

# REPUBLIC OF AZERBAIJAN

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## ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

### IMPROVEMENT OF THE INSURANCE SYSTEM IN THE REPUBLIC OF AZERBAIJAN

Speciality: 5301.01 - Internal fiscal policy and public finance

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Applicant: **Heydar Rashid oghlu Aghayev**

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**Scientific supervisor:** Honored teacher,  
Doctor of economic sciences, professor  
**Bayali Khanali oghlu Atashov**

**Official opponents:** Doctor of economic sciences  
**Saleh Mammadali oghlu Mammadov**

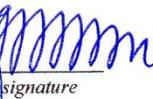
Doctor of philopsophy in economics  
**Ismayil Jafar oghlu Hasanov**

Doctor of philopsophy in economics  
**Isgandar Valeh oghlu Babazada**

Dissertation council ED 2.10 of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan State University of Economics.



Chairman of the  
Dissertation council

  
signature

Doctor of economic sciences, professor  
**Yashar Atakishi oghlu Kalbiyev**

Scientific secretary of the  
Dissertation Council:

  
signature

Doctor of philosophy in economics  
**Sugra Ingilab qizi Humbatova**

Chairman of the  
scientific seminar

  
signature

Doctor of economic sciences, Professor  
**Zahid Farrux oghlu Mammadov**

## GENERAL NATURE OF THE WORK

**Relevance of the topic and degree of elaboration.** The significance of the subject matter and the level of detail provided highlight the imperative to fortify the functionality of the insurance system and foster growth within the financial services sector, particularly during a period when market economy mechanisms are experiencing substantial enhancement due to the surge in contemporary global risks and threats. Within the spectrum of priorities, there exists a heightened necessity to undertake requisite actions aimed at amplifying the engagement of insurance companies and elevating the standards of the insurance services they offer in the market.

When discussing the role of the insurance system within the economy, the importance of aligning goals with the strategic tasks of diverse economic sectors and assessing their financial capacity and associated risks becomes paramount. A thorough examination and evaluation of outcomes necessitate a comprehensive and systematic approach. Essentially, insurance, as an economic component, is intricately woven into these processes and actively participates in them, thus requiring an objective evaluation and consideration. Within this framework, pivotal indicators characterizing insurance chiefly involve a profound understanding of risks and the evaluation of potential losses. The contractual obligations and relationships associated with these risks are objectively taken into account within insurance contracts. Moreover, insurance serves the function of facilitating savings, where a portion of insurance premiums is accumulated as a reserve fund and financial resources, fostering stability over time. These resources can be channeled towards revitalization measures or bolstering financial stability, often serving as viable investment avenues.

In recent years, the global insurance market has seen significant growth, intensifying competition among various countries like the United States and China. In 2021, 5.8% of the world's GDP was generated through insurance activities. There was a parallel surge in insurance payouts, reaching a 3.3% growth rate or a total of \$6.9 trillion in 2021. The primary driver behind this increase was the COVID-19 pandemic, a verifiable factor. However, we consider these statistics and influences

crucial not only for post-pandemic market growth but also for refining current insurance mechanisms. Addressing the disparity between insurance premiums and payouts stands as a vital step in shaping the foundation of this industry.

The insurance market across post-Soviet republics reveals distinct variations in key indicators. In Russia, insurance company assets stand at \$40 billion, while Kazakhstan and Belarus mark \$2.8 billion and \$1.6 billion, respectively. When examining insurance payouts, Russia leads with \$22 billion, followed by approximately \$1.2 billion in Kazakhstan and \$544 million in Belarus. For a more comprehensive overview, as of the end of 2022, Azerbaijan's insurance companies held total assets of \$1633.4 million, with recorded insurance payouts at \$442.1 million. Comparing these figures underscores a pressing need to revamp our country's insurance system, aligning it with contemporary standards and swiftly adopting progressive global practices. Simultaneously, efforts to boost activity within the insurance market should be expanded.

Insurance services play a pivotal role in a country's financial landscape, representing a crucial market segment. Azerbaijan recognizes this significance, evident in a decade-long commitment to bolstering the insurance system, refining insurance mechanisms, and amplifying the operations of insurance firms. Strategic initiatives aimed at fortifying the system's effectiveness and diversifying the spectrum of insurance services have injected dynamism into the insurance market's growth. Yet, taking an impartial view reveals that the robust expansion of Azerbaijan's insurance market has largely stemmed from the proliferation of mandatory insurance formats.

The collection of higher insurance premiums heavily relies on executing contracts for the initial type of mandatory insurance. Recent years have witnessed a surge in these processes, notably due to the introduction of various mandatory insurance types into the market. The implementation of compulsory medical insurance, among others, has notably amplified these trends to a significant degree.

In our contemporary era, the evolution and revitalization of our country's insurance system, the enhancement of insurance laws, and the amplified discourse surrounding problem-solving in this domain stand out prominently. These developments can be viewed as logical outcomes

shaped by economic and historical patterns. Yet, it is crucial not to turn a blind eye to persistent issues within the insurance system that demand resolution. It is imperative to devise and implement effective mechanisms for insurance services vital to both society and the economy. These challenges encompass a significant spectrum of mandatory and voluntary insurance categories.

For instance, the advancement of real estate insurance encounters hindrances due to deficiencies in the information infrastructure within this realm. Simultaneously, the absence of an impartial and independent insurance expert when addressing matters concerning insurance incidents is notable. Presently, these responsibilities primarily rest with employees of insurance companies or their affiliated experts, creating a paradox within the system.

Over the past 15 years, Azerbaijan has implemented significant measures aimed at enhancing and regulating insurance activities, solidifying the legislative framework. Notably, the Law of the Republic of Azerbaijan "On Insurance Activity" was enacted on December 25, 2007, marking a pivotal step. Additionally, the introduction of the "On Compulsory Insurance" law on June 24, 2011, and the subsequent adoption of the "On Agricultural Insurance" law on June 27, 2019, aimed at fostering entrepreneurship in the agricultural sector, signify progressive and incentivizing strides in this domain.

The "Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan," adopted by the President's decree on December 6, 2016, holds substantial significance in improving and enhancing the accessibility of insurance services. This pivotal document underscores the importance of insurance activities within the broader context of the country's development.

Moreover, the decree endorsing "Azerbaijan 2030: National Priorities for Socio-Economic Development," issued on February 2, 2021, highlights the crucial role of insurance activities in the nation's economic development. It emphasizes the protection of the interests of both legal and natural persons, their assets, and the advancement of insurance practices for healthcare as pivotal components in the national economic landscape.

The escalating global challenges and risks impacting financial markets

necessitate the formulation of more adaptable and effective measures. Despite the modern insurance system and its applied mechanisms, customer satisfaction remains elusive, acting as a catalyst for revamping or significantly enhancing existing insurance mechanisms.

Moreover, the recent liberation of lands held under occupation for nearly three decades, the establishment of economic regions like Karabakh and Eastern Zangazur, the initiation of extensive reconstruction efforts, and the implementation of technology-driven projects demand the creation of new, flexible financial mechanisms, including within the realm of insurance.

This landscape underscores the need for fundamental research, compelling a thorough enhancement of the insurance system in alignment with the challenges of our era. It calls for the development of highly operational mechanisms and comprehensive exploration into the regulation of pivotal issues within this domain. Discovering more fitting and efficient solutions becomes imperative, highlighting the pertinence of this dissertation topic.

The development of the insurance system, the role of insurance in the economy, and the challenges faced by Azerbaijan's insurance system have been subjects of theoretical and methodological exploration by both local and international scholars. Esteemed academics such as Academician Z.A. Samadzade, A.F. Musayev, E.A. Guliyev, B.Kh. Atashov, A.A. Alekbarov, N.N. Khudiyev, E.R. Ibrahimov, M.C. Huseynov, A.S. Shekaraliyev, Z.F. Mammadov, I.H. Ibrahimov, B.A. Khankishiyev, K.M. Ibrahimov, and others have contributed substantially to this field through their scientific works and research. Their studies delve into the foundational aspects of insurance development, the intricate relationship between insurance and the economy, and the specific challenges requiring attention within Azerbaijan's insurance framework. These scholars have enriched the discourse surrounding insurance practices through their academic contributions and scholarly endeavors.

The development processes of the insurance system, the pivotal role of the insurance market in bolstering financial markets, and the efficacy issues concerning insurance activities and mechanisms have attracted attention from a diverse array of scholars. Notable figures such as P.E.Samuelson, V.D. Nordhaus, N.G. Adamchuk, L.I. Tsvetkova, V.V.

Barabanova, T.E. Gvarliani, K.P. Kosminskiy, Y.G. Knyazeva, Y.A. Razumovskaya, L.G. Skamay, D.S. Sokolov, Y.A. Tarasova, A.I. Khudyakov, M.C. Christiansen, L.F.B. Henriksen, K.J. Schomacker, M. Steffensen, S.L. Kimball, C. Laux, A. Muermann, P.M. Lencsis, M.A. Weiss, among others, have contributed significantly to the scientific exploration of these subjects.

In these circumstances of global threats, there is a necessity for the fundamental exploration and determination of solutions to enhance the maximum optimization of the insurance system, the implementation of more effective regulatory mechanisms, and the increase in the attractiveness and accessibility of insurance services.

**The object** of the research is the insurance system of Azerbaijan, encompassing the sphere of its activities within the country, insurance operations, the insurance market, and the related fields, subjects, and organizations.

**The subject of the research** is the improvement of the insurance system in the Republic of Azerbaijan, including the regulation directions, methods, and means related to this.

**The purpose and objectives of the research.** The aim of the dissertation work is to enhance the insurance system in the Republic of Azerbaijan by regulating the existing mechanisms of insurance activities in line with the demands of the modern era and to prepare proposals based on scientific and practical grounds. Hence, the following objectives have been identified and fulfilled in accordance with the structure of the dissertation:

-The research and generalization of theoretical approaches to the development problem of the insurance system in line with the requirements of the modern era;

-Identification of methodological features in the direction of institutionalizing the insurance system.

-Study of international experience in effective utilization of insurance in accelerating economic reforms and economic development processes.

-Objective analysis of the current state of the insurance system in Azerbaijan.

-Research into the efficiency of our country's insurance system within the context of the development of financial services markets.

-Exploration and assessment of the multiplicative impact of insurance during the intensive phase of economic reforms in Azerbaijan.

-Examination of the adequacy of the legislative framework of the insurance system in our country.

-Identification of factors and directions conditioning the enhancement of the activities of insurance companies in Azerbaijan.

-Determination of ways to improve our country's insurance system considering the potential of liberated territories as well as post-pandemic challenges and more.

**Research Methods:** The research process has prioritized the investigation of problems based on the principle of complexity within the structure of the work and maintained a systematic approach. Additionally, it has employed methods of analysis and synthesis, examination of dynamic series, analytical-computational methods, as well as contemporary tools and means of economic analysis. Approaches documented in the works of Azerbaijani and foreign scholars concerning the regulation of existing mechanisms within the insurance system as theoretical-methodological approaches have been highlighted and utilized.

Furthermore, throughout the research process, relevant laws and normative legal documents governing the regulation of the insurance system and insurance activities in Azerbaijan have been consulted. Additionally, methodological materials from specialized scientific research institutions and centers have been utilized.

**The main points highlighted for consideration include:**

-The serious need for significant improvements in countries' insurance systems due to the global risks and threats concerning the insurance market, which is a fundamental segment of the modern world's financial markets.

-The necessity for the emergence of contemporary approaches aligned with the theoretical and methodological characteristics of the insurance system.

-The essential nature of implementing measures utilizing proven insurance mechanisms from international experience to align with the development priorities of the country's insurance system.

-The requirement for thorough exploration of the current state of Azerbaijan's insurance system, identification of issues hindering its

development, and the necessity for fundamental research in these directions.

- The untapped potential for enhancing the efficiency of the insurance system and expanding insurance activities within the context of strategic development goals of the financial services market in Azerbaijan.

- The need for an objective evaluation of the multiplicative effect of insurance to intensify economic reforms in the country.

- The potential benefits of enhancing the legislative framework for the development of the insurance system, including addressing gaps and shortcomings in existing laws and legal acts.

- The demand for agile and attractive insurance services by entities involved in insurance activities in Azerbaijan, emphasizing the formation and introduction of appealing insurance services to the market.

- The importance of determining solutions for optimizing and improving the country's insurance system, considering the liberated territories and post-pandemic challenges.

**The scientific innovation of the research** encompasses the following:

- Identification of theoretical approaches concerning the development of the insurance system in the modern era by addressing global risks and problems hindering the advancement of the insurance system. Emphasis is placed on the crucial necessity to enhance existing mechanisms within the insurance system significantly.

- Preparation of comprehensive block schemes, considering the priorities of the insurance system's development and the peculiarities of insurance activities across various societal and economic sectors.

- Methodological groundwork based on international standards and the requirements of the Solvency II Directive for improving the insurance system, considering current mechanisms and practical tools.

- Calculation of the Herfindahl-Hirschman Index methodology based on the actual amounts of insurance premiums and market position for 20 insurance companies in Azerbaijan, revealing insufficient competitiveness and its impact on the competitiveness of market subjects.

- Development of a methodology for evaluating the efficiency level of the insurance system within the context of the development of Azerbaijan's financial services market.

-Formulation of block schemes depicting factors influencing economic reforms and processes that accelerate economic development, aligning with the priorities and development drivers of the insurance system.

-Identification and systematization of significant financial and expenditure sources affecting the resilience of insurance companies, ensuring their financial stability.

-Establishment of strategic directions for strengthening the operations of insurance companies in conditions of global risks, emphasizing the necessity for professional risk management.

-Rationalization of the objective necessity for the improvement of the insurance system during the post-pandemic period and exploration of methods for diversifying the portfolio of insurance services.

-Justification of the imperative need for the enhancement of the insurance system in the process of restoring and developing liberated territories, ensuring attractiveness and accessibility of insurance services, and highlighting the necessity for developing and implementing new insurance products for insuring hazardous risks.

**The theoretical and practical significance** of the research is substantial. The utilization of the scientific and practical outcomes obtained in the dissertation work can be beneficial in general for the advancement of the insurance system in response to global challenges and risks, maximizing the regulation and innovation of existing mechanisms in insurance activities, and creating additional opportunities to enhance the efficiency of entities engaged in insurance activities. Furthermore, there is a prospective usage of the research materials in the development of purposeful programs, strategies, and concepts aimed at improving the country's insurance system and in the implementation of related measures. Additionally, the theoretical arguments presented in the dissertation can potentially be utilized in the preparation of textbooks, courses, and educational resources.

**The approval and application:** The subject of the dissertation aligns with the overall direction of scientific research conducted at the Department of Finance and Banking of Azerbaijan Cooperation University, and it has been discussed and appreciated in scientific seminars that consistently address contemporary issues.

Regarding the dissertation's subject, the claimant's 11 articles and the thesis, including 7 articles and 4 theses, have been published in reputable local and international journals recommended by the Higher Attestation Commission. The main points of the research have been presented in scientific conferences, such as the Republic scientific conference on the "Development prospects of Azerbaijan's non-oil sector," the international scientific conference on "The strategic importance of increasing the role of insurance services in the development of small and medium entrepreneurship" (April 25-26, 2019), the international scientific conference on "Economic security: current state and perspectives" where the topic "The importance of international economic cooperation in expanding insurance services in Azerbaijan" was discussed (July 8-9, 2020), the Republic scientific conference on "The role of the insurance system in the effective use of the non-oil sector's infrastructure" (October 22-23, 2020), and in the IV International Scientific and Practical Conference "Modern Problems of Civilization and Sustainable Development in the Information Society" held in Moscow, Russia, on September 24, 2021, where the thesis "Assessment of the effectiveness of the insurance system in Azerbaijan in the post-pandemic period" was published.

Additionally, the claimant has published articles on various aspects related to the improvement of the insurance system in Azerbaijan under economic reforms. These include articles titled "Issues and Directions for Improving the Insurance System in the Conditions of Economic Reforms" (2019), "Current Problems in the Development of the Insurance System in Azerbaijan during the Period of Economic Reforms" (2019), "Regulation and Strengthening of the Insurance System in Azerbaijan under Economic Reforms" (2020), "Development of Agricultural Insurance Relations and Enhancement of Insurance Companies' Activities" (2021), "Assessment of the Multiplicative Effect of Insurance Activity in the Post-pandemic and Post-conflict Periods" (2021), "Theoretical and Methodological Aspects of the Development of the Insurance System in Azerbaijan under Economic Reforms" (2021), and an article titled "Directions for Improving the Insurance System in Azerbaijan in the Intensification of Economic Reforms" (2021) published in the "Financial Economics" journal in Moscow, Russia.

**The organization where Dissertation Work implemented:** The dissertation was completed at Azerbaijan Cooperation University.

The structural sections of the dissertation, separately noted in characters, are as follows: Introduction (19,359 characters), Chapter I (95,292 characters), Chapter II (57,962 characters), Chapter III (61,839 characters), Conclusion (12,780 characters), and the bibliography used (26,427 characters), totaling 273,659 characters. Excluding tables, figures, and the bibliography used, the character count for the dissertation is 236,431 characters.

### **The main content of the dissertation**

The introduction of the dissertation covers the relevance and degree of coverage of the topic, the object and subject of research, objectives, tasks, methodologies, main arguments presented, scientific innovations of the research, theoretical and practical significance, validation, and application, among others.

The first chapter, "**Theoretical and Methodological Foundations of the Development of the Insurance System**," explores the role of the insurance system in the economy and its theoretical foundations for development, methodological specifics of modernizing the insurance system, and global experiences of effective utilization of insurance in accelerating economic reforms.

Insurance activities and the concept of "insurance" have a long history, originating from the necessity arising from problems, risks, and losses faced by people. The creation of the first insurance associations related to maritime transportation in Iceland in the 12th century is known. By the 13th century, certain approaches to distributing losses in public-economic relations among people were gaining attention. From the 14th to the 18th centuries, the gradual expansion of sea transport led to the inception of insurance contracts to cover risks associated with this mode of transportation.

From the 18th century onwards, the development of industry and shipping in Western European countries led to the practice of insuring risks. Since the mid-20th century, insurance services have gained attention as essential services required in various sectors of the economy and society. Particularly in the last 20-30 years, insurance activities have

acquired a global character, implementing improved mechanisms, and witnessed significant changes in the structure of insurance services due to the rapid application of information and communication technologies across economic sectors. Electronic insurance services have established themselves as essential services needed throughout the economy and society.

“Ensuring the reliability of economic processes at the national level is essential for the protection of the interests of economic and social process participants. Insurance services serve as an effective defense mechanism to safeguard these interests.” This excerpt appears to highlight the importance of insurance services as a means of protecting the interests of those involved in economic and social processes, as stated by Professor B.X. Atashov and Professors A.A. Alekberov and N.N. Khudiyev. “*In the new circumstances, making substantial changes to the organization principles of the insurance segment, structuring the insurance market, eliminating monopolies in the insurance segment, expanding the variety of insurance services among clients, and significantly enhancing their quality are of crucial importance*”<sup>1</sup>. The effective functioning of the insurance system in ensuring efficiency in various areas of the country's economy and in implementing economic reforms remains a sufficiently relevant issue in the modern period, despite these considerations. Assessing the formation of the insurance system, objectively evaluating the importance of insurance types, preparing a package of insurance services, and shaping approaches to insurance services would be more accurate by considering the realities of the modern period. Numerous factors, such as key and fundamental methodological approaches, should be taken into account in the formation and development of the insurance system. Particularly noteworthy methodological principles in this regard could include. Especially, it is possible to attribute these to the methodological principles that attract more attention at this particular time. “1) *Preservation of systematic principle*; 2) *Complexity*; 3) *Optimality*; 4) *Efficiency*; 5) *Prioritization and balancing*; 6) *Objectivity and dynamism*; 7) *Conducting risk assessment and having management*

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<sup>1</sup> Ataşov, B.X., Ələkbərov, Ə.Ə., Xudiyev, N.N. Sığorta işi. – Bakı: – 2018, “Kooperasiya” nəşriyyatı. – s. 12.

*mechanisms, etc.*”<sup>2</sup>. We believe that clarity, simplicity, and the clear application of utilized mechanisms in the methodological approaches of the insurance system are essential conditions, free from bureaucracy. In this way, shaping an environment where insurance services can be actively utilized becomes possible, ensuring the accessibility of insurance services.

It should be noted that modern insurance systems and the activities within them are drawing attention to improved methodological approaches, principles, and mechanisms for protecting against global risks and threats. For instance, on November 25, 2009, a Directive was adopted by the European Parliament and the Council of Europe<sup>3</sup>. The Solvency II Directive outlines the fundamental mechanisms and methodological approaches concerning the activities of leading insurance companies. Starting from 2016, key aspects of Solvency II have been adopted as methodological guidelines within the insurance companies of European Union countries and implemented. The main objective here is to determine risk-oriented approaches optimally.<sup>4</sup>

When looking at the requirements and principles of Solvency II, it is evident that, from a methodological standpoint, unified demands have been established for the capital levels and risk management standards of insurance activity subjects. Simultaneously, simplified standards have been adopted primarily for small and medium-sized insurance firms as well as reinsurance companies. The approaches under the Solvency II methodology have been widely implemented not only within the European Union but also in developed countries such as the USA, Canada, Japan, and others. Overall, this methodology serves as a fundamental approach used as a compendium for strengthening and enhancing the operation of insurance systems worldwide, aiding in the

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<sup>2</sup>Национальная страховая система / Е.Г. Князева, Е.А. Разумовская, Е.Ю. Половнёва, В.А. Шемякин; [под ред. Е.Г. Князевой; М-во науки и высш. образования РФ. – Екатеринбург: Изд-во Урал. ун-та, 2020. – с. 15

<sup>3</sup>Директива 2009/138/ЕС Европейского Парламента и Совета Европейского союза от 25.11.2009 «Об организации и осуществлении деятельности страховых и перестраховочных организаций (Solvency II)» - [http://www.cbr.ru/finmarkets/files/common/letters/2016/inf\\_sep\\_0816.pdf](http://www.cbr.ru/finmarkets/files/common/letters/2016/inf_sep_0816.pdf).

<sup>4</sup>Риск-ориентированный подход к регулированию страхового сектора. Ключевые особенности и основные компоненты Solvency II - <https://www.pwc.ru/en/insurance/assets/solvency-2.pdf>.

formulation of strategies for managing risks <sup>5</sup>.

We have provided a brief summary of three important requirements of the Solvency II Directive in Table 1.

**Table 1**

**Solvency II Directive's summary of three important requirements**

№	Requirements	Their brief content
01.	<b>Quantity requirements</b>	– Here, the indicators of the Solvency II balance are primarily considered, such as total capital, adequacy of the insurance company's own funds, as well as operational objectives. At the same time, attention should also be focused on the market value of the insurance subject, and so on.
02.	<b>Quality requirements</b>	– During quality requirements, the focus lies on investment projects, issues related to the organization of control functions, strategies concerning risks, corporate governance mechanisms, and so on.
03.	<b>Requirements regarding accountability and information</b>	– In this direction, a set of requirements prioritizes accountability, integrity, financial and internal control issues, transparency principles, and so on.

**Source: Table has been created by the author.**

On the other hand, departing from the global financial-economic transformations and the development trends of the insurance market, emphasizing the necessity to enhance the existing mechanisms of the country's insurance system, we have generalized methodological approaches to improving the insurance system in the modern era (refer to Table 2).

**Table 2**

**Methodological approaches to improving the insurance system and their brief content**

N	Methodological approaches to improving the insurance system	The brief content and nature of methodological approaches.
	Ensuring the adequacy of	– Firstly, achieving the maximum enhancement of the

<sup>5</sup>От Базеля II к Solvency II или что такое риск-ориентированный подход к оценке платежеспособности страховщиков: первые шаги на пути внедрения, задачи и перспективы - <http://www.insur-info.ru/press/125074>

1.	the state insurance policy in response to global challenges	existing insurance policies and mechanisms to ensure adequacy of insurance policies. – Secondly, development and implementation of functional mechanisms within the insurance system.
2.	State mechanisms for supporting insurance system	– Measures to enhance the role of the insurance segment within the framework of stimulating insurance activities and developing the financial services market. – Supporting the financial stability of insurance companies. – Ensuring a strong competitive environment in the insurance services market
3.	Establishing the legislative framework ensuring the efficiency of the insurance system and strengthening the legal-economic foundations, utilization and approval of rules, norms, and regulations	– Determining the requirements for capital and reserve resources in the activities of insurance entities. – Implementing standards for insurance services and optimizing criteria. – Creating an environment conducive to accessibility of insurance services
4.	The adequacy and optimality of the insurance portfolio structure	– The alignment of offered insurance services in the insurance market with demand and supply. – Regulations and efficiency of mechanisms for presenting insurance services included in the insurance portfolio. – Existence of investment-oriented activities within the insurance portfolio.
5.	The effectiveness and efficiency of the regulatory system in the insurance market	– The impartiality and objectivity of the regulatory system in the insurance market. Ensuring the efficiency level of control mechanisms and tools for insurance activities

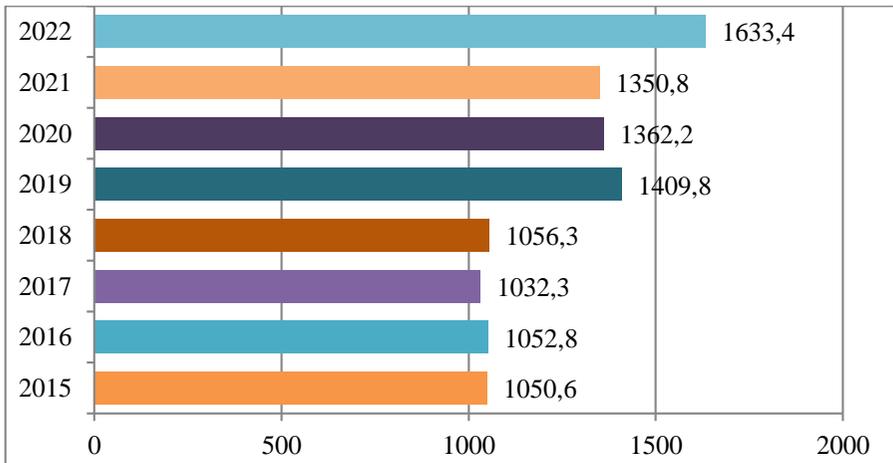
*Source: Table has been created by the author*

When we approach the institutional analysis of the world’s insurance system, it is possible to observe the wider application of three major insurance systems by states: 1) the state model; 2) the public-private model; and 3) the insurance model based on employer liability. The state insurance model is predominantly oriented towards social protection and is primarily used in manufacturing sectors as well as insurance cases related to professional illnesses. The public-private hybrid insurance model, on the other hand, is implemented as one of the more applied types of insurance, conducted through the realization of insurance packages, placing responsibility for supervision and the development of legal-normative frameworks on the state. The insurance model based on employer liability encompasses corporate interests, with economic

entities being interested in insuring their employees.

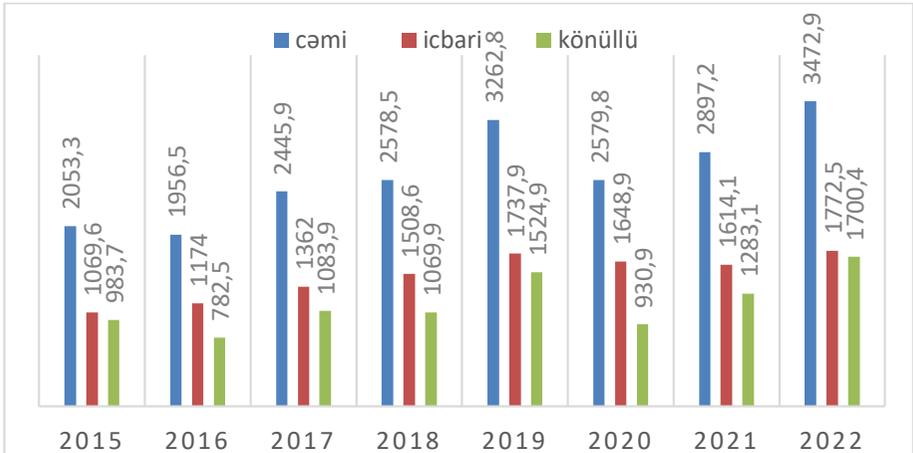
The second section titled “**Analysis and Evaluation of the Current Situation of the Insurance System in Azerbaijan**” focuses on analyzing the existing state of the country's insurance system. It delves into researching the effectiveness issues of the insurance system in the context of the development of financial services markets. Additionally, it aims to evaluate the multiplicative impact of insurance activities in furthering economic reforms in Azerbaijan..

When analyzing the current state of the insurance system in Azerbaijan, we have found it more appropriate to focus on the indicators of the last five years - statistics from 2018 to 2022 - to maintain objectivity and consider newly emerged realities. In our view, this approach can contribute to a more balanced perspective on the insurance market and its activities. As of January 1, 2023, the country has 34 insurance organizations operating, with 15 specializing in non-life insurance. The total assets of insurance organizations that operated between 2015 and 2022 increased by more than 55%, reaching a level of 1633.4 million manats in 2022. In comparison, there was an increase of nearly 15.9% in 2019, but in 2020, there was a decrease in total assets, mainly attributed to the impact of the COVID-19 pandemic, which led to a 3.5% decline (Figure 1).



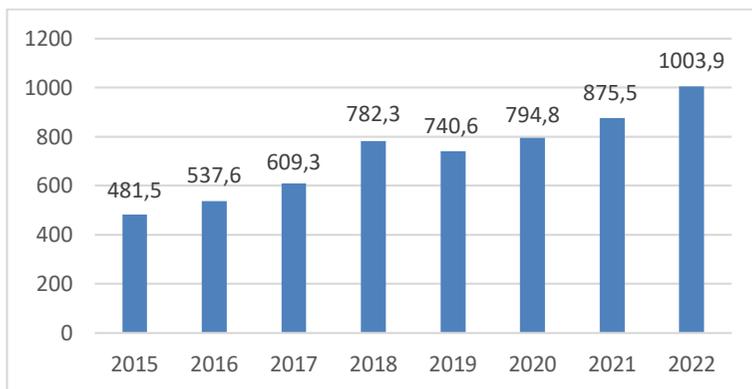
**Figure 1. Total Assets of Insurance Organizations Operating in Azerbaijan from 2015 to 2022, in million manats (Prepared based on data from the SSCA).**

In Figure 2, the distribution of insurance contracts in terms of numbers and their classifications in Azerbaijan from 2015 to 2022 is depicted. Observing the dynamics of insurance contracts, we note that from 2015 to 2022, the number of insurance contracts increased by 69.1%, reaching a level of 3,472.9 thousand contracts in 2022.



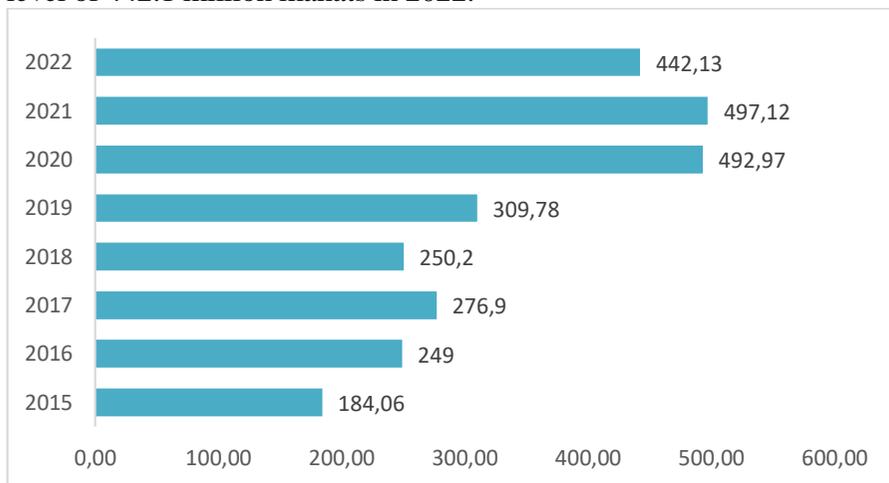
**Figure 2. Distribution of the Number of Insurance Contracts and their Classifications in Azerbaijan from 2015 to 2022, in thousands (Prepared based on official publications from SSCA) <http://www.stat.gov.az>.**

In Figure 3, the total amount of insurance premiums from insurance contracts in Azerbaijan from 2015 to 2022 has been analyzed. Despite the decrease in the number of insurance contracts in 2020, the overall amount of premiums did not decrease (794.8 million manats), rather it constituted a 7.3% increase. Throughout the analyzed period, the total amount of premiums (1,003.9 million manats) increased more than two-fold.



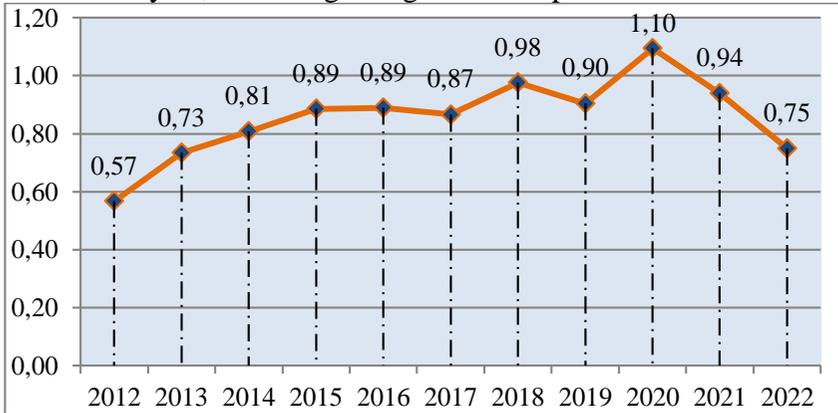
**Figure 3. Total Amount of Insurance Premiums from Insurance Contracts in Azerbaijan from 2015 to 2022, in million manats (Prepared based on official publications from the SSCA. <http://www.stat.gov.az>).**

In Figure 4, the total amount of insurance payments in Azerbaijan from 2015 to 2022 has been analyzed. During this period, the overall amount of insurance payments in our country increased by 2.4 times, reaching a level of 442.1 million manats in 2022.



**Figure 4. Total Amount of Insurance Payments in Azerbaijan from 2015 to 2022, in million manats (Prepared based on official publications from the Financial Market Supervisory Authority). <http://www.stat.gov.az>.**

In Azerbaijan, the share of total insurance contributions in the overall gross domestic product (GDP) for the years 2012 to 2022 is depicted as follows: it ranged between 0.57% in 2012, increased to 0.89% in 2015, and by 2022, it had decreased to 0.75%. There was a noticeable increase in 2020. The contribution of the insurance sector to the GDP reached 1.10% in that year, indicating its significant impact.



**Figure 5. The share of total insurance contributions in the gross domestic product (GDP) of Azerbaijan for the years 2012-2022, % (Prepared based on the information of the State Statistical Committee of Azerbaijan). <http://www.stat.gov.az>.**

The concentration level of the insurance market in Azerbaijan can shed light on the adequacy of the country’s insurance system, its level of development, systemic problems, especially the dominance of monopoly in the market. To ascertain this, data from 20 insurance companies currently operating have been utilized, and they have reflected their indicators in Table 3. This table encompasses the actual amounts of insurance premiums of insurance companies for the end of 2022 and their utilization of a specific index in the insurance market. The calculation has been conducted based on the methodology of the Herfindahl-Hirschman Index (HHI):

$$HHI = (X_{\zeta}^1 + X_{\zeta}^2 + \dots + X_{\zeta}^n) \text{ or } \sum_{i=1}^n X_{\zeta}^2_{ji}$$

Here,

$X_{\zeta}^1, X_{\zeta}^2, \dots, X_{\zeta}^n$  - The square of the total market share of insurance companies' service volumes in the overall insurance market.

n – The number of insurance companies;

- j – The HHI (Herfindahl-Hirschman Index) of the insurance company;
- i – The company's share of total insurance premiums.

The calculations for the indicators of Azerbaijan's 20 insurance companies are computed according to this principle.

$$HH\Theta = (X\zeta^1 + X\zeta^2 + \dots + X\zeta^n^{20})$$

**Table 3.**  
**The indicators based on the actual amounts of insurance premiums of insurance companies for the end of 2022 and their specific index in the insurance market**

N	The name of the insurer/insurance company.	Insurance premiums	The specific index (SI) of companies in the insurance market, in percentage (%)	The square of companies' specific index in the insurance market ( $X\zeta^2$ )
1.	A-Qroup Insurance Company" LLC	24,628	2.45	6.02
2.	AtaInsurance" LLC	5,312	0.53	0.28
3.	"Ateshgah Life" Insurance Company LLC	53,466	5.33	28.37
4.	"Ateshgah" Insurance Company LLC	29,761	2.96	8.79
5.	State Insurance Commercial Company of the Republic of Azerbaijan	16,433	1.64	2.68
6.	"Azerbaijan Industry Insurance" LLC	14,464	1.44	2.08
7.	"AzInsurance" LLC	11,081	1.10	1.22
8.	"Baku Insurance" LLC	6,344	0.63	0.40
9.	"Gunay Insurance" LLC	7,936	0.79	0.63
10.	"Silk Road Insurance" LLC	20,520	2.04	4.18
11.	"Meqa Insurance" LLC	21,129	2.10	4.43
12.	"Nakhchivan Insurance" LLC	2,333	0.23	0.05
13.	"Pasha Life Insurance" LLC	413,298	41.17	1694.95
14.	"Pasha Insurance" LLC	215,132	21.43	459.24
15.	"Qala Life" Insurance Company LLC	21,242	2.12	4.48
16.	"Qala Insurance" LLC	40,355	4.02	16.16
17.	"People's Life" Insurance Company LLC	8,574	0.85	0.73
18.	"People's Insurance" LLC	42,274	4.21	17.73
19.	"Agrarian Insurance" LLC	14,136	1.41	1.98
20.	Meqa Life Insurance	2,404	0.24	0.06
For the year 2022, the total insurance premiums among 20 companies amounted to 1,003,888 manat.				<b>2254,4 (HHΘ = <math>\sum_{i=1}^n X\zeta_{ji}^2</math>)</b>

The HHI determines concentration and indicates examples across

three market types: 1) highly concentrated markets ( $2000 < HHI \leq 10000$ ) where competition is absent or underdeveloped, with dominance by monopolies; 2) moderately concentrated markets ( $1000 < HHI < 2000$ ) where competition exists but hasn't developed to necessary levels; and 3) weakly concentrated markets ( $HHI < 1000$ ) where competition is high, and there are no subjects dominating the monopoly status.

If we consider the obtained result from the Herfindahl-Hirschman Index (markets with a concentration between  $2000 < HHI \leq 10000$ ), the actual result being 2254.44, it is possible to note that the competitive environment in Azerbaijan's insurance market has not sufficiently developed, and this restricts the competitive ability of the market's participants.

In the context of the development of Azerbaijan's financial services market, we attempted to identify the efficiency indicators set of the insurance system (Table 4).

**Table 4.**

**In the context of the development of Azerbaijan's financial services market, the efficiency indicators set of the insurance system and their scoring methodology**

N	Indicators	Bal ifadəsi
01	The completeness and adequacy of the legal framework of the insurance system	5-10
02	The optimality of management and oversight mechanisms within the insurance system	5-10
03	The specific impact of insurance services in the country's GDP	5-10
04	The degree of diversification of the insurance services portfolio	5-10
05	The volume of investments by insurance companies in the country's economy	5-10
06	The level of development of the insurance market's infrastructure	5-10
07	The level of financial stability and resilience of insurance companies	5-10
08	The level of immunity of the insurance market to global risks and threats	5-10
09	The integration of the national financial services market into the international financial market	5-10
10	The integration of the national insurance market into the global insurance market	5-10
<b>Final point: <math>Y_b = \sum_{i=1}^{n=10} G_n</math></b>		

*Source: The table has been prepared by the author.*

According to the methodology provided in Table 4, the determination and evaluation of the efficiency of the national insurance system can be calculated and assessed based on the indicators in the context of the country's financial services market development goals and priorities:

$$Y_b = \sum_{i=1}^{n=10} G_n$$

here,  $Y_b$  – final point

$n$  – insurance system efficiency indicator ranking

$G_n$  – The  $n$ th efficiency indicator of the insurance system

It is proposed to use three efficiency levels in the assessment of actual final scores:

Grade I Efficiency Level – 91-100 points – in this case, the efficiency level of the insurance system is considered adequate, and the insurance services market is evaluated at an advanced level of development;

Grade II Efficiency Level – 71-90 points – at this level, although there might be development issues within the national insurance system, the system functions overall. However, improvements and regulatory measures are needed. Attention should be given to diversifying insurance services.;

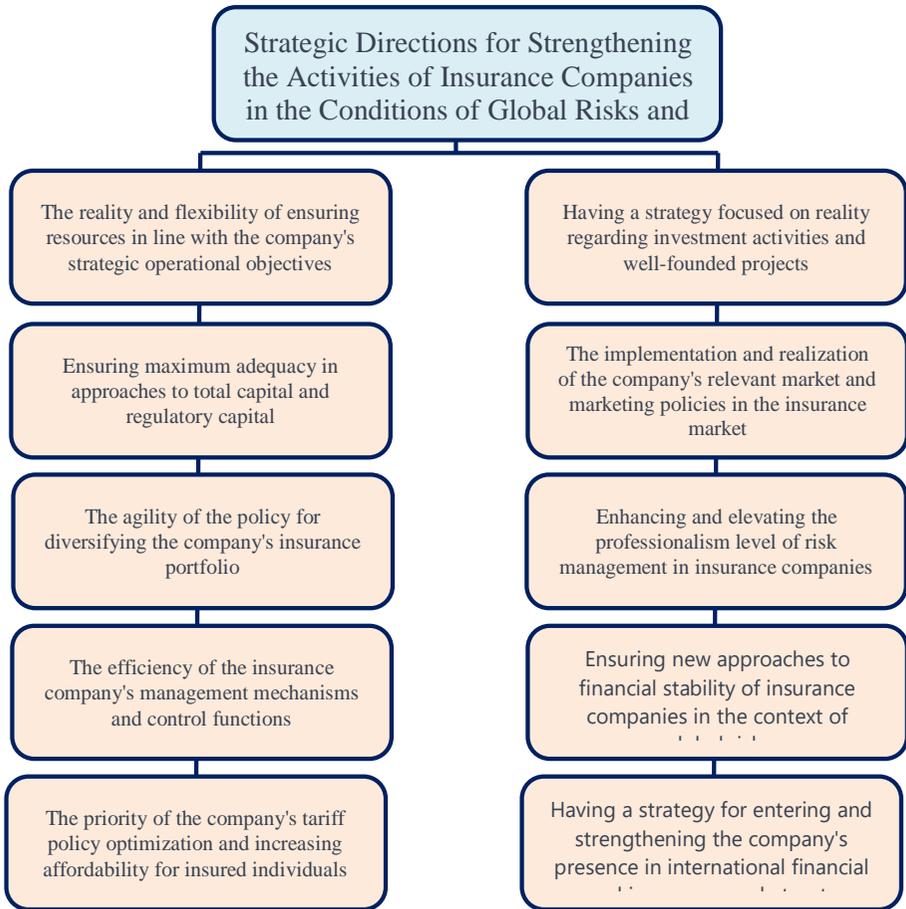
Grade III Efficiency Level – 51-70 points – in this case, there are significant issues within the national insurance system. Existing mechanisms demonstrate inefficiency, bureaucratic barriers hinder the provision of insurance services, service delivery levels are low, and there's a weak level of trust between insurance entities and the insured individuals.

In the third chapter of the dissertation titled '**Directions for Regulation and Improvement of the Insurance System in Azerbaijan,**' priorities for the legal and economic regulation of the insurance system in Azerbaijan, directions for strengthening the performance of the country's insurance companies, considerations for the liberated territories, and ways to enhance the insurance system in the post-pandemic era have been presented.

Employing an established and long-term activity strategy, designed to make insurance companies more resilient and competitive in the modern landscape, could prove to be beneficial. Adopting such a strategy as an activity program might be effective. In the conditions of global risks and threats, we have outlined the block scheme of strategic directions for strengthening the performance of insurance companies in Figure 6.

Looking at Figure 6, it can be noted that if the indicated elements and criteria are preserved and implemented, there is the potential to shape significant advancements and achieve successful outcomes in the

activities of insurance companies.



**Figure 6. Block diagram of strategic directions for strengthening the activities of insurance companies in the conditions of global risks and threats**

**Prepared by the author**

At present, large-scale and extensive infrastructure, social and production projects, creation of industrial areas, resettlement of residential areas, and, overall, the implementation of 11 republic and internationally significant transportation projects are being carried out intensively in the liberated territories. By the decree of the President of the country dated July 7, 2021, the structure of economic regions has been changed, and in compliance with historical-economic regulations, the economic regions

of Karabakh and Eastern Zangazur have been established in the liberated territories<sup>6</sup>. Each of these regions has strong development perspectives and potential. The utilization of the Fuzuli International Airport, serving as the gateway to Karabakh, and the establishment of the Agdam Industrial Park in the Agdam region, along with the initiation of the 'Araz Valley Economic Zone' in the Jabrayil region, not only signify a new phase in economic development processes in the region but also in our country. This means diversification of additional value sources and the creation of supplementary financial resources, indicating significant potential for diversification of the structure of insurance services in these economic regions.

So, we've attempted to outline the ways to enhance the insurance system in our country in the near future:

-In the near future, efforts should be made to enhance or renew existing insurance mechanisms to regulate the insurance system in our country adequately in response to global threats and risks.

-It is crucial to address the gaps in insurance legislation in our country to facilitate the implementation of more advanced and effective insurance mechanisms, particularly strengthening the legal basis for insurance payouts in case of insurance events.

-Initiatives need to be taken to expand the insurance market, ensure maximum protection of rights and interests of insurance market participants, and notably foster a robust competitive environment within the insurance market.

-The current insurance payment tariffs in the country should be re-evaluated for their affordability, establishing a flexible tariff policy that meets customer satisfaction, and rectifying deficiencies in the insurance payment processes.

-Given the increased contemporary global threats, mechanisms for systematically and comprehensively studying various types of risks stemming from economic development processes and human activities need enhancement, alongside improving the professionalism of risk management.

-There should be a focus on dynamic development of the country's

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<sup>6</sup> Azərbaycan Respublikasında iqtisadi rayonların yeni bölgüsü haqqında Azərbaycan Respublikası Prezidentinin Fərmanı. Bakı şəhəri, 7 iyul 2021-ci il.

insurance market, successful integration into regional and global markets, creating an attractive environment for potential investors, applying a flexible and multifunctional insurance model in the liberated territories based on global experience, and giving special attention to the provision of insurance services, undertaking appropriate steps in this regard.

**In the 'Conclusion' section of the dissertation, recommendations and suggestions have been provided that bear scientific and practical significance stemming from the nature of the research.**

Important legal and economic issues related to the regulation and improvement of the insurance system in Azerbaijan have been examined. Recommendations and proposals have been provided in the direction of enhancing the country's insurance system, considering increasing the activities of insurance companies, the liberated territories, and the post-pandemic period's requirements:

1. The passage discusses the role of the insurance system in the country's economy and emphasizes the necessity of modern perspectives in its development. It concludes that insurance activities effectively fulfill various socio-economic functions, notably compensating losses for insured subjects affected by various risks and reducing negative impacts of insurance risks through measures and compensation. It also highlights the importance of insurance in ensuring the secure organization of economic processes and safeguarding the assets and properties of participants from the adverse effects of force majeure events.

2. This passage discusses the notable aspects and elements of insurance and the insurance system, highlighting various mechanisms of insurance activities, insurance licensing, the significance of insured individuals and legal entities as crucial stakeholders in insurance contracts, the pivotal role of the insured party as a significant participant in the insurance market, and the broad proliferation of life and non-life insurance types within the insurance market.

3. In the era of modern global transformations, we consider it important to focus on a set of methodological approaches to the insurance system: 1) the adequacy of state policy in organizing the insurance system to current challenges; 2) maintaining the principle of complexity in organizing insurance activities; 3) ensuring systematicity in the insurance market; 4) the principle of efficiency in insurance activities; 5)

transparency of the insurance system; 6) prioritizing the diversification of the insurance portfolio; 7) implementation and improvement of measures for utilizing and improving methodologies on risks in insurance activities.

4. The alignment of requirements for the stability of the insurance system and insurance activity entities, financial stability, and reliability in meeting obligations with international standards, and consequently ensuring a robust control system, should be systematically addressed. We believe that within the framework of the three important requirements of the internationally accepted Solvency II directive, mechanisms determining the adequacy of our country's insurance system and the stability and honesty of insurance companies should be employed. Measures should be taken to renew existing requirements and improve rules and regulations.

5. According to us, Azerbaijan has the potential to benefit more successfully from the experiences in organizing the insurance systems of South Korea and China. South Korea's insurance system ranks in the world's top ten due to its competitive ability and is distinguished by its universality, particularly in successfully implementing agile insurance services during the global pandemic. Meanwhile, China's insurance system possesses strong and agile maneuvering capabilities, and insurance companies experiencing intensive growth in the global insurance market represent this country. Despite having a complex economy, 74% of the insurance market belongs to private insurance companies. In China, mechanisms like internet-based insurance have been employed to ensure agility in insurance activities, creating an extensive environment utilizing cloud, blockchain, and Big Data technologies. Considering these aspects, emphasizing the development and improvement of Azerbaijan's insurance system based on the experiences of South Korea and China seems purposeful.

6. According to information as of January 1, 2023, it is challenging to state that there is a strong competitive environment in the insurance market formed by the activities of 20 insurance companies in the country. The primary reason is that four major insurance companies, "Ateshgah" CJSC, "Ateshgah Hayat" CJSC, "Pasha Hayat Sığorta" CJSC, and "Pasha Sığorta" CJSC, collectively accounted for 73.3% of the total value of insurance premiums in 2022. This concentration should be regarded as

one of the main indicators of monopolization. We believe that measures need to be taken to create a robust competitive environment aimed at enhancing the attractiveness of the country's insurance market and ensuring the effective functionality of the insurance system. Priorities should include strengthening the financial mechanisms of market participants, easing their access to financial resources, and enhancing the financial stability of insurance companies

7. We emphasize the necessity of paying special attention to regulating the lack of proportionality between total insurance premiums and insurance payouts. It's crucial to have a clear and optimal mechanism for this significant issue. The importance of insurance payouts should be particularly taken into account in enhancing trust in insurance companies.

8. We consider it essential to prioritize the regulation of legal-economic mechanisms of the country's insurance companies within the context of maximum global threats. This includes enhancing existing legislative acts, stimulating the formation of financial investment sources that allow for strengthening the financial stability of insurance companies, and increasing the interest of foreign investors in our country's insurance market. It's important to establish these priority approaches and activate operational mechanisms to integrate these issues into the insurance market cycle.

9. To intensify the activity of insurance companies in the insurance market and to effectively enhance the existing mechanisms of the country's insurance system, a sequential approach should be adopted. This includes systematizing the issues within the insurance market, identifying factors that hinder its development, ensuring more active participation in regional and international insurance markets, and consecutively developing a new and attractive portfolio of insurance services.

10. In the post-pandemic conditions and within the context of the socio-economic development priorities of the newly established regions of Karabakh and Eastern Zangezur, it is essential to take fundamental steps towards maximizing the improvement of our country's insurance system in the near future. These steps should be anchored in the objectives of national economic priorities. This includes creating entities engaging in insurance activities that are adequately responsive to global risks, enhancing the competitiveness of existing insurance companies,

stimulating the activity of the insurance market, providing incentives, considering insurance approaches derived from international experience, and overall strengthening the country's insurance system.

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“AA – Polygraph” Production and Commercial Association  
[capevi@internet.ru](mailto:capevi@internet.ru) Tel.: (+99455) 2012809