(April 2024). LOCAL AND FOREIGN OPERATIONS:IN THE EXAMPLE OF MORTGAGE INSURANCE
International Journal of Economic Perspectives,18(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

LOCAL AND FOREIGN OPERATIONS:IN THE EXAMPLE OF MORTGAGE INSURANCE

KHOLMATOV SUKHROB NARZULLAEVICH
Independent researcher, Tashkent State University of Economics, Tashkent, Uzbekistan
https://orcid.org/0009-0003-1865-1522
e-mail: sukhrobbekkholmatov @gmail.com

Abstract: Mortgage loans have become increasingly important in recent years. Also, the timely development of the capital market, including mortgage and insurance, is impossible without the system. From this point of view, this topic is always relevant and in the attention of researchers. This article analyzes the concept of mortgage insurance, its main types and enforcement mechanisms. The article also points out the main advantages of mortgage insurance for various participants in this relationship.

Keywords: mortgage, bank risk, insurance, mortgage insurance, life insurance, liability insurance, bank insurance products.

INTRODUCTION

Modern Uzbekistan, integrating into the world financial system and becoming a full member of the world business community, has begun to master business forms that have passed the test of developed countries. One of such areas of development and improvement in the last 10 years is insurance and mortgage loans. This is also shown by the trends of recent years, in particular, the implementation of state programs in the field of mortgage credit, changes and additions to the legal framework in the field of insurance. All these measures implemented by the state are certainly not accidental. The main goal is to create models of insurance and mortgage markets that can be acceptable for the population of our country, as well as to protect the domestic market from international financial crises.

At the current stage of the development of our national economy, the insurance system, which is directly related to various risks, including housing mortgages, plays an important role. Many problems need to be solved to ensure that the mortgage activity meets the growing needs of the society as much as possible, the main ones are the stabilization of the mortgage lending system, the risk minimization of the participants of the mortgage activity and the issues related to the provision of guarantees for the mortgage activity and the return of this type of loans.

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

International Journal of Economic Perspectives,18(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

LITERATURE REVIEW

The issues of identifying, classifying and evaluating risks inherent in the mortgage lending process have been analyzed in the works of many researchers. Issues of diversification of mortgage risks, their reduction and insurance are always relevant.

In international practice, mortgage insurance classification is divided into two large groups: comprehensive mortgage insurance and mortgage insurance. We can see this from the scientific studies of Voytova, Golovina (2009), Besfamilnaya, Tsyganov (2001), Tsyganov, Yazykov, Greshin (2011), Yazykov (2011, 2013).

Comprehensive mortgage insurance includes collateral insurance (property insurance), borrower's life and health insurance, risk of loss of rights to collateral (title insurance).

Mortgage insurance protects mortgage lenders and investors against losses due to default on the borrower's loan if the sale value of the collateral securing the mortgage loan is insufficient to fully cover the mortgage loan.

Gritsenko, Makarenko (2016) emphasize in their research that mortgage insurance allows to reduce credit risks and protect the financial interests of mortgage loan subjects in case of emergency situations. Also, the mortgage insurance system appeared for the first time in foreign practice, and it led to a significant increase in the volume of mortgage loans. Mortgage insurance accepted abroad is a classic mortgage insurance.

Simonova, Ivanova (2021) The emergence of mortgage insurance began to take shape with the origin of the mortgage bank product, which consisted of providing specialized loans for the purchase of housing. The real estate acquired during the conclusion of the mortgage agreement is considered collateral and belongs to the bank until the debt is paid.

Daraselia (2014) states in his research that mortgage loans are the weakest in terms of risk management and the level of risk is always high. The main role of insurance in the mortgage loan is to minimize the bank's risks due to the long-term use of the client's loan funds. In fact, insurance plays the role of a system of risk distribution among the participants of the mortgage loan market.

Dendiberya (2021) emphasizes the following in this regard, at the same time, there is a great demand for cooperative activities of banks and insurance companies in the market of financial products, especially in the field of mortgage lending. Today, the mortgage housing loan is an actual topic that is considered not only at the level of credit and insurance companies, but also at the state level, because housing affordability is one of the main directions of the state social policy.

Analyzing mortgage risks, Savrukov (2009) emphasizes the following, the main risks faced by banks in issuing long-term mortgage loans to the population are as follows:

1) credit risk; 2) liquidity risk; 3) interest rate risk; 4) the risk of closing the

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

loan prematurely. Also, among the risks of borrowers in the process of granting a mortgage loan, the following can be distinguished: risk of property, risk of loss of health and work capacity, risk of loss of property rights.

According to Goncharova (2014), mortgage insurance refers to the insurance of credit risk, that is, in the event of default of the borrower, it is intended to cover the loss of the creditor by collecting the subject of the mortgage. Mortgage insurance should not be confused with comprehensive mortgage insurance that includes collateral, title and accident (life) insurance.

Yarotskaya, Teslyuk (2013) characterizes the role of insurance in mortgage lending as follows, that is, mortgage is a very risky type of lending, because by concluding a loan agreement, the borrower has long-term financial obligations to the lending bank. Insurance was considered to be the optimal way to reduce the risk in mortgage lending, only by using it correctly, it will be possible to achieve the intended goal.

Abdurakhmanov (2010-2022) reviewed mortgage risk insurance, risk insurance in the conditions of the digital economy, regulation of the insurance market by a special state body, and the practice of insurance of risks arising from the interests of interested parties. Also, in the case of mortgage risk insurance, the risk lies mainly with the financial institution. based on that, it was emphasized that it is necessary to insure the risks related to the mortgage loan, not the client, but the financial organization itself.

RESEARCH METHODOLOGY

In the course of the research, the classical view of mortgage insurance in foreign countries and the theoretical foundations of complex insurance of mortgage risks were studied, comparative analysis of mortgage insurance in different periods and countries, many theoretical literatures related to the topic, logical thinking based on empirical research, scientific observation, systematic approach methods were widely used.

ANALYSIS AND RESULTS

Currently, the mortgage lending system in our country is developing at a rapid pace, the volume of mortgage loan portfolios of banks is growing, and the initiatives of local authorities in this regard are also worthy of attention.

Analyzing the data of the Central Bank (cbu.uz 2024) on mortgage loans allocated to the population by commercial banks during 2023, we can highlight the following (Figure 1)

According to the report, during 2023, banks allocated 16 trillion 450.9 billion soums of mortgage loans to 68,395 citizens. Allocated mortgage loans increased by 2 trillion 479.7 billion soums or 17.2% compared to last year, but the number of borrowers decreased. In 2022, it was 70,913, and in 2023, it was 68,395 (- 2,518). In

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

International Journal of Economic Perspectives,18(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

2022, the average amount of one mortgage loan was 202.7 million soums, and in 2023, this figure was 246.4 million soums.

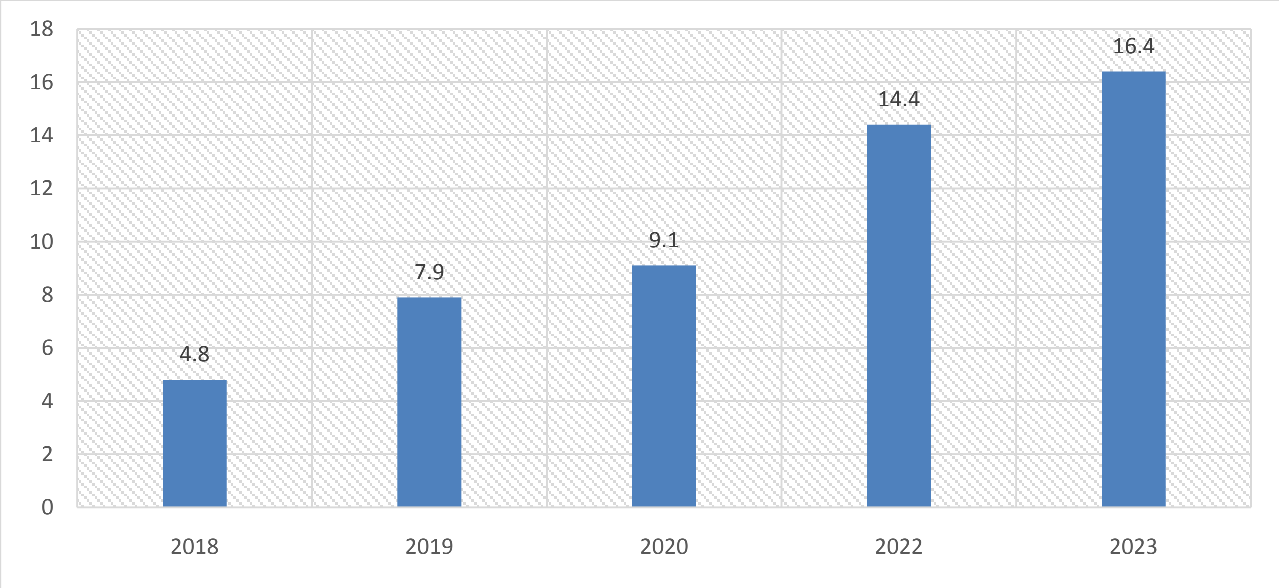

Figure 1. Loans allocated to the population by commercial banks in 2018-2023 (trln. soum)

In 2023, banks allocated 5 trillion 717.3 billion soums of loans from their own funds (1 trillion 931.2 billion soums more than in 2022). In 2022, only 167 billion soums of mortgage loans were allocated at the expense of the resources of the mortgage refinancing company, while in 2023, 1 trillion 576.3 billion soums of mortgage loans were financed from the company's funds. On the contrary, the loans allocated from the resources of the Ministry of Finance decreased - from 10 trillion 418.1 billion soums in 2022 to 9 trillion 557.3 billion soums in 2023.

In 2022, 75% of mortgage loans were allocated to housing in the primary market, and 25% in the secondary market. In particular, 59 percent (9.8 trillion soums) of mortgage loans in 2023 were allocated to houses in the primary market, and 41 percent (7.1 trillion soums) to houses in the secondary market.

The city of Tashkent continues to be the leader in terms of allocated mortgage loans, 5 trillion 900 million soums (29.6% of the total allocated mortgage loans). In addition, relatively more mortgage loans were allocated in Fergana region (1.3 trillion soums), Navoi region (1.25 trillion soums) and Tashkent region (1.23 trillion soums). According to the report, the lowest mortgage loan was allocated in Syrdarya region, 380 billion soums.

Mortgage loans are very sensitive to economic changes in the country's economy. The reason is that it is one of the indicators showing the formation of real incomes of the population. Based on this, we will consider the mechanisms of economic protection of mortgage loans in foreign countries.

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

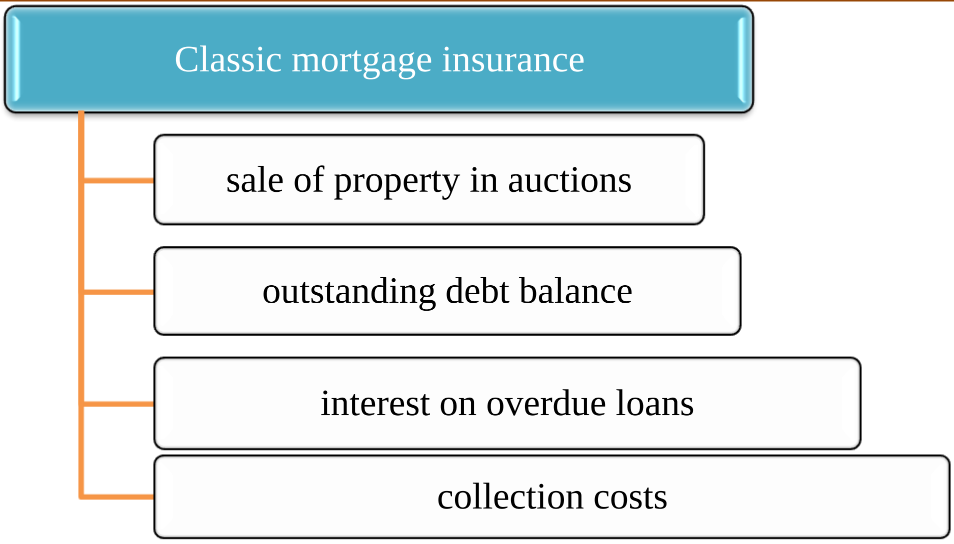

Figure 2. Classic mortgage insurance adopted in international practice

The fall in property prices during the recent global crisis has created two new risks unfamiliar to the mortgage market: borrower impoverishment during the crisis, and an increase in the number of defaults on mortgage loans. The main reasons for this are, first of all, job losses and lower wages, as well as lower mortgage-backed housing prices . Banks faced with losses limited lending for the purchase of real estate, and even during lending, they applied lending on very unfavorable terms for the client.

However, mortgage insurance as we know it in international practice actually implies completely different risks. Mortgage insurance is a completely new line of insurance.

For the first time in foreign countries, the introduction of a mortgage insurance system led to a significant increase in the total volume of housing loans. Mortgage insurance accepted abroad is a classic mortgage insurance.

Classic mortgage insurance covers damage caused by the borrower's inability or unwillingness to pay the mortgage loan, as well as the borrower's default when the market value of the home falls below the mortgage balance when the borrower has the ability to repay the loan. Classical mortgage insurance accepted in international practice is presented in Figure 2.

Mortgage insurance in the classical sense is not developed in Uzbekistan. In our national insurance market, the so-called "complex mortgage insurance" method or the method of protection against the risks that constitute it is widely used.

Comprehensive mortgage insurance consists of a combination of several types of insurance of risks related to the conclusion of a mortgage insurance contract, such as property insurance, life and health insurance of the borrower , property rights insurance (title insurance), and in some cases, it is understood that their separate types are implemented.

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

International Journal of Economic Perspectives,18(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

a socio-economic mechanism designed to prevent the borrower from defaulting on his obligations to the lender and not being able to fully cover his debts through the sale of the mortgaged property , as a result of which the lender will suffer losses. Comprehensive mortgage insurance is shown in Figure 3.

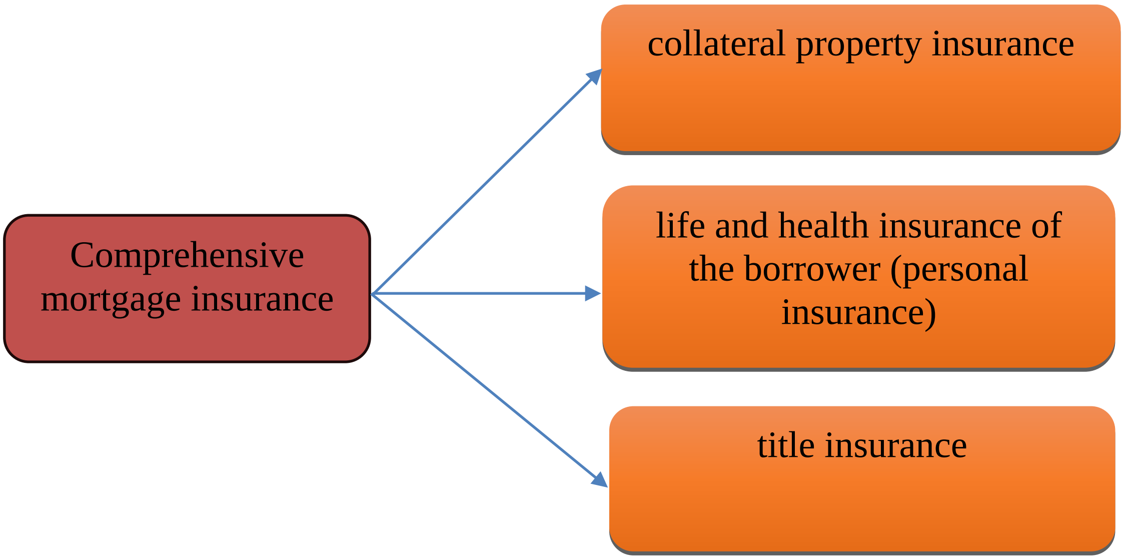

Figure 3. Comprehensive mortgage insurance

Thus, mortgage insurance generally covers the risk of the future value of the property, because a decrease in the value of the home may cause the borrower to default on the mortgage loan. Other causes of borrower default risk that are typically covered by mortgage insurance include regional (local) economic downturns, exposure to mortgage instruments, and certain types of adverse economic conditions that cause borrowers to default. In a regional economic downturn, borrowers may lose their jobs and default on their mortgages as a result, or real estate prices in the region may fall as part of a general economic downturn.

Insurance coverage is paid to the lender if a foreclosure procedure is applied to a particular loan and the lender is unable to collect the required amount. In this case, the coverage is paid within the insurance amount specified in the contract concluded between the creditor and the insurance company. Coverage includes the unpaid balance of the insurance debt, past due interest, court fees, and the unpaid portion of title insurance.

This coverage and its application is commonly known as "cap" coverage, where coverage is limited to a certain percentage of losses incurred by the lender. Today, it is common for mortgage insurance companies to provide "top layer" coverage in the event of borrower default.

In different countries of the world, private insurance companies provide such coverage in the range of 15 to 50 percent. In state mortgage insurance systems, this guarantee is 100 percent.

Also, if we note the main goals of the mortgage insurance system, they consist

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

International Journal of Economic Perspectives,18(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

of the following :

First, to create conditions for providing loans to families who meet the basic requirements for providing standard mortgage loans, but do not have enough funds to make a down payment when buying a house.

Secondly, to create favorable conditions for the expansion of the mortgage market by increasing the opportunities to purchase housing through mortgage housing loans.

Thirdly, increasing the share of loan amounts in the price of housing to be purchased.

Thus, it will be possible to significantly expand the range of potential borrowers and increase the volume of long-term mortgage loans granted to citizens for the purchase of housing. At the same time, with a decrease in the down payment percentage and, accordingly, an increase in the loan percentage compared to the assessed value of the collateral, the lender faces additional credit risks that may lead to financial losses and the borrower's default.

A mortgage risk insurance contract allows the creditor-bank to insure all or part of these increased credit risks, while providing an additional guarantee for repayment of the loan funds in the event of default by the borrower, as well as realization at a price sufficient to cover the amount of the collateral. not. In the event of an insurance event, the insurance company undertakes to provide insurance coverage to the bank as part of the insurance provision, the amount of which is determined in the mortgage risk insurance contract.

The long-term goal of mortgage risk insurance is to create conditions for lowering interest rates due to the size and diversification of large insured loans.

From the analysis of foreign experience, we can see that the default probability of the borrower gradually increases during the first 2-3 years and reaches a maximum level, after which it gradually decreases until the end of the loan period. In addition, all contracts under this risk depend on macroeconomic factors, which are mainly catastrophic and affect the majority of borrowers at the same time.

The experience of countries with a developed mortgage market (the USA, Canada, Australia, the Philippines, etc.) shows that the greater the share of the loan in the value of the collateral, the more credit risk the bank has assumed. As a result of this, a difference in property prices appears when the subject of collateral is collected in sales, and the risk of the bank not being able to cover its losses increases, and expenses artificially increase. These are costs related to foreclosure, the costs of selling the property at auctions and the default of the borrower, the overdue interest on the loan, the outstanding balance of the creditor, etc.

In 1957, the American Private Insurance Company (MGIC , Mortgage Guarantee Insurance Company) was established. The development of mortgage insurance in the United States led to a gradual increase in the loan-to-collateral ratio from 80 percent to 100 percent (for comparison, the ratio increased from 66.7 percent

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

to 80 percent in uninsured mortgage loans). This, in turn, increased the possibility of obtaining mortgage loans [1].

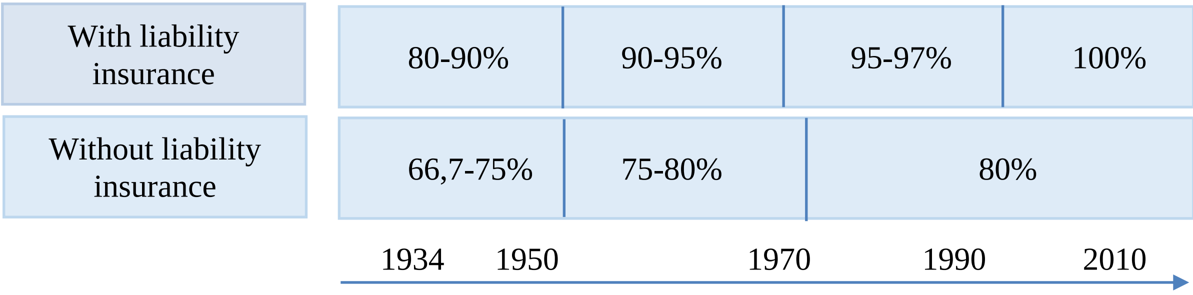

Figure 3. The trend of changes in the value of the loan collateral

It led to similar measures in Canada. In 1954, the Canada Mortgage and Housing Corporation (SMNS) was established to develop mortgage insurance, and it has withstood the financial crises that have occurred [2]. Also, other countries started using this experience. It can be noted that mortgage liability insurance began to develop rapidly with the active participation of the state or with the development of legal regulation and uniform standards.

In general, it can be noted that the participation of insurance companies in the development of mortgage lending has a positive effect on the entire mortgage system, as shown by the world experience. This leads to a decrease in interest rates, a decrease in the amount of the initial payment, which in turn directly stimulates the capital-intensive construction sectors of the economy and, of course, reduces social tension in society.

Mortgage insurance systems in different countries did not immediately adopt the current form. These practices are the result of improved underwriting, constantly updated data processing, and research into mortgage lending requirements.

CONCLUSIONS

The ability to offer extended services of mortgage loan products to a wide range of borrowers . The advantages of mortgage insurance for borrowers include:

Firstly, due to the high level of LTV (loan-to-value, the ratio of the loan to the value of the collateral), the affordability of loans increases, therefore the amount of the initial payment decreases;

Second, lower mortgage interest rates because mortgage insurance generally

[1] Author's interpretation based on data from https://www.mgic.com/rates .
[2] https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research.

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

International Journal of Economic Perspectives,18(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

reduces credit risk for the lender;

Thirdly, the credit organization will have the opportunity to increase the credit portfolio due to the types of credit products and healthy borrowers.

Recognizing the social importance of compulsory insurance types, it should be noted that the main growth of the insurance industry should be at the expense of voluntary insurance types, therefore measures for their development are of great importance. Such measures should be aimed at introducing new types of insurance products and supporting their adaptation to modern market conditions.

REFERENCES

1. Войтова. П.Ф., Головина О.Л. (2009) Формирование системы ипотечного жилищного кредитования по стандартам ОАО «АИЖК» / Под ред. П.Ф. Войтова, О.Л. Головина. М.,
2. Бесфамильная Л., Цыганов А. (2001) Управление рисками и страхование ипотечной деятельности // Страховое дело. № 1. 1-8 стр
3. Abdurakhmonov, I. (2020) "Regulation of the insurance market and implementation of effective mechanisms of prudential control," International Finance and Accounting: Vol. 2020: Iss. 2, Article 10. Available at: https://uzjournals.edu.uz/interfinance/vol2020/iss2/10
4. Abdurakhmonov, I. (2020). Methods and approaches to evaluating the insurance industry efficiency. *International Finance and Accounting*, *2020*(3), 7.
5. Abdurakhmonov PhD, I. (2020). Impact of insurance services on the development of real sector enterprises. *International Finance and Accounting*, *2020*(6), 7.
6. Абдурахмонов, И. (2022). Суғурта соҳасида рақамли технологияларни қўллаш истиқболари. *MOLIYA VA BANK ISHI*, *8*(1), 95-99.
7. Abduraxmonov, I. (2022). Sug‘urta sohalarining shakllanish tendensiyalari. *MOLIYA VA BANK ISHI*, *8*(3), 60-67.
8. Ilyas, A. (2018). Insurance market analysis methods: case-study from Uzbekistan. *SAARJ Journal on Banking & Insurance Research*, *7*(1), 59-68.
9. Абдурахмонов, И. Х. (2019). Теория и практика страхования. *Учебник/–Т.:«Иқтисод молия*, 353-354.
10. Цыганов А.А., Языков А.Д., Гришин П.А. (2011) Канадский опыт организации системы ипотечного страхования // Страховое дело. № 5. 1-6 стрю
11. Языков А.Д. (2011) Стратегия банка по минимизации потерь в области ипотечного жилищного кредитования // Финансы и кредит. № 44. 1-9 стр.
12. Языков А.Д. (2013) Ипотечное страхование в России // Банковское дело. № 8. 1-6 стр.
13. Гриценко С.Е., МакаренкоА.О. (2016) Рынок ипотечного кредитования и страхования в РФ:современные тенденции развития.

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024

International Journal of Economic Perspectives,*18*(04) 101-110
ISSN: 1307-1637 UGC CARE GROUP II
Retrieved from https://ijeponline.com/index.php/journal

Интерактивная наука № 6, 110-113 стр.

14. Симонова Н.Ю., ИвановаЕ.В. (2021)Анализ рынка ипотечного страхования в россии. Вестник Сибирского института бизнеса и информационных технологий Том 10. № 3. 85-89 стр.
15. Дараселия Г.Т. (2014) Ипотечное страхование как инструмент повышения доступности ипотеки. Вестник финансового университета № 5, 144-147 стр.
16. Дендиберя М.Ю. (2021) Ипотечное страхование: проблемы и пути их решения. Вестник Хабаровского государственного университета экономики и права.№ 1 (105), 43-47 стр.
17. Савруков А.Н. (2009) К вопросу о страховании рисков в процессе ипотечного кредитования. Научно-технические ведомости СПбГПУ №3. Экономические науки. 293-297 стр.
18. ГончароваО.А. (2014) Страхование кредитного риска в ипотечном кредитовании и факторы оценки его влияния. Финансы и кредит41 (617) . 43-56 стр.
19. Яроцкая Е.В., ТеслюкА.Н. (2013) Сущность, особенности и перспективы развития ипотечного страхования в России на современном этапе. Вестник науки Сибири. № 1 (7) 156-162 стр.
20. https://cbu.uz/oz/statistics/bankstats/1569314/

Submitted: 27 Jan 2023, Revised: 09 Feb2024, Accepted: 18 March 2024, Published: April 2024