



LIFE INSURANCE AS A SOURCE OF LONG-TERM INVESTMENT RESOURCES IN UZBEKISTAN: DEVELOPMENT CONSTRAINTS AND POLICY INSTRUMENTS

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Abstract. *This article examines the role of life insurance as a source of long-term investment resources for the economy of Uzbekistan and identifies the constraints on its development and the policy instruments capable of removing them. Based on official data of the National Agency for Prospective Projects, the study shows that, despite more than doubling in 2025, life insurance premiums amounted to only UZS 586.5 billion, or 4.4% of total premiums, while life insurance penetration was about 0.03% of GDP. Constraints are classified into demand-side, supply-side, institutional and macroeconomic groups, with particular emphasis on competition from bank deposits and on the shortage of long-term financial instruments. The effect of the existing personal income tax incentive on the effective return of a policyholder is quantified, and a model of the accumulation of life insurance reserves is proposed; under the scenarios considered, reserves formed from new premiums could reach UZS 4.3–9.3 trillion by 2030. A set of tax, product, investment, protection and distribution instruments for developing long-term life insurance is substantiated.*

Keywords: *life insurance, long-term savings, investment resources, insurance reserves, tax incentives, personal income tax, bank deposits, government bonds, policyholder protection, annuities.*

Annotatsiya.: *Mazkur maqolada hayot sug'urtasining O'zbekiston iqtisodiyoti uchun uzoq muddatli investitsiya resurslari manbai sifatidagi o'rni tadqiq etilib, uning rivojlanishini cheklovchi omillar va ularni bartaraf etishga qodir siyosat vositalari aniqlangan. Istiqbolli loyihalar milliy agentligining rasmiy ma'lumotlari asosida hayot sug'urtasi mukofotlari 2025-yilda ikki barobardan ziyod oshganiga*

qaramay, atigi 586,5 mlrd soʻmni yoki jami mukofotlarning 4,4 foizini tashkil etgani, hayot sugʻurtasining chuqurligi esa YaIMning taxminan 0,03 foizi ekani koʻrsatilgan. Cheklovchi omillar talab, taklif, institutsional va makroiqtisodiy guruhlariga ajratilgan. Amaldagi jismoniy shaxslar daromad soligʻi imtiyozining sugʻurtalanuvchi samarali daromadliligiga taʼsiri miqdoriy baholangan va hayot sugʻurtasi zaxiralarining jamgʻarilish modeli taklif etilgan: koʻrib chiqilgan ssenariylarda yangi mukofotlar hisobiga shakllanadigan zaxiralar 2030-yilga borib 4,3–9,3 trln soʻmga yetishi mumkin. Uzoq muddatli hayot sugʻurtasini rivojlantirishning soliq, mahsulot, investitsiya, himoya va sotuv vositalari asoslangan.

***Kalit soʻzlar:** hayot sugʻurtasi, uzoq muddatli jamgʻarmalar, investitsiya resurslari, sugʻurta zaxiralari, soliq imtiyozlari, jismoniy shaxslar daromad soligʻi, bank depozitlari, davlat obligatsiyalari, sugʻurtalanuvchilarni himoya qilish, annuitetlar.*

Introduction

One of the key structural constraints on the economy of Uzbekistan is the shortage of long-term financial resources. Banks finance a significant part of their long-term lending from relatively short-term deposits, which creates maturity mismatches and keeps the cost of long-term credit high. In most developed and many emerging economies this gap is filled by contractual savings institutions – pension funds and life insurance companies – whose liabilities have long maturities and which can therefore invest in long-term government and corporate bonds, infrastructure and housing finance.

In Uzbekistan life insurance is only beginning to play this role. In 2025 total insurance premiums amounted to UZS 13,463.5 billion, of which UZS 12,877.0 billion was accounted for by general insurance and only UZS 586.5 billion by life insurance [3]. At the same time, the life segment is the fastest-growing part of the market: its premiums more than doubled in 2025, and the number of life insurers increased from 5 to 7. The question is whether this growth can be transformed into

a stable flow of long-term savings, and which policy instruments are required for this.

The aim of the study is to assess the current state of life insurance in Uzbekistan as a source of long-term investment resources, to classify the constraints on its development and to substantiate a set of policy instruments for removing them.

Literature Review

The economic theory of life insurance demand goes back to M. Yaari, who showed that under an uncertain lifetime a rational consumer uses life insurance and annuities to smooth consumption and to protect dependants [8]. Empirical studies of the determinants of life insurance development in developing countries were initiated by J.F. Outreville, who identified income, financial development, inflation and the structure of the financial system as key factors [9]. D. Babbel demonstrated on Brazilian data that high and unstable inflation sharply reduces demand for traditional life insurance products with nominal guarantees [10].

The macroeconomic role of life insurance as a financial intermediary has been studied by P. Haiss and K. Sümegi, who found a positive effect of life insurance on economic growth in European countries [11], and by M. Arena, who confirmed the link between insurance market activity and growth for both industrialised and developing economies [12]. E. Feyen, R. Lester and R. Rocha, using a large panel of countries, showed that life insurance development depends not only on income and demographics but also on the quality of institutions, the availability of long-term government bonds and the presence of pension systems with which life insurance either competes or complements [13].

In Uzbekistan the legal framework for life insurance is set by the Law «On Insurance Activity» and by Resolution PP-108 on the development of the insurance services market, while tax incentives are provided for by the Tax Code [1; 2; 4]. However, domestic studies have paid little attention to life insurance as an instrument for forming long-term investment resources and to the quantitative assessment of the incentives available to policyholders.

Research Methodology

The study uses methods of comparative and dynamic analysis, classification, financial mathematics and scenario modelling. The information base comprises official statistics of the National Agency for Prospective Projects for 2024–2025, the Tax Code of the Republic of Uzbekistan and reports of the Swiss Re Institute [3–5].

The level of development of life insurance is assessed by three indicators – the share of life insurance in total premiums, life insurance penetration and life insurance density:

$$S_L = P_L / P \times 100\%, \quad Pen_L = P_L / GDP \times 100\%, \quad Den_L = P_L / N, \quad (1)$$

where P_L – life insurance premiums; P – total premiums; GDP – nominal gross domestic product; N – population.

For a policyholder, the attractiveness of a long-term life insurance contract as a savings instrument depends on its effective return compared with alternatives. If premiums are paid out of income exempt from personal income tax, the real cost of the contribution for the policyholder falls, and the effective annual return over n years is:

$$r_{eff} = [(1 + i)^n / (1 - t)]^{1/n} - 1, \quad (2)$$

where i – annual rate of accumulation under the contract; t – personal income tax rate; n – contract term in years.

The accumulation of long-term resources in the life insurance sector is modelled by the reserve accumulation equation:

$$R_t = R_{t-1} \times (1 + y) \times (1 - b) + \alpha \times P_{L,t} \quad (3)$$

where R_t – life insurance reserves at the end of year t ; y – investment yield; b – annual outflow of reserves (benefits, surrenders); α – share of premiums allocated to reserves; $P_{L,t}$ – life premiums in year t .

Analysis and Results

The main indicators of the development of life insurance in Uzbekistan are presented in Table 1.

Table 1

Indicators of life insurance development in Uzbekistan, 2025

Indicator	Value
Total insurance premiums, UZS billion	13,463.5
of which general insurance, UZS billion	12,877.0
of which life insurance, UZS billion	586.5
Share of life insurance in premiums (S_L), %	4.4
Growth of life insurance premiums in 2025	more than 2-fold
Number of life insurers (2024 → 2025)	5 → 7
Life insurance penetration (Pen_L), % of GDP	≈0.03
Life insurance density (Den_L), UZS per capita	≈15,600

Source: National Agency for Prospective Projects [3]; penetration and density calculated by the author using nominal GDP of UZS 1,849.7 trillion and a population of about 37.5 million [7].

The data show that life insurance remains a marginal segment of the market. Its share of 4.4% means that the insurance market of Uzbekistan is almost entirely a market of short-term risk protection, whereas in developed markets life insurance, as a rule, accounts for a substantial or even predominant share of premiums [5]. Life insurance density of about UZS 15.6 thousand per capita per year is negligible relative to household incomes. Consequently, the potential of life insurance as an accumulator of long-term savings is practically unused.

At the same time, the dynamics are encouraging: life premiums more than doubled in 2025 and two new life insurers entered the market. However, a significant part of current life insurance is short-term risk cover, often linked to consumer and mortgage lending, rather than long-term savings contracts. Such contracts increase premiums but do not create long-term reserves. The structure of life insurance by product type therefore deserves separate monitoring.

The constraints on the development of long-term life insurance can be grouped into four categories (Table 2).

Table 2

Constraints on the development of long-term life insurance in Uzbekistan

Group	Constraints	Consequences
Demand-side	low household savings capacity; limited financial literacy; low trust in long-term financial contracts; preference for tangible assets and cash	demand concentrated in short-term and compulsory products
Supply-side	small number of life insurers; narrow product range; underdeveloped actuarial capacity; distribution mainly through credit-linked channels	predominance of credit-related risk cover over savings products
Institutional	narrow tax incentive; absence of a dedicated guarantee scheme for life policyholders; limited regulatory framework for unit-linked and annuity products	insufficient protection and motivation of long-term savers
Macroeconomic	inflation eroding nominal guarantees; high deposit rates in national currency; shortage of long-term government and corporate bonds	competition from bank deposits; difficulty in matching long-term liabilities with assets

Source: developed by the author.

The macroeconomic group is decisive. Under conditions of relatively high inflation, a long-term contract with a fixed nominal guarantee loses its real value, as shown by D. Babbel for Brazil [10]. At the same time, bank deposits in national currency offer high interest rates with short terms and full liquidity, and therefore act as a direct competitor of savings life insurance. Life insurance can compete with deposits only if it offers an additional advantage: tax benefits, protection against the risk of death or disability combined with savings, or access to long-term instruments with higher returns.

The existing tax incentive is such an advantage. According to paragraph 15 of Article 378 of the Tax Code, income of individuals directed to the payment of insurance premiums under long-term life insurance contracts is exempt from personal income tax, and according to paragraph 4 of Article 369, insurance payments received by individuals are not included in their total income [4; 6]. Formula (2) allows the value of this incentive to be quantified. With an accumulation

rate of 10% per year, a contract term of 5 years and a personal income tax rate of 12%, the effective annual return for the policyholder amounts to:

$$r_{eff} = [1.10^5 / (1 - 0.12)]^{1/5} - 1 \approx 12.8\%, \quad (4)$$

i.e. the tax incentive adds about 2.8 percentage points per year to the return. The longer the term, the smaller the annual uplift, which means that for very long contracts the incentive should be complemented by other instruments. In practice the incentive is used mainly through employers and is little known to individuals, which limits its effect.

To assess the potential contribution of life insurance to the formation of long-term resources, scenario calculations were performed using formula (3) under the following assumptions: annual growth of life premiums of 25% (conservative scenario), 40% (baseline) and 55% (accelerated); 70% of premiums allocated to reserves ($\alpha = 0.70$); investment yield of 12% ($y = 0.12$); annual outflow of 10% of reserves ($b = 0.10$). Only reserves formed from new premiums in 2026–2030 are taken into account. The results are presented in Table 3.

Table 3

Scenario estimates of life premiums and reserves formed from new premiums, UZS billion

Year	Premiums (g = 25%)	Reserves (g = 25%)	Premiums (g = 40%)	Reserves (g = 40%)	Premiums (g = 55%)	Reserves (g = 55%)
2026	733	513	821	575	909	636
2027	916	1,159	1,150	1,384	1,409	1,628
2028	1,146	1,970	1,609	2,522	2,184	3,170
2029	1,432	2,988	2,253	4,119	3,385	5,565
2030	1,790	4,265	3,154	6,360	5,247	9,282

Source: author's calculations using formula (3); g – annual growth of life premiums (conservative 25%, baseline 40%, accelerated 55%); 2025 base: life premiums of UZS 586.5 billion [3].

Even under the conservative scenario, life insurance reserves formed from new premiums would reach about UZS 4.3 trillion by 2030, and under the baseline and accelerated scenarios UZS 6.4 trillion and UZS 9.3 trillion respectively. For

comparison, the total investments of all insurers in 2025 amounted to UZS 9.55 trillion [3]. Thus, life insurance is capable within five years of creating a pool of long-term resources comparable to the entire current investment portfolio of the insurance sector.

However, these resources will become genuinely long-term only if there are suitable instruments for investing them. In 2025 bank deposits accounted for 63.2% of insurers' investments and securities for only 14.6% [3]. If life insurance reserves are placed mainly in short-term deposits, the economy will receive no new long-term resources: the funds will simply pass through the insurer to the banking system with the same maturities. The development of life insurance and of the domestic market for long-term bonds are therefore two sides of the same task.

Based on the analysis, a set of policy instruments for developing long-term life insurance is proposed (Table 4).

Table 4

Policy instruments for developing long-term life insurance

Group	Instruments	Expected effect
Tax	raising awareness of the existing personal income tax exemption; extending deductibility of employer contributions under long-term corporate life insurance programmes, conditional on a minimum contract term; preserving tax-free status of payments only for contracts held to term	higher effective return; long contract terms
Product	regulatory framework for unit-linked products and life annuities; products with inflation-linked or partially indexed benefits; micro life insurance	protection of real value of savings; broader coverage
Investment	regular issuance of long-term government bonds, including inflation-linked bonds; investment rules permitting a higher share of long-term bonds and infrastructure instruments for life insurers	matching of assets and liabilities; real long-term financing of the economy
Protection	a dedicated guarantee scheme for life policyholders; enhanced disclosure of surrender values and charges	higher trust in long-term contracts

Distribution and literacy	workplace (corporate) savings programmes; digital sales of simple savings products; financial literacy programmes	lower acquisition costs; demand outside credit-linked channels
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Source: developed by the author.

The proposed instruments are mutually reinforcing. Tax incentives increase the attractiveness of contracts, but without protection against inflation and without trust in the insurer they will not create stable demand; product innovations require long-term instruments for investment; and a policyholder guarantee scheme makes long-term contracts comparable in reliability with bank deposits, which are already covered by deposit insurance.

Conclusions and Recommendations

Based on the results of the study, the following conclusions were drawn.

First, life insurance in Uzbekistan remains a marginal segment: in 2025 it accounted for 4.4% of premiums, its penetration was about 0.03% of GDP and its density about UZS 15.6 thousand per capita. Its potential as a source of long-term investment resources is practically unused, although the segment is growing rapidly and attracting new participants.

Second, the main constraints are macroeconomic and institutional: inflation, competition from high-yield bank deposits, a shortage of long-term bonds, a narrow tax incentive and the absence of a dedicated protection scheme for life policyholders.

Third, the existing personal income tax exemption raises the effective return of a five-year savings contract by about 2.8 percentage points per year, which is a significant competitive advantage over deposits, but it is little known and used mainly through employers.

Fourth, according to the scenario calculations, life insurance reserves formed from new premiums could reach UZS 4.3–9.3 trillion by 2030, comparable to the entire current investment portfolio of the insurance sector, provided that instruments for their long-term investment are available.

To develop life insurance as a source of long-term investment resources, the following measures are proposed:

- introducing separate statistical reporting on life insurance by product type (risk, savings, annuity, credit-linked) and by contract term;
- extending tax incentives to employer contributions under long-term corporate life insurance programmes, with a minimum contract term and recovery of the benefit upon early surrender;
- adopting a regulatory framework for unit-linked products and life annuities and permitting inflation-linked benefits;
- establishing a guarantee scheme for life policyholders and enhanced disclosure of surrender values and charges;
- ensuring regular issuance of long-term, including inflation-linked, government bonds and revising investment rules for life insurers in favour of long-term instruments;
- developing workplace savings programmes and financial literacy initiatives focused on long-term savings.

The implementation of these measures would allow life insurance to become not only a growing segment of the insurance market but also a significant channel for transforming household savings into long-term investment resources for the economy of Uzbekistan.

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