



# PROSPECTS DEVELOPMENT OF CARGO INSURANCE IN LOGISTICS COMPANIES

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## ABSTRACT

*This paper explores the evolving role of insurance services in the logistics sector, a critical component of the global economy. It specifically focuses on the logistics landscape in the Republic of Uzbekistan and its engagement with insurance providers. The study outlines foundational theories related to cargo insurance and reviews international practices in this domain. Additionally, the paper evaluates the present condition of Uzbekistan's logistics infrastructure and discusses its future potential in the global economic arena.*

**KEYWORDS:** *insurance, cargo, logistics, transport infrastructure, international transportation practice, insurance risk, insurance market.*

## INTRODUCTION

Nowadays, the process of cargo transportation is accompanied by many dangerous events that can worsen the financial situation of cargo owners, harm participants in the transport process, cause damage to the transported material values, the environment and lead to the need for compensation payments. Cargo transportation insurance, providing protection of the property interests of cargo owners and other participants in trade transportation, stimulates the development of production, trade and transport enterprises, contributes to strengthening the positions of countries on world markets and the development of their foreign trade.

Moreover, the development of insurance relations contributes to solving social problems, increases the efficiency of cargo transportation, and proceeds from the sale of insurance services under foreign trade contracts are an additional source of budget revenue. Therefore, cargo transportation insurance providing protection of interests at the level of individuals, enterprises, industry and the state, is legitimately considered as an effective method of ensuring transportation safety, economic security, as well as a tool to reduce the risks of negative consequences of transport catastrophe and accidents.

## LITERATURE REVIEW

The logistics industry is a pivotal sector in the global economy, responsible for the efficient storage and movement of goods. As logistics companies operate in an environment fraught with potential risks—such as theft, damage, and delays—cargo insurance becomes increasingly important. This literature review aims to survey existing research on the prospects for the development of cargo insurance in logistics companies. It explores various dimensions including theoretical foundations, empirical findings, and case studies related to cargo insurance, with a particular focus on its evolving role in the logistics industry.

Majority of foreign economic scientists have conducted scientific research on the stages and prospects of cargo insurance in logistics. Including: A.N.Nazarova, M.E.Orlova-Scheiner, L.G.Scamey, I.M.Gurkov, I.V.Isaev, V.P.Toporkov and e.t.c. Scientist of economics E.Orlova-Scheiner noted in her scientific article that the purpose of cargo insurance is to create conditions independent of the owner of the cargo, which it considered to compensate for the guaranteed replacement of losses incurred in the transportation process due to the loss, damage of the goods being transported as a result .

L.G.Skamay: cargo insurance it is the protection of the property interests of cargo owners in the event of damage caused by various phenomena in the process of transportation of goods.



V.P.Toporkov: this type of insurance is designed for goods transported by different types of transport, allowing you to compensate for losses associated with damage or loss of cargo, regardless of whether the carrier is at fault or not.

## **METHODOLOGY RESEARCH**

In the scientific study of the subject, methods such as logic, systematic analysis and scientific abstraction were used in the process of analysis and research. The article provides suggestions and practical recommendations on the development of cargo insurance in logistics companies and the role of this system in the world insurance market, the role of the logistics system in the national economy of the country and the further development of this industry in Uzbekistan.

## **ANALYSIS AND RESULTS**

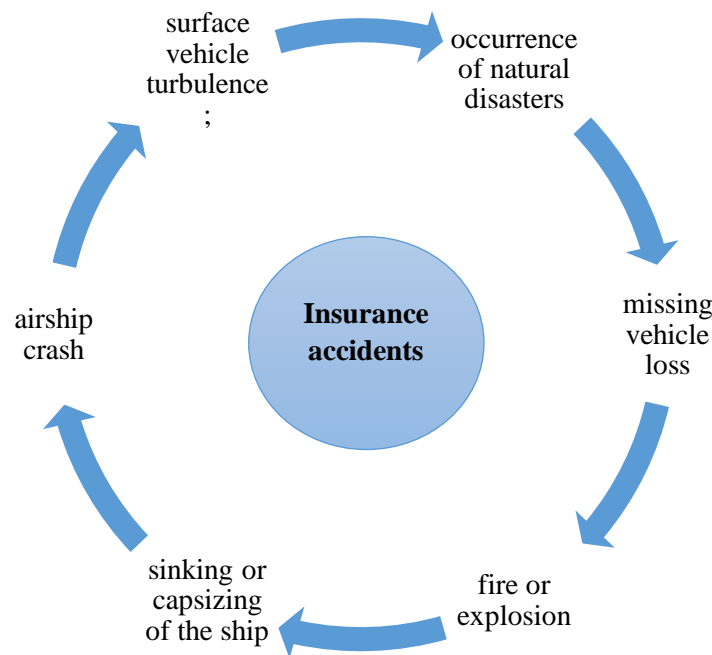
High-quality economic development is a necessary way to ensure stable socio-economic growth and sustainable development. Meanwhile, Uzbekistan becoming the largest logistics market in Central Asia and has developed into a logistics powerhouse that has global influence. Logistics is a fundamental service industry for socio-economic development and a pillar industry of the national economy, the higher the level of logistics development, the greater the market activities and the faster the socio-economic development. The logistics industry is widely recognized as an accelerator of economic development and the third source of profits. It has gradually emerged as one of the pillar industries that support urban economic development.

The logistics industry is a comprehensive service industry that includes a series of activities such as transportation, warehousing, freight transportation, information and others. It involves the movement of products from the origin to the production system, and then to their final consumption point to meet the needs of customers or enterprises. It is a basic, strategic and leading industry that supports the development of the national economy.

Any logistics company is 100% customer-oriented. In the very definition of logistics activity, there is a complete satisfaction of consumer requests based on seven rules-principles of logistics (providing the right product, in the right quantity, of the right quality, in the right place, at the right time, to the appropriate customer, at the optimal price) [1].

It is possible to do this only in the case of full integration of all participants in the process, namely the logistics chain. How efficiently and reliably each link of the logistics chain functions separately directly affects the success of the enterprise as a whole. In other words, the reliability of the weakest link is the reliability of the entire chain. Therefore, the protection of each link individually and the entire chain as a whole is one of the priority tasks, which is most often preferred to be directed to the competence of insurance companies.

Insurance is a means of protection from financial loss in which, in exchange for a fee, a party agrees to compensate another party in the event of a certain loss, damage, or injury. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss. Cargo Insurance is designed specifically to address your needs and protect the value of your cargo and cover legal liability. Cargo insurance claims are handled by a dedicated, professional team ensuring you have peace of mind when transporting your goods both domestically and internationally. There are many insurance accidents in the transportation of cargo that are most often found in logistics companies (figure 1).



**Figure 1. Insurance accidents that can occur in the process of transporting [2]**

Based on the above classification of logistics risks, it can be concluded that most of the risks and the associated material damage can be minimized by competent actions of personnel. But it is important to understand that this in no way excludes, but, on the contrary, implies additional direct insurance of logistics risks by specialized logistics companies. In this case, the mutual relations of participants in the logistics process and insurance companies will be regulated insurance contracts. An insurance contract is an agreement between the policyholder – a participant in the logistics process (for example, the owner of cargo or vehicles), and the insurer – a legal entity that assumes certain risks, in accordance with the terms of which the insurer undertakes to pay the policyholder or the beneficial acquirer a certain amount of money upon the occurrence of an insured event stipulated by the contract in return for payment of the insurance premium by the policyholder.

The logistics system consists of the following subsystems: procurement, transportation, storage, logistics, intra-production movement of material resources, the activity of each of them is associated with a certain figure. You can choose the appropriate insurance method for each type of risk.

Some examples can be given. So, for the procurement subsystem, there may be risks of non-compliance of the price with the quality of the goods and an increase in production costs. To the methods of data insurance risks can be attributed to functional price analysis, compliance with budget constraints, as well as optimization (Pareto) of the terms of the transaction. The risks of the transportation subsystem due to increased transportation costs, disruption of the delivery schedule and loss of property can be insured through route optimization, property insurance and liability insurance.

In the storage subsystem, the risks of immobilization of material resources and loss (theft) of property can be leveled through inventory management and property protection, fire prevention measures, as well as property insurance. The risks of the logistics subsystem in the form of a shortage or, conversely, excess stocks and illiquids can be protected by managing production stocks, operational purchases and rationing the consumption of material resources. Furthermore the risk of disruption of the intra-production rhythm of the movement of material resources can be smoothed out by the management of spare parts in work-in-progress.

In the context of globalization, the issue of the use of insurance products in various areas of logistics activities is becoming increasingly important, in particular, in cargo insurance, which is a central component of the development of commodity exchange with foreign countries. Insurance of export cargoes and their transportation, in accordance with the current legislation of the Republic of Uzbekistan and the international rules of Incoterms, is carried out by legal entities that are commercial organizations and have a license to carry out the appropriate type of insurance.



In the current era of globalization, when the world insurance market is developing much faster. An example of this we can discuss experience of the Germany. The insurance market in Germany is characterized by a number of features. More than half (51%) of the national insurance market is engaged in property insurance. Cargo insurance in German logistics companies is very popular than in other countries of Western Europe.

The insurance market in Germany is divided between the public social security system and the private insurance sector. The private insurance sector in Germany is represented by Joint-Stock insurance companies, mutual insurance companies and public insurance corporations owned by their shareholders.

The UK is considered one of the largest insurance market in the world. Many international insurance companies not only operate in a sufficiently large domestic market, but also provide insurance services around the world. As of 2020, the UK insurance industry became the largest industry in Europe in terms of total domestic insurance payments. At the same time, the United Kingdom ranked fifth in the world for cargo insurance payments in logistics, furthermore the second place after United States, China, Germany and Japan.

The President of the Republic of Uzbekistan Sh.M.Mirziyoyev, in his message to the Oliy Majlis and the people of Uzbekistan on December 20, 2022, set an important task for 2023: to increase exports of finished products by \$4 billion, which should exceed \$23 billion for the next year. Such a statement of the task is the implementation of the Development Strategy of the new Uzbekistan 2022-2026, where a grandiose goal is set – "bringing the volume of exports of the republic to 30 billion US dollars in 2026"[3]. The implementation of the export policy contributes to the development of the transport sector of Uzbekistan and Central Asia as a whole. At the same time, it should be emphasized that the development of the transport and communication sphere is not an end in itself, but the task is deeper and broader: to provide logistics for the development of trade and a cardinal increase in exports from Uzbekistan to international markets.

As a result of the measures taken, there is a certain increase in cargo and passenger traffic. Cargo transportation by all modes of transport in 2021 increased by 6.1% and amounted to 1.31 billion tons, passenger transportation by all modes of transport increased by 2.7%, amounting to 6.1 billion people. In Uzbekistan, transport accounts for 6.4% of GDP (8-12% in developed countries), 7.4% of total investment, 29.5% of the total services market. Experts suggest that by 2030, the capacity of Uzbekistan's transit potential will increase by 4.4 times - up to 6.04 billion tons. At the same time, the share of investments in the transport sector relative to the country's GDP should increase to \$ 46.7 billion[4]. Without any doubt, we can say that Uzbekistan faces a big task of developing the insurance market in order to enter the international financial centre.

Logistics entails the physical movement of products from their point of origin to the place of receipt by end users. Therefore, transportation is the key element in the international logistics chain. When exporting or importing goods, it is very important to hire a suitable handling organisation to ensure that the packaging and labelling complies with standards in order to avoid problems. Both exporters and importers must also be aware of their respective responsibilities and what specific export and import documentation will be required.

The head of our country in his message to the Parliament drew attention to the importance of the transport sector: "In order to timely deliver our products to the domestic and foreign markets, to reduce its cost, we need to develop the sphere of transport and logistics.... According to international experts, by improving infrastructure, ensuring tariff transparency and opening new routes, the transit potential of our country can be increased from the current 7 million tons to 16 million" (table 1).

The level of formation achieved today and it is difficult to consider the development of the country's transport system as optimal and even more balanced with an insufficiently developed state of the economy. The lag in the technical and technological development of transport affects the excessively high volumes of transport emissions and the increase in the dangerous level of exposure transport on the ecology of the regions. All this has a negative impact on the economic and social development of the country.

**Table 1. Integration directions of the transport system in Uzbekistan with individual transport corridors [5]**

Rout by-passing Uzbekistan	Projects for integration of routes		
	Name	Length	Cost
“Western Europe-Western China”	Modernization of the road section “Tashkent-Chimkent”	150 km	300 mln.USD
Caspian Sea regional transport corridor Uzen-Kizilkiya-Bereket-Etrek-Gorgan	Implementation of the Project of transport corridor “Uzbekistan –Turkmenistan-Iran-Oman”	2800 km	On the stage of determination
Railway line from Turkmenistan though Afghanistan “Imamnazar-Atamyrat-Andhoi-Herat”	Construction of the railway line Mazar-i-Sharif-Andhoi by the State Joint Stock Railway Company Uzbekistan Temir Yullari	120 km	170 mln. USD
Railway line and road from Kashgar through Kirgizstan, Tajikistan and Afghanistan to Inran	Construction of electrified railway line Angren-Pap, which will create the basis for implementation of the project of construction of the railway line Uzbekistan-Kirgizstan-China	150 km	2,7 mln. USD

Uzbekistan’s logistics sector is composed of a diverse group of freight forwarders and logistics companies, including local firms and those from the Russian Federation, Kazakhstan, Iran, the United Arab Emirates, Germany, Switzerland, the Republic of Korea, and the PRC. These companies offer mostly traditional forwarding and warehousing services. Supply chain management and third-party logistics services are still at an embryonic stage of development in the country.

The potential opportunities for any CAREC country, including Uzbekistan, from the linkage of the Asian and European production networks include

- growing a strong transport industry to carry goods from one regional production network to another,
- developing a strong logistics industry to meet the needs of regional production networks,
- providing transit services for people and goods traveling from one region to another, and
- supplying the inputs required by both regional production networks.

Uzbekistan’s geographical location and well-developed aviation industry position it for the following opportunities:

- as the main air cargo hub in the region,
- as a desirable stop for intercontinental flights,
- as a maintenance and repair center, and
- as the locale of a pilot training center for the CAREC region.

The Russian Federation, Ukraine, and Uzbekistan are the only CIS countries with the capability to construct and rebuild rail wagons. Uzbekistan has therefore the unique opportunity to supply new and rebuilt rail wagons for the rest of the CIS countries which are all investing heavily in developing their respective rail systems.

## CONCLUSION

To sum up, in modern conditions, separate national insurers cannot effectively protect the property interests of policyholders, which leads to the formation of an integrated international cargo insurance market. The objective prerequisites for the development of the international cargo insurance market include the intertwining of mutual economic interests of insurance and financial capital, universal informatization and computerization, the severity of potential losses, the need for adequate insurance protection, the specifics of cargo insurance.

An important component is the work to increase the level of confidence in the activities of the insurance companies themselves. For a positive perception of the users of the offered insurance products, it is necessary to provide full-fledged information on their quality issues and possible problems regarding the implementation of insurance protection.



The current trends of the insurance market are also formed under the influence of general economic processes and changes: the growth of trade volumes in the long term, the transnationalization of production, the increase in the volume of cargo traffic in the world, and especially in Central Asia.

In order to form a competent program for the promotion of insurance services in the market of modern shipments, solutions are required in the field of training and retraining of insurance specialists. Hence the importance of holding seven bunks, master classes and other events that contribute to raising the level of qualifications of specialists of insurance companies in the presentation of effective insurance products that minimize the losses of cargo carriers.

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