

When Insurance Companies can and cannot Flourish

The increase in insurance

HE Government of Bangladesh amended the Insurance Corporations Act, 1973, to enable the private insurance companies to do theirbusiness in the country. Consequent upon this amendment, the first general insurance company of the private sector started operation from July 29, 1985. Three more companies and one co-operative insurance society also got their registration for general insurance business before the end of 1985. During 1986, 1987 and 1988, 11 more companies got their registration and started business.

All these 15 companies were registered as public limited companies. But only four companies, as of now, are really public limited companies because only these have sold their shares to the general public. All other 11 companies are virtually continuing as private limited companies because they have not yet (following insurance rules) sold their shares to the general public, During 1985-1989, three companies started life insurance business. None of them has as yet sold their shares to the general public.

According to Insurance Acts and Rules, capital requirement for general insurance companies were fixed at Tk six erore and that for life insursnee companies at Tk three crore. three crore. Fifty per cent of the capital were to be subscribed by the sponsors and 50 per cent by general public within a period of three years of the starting of the business by each of the companies. The new companies are also reguired to submit an undertaking obtained from banks and financial institutions to the effect that if the shares meant for general public is not subscribed fully, then they would underwrite the non-subscribed shares.

In 1988 the government have constituted an insurance commission to look into the difficulties faced by the insurance companies and also to suggest appropriate amendment to insurance Act and rules to allow the companies to function smoothly. The private insurance companies submitted to the commission that it had not been possible for them to declare dividend at a rate more than the bank interest in the third year and so they have been facing difficulties in obtaining guarantee from the bank and financial institutions to underwrite un subscribed

The commission inter-alia, recommended to extend the period of selling shares to the general public from three years to five years for general insurance companies and to seven years for life insurance companies. The government has not yet amended the in-

surance rules extending to the period of selling the public shares to the general public. The six general insurance companies out of. 11 who have completed five to six years have not sold shares to the public. One out of three life insurance companies which has completed seven years has also not sold its shares to the public. All these companies excepting the life insurance company have declared dividend of 12 per cent to 26 per cent. Therefore, the difficulties pointed out by these companies to the insurance commission no longer exist and yet the government is not compelling these companies to sell their shares to the general

The government's inaction is working against the interest of the four companies which sold their shares to the general public following the existing insurance rules. The companies which have not yet sold

of public shares.

their shares to the public have

been declaring their dividend

on the subscribed capital of Tk

three crore. On the other

hand, the companies who have

floated their shares to the

market have been declaring

their dividend on the sub-

scribed capital of Tk six crore.

Thus the sponsors of the com-

panies which have not yet sold

their shares to the public have

been getting more benefit

(the amount of dividend) than

the sponsors of the companies

which have sold their shares to

the public due to government's

inability to enforce the insur-

ance rules regarding sub-

that before any new company

ernment should compel the

existing companies to float

their shares in the market. If

this is not done then more

complication will arise when

new companies start business.

surance companies have been

doing business side by side

with the government-owned

corporation namely, Sadharan

Bima Corporation. In 1985

Sadharan Bima Corporation

earned a premium income of

Tk 97.99 crore and the four

private insurance companies

earned a premium income of

Tk 1.06 crore. In 1990 the

Sadharan Bima Corporation

(SBC) earned direct premium

of Tk 58.14 crore and the 16

private companies earned a

premium income of Tk 144.74

crore. Thus the total insur-

ance premium have increased

from Tk 99.05 crore in 1985

to Tk 202.88 crore in 1990.

World

trade

1991 figures estimated

Europe and

former USSR

Exports

Central/Eastern

All the private general in-

is allowed registration the gov-

It is, therefore, suggested

scription of public shares.

by A A G Kabir

premium can be attributed to three factors - firstly, the in crease of economic activities within the country, secondly, the initiative of the private insurance companies to approach people who were not under compulsion to do insurance of their property, and thirdly, inflation. The rate of increase of premium income which took place between 1985 and 1990 have got drastically reduced in 1991. In 1991 the total premium income earned by SBC and private insurance companies stood at Tk 204.26 crore in place of Tk 202.88 crore earned in 1990. This means the rate of increase which ranges from 25.12 per cent to 12.31 per cent has dwindled down to 1.38 per cent. This suggest that the insurance business has attained a saturation point. So unless industrial

Thus the sponsors of the companies which have not yet sold their shares to

the public have been getting more benefit (the amount of dividend) than the

sponsors of the companies which have sold their shares to the public due to

government's inability to enforce the insurance rules regarding subscription

and business activities in-

creases substantially, there is

hardly any chance of growth of

new companies if permitted to

government has received ap-

plications for permission of 40

general insurance companies

and nine life insurance com-

panies. Most of the new spon-

sors must have thought that

general insurance business is a

very profitable one as the

existing companies have been

declaring dividend ranging

from 12 per cent to 26 per

cent. They must not have

taken into consideration the

fact that the companies who

have declared 15,20,22 or 26

per cent dividend have based

their calculation on subscribed

capital Tk three crore. As soon

as these companies float their

public share their dividend

will be half of the present rate

if their business does not in-

crease substantially. Since the

rate of increase of business

have dwindled down to 1.38%,

there is hardly any chance of

increase of insurance business

substantially.

Commission of 1988 submitted

its report, the total premium

income of private companies

was around 60 crore. The

commission recommended

that unless there is an increase

of the total premium of the

private companies by 10 crore

each year, the government

should not allow any new com-

pany to come into being. By

1991 the total premium of 16

private general insurance

companies has increased to

151.22 crore. So if the gov-

When the Insurance

It is understood that the

operate now.

crnment accept this recommendation as a basis then another nine companies may be allowed to be registered. The insurance commission did not consider another important relevant aspect of the matter while making its recommendation. The aspect has been examined below.

Apart from the business aspect, if the following matter is taken into consideration. the government should not allow more than one company to be floated in one year. To start a general insurance company at least 50 trained and experienced insurance men are required. Now, where from these will come ? Some will come from SBC and some from the existing 16 companies. If the 16 companies spare 32 persons and SBC releases 18, then one company can start functioning. If the existing 16 companies spare more than two experienced employees on an average and the SBC

more than 18 to 20 of them in

a year, both will suffer. The

SBC shall be in real difficulty to

manage its affairs. It may be

recalled in this connection

that the SBC came into being

in 1973. Following the then

government directive SBC had

to absorb about 2500 employ-

ees of the then private insur-

ance companies operating in

Bangladesh and few officers of

the Pakistan Insurance

Corporation. About 95 per

cent employees of the private

insurance companies have

been working on the develop-

ment side. They had no man-

agerial skill. Absorption of all

the employees of private insur-

ance companies in SBC put the

number of total employees

double of what was needed for

date the SBC could not follow

the normal practice of recruit-

ing a destrable number of new

hands each year. Thus those

who have been working in the

development side of SBC had

to be reoriented for working at

the managerial desk. The

floating of private insurance

companies from 1985 onward

had an adverse affect on the

managerial side of the SBC be-

cause the private companies

persuaded really efficient

hands to leave the SBC for

joining private companies. As

the situation now stands the

SBC can hardly spare new per-

sons without adversely affect-

ing its day today work, not to

speak of efficiently handling

companies about eight do not

have their managing directors

Out of 16 general insurance

As a result, from 1973 to

it at that time.

of requisite qualification. The minimum required qualifica-tion is 15 years' total experience in insurance business of which at least five years should be in the second position in a private company or third position in the SBC. So if more than one company is allowed to start business in a year then SBC will be a house of one blind leading another blind.

It should be couttoned that the government should not adopt a policy like those of the developed countries in general and USA in particular where few new companies start business and few companies get liquidated each year.

not like jute, cotton, or ceramic industry. If one of those industries gets liquidated. sponsors and limited number of elient face economic setback. On the other hand, if an insurance company fails then thousands of industries and business houses will face ruination. It will be difficult for them to stand again because of the dearth of capital. So the government should adopt such a policy on insurance and banking as may not create a circumstances in which an insurance or banking company may get liquidated.

The coming into being of new companies will no doubt solve unemployment problem to some extent but if in the process some companies get liquidated or some of the existing companies are compelled to reduce their staff due to shrinking of business then such employment will be a very temporary one. The government will also be well advised not to reduce the experience required for the chief executive (managing director) of an insurance company.

Insurance is a statutory

(The writer was the Controller of Insurance, Government of the People's Republic of Bangladesh from 1987 to 1989).

An insurance company is

business i.e. insurance business is regulated by detailed law and rules. The existing laws and rules were made before the second world war when most of the countries followed a 'laissez faire' policy with regard to industry and commerce. Even in those days the government thought it fit to regulate insurance business by law in order to safeguard the interest of the insured and the insurers. The managing di rector is like a licensed driver of a car. Since we cannot think of allowing a car to be driven by a person who had not obtained driving license so we cannot think of appointing a managing director not having appropriate qualification. The requirement of total experience may perhaps be reduced but no change should be made to other conditions.

Minerals Boom Going Bust

mountain of gold floating on a sea of oil," Papua New Guinea with its emerging minerals boom could well fall victim to the increa sing incidences of violent disputes between disgruntled landowners and mining companies exploiting these resources.

With the Bougainville island crisis that led to the forcible closure of PNG's important copper mine there three years ago still unresolved, another mining operations - the Mt Kare gold mine - now lies idle following a violent gang attack last month that sent shock waves throughout the industry.

The PNG Chamber of Mines and Petroleum cited the attack as its reason for pulling out of an upcoming investment promotion mission "Roadshow '92 to Europe,' aimed at attracting investment in PNG's vast mining potential.

Greg Anderson, executive officer of the chamber, said PNG is already considered "a high-risk area, the Mt Kare raid and other such violent acts could only increase premiums higher".

The chamber claims "security concerns are leading investors to reconsider their policies and position in Papua New Guinea.'

Eighty per cent of PNG's exports Now come from mincrals - gold, oil, natural gas, silver and copper. Last year PNG produced 61 tonnes of gold, 125 tonnes of silver and 204,459 tonnes of copper Otl exports are set to start later this year.

But while exploration and development of these resources take place, there is now a real and growing fcar that land disputes, ownership and compensation claims as well as acts of violence could drive away the much needed foreign investment.

"We have no roads, no

health services, no community schools, and the mine was going to help use get some of these services," said Akiwa Irupu, chairman of the Mt Kare landowners who won the mine jointly with CRA Minerals Lim-

ited of Australia. To protect mining resources and maintain investor confidence, the PNG government has placed all mining operations around the country under joint police and military patrol. It has also approved the establishment of a rapid deployment force to deal with any future attacks.

Mt Kare was a small mine compared to the massive Bougainville copper mine, which at the time of its closure accounted for up to 40 per cent of PNG's export earnings.

There is a growing fear that land disputes, compensation claims and violence will drive away foreign investment from resource-rich Papua New Guinea. Blasius Koki of IPS reports.

The gold mine's importance lies in the fact that it represented a test case in ownership of PNG mining resources. For the first time, landowner groups were an integral part of the operation, having a 49 per cent stake in the mine.

Despite this novel approach of joint ownership between CRA Minerals and a group of Mt Kare landowners, the mine has been plagued by disputes between rival landowner groups since it began operations one year ago.

The January attack was staged by dissident landowners excluded from the deal and who are seeking to challenge the validity of the lease granted by the government to the developers.

But the problem goes much deeper than being simply an internal matter affecting local landowners.

Central to the problem is the fact that the vast majority of land in Papua New Guinea is traditionally owned. With no real system of titles to establish ownership, disputes are rife between contending villages and clans as it is extremely difficult to prove or disprove such claims. Often these dispute become violent especially in eases where the land in question is found to contain important mineral resources.

PNG lawyer Peter Donigi says a ban should be placed on all new mining developments until a review of the country's mining act is carried out.

The problems will never be resolved until property rights of landowners are safeguarded protected and promoted. rather than being dependent on the goodwill of the government or the mining companies," said Donigi.

Landowners from 49 different clans are claiming ownership of the barren isolated hillside in the dense PNG highland forest on which the MT Kare gold mine is located.

For more thane a year now, a court battle has been waged by contending landowner groups excluded from the present arrangement and the va lidity of the lease granted to the developers by the government. Others want CRA Min erals to withdraw from the project and are demanding 100 per cent ownership of the mine by landowners.

Another major obstacle is the PNG Mining Act itself, which vests ownership of minerals to the state. A legal challenge by the landowners now before the national court argues that the act amounts to a breach of their constitutional right "to freedom from unjust deprivation of property'. - IPS



Shown, a pilot plant in northern Germany for the reprocessing of old automobiles: Workers here are removing the gasoline tank from an accident vehicle in a facility in Leer (East Friesia, in Lower Saxony). Photo: IN-Press/VW

IFAD Earmarks US\$253m for Rural Farmers

90s should Not be Another Lost Decade

HE current turmoil in European currencies provides a sobering lesson for developing countries. It has shown how the market can reduce governments to mere spectators while bankers make billions.

The monetarism and free market philosophy that characterised the 1980s seem to have failed. Eastern Europeans are now finding out what many in Third World know from bitter experience: that the market is not the global

The recession - the most severe since World War Two has wrecked the world economy, says the 1992 Trade and Percentage change Development Report and, what is worse, there are few signs of

The report warns that the world economy is in a "danger zone", due to the policies of the 1980s: the use of monetary rather than fiscal policy to manage the economy and the deregulation of financial transactions, increasing the globalisation of capital markets.

The report, issued by the United Nations Conference on Trade and Development (UNCTAD), points out that production has fallen in the United States and stagnated in Western Europe and Japan.

Post-Communist countries in Eastern Europe and former Soviet Union have found that under capitalism living standards have actually fallen. Industrial and farm production have declined and trade flows have been disrupted.

In the Third World, Africa M 2340 Source: UNCTAD and much of Asia face economic stagnation. However, growth has picked up in Latin America and east Asia. For the first time in many years a positive net transfer of resources has taken place in Latin America. It remains to be seen how long it stays that way.

In Africa poor export earnings have compounded the problems faced by the IMFcictated structural adjustment programmes.

by Daya Kishan Thussu The report shows that

commodity prices declined by Banks are less willing to 11 per cent in 1991. Prices of give loans because of their coffee and cocoa, Africa's two losses. The "debt deflation" in key export earners, are curthe world's major economies rently at their lowest level in has prolonged the recession. 17 years. A number of coun-

UNCTAD, a forum for northtries also have severe drought. south economic dialogue, em-Despite recession in the phasises that Third World North, some Third World growth depends on the ecocountries have been able to nomic health of the industrimaintain high growth rates.

World

1991

1990

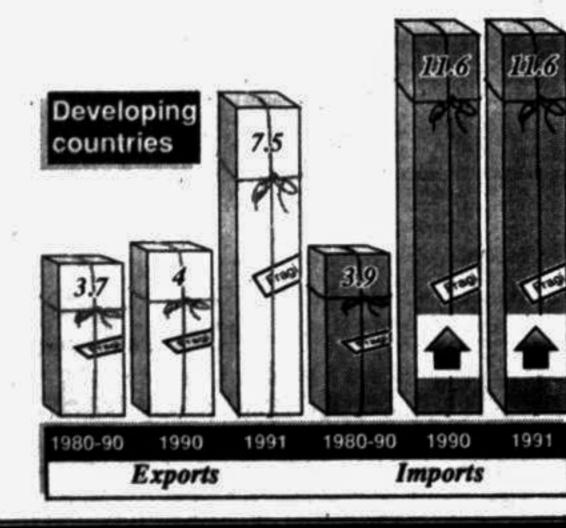
Imports

1980-90

generate stability or growth unaided. Governments must resume their responsibilities, by acting to foster a return to financial stability and to stimulate the level of economic ac-

tivity." The report argues that export-oriented growth is necessary for the Third World, but adds that the industrialised countries must relax their im-

Developed countries 3.3 1990 1980-90 1990 1991 Imports Exports



Import capacity of some Asian countries rose by 15 per cent and in some Latin American countries it rose by 10 per cent, at a time when imports of industrial countries were growing by only 1.5 per cent.

The report says: "If the 1980s were dominated by the debt crisis in the developing world, the 1990s have started under the shadow of one in the developed."

alised world.

However, it challenges the IMF/World Bank orthodoxy and calls for Keynesian policies of "raising government spending in order to stimulate private consumption and investment demand, and thus make fuller use of productive capaci-

"A private sector weighed down by debt and high longterm interest rates will not port restrictions.

However, it concludes that "the trend towards greater openness in developing countries had been accompanied by more, not less, protectionism in developed ones." A successful conclusion to

the stalled GATT (General Agreement on Tariffs and Trade) talks on world trade is needed to stimulate global trade.

The experience of developing countries in the 1980s suggests that liberalising trade can have a destabilising effect if the economy has insufficient foreign exchange to finance an adequate level of imports, because it may need to be accompanied by sharp devalua-

The report warns that developing countries which have rapidly liberalised their economies could face political instability, especially those with fledgling democracies.

Trade liberalisation needs to be introduced with care, the report counsels. A sudden lifting of protection will "cause irreversible losses of capital labour skills and technological capabilities."

As a rebuff to free-marketeers the report criticises "the simplistic view that any form of protection is inimical to export success." Citing South Korea and

Taiwan, it says: "Most success-

ful exporters have managed to combine elements of both export promotion and protec-The report has a world of caution for the developing countries being forced by the

IMF and the World Bank to "reform" their economies under structural adjustment pro-Gradualism appears to be the report's watchword. It

recommends a phased approach whereby economic stabilisation comes first and structural reforms are implemented in a gradual sequence. . In addition, the report re-

peats calls for more generous debt relief for the poorest countries. In 1991, total longterm debt of developing countries was \$1,000 billion. The report warns that without urgent policy mea-

sures the world economy will continue to stagnate. It concludes that for global growth "1980s thinking should not be allowed to stand in the way by producing another 'lost -Gemini News | unchanged for centuries.

by Mounir B Abboud

fishing.

OR the first time since the civil war ended in Lebanon, an international agricultural funding agency will reach out to some of the beleaguered rural people who suffered the most during the war. The International Fund for

Agricultural Development (IFAD) will support a programme to rehabilitate livestock raising among poor farmers in the Bekaa Valley. There, some 8,500 farming families whose annual income is less than half the national average will receive credit services, improved livestock breeds and artificial insemination services.

Lebanese women, who took most of the burden of providing food for the family while the men were at war, will be given easy loan facilities for bec-keeping, carpet weaving and ceramics making. IFAD will also help the country's dairy industry and improve its milk-collecting cooperatives. During the recent 45th ses-

sion of the IFAD Executive. Board held in Doha, Qatar, new projects worth US\$253.92 million were approved to assist the rural poor in developing countries become more productive and self-reliant. The session also earmarked US\$2.5 million for IFAD's special programme for Africa to increase productivity in areas affected by drought and desertification.

Nine new projects are designed to upgrade rural farming, off-shore fishing and livestock raising in Africa, Asia and elsewhere. A pioneering project for Africa will focus on fishermen in Mauritania's environmentally- fragile Bane d' Arguin National Park.

There, impoverished aborigine Imraguen tribesmen fish and transport their catch using traditional wooden sailboats and fishing techniques much

The project-co-financed by the UN Development Programme (UNDP) and closely involving the UN Education Scientific and Cultural Organisation (UNESCO) - will not attempt to change abruptly the traditional methods of local

Rather, village cooperatives will be organised in order to improve the processing and marketing of fish products, provide credit and establish direct market contacts, hopefully to eliminate middlemen and control poaching.

Local women will be trained in cottage industries and health care.

Asia will benefit from four new IFAD initiatives. Nine new projects worldwide are designed to upgrade rural farming, off-shore fishing and livestock raising

Asia will benefit from four new IFAD initiatives. Bhutan will get assistance for 21,730 of the nation's poorest families, two-thirds of whom on farms of only 1.5 hectares or less. They will be assisted to increase farm production at the same time maintaining the natural resource base upon which production largely depends.

Instead of the usual approach where farmers are told the basic problems and left alone to solve them, the Bhutan programme responds directly to what farmers see as their needs and interests, an approach found successful in other IFAD projects.

Discussions will be regularly held and priorities set: rehabilitation of small irrigation systems, soil conservation, improvement of pastures and integration of poultry and pig-

raising with crops. Women particularly have expressed interest in buying livestock and equipment for oil distillation and in starting up vegetable gardens.

IFAD's Low-Lying Land Development Project will assist more than 73,000 of the poorest families in Jilin, northeast China. The harsh climate along with periodic floods and droughts makes farming difficult and harvests unreliable.

Women will be assisted in livestock raising and fishpond maintenance while being taught the rudiments of marketing and farm management.

In Indonesia, IFAD will assist smallholders who have transmigrated to the Musi Deha region of Sumatra by increasing food production and income. The Sumatra Smallholders Tree Crop Development Project will benefit 13,200 of the poorest families by supporting their needs in farming hybird coconuts and other staple food crops.

Self-help groups will be organised to make on-farm improvements necessary for coconut farming to yield maximum results. Credit will likewise be extended to the working groups.

In the Visayan region of central Philippines, IFAD will establish its third major irrigation project to benefit some 11,600 families whose holdings average less than a hectare and whose income is well below the poverty line. Vital to this project is the

protection of the natural resource base. To achieve this, IFAD personnel will initiate conservation measures, particularly in degraded watershed areas. Farmers will be taught how to use water wisely, plant trees in denuded areas and raise livestock as post-harvest practices. - Depthnews Asia