



INSTITUTIONAL INVESTORS IN THE CAPITAL MARKET: THEORETICAL BASIS AND THE CURRENT STATE IN UZBEKISTAN

Omonov Sardor Ulmasovich

PhD student,

“Corporate Finance and Securities” Department,

Tashkent Institute of Finance, Tashkent, Uzbekistan.

Abstract

This article studies theoretical basis and the current state of institutional investors in the capital market. There are used different researches and approaches of scientists while learning meaning, importance and features of institutional investors. It is compared institutional investors to individual investors to answer the question why it should be increased the participation of institutional investors in capital market. In addition, there are analyzed the financial indicators of institutional investors in developed countries with the help of data of the Organization for Economic Cooperation and Development to learn and adapt their experience in the capital market in Uzbekistan. Moreover, it is investigated the current state of investment funds as an example of institutional investors on the basis of the Central Securities Depository of the Republic of Uzbekistan. While studying theoretical basis and the current state of institutional investors in Uzbekistan, there are aspects to find and show the problematic sides of activities of institutional investors in the capital market of Uzbekistan.

Key Words:

institutional investors, investment funds, insurance companies, pension funds, capital market.

Introduction

It is necessary to implement innovative development, create a healthy investment climate, and attract more institutional investors while achieving the developed economy. It should be done to develop the capital market in this process by attracting institutional investors, creating conditions for their investment and ensuring the participation of institutional investors. In particular, institutional investors are helpful to create financial resources and opportunities for Uzbekistan to introduce new technologies and know-how, because national companies in Uzbekistan are not well-funded, competitive and effective enough to develop the capital market. For this reason, today it is important to attract institutional investors to the capital market of Uzbekistan in order to develop the capital



market by expanding their participation. This shows the relevance of studying institutional investors to develop the capital market of Uzbekistan.

Several tasks such as the proper functioning of institutional investors in the capital market, the creation of conditions for their free operation, increasing investment attractiveness, ensuring transparency and reliability of information should be considered as priorities in not only Uzbekistan but also any developing countries at the moment, because such aspects can be obstacle for companies to achieve effective activity in capital market.

Globally, scientists are paying more attention to institutional investors in order to learn effective impacts on capital market. According to R.A.Lambert, C.Leuz, R.E.Verrecchia (2012), an institutional investor is an investor who has market power and thus influences the data transmission and pricing in the stock market. F.Saci and S.M.Jasimuddin (2020) argue that institutional investors have greater financial power compared to individual investors and have greater ability to collect market data and analyze the value of professional investments. F.Wen, Q.Zou and H.Wang (2020) claim institutional investors invest in securities from their own funds or from funds collected by investors. D.Kim, H.Kim, D.Joe and J.Oh (2020) mention that various aspects such as their investment purpose, their limiting factors, investment volume are important in expressing the potential of institutional investors. H.Petersen and H.Wredenburg (2009) note that managers and institutional investors focus on the importance of their social and environmental actions in the strategic and long-term performance of their organizations.

S.Çelik and M.İsaksson (2013) divide institutional investors into three main categories that reflect their level of development. The first category of institutional investors includes traditional institutional investors such as pension funds, investment funds and insurance companies. The second group consists of alternative institutional investors, including hedge funds, private equity firms, exchange-traded funds and sovereign wealth funds. The third one includes asset managers who invest on behalf of their clients.

According to Kh.Imamov (2010), institutional investors usually work with large sums of money on behalf of their owners, so they are highly skilled and use complex and delicate methods. J.Ataniyazov and E.Alimardonov (2014) also note that the structure of institutional investors in securities transactions includes insurance companies, pension funds, investment funds and banks.



Taking into account the views of the above-mentioned scientists, we can say that institutional investors play an important role in the international capital market today. Today institutional investors should be the main participant to develop capital market of Uzbekistan, because such investors have great potential to invest in securities and participate as issuers in the capital market of Uzbekistan. Thus, understanding the essence of institutional investors, analysis of institutional investors in developed countries is important for the development of capital markets in Uzbekistan.

Materials and Methods

It is essential to learn scientific thoughts, methods and approaches of foreign scientists on institutional investors in order to increase activities of institutional investors in the capital market of Uzbekistan, because theoretical and practical bases of institutional investors in Uzbekistan is not well-studied enough today. Therefore, we analyze methods of classifying institutional investors on the basis of scientists such as Stephen A. Lumpkin (2002), Jaksakristo, Alen Stojanovic, Anita Pavkovich (2014), Serdar Çelik, Mats Isaksson (2013), Sam Bourgi (2018). Moreover, we study legal bases of institutional investors in Uzbekistan such as Act № 1874 “On professional standards of institutional investors in the securities market” and Act № 1875 “On regulatory requirements for the quality and minimum level of investments in corporate securities by institutional investors”. It can be beneficial to strengthen theoretical bases of institutional investors to enlarge the activities of institutional investors in the capital markets of Uzbekistan.

We analyze financial indicators of investment funds on the basis of the data of the Central Securities Depository (2021) to determine current state of institutional investors in Uzbekistan. In addition, we investigate institutional investors such as insurance companies, pension funds and investment funds in developed countries in the example of the USA, Germany and Japan during 2015-2019 with the help of information of the Organisation for Economic Cooperation and Development (OECD) (2021) to assess and compare the activities of institutional investors in Uzbekistan. We expect that it is helpful to adapt the experience of foreign institutional investors for institutional investors in Uzbekistan.

Results

Today we cannot say that there are well-organized regulatory mechanisms in the capital market of Uzbekistan. Several legal documents can serve as bases of institutional investors activities in capital market, for instance, the Law № 580 “On banks and banking activities”, the Act № 1874 “On professional standards of institutional investors in the securities market”, the Act № 1875 “On regulatory requirements for the quality and minimum level of investments in corporate securities by institutional investors” adopted in 2008 and others. These legal documents are not enough for institutional investors to participate effectively in capital market. Therefore, it is useful to learn approaches and scientific thoughts of foreign scientists.



Table 1

Categories of institutional investors according to researches by various scientists

No	Scientists	Categories of institutional investors
1.	Stephen A.Lumpkin (2002)	<ul style="list-style-type: none">• Insurance companies;• Pension funds;• Open-end and closed-end funds;• Hedge funds;• Trusts and others.
2.	JaksaKristo, AlenStojanovic, Anita Pavkovich (2014)	<ul style="list-style-type: none">• Pension funds;• Insurance funds;• Hedge funds;• Different investment funds.
3.	Serdar Çelik, Mats Isaksson (2013)	<ol style="list-style-type: none">1. Traditional institutional investors:<ul style="list-style-type: none">• Pension funds;• Insurance funds.2. Alternative institutional investors:<ul style="list-style-type: none">• Hedge funds;• Private equity firms;• Exchange-traded funds;• Sovereign funds.3. Asset managers.
4.	Sam Bourgi (2018)	<ul style="list-style-type: none">• Investmentfunds (mutual funds, hedge funds);• Pension funds;• Charity funds;• Insurance companies;• Commercial banks.

As shown in Table 1, we can see that there are differences in the analysis of the categories of companies that are classified as institutional investors in the research of scientists. It should be noted that pension funds, insurance companies, commercial banks and investment funds are recognized by most scholars as institutional investors.

The concept of institutional investors is applied generally to several types of companies or groups of legal entities. According to the Act № 1874“On professional standards of institutional investors in the securities market” and Act № 1875“On regulatory requirements for the quality and minimum level of investments in corporate securities by institutional investors” adopted in 2008, institutional investors in the securities market are investment funds, insurance companies and commercial banks. In the global capital market, the classifications of institutional investors differ from one another. Different scientists have different approaches on the structure and categories of institutional investors.

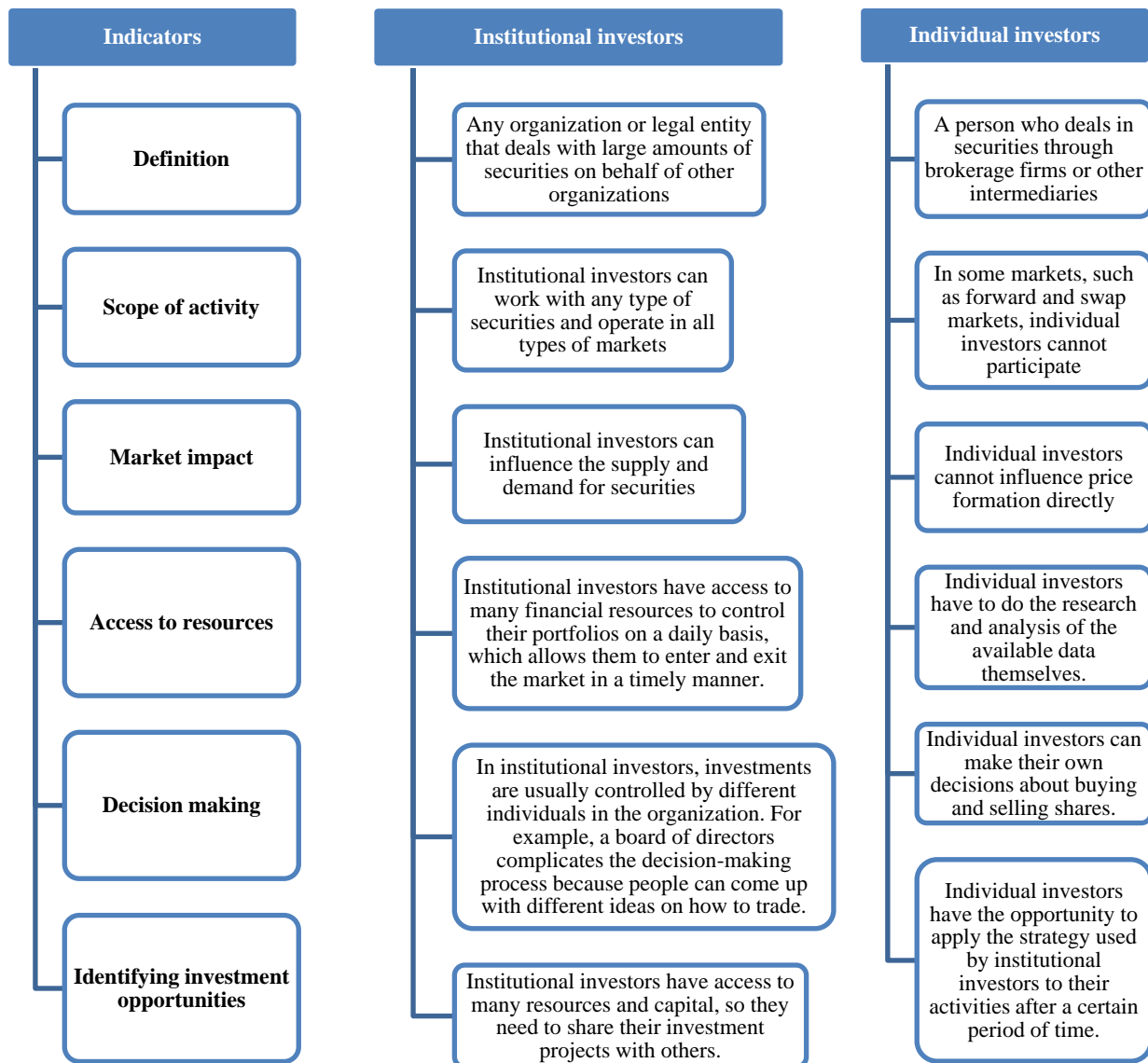


Figure 1. Differences between institutional investors and individual investors

Source: Grow (2021) Investment Company, <https://groww.in/p/institutional-investor/>; Corporate Finance Institute (2021), <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/investor/>

Figure 1 shows the main differences between institutional investors and individual investors. In particular, we can see that institutional investors have an advantage over individual investors in the scope of activity. Such advantages are also reflected in indicators such as market impact, access to resources and investment opportunities.

The Organization for Economic Cooperation and Development has also analyzed key indicators and main aspects of institutional investors (Table 2).

Table 2

Financial indicators of institutional investors in developed countries (OECD (2020))

№	Country	Types of institutional investors	Volume of financial assets, as a percentage of GDP				
			2015	2016	2017	2018	2019
1.	Germany	Investment funds	57.41	60.73	62.79	60.84	68.64
		Insurance companies	63.01	63.14	62.21	60.69	64.58
		Pension funds	17.24	18.34	19.05	19.12	21.45
2.	USA	Investment funds	102.32	105.69	118.61	107.47	125.35
		Insurance companies	49.55	50.53	51.86	48.41	52.06
		Pension funds	111.89	113.22	115.64	110.08	113.86
3.	Japan	Investment funds	32.44	34.08	38.10	38.88	43.19
		Insurance companies	89.02	91.79	91.12	90.50	92.89
		Pension funds	30.61	29.30	28.73	28.68	28.63

Source: Organization for Economic Cooperation and Development (OECD) (2021) https://stats.oecd.org/viewhtml.aspx?datasetcode=OASA_7II_INDIC&lang=en#

Table 2 shows the volume of financial assets of institutional investors as a percentage of the GDP of developed countries (Germany, the USA and Japan). In Germany, we can see that in recent years, investment funds have overtaken insurance companies in the indicators of their financial assets. Despite the fact that pension funds are more active in the United States than in Germany, investment funds in the USA are as leading institutional investor as in Germany. It should be noted that insurance companies are the leading institutional investors in Japan in contrast to the United States and Germany. It is noteworthy that the performance of some types of institutional investors has exceeded the country's GDP. This is due to the fact that this type of institutional investors operates at the international level and manages the assets of large foreign investors.

Table 3

Information on investment funds served by the Central Securities Depository (2021)

№	Indicators	2017	2018	2019	2020
1.	Number of investment funds which are served	8	8	8	8
2.	Volume of investment funds portfolio(billion soums)	Not available	6.4	6.37	6.9
3.	Number of stockholders in investment funds, including:	49 767	49 744	49 692	49 718
	Legal entities	44	38	35	35
	Individuals	49 723	49 706	49 692	49 683

Source: The Central Securities Depository of the Republic of Uzbekistan (2021). Done on the basis of annual financial reports. <http://deponet.uz/uz/page/kvartalnye-otchety>



According to the Capital Market Development Agency of the Republic of Uzbekistan (2021), the structure of investment funds in Uzbekistan includes the following investment funds: “Baraka” IF JSC, “DonolikvaKelajak” JSC, “Daromad Plus” JSC, “FayzReestr” LTD, “Full Stock Group” LTD, “Kamalak” JSC, “Mirzo Ulugbek” JSC, “Oltin Invest” JSC, “Olim-F” JSC, and “Semurg” IF JSC. It should be noted that the Central Securities Depository operates the information of most investment funds (Table 3). Table 3 shows the data on investment funds served by the Central Securities Depository during 2017-2020. It can be seen that volume of investment funds portfolio increased from 6.4 billion soums to 6.9 billion soums although the number of stockholders decreased during these years. It should be noted that legal entities which have stocks of the investment funds are very few compared to individuals in the given period.

Discussion

If we pay attention to theoretical and legal basis of activities of institutional investors in the capital market in Uzbekistan, it is very narrow and does not work effectively in practice. We can find only few legal documents which cannot regulate properly enough and cannot provide institutional investors with good conditions and business atmosphere. Such factors affect the structure of institutional investors in Uzbekistan which consists of only investment funds, insurance companies and commercial banks compared to institutional investors in the global capital market. In the US, there is legislature which can provide satisfactory conditions for institutional investors. For example, the Investment Company Act of 1940 (Act 1940) has the requirements on investment funds’ organization and operation as well as gives the right to the Securities and Exchange Commission (SEC) to regulate different investment funds. Moreover, Securities Act of 1933 (Securities Act), Securities Exchange Act of 1934 (Exchange Act), Internal Revenue Code of 1986 (IIRC) and Commodity Exchange Act (CEA) are also main legal frameworks in the US (Bryan Chegwiddden, James Thomas and Sarah Davidoff (2013)) and these provide theoretical, practical and legal bases in the capital market in the US in contrast to the capital market in Uzbekistan.

Institutional investors usually work with large sums of money, so they are highly skilled and use complex and delicate methods (Kh.Imamov, (2010)). However, these aspects are sometimes not seen in institutional investors in Uzbekistan due to lack of experience or knowledge on capital market. Hence, some investors do not trust experience of local institutional investors and do not want to invest their capital in companies.

Various aspects such as investment purpose, limiting factors, investment volume (D.Kim, H.Kim, D.Joe and J.Oh, (2020)) can serve as key indicators to assess financial power of institutional investors. While analyzing the investment funds in Uzbekistan as an example of institutional investors, the financial indicators of investment funds are very low compared to analyzed indicators of institutional investors in developed countries due to lack of appropriate business conditions. As a result, such aspects impact on cash flows and profit of investment funds and the investment funds cannot pay satisfactory dividend to



shareholders. All show that there are many systemic problems to operate activities of institutional investors effectively in the capital market of Uzbekistan.

Conclusion

While learning the essence and importance of institutional investors and the current state of them in Uzbekistan, we conclude the followings:

1. Learning essence, features and importance of institutional investors can give a chance to understand why we need institutional investors in the development of the capital market. Such aspects should be taken into account while creating appropriate conditions for institutional investors to act in the capital market in Uzbekistan, because sometimes authorities forget the main features and importance of institutional investors in the capital market while regulating.

2. On the basis of investment funds analysis, we conclude that investment funds in Uzbekistan are underdeveloped. We may count several reasons for that, for instance, the population of Uzbekistan does not have enough knowledge and experience to participate in the capital market, so they may use the help of specialists to invest. Sometimes specialists of investment funds are neither well-experienced nor well-educated. Therefore, population does not trust investment funds and prefer to invest in other fields.

3. Financial indicators of institutional investors in the example of investment funds are very low compared to institutional investors in developed countries. It may be noted that it is usual the difference between financial indicators of investment funds in Uzbekistan and developed countries, but there is huge difference and it is not normal. The reason for low financial indicators may be financial management of investment funds which may not be established properly. As a result, investors do not invest in less profitable companies and investment funds appear difficulties related to financial resources.

References

1. Bryan Chegwidan, James Thomas and Sarah Davidoff (2013). Investment Funds in the United States: Regulatory Overview. // Practical Law Company. www.practicallaw.com. – P.13; <https://www.ropesgray.com/~media/Files/articles/2013/08/PLC-PIF-in-US-Regulatory-Overview.ashx>
2. Donghan Kim, Hyun-Dong Kim, Denis Yongmin Joe, Ji Yeol Jimmy Oh (2020, October 16). Institutional investor heterogeneity and market price dynamics: Evidence from investment horizon and portfolio concentration. // *Journal of Capital markets*. – P.25; <https://www.sciencedirect.com/science/article/pii/S1386418120300732>
3. Fateh Saci, Sajjad M.Jasimuddin (2020, November 3). Does the research done by the institutional investors affect the cost of equity capital? // *Finance Research Letters*. – P.11; <https://www.sciencedirect.com/science/article/pii/S1544612320316482#bib0023>
4. Fenghua Wen, Qian Zou, Xiong Wang (2020, November 11). The contrarian strategy of institutional investors in Chinese stock market. // *Finance Research Letters*. – P.18; <https://www.sciencedirect.com/science/article/pii/S1544612320316597>



5. Henry Petersen, Harrie Vredenburg (2009, October). Corporate governance, social responsibility and capital markets: exploring the institutional investor mental model. // Corporate Governance International Journal of Business in Society.– P.14;https://www.researchgate.net/publication/235263449_Corporate_governance_social_responsibility_and_capital_markets_Exploring_the_institutional_investor_mental_model
6. Jaksakristo, AlenStojanovic, Anita Pavkovich (2014, January). Impact of institutional investors on capital market stability: lessons from financial crisis. // International Journal of Diplomacy and Economy. – P. 17.<https://www.researchgate.net/publication/264815558>
7. J.Ataniyazov, E.Alimardonov (2014). Xalqaromoliyamunosabatlari. // Darslik. — Toshkent: O‘zbekistonfaylasufilarimilliyjamiyatinashriyoti. - 432 b.
8. H.H.Imomov (2010). Investitsiyalarnitashkiletishvamoliyalashtirish. // Oliy o‘quv yurtlarining iqtisodiy ta‘lim yo‘nalishitalabalar uchun o‘quv qo‘llanma. - T.: IQTISOD-MOLIYA. - 188 b.
9. R.A.Lambert, C.Leuz, R.E.Verrecchia (2012, January). Information asymmetry, information precision, and the cost of capital. // Review of Finance. Volume 16, Issue 1, Pages 1-29;<https://www.scopus.com/record/display.uri?eid=2-s2.0-84555186837&origin=inward&txGid=5549271200d0dbdddef2e3393f7b3233#references>
10. Sam Bourgi (2018, December 18). Who are institutional investors? www.mutualfunds.com.<https://mutualfunds.com/education/who-are-institutional-investors/>
11. Serdar Çelik, Mats Isaksson (2013, December). Institutional Investors as Owners: Who Are They and What Do They Do? // OECD Corporate Governance Working Papers No. 11.– P. 36; <https://www.oecd-ilibrary.org/docserver/5k3v1dvmfk42-en.pdf?expires=1605509112&id=id&accname=guest&checksum=7F65B866A966CB86DA1CD71C1C0F8D28>
12. Serdar Çelik, Mats Isaksson (2013). Institutional investors and ownership engagement. // OECD Journal: Capital market Trends, Volume 2013/2.<https://www.oecd.org/corporate/Institutional-investors-ownership-engagement.pdf>
13. Stephen A.Lumpkin (2002). Fostering and Regulating Institutional Investors.<http://www.oecd.org/finance/financial-markets/1843907.pdf>
14. The Central Securities Depository of the Republic of Uzbekistan (2021). Done on the basis of annual financial reports. <http://deponet.uz/uz/page/kvartalnye-otchety>
15. Organization for Economic Cooperation and Development (OECD) (2021) https://stats.oecd.org/viewhtml.aspx?datasetcode=QASA_7II_INDIC&lang=en#
16. Corporate Finance Institute (2021). Leading global provider of online financial modeling and valuation courses and <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/investor/> and Grow (2021) Investment Company (<https://groww.in/p/institutional-investor/>)
17. The Capital Market Development Agency of the Republic of Uzbekistan (2021)<https://cmda.gov.uz/page/ochi-malumotlar>
18. Elmirzaev, S. and Shavkatov, N. (2019) "THE GREAT FOREIGN EXPERIENCE OF PUBLIC-PRIVATE PARTNERSHIPS AND THE PERSPECTIVES IN OUR COUNTRY," International Finance and Accounting: Vol. 2019 :Iss. 3 , Article 14. Available at: <https://uzjournals.edu.uz/interfinance/vol2019/iss3/14>
19. Shavkatov, N. (2020) "ANALYSIS OF INFRASTRUCTURE PROJECTS ON THE BASIS OF PUBLIC-PRIVATE PARTNERSHIP AND THEIR FINANCIAL



EFFICIENCY INDICATORS," International Finance and Accounting: Vol. 2020 :Iss. 6 , Article 5.

Available at: <https://uzjournals.edu.uz/interfinance/vol2020/iss6/5>

20. Elmirzaev, S. E. "Improving tax relations in corporate finance management." Abstract of dissertation in economic sciences. Tashkent (2017).