

FUNCTIONS AND TASKS OF UNDERWRITING

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Abstract: This paper examines the functions and objectives of underwriting as a key element of the risk management system in insurance, banking and investment activities. The main areas of the underwriter's activities are disclosed: risk assessment and classification, pricing, formation of contract terms, decision-making on insurance, lending or placement of securities. The objectives of underwriting aimed at minimizing losses, increasing profitability and ensuring the financial stability of organizations are also analyzed. Particular attention is paid to modern trends and technologies influencing the development of underwriting practice.

Keyword: underwriting, underwriting functions, underwriting tasks, risk assessment, risk management, insurance, pricing, lending, financial stability, investments.

Problems of organizing underwriting by insurance companies. Russian insurance companies do not yet consider high-quality underwriting a competitive advantage, with the exception of top insurance organizations, due to the emphasis on quantitative rather than qualitative indicators of business activity.

Underwriting is the process of assessing and accepting the risks of insurance, lending or issuing securities. It plays a key role in the banking, insurance and investment sectors. Below are the main functions and tasks of underwriting.

The most common problems in implementing the underwriting business process include the lack of strategic planning.

The philosophy of underwriting is the general concept of the development of an insurance company, the formulation of its strategy, insurance principles, the establishment of the planned share of the insurance market that the insurance company hopes to capture, the characteristics of the reference insurance portfolio, channels for promoting insurance products, the definition of preferred target focus groups of consumers and the desired level of profitability from insurance operations. On its basis, an underwriting policy is developed, which consists of a systematic unification of the insurance company's decisions on the market segment, consumer focus groups, requirements for insurance objects, the volume of protection provided, the minimum amount of insurance amounts and premiums.

The underwriting policy is a separate document, to which reinsurers pay great attention, since in the absence of this document, some reinsurers refuse to accept certain risks for insurance.

Reinsurers also insist on adding a special clause "On changing the underwriting policy" to the obligatory agreement, according to which the insurer does not have the right to change the insurance policy without the consent of the reinsurer. This is due to the fact that the underwriting file is a file containing all the decisions made on the insurance of each individual object, which consists of an application, an inspection report of the object, a payslip, a signed quotation, confirmation of reinsurance, correspondence with the client, a photo of the object, etc.

This file is necessary when replacing employees, changing personnel, since without an idea of the formation of the initial tariff, it is impossible to adequately update the object for a new period or make changes to the current contract.

One of the mistakes is also the combination of the functions of a seller and an underwriter (in the "insurance world" there is even a definition for this position - "selling underwriter"), which leads to a conflict of interest. The seller-underwriter will be tempted to accept a bad insurance risk in order to fulfill the plan or receive a commission, which will reduce the pace of his own sales due to the need to be distracted by the work of the underwriter.

The purpose of the underwriting service in different insurance companies may vary depending on the adopted policy of the insurance company. As a rule, this is to ensure the target level of the technical result. Control function, main components:

- 1) formation of the annual underwriting policy — the insurance company's decision on the selection of insurance objects (formed jointly by the underwriter and directors), the volume of insurance coverage provided, the requirements for the quality of risks accepted for insurance, the examination of objects, the minimum amount of insurance premium — ensures the development of the portfolio in the target direction;
- 2) insurance portfolio management — one of the main functions of an underwriter with a sufficiently large portfolio. It consists of regular analysis of the insurance portfolio in different planes and making timely decisions on establishing competitive insurance conditions and tariffs for them, ensuring, on the one hand, the required volumes of fees and occupation of key market segments, and on the other — achieving the required planned indicators for the technical result;
- 3) reinsurance of the mass portfolio — determining the amount of insurance amounts at which the risk under these contracts remains on its own retention; determining the insurance amounts at which contracts fall under obligatory and facultative reinsurance.

Contractual function, main components:

- 1) risk selection and formation of adequate insurance conditions;
- 2) determination of the insurance value, insurance amount, size of deductibles, limitation of the volume of payments per case, etc.;
- 3) collection of additional information about the object and assessment of risk factors when insuring non-standard objects;
- 4) determination of the tariff. Insurance tariffs are calculated actuarially, the underwriter's task is to select adequate increasing (decreasing) coefficients to the base tariff depending on the specifics of a particular insurance contract;
- 5) establishment of the amount of commission or the amount of expenses for sale in another form.

Underwriting functions

1. Risk assessment. The probability of an insured event, loan repayment or successful placement of securities is analyzed.
2. Risk classification. Distribution of clients or objects by risk levels to establish adequate conditions (rate, limit, franchise, etc.).
3. Formation of contract terms. Individual terms of insurance, lending or placement of securities are established taking into account the risk analysis.
4. Pricing (tariffing). Calculation of insurance premiums, loan rates or share prices based on the risk level.

5. Monitoring compliance with standards. Ensuring compliance of applications with the company's internal policies and legislation.
6. Making a decision on accepting for service. Decision on concluding or refusing to conclude a contract.
7. Monitoring and support. Monitoring changes in risks throughout the term of the contract, especially in insurance and lending.

Underwriting Tasks

1. Collection and analysis of information. Study of documents, reports, credit history, medical data (in life insurance), business plan (in investments).
2. Assessment of solvency (in lending). Identification of potential problems with debt repayment and the level of borrower reliability.
3. Minimization of losses. Reducing the likelihood of major losses due to the correct assessment and distribution of risks.
4. Increasing the profitability of the company. Due to the competent selection of clients and objects that correspond to the company's strategy.
5. Ensuring a balanced insurance/investment portfolio. To diversify risks and increase the sustainability of activities.

If necessary, I can prepare a table or diagram on the functions and tasks of underwriting, or separately disclose the features in the banking, insurance or investment sphere. Underwriting plays a key role in risk management in insurance, banking and investment activities. Its main functions are risk assessment and classification, establishing contract terms and pricing. The main tasks of underwriting are aimed at minimizing financial losses, ensuring the profitability and stability of the company, as well as making informed decisions when concluding contracts. Effective underwriting contributes to the formation of a sustainable and balanced portfolio of clients or projects.

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