is the most highly valued by the market. At the same time, **TEMIRYOL-INSURANCE JSC** (UZS 127.95 billion) and **Alfa Invest Insurance Company JSC** (UZS 83.17 billion) also have relatively high market values, reflecting their financial stability and strong market reputation.
Other companies, such as **KAFIL-INSURANCE JSC** (UZS 80.7 billion), **ALSKOM Insurance Company JSC** (UZS 82.92 billion), **Alfa Life Insurance Company JSC** (UZS 40.31 billion), **SEMURG INSURANCE JSC** (UZS 55 billion), and **NEO INSURANCE CORP JSC** (UZS 80 billion), have comparatively lower market capitalizations. This may indicate lower market recognition or a limited proportion of shares in circulation for these companies.

Table №2. Composition of Capital of KAFIL-INSURANCE JSC (in million UZS).[6]

Years	2020	2021	2022	2023	2024
Authorized capital	25 699,60	25 699,60	35 701,00	35 701,00	60 701,00
Additional capital	0,10	0,10	0,10	0,10	0,10
Reserve capital	6 349,98	6 250,60	6 244,21	6 590,46	6 825,39
Retained earnings	669,81	949,00	3 624,97	1 808,63	4 330,65

From the above table, it can be observed that the capital structure of **KAFIL-INSURANCE JSC** ensures the financial stability of the company primarily through a significant increase in authorized capital and the stability of reserve capital. Retained earnings serve as an additional source for the development of the capital mechanism, while the low level of additional capital limits diversification opportunities. At the same time, the composition of capital supports the company’s ability to reliably cover insurance obligations and manage risks.

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The capital structure of **KAFIL-INSURANCE JSC** is also aimed at strengthening its financial stability. Authorized capital increased from UZS 25,699.6 million in 2020–2021 to UZS 60,701.0 million in 2024, enhancing the company's capacity to meet insurance obligations and implement new investments. Reserve capital grew steadily from UZS 6,349.98 million to UZS 6,825.39 million, ensuring financial security. Retained earnings increased from UZS 669.81 million to UZS 4,330.65 million, indicating that net profits are being utilized as an additional source for the capital mechanism. Meanwhile, the negligible level of additional capital limits diversification opportunities and demonstrates that the main focus is placed on authorized capital.

The financial stability of insurance companies in Uzbekistan can be significantly enhanced through the effective use of a capital mechanism. The example of KAFIL-INSURANCE JSC demonstrates that increasing the authorized capital from UZS 25,699.6 million in 2020–2021 to UZS 60,701.0 million in 2024 has strengthened the company's capacity to meet insurance obligations and implement new investments. In addition, reserve capital has steadily grown from UZS 6,349.98 million to UZS 6,825.39 million, ensuring a safety buffer against unexpected losses. Retained earnings have also increased from UZS 669.81 million to UZS 4,330.65 million, indicating that net profits are being effectively utilized as an additional source for capital reinforcement. However, the negligible level of additional paid-in capital limits diversification opportunities and highlights that the primary focus has been placed on authorized capital. To enhance financial stability across the Uzbek insurance market, it is recommended that companies continue to optimize and increase their authorized capital, maintain and gradually grow reserve capital, and strategically reinvest retained earnings to strengthen their capital base. Furthermore, developing additional paid-in capital through the attraction of domestic and foreign investors can provide alternative sources of funds and reduce reliance on a single capital component. Continuous analysis and strategic management of the capital

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structure, balancing authorized capital, reserve capital, and retained earnings, will enable insurance companies to improve their solvency, diversify financial resources, and maintain long-term stability. In parallel, adherence to regulatory guidelines issued by the Ministry of Finance and the Central Bank of Uzbekistan regarding minimum capital requirements and risk management practices will further reinforce the financial resilience of the sector. Ultimately, the strategic use of the capital mechanism allows insurance companies to enhance their payment capacity, support investment activity, and maintain market confidence, ensuring sustainable growth and stability in the Uzbek insurance industry.

Conclusion

The analysis of insurance companies in Uzbekistan demonstrates that the capital mechanism plays a crucial role in ensuring financial stability. In particular, the structure and adequacy of own capital-comprising authorized capital, reserve capital, additional capital, and retained earnings-directly influence the ability of insurance companies to meet their obligations, absorb risks, and sustain operations during economic fluctuations. The case of **KAFIL-INSURANCE JSC** shows that a significant increase in authorized capital, combined with stable reserve capital and growing retained earnings, strengthens the company's financial position and enhances its capacity for investments and risk management. At the same time, the low level of additional capital highlights limitations in diversification opportunities and indicates that the focus remains primarily on core capital.

Overall, improving the capital mechanism-through optimizing capital structure, maintaining adequate reserves, and effectively utilizing retained earnings-proves to be an effective strategy for enhancing the financial stability and competitiveness of insurance companies. These findings can serve as a basis for developing policies aimed at strengthening capital management practices and ensuring sustainable growth in the insurance sector.

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