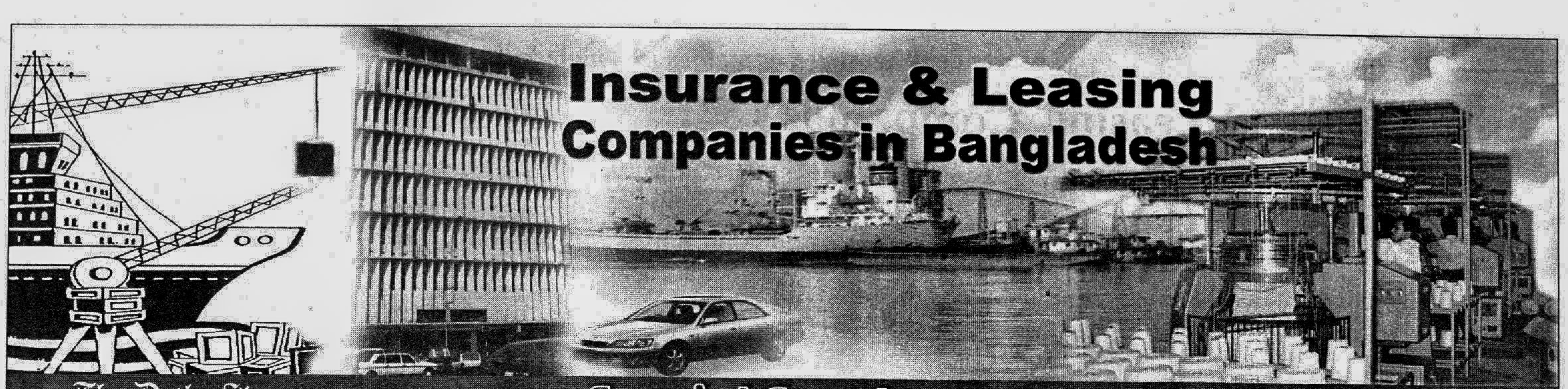

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Insurance Industry of Bangladesh: Progress and Problems

by M A Samad

WITH the emergence of Bangladesh as an independent country in 1971, the then the party in power, the Awami League nationalized insurance industry in Bangladesh in 1972 when 4 corporations, 2 for life and 2 for non-life were set up.

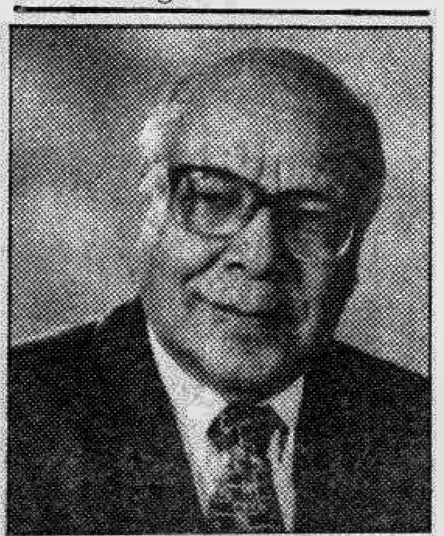
Integration of 64 companies, most of them composite transacting both life and non-life, proved an uphill task. Liquid and physical assets were being rapidly depleted. So in 1973, 4 corporations were abolished and in their place 2 new corporations were established, 1 for life and 1 for non-life business.

From 1971 to 1973, very little office and development work could be done. The weak and nascent insurance industry of the country suffered terrible set back. Bangladesh had only few insurance companies with local capital and management. The newly created corporations had to take over liabilities without inheriting assets. The brakedown of field organization seriously affected the growth of insurance business.

After 15 years of nationalization, life insurance companies of Bangladesh known as Jiban Bima Corporation (JBC) could cover only 4 persons out of every 1000. Only 39,097 new ordinary life policies were sold and it earned a premium income of Tk 324.2 million in 1985.

On the non-life side, Sadharan Bima Corporation, the sole underwriter of non-life business in the country could not expand the business as desired. The total gross premium written by the Sadharan Bima Corporation rose from Tk 222.70 million in 1975 to Tk 980.00 million in 1985. As investor, Sadharan Bima Corporation invested fund in debentures and bridge financing, much of which proved a bad investment not yielding any good return.

So it was clear that JBC and SBC could not fulfil the purpose of nationalization. Neither they could expand the insurance business nor could invest fund in socially-related national-building projects to contribute to people's welfare. As a result, in 1984, the government in pursuance of privatization and opened market policy allowed insurance companies to operate in private sector side by side with JBC and SBC. So far, 24 non-life and 6 life insurance companies are operating in Bangladesh and a few more are in the offing.



The writer is the Chairman of the Bangladesh Insurance Association and the Chairman and Managing Director of the Bangladesh General Insurance Company Limited.

Progress: Due to privatization, the growth of insurance business both of life and non-life has increased substantially. In 1985, the total gross premium income from non-life business amounted to Tk 990,5 million, of which Tk 980 million was written by SBC and Tk 10.5 million by 3 newly established private companies. In 1997, the total gross premium income from non-life business rose to Tk 3871,3 million, of which 24 private insurers wrote Tk 3225,6 million and SBC wrote Tk 645,7 million. As at 31st December, 1997, the total investment of non-life insurers stood at Tk 5387,7 million, of which Tk 2313,8 million was invested by the private insurers. The total assets stood at Tk 1890.4 million, including Tk 6890,4 million of private insurers as at 31st December, 1997.

On life insurance, premium income in 1985 amounted To Tk 392,1 million of which Tk 324,2 million was written by JBC and Tk 67.9 million by 2 private insurers. In 1997 the total life premium rose to Tk 3935,3 million, of which Tk 2659,6 million was written by 6 private insurers. The total number of policies in force was 12,86,038, of which 9,87,094 was in the account of the private insurers. The total life fund as at 31st December 1997 stood at Tk 7737,9 million, of which private insurers' share was Tk 4638,4 million. The total investment amounted to Tk 6079,2 million as at 31st December 1997, of which Tk 3226,0 million was invested by the private insurers. The total assets as at 31st December, 1997 stood at Tk 9681,0 million of which Tk 5895,1 million was for the private insurers.

From the figures it can be seen that private sector insurance companies, now, underwrite bulk of both life and non-life business in the country. It is expected that the insurance industry will grow further and contribute more to the national economy.

Problems: In spite of the progress achieved private insurers there are certain constraints hampering the growth of insurance industry.

Business Scope: In the Insurance Corporations (Amendments) Act, 1984, the state-owned Sadharan Bima Corporation (SBC) alone was permitted to underwrite public sector business. SBC was also free to underwrite private sector business in competition with the private insurers.

In the Act, it was also provided that private insurance companies were required to place their entire reinsurance business with the Sadharan Bima Corporation.

The above provisions of the Act made it difficult for the private companies to operate and grow. The Bangladesh Insurance Association took up the matter with the government and after several meetings the government passed the Insurance Corporations (Amendments) Act, 1990. This Act provides that 50 per cent of all public sector business shall be placed with the Sadharan Bima Corporation and the remaining 50 per cent with the corporation or with any other insurers in the country. The Association pointed out the difficulty of diving each and every risk in this way. Afterwards, on the basis of an administrative order of the Ministry of Commerce it was decided that the entire public sector business would be written by the Sadharan Bima Corporation, but 50 per cent of the business would be distributed equally among the private insurance companies under a Co-insurance scheme. The Sadharan Bima Corporation would manage the

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Leasing in Bangladesh

by M Aminul Islam

IN the absence of required rate of domestic savings on the one hand and imperative for rapid and sustainable growth of the economy on the other, Bangladesh like any other developing country has been and is critically dependent upon the availability of adequate development fund. The problem of equity capital financing, which is often stated to be the major handicap for the promotion of industries in the private sector, was at its nascent stage after the liberation of the country. To overcome this constraint an institutional network was created in the country to extend financial assistance for industries in the forms of long term and short term credit participation in the sponsors' equity. To supplement the sponsors' resources in building up fixed assets DFIs such as BSB, BSRS and BSCIC were set up in the public sector to provide long term credit to the entrepreneurs, most of whom had no prior industrial experience. The commercial banks were predominantly serving the public sector and had only limited experience in trade and working capital finance. Their loan operation was significantly reduced in mid 80s due to additional cash reserve requirement imposed by Bangladesh Bank to arrest rate of inflation. The equity market which was non existent, was subsequently promoted through the operations of investment corporation of Bangladesh (ICB). Theoretically, on one hand it was supplementing the immediate equity requirements of the entrepreneurs by providing the bridge loan and on the other it was stimulating the equity market.

Despite good intentions to accelerate industrial growth through financial, fiscal and other support, the economic benefits were not substantial in terms of employment generation and improvement in the balance of payment position through export and import substitution. Realizing the limited success of the public sector financial institutions, the government chose the path of privatization of the financial sector by allowing the formation of joint-venture Development Finance Institutions (DFIs), private commercial banks and private insurance companies. Leasing entered the financial market of Bangladesh in mid 80s as an alternative and attractive source of finance in the backdrop of a financial environment which may be specified as follows:

- Development Financial Institutions (DFIs) that generally provide long term financing suffer from fund constraints because of their poor recovery and inability to recycle. Besides, international agencies who were major sources of fund have become more and more selective in providing development funds.
- Commercial banks are reluctant to provide long term financing since it is risky and they earn more money in import financing.
- The only stock market of the country is not active and well organized and therefore failed to generate enough fund to meet the demand of the capital market.
- Growing confidence of the entrepreneurs towards lease financing due to its ability to respond quickly in approving the proposal compared to time consuming process of the traditional financing.
- Lease financing enjoys a competitive edge over the conventional mode of financing in respect of tax payment by the borrowers.

Introducing Lease Finance in Bangladesh: Industrial Development Leasing Company of Bangladesh Limited (IDLC) is the pioneer of leasing industry in Bangladesh established in 1985 as a joint venture public limited company with the multinational collaboration of international development finance institutions, commercial banks, insurance company and foreign leasing corporation. During the past fourteen years of its operation, IDLC has played a catalytic role in providing alternative source of term and capital asset financing to the private sector. IDLC's primary focus has been in the area of 3-5-year term financial leasing with particular emphasis on balancing, modernisation, replacement and expansion (BMRE) of existing units. With its pioneering vision IDLC has not only established lease financing as an efficient and quality financial service but also laid the foundation for the creation of 10 other leasing companies in the country. The emergence of the leasing companies, since inception successfully created public awareness about lease financing and definitely made significant progress with the objective of assisting the development of productive enterprises. Today lease financing has grown to be an industry of Taka 3.5 billion annum.

The writer is Managing Director, Industrial Development Leasing Company of Bangladesh Ltd (IDLC) and Chairman, Bangladesh Leasing & Finance Companies' Association.

Lease Market Scenario: In 1998, growth of the leasing industry slowed down significantly reflecting the sluggish economic activities. The industry grew at 13.6 per cent in terms of lease execution compared to 42.5 per cent of last year. With the commencement of operations of more leasing companies, the market is becoming more competitive and the concentration of market share in previous years is being diluted.

Growth of Lease Market
(Tk. in Million)

Year	No. of Leasing Companies	Lease Contract	Lease Execution
1994	2	740.6	598.6
1995	4	1253.5	1027.4
1996	8	2083.1	1618.4
1997	9	2744.6	2306.9
1998	11	3158.6	2620.2

The Finance Act-1998 has withdrawn initial depreciation on assets and the 5-year tax holiday, which were major incentives for the growth of lease financing as well as for new entrants. These two decisions of the government will drastically reduce the profitability of leasing companies in the coming years. Meanwhile, in early 1998 Bangladesh Bank imposed two new regulations for non banking financial institutions which require maintenance of 10 per cent liquid assets against total liabilities as well as an interest-free cash reserve of 2.5 per cent with Bangladesh Bank against the total deposits. These regulations have not only increased the cost of fund for the non-banking financial institutions but also tightened the availability of operational funds for those institutions.

Taxation: The government while announcing the budget for FY1999-00 introduced fiscal and monetary measures in line with its policy of encouraging private sector growth. The salient features are as follows:

a) Import Duties: There will be four slabs of duty rate 5%, 15% 25% and 37.5% instead of existing 7.5%, 15%, 25%, 30% and 40%. Customs duty of all primary raw materials has been reduced from 7.5% to 5%. Duty on all sorts of machinery and spare parts essential for textile industry has been abolished.

b) Taxes: A new provision for deduction of tax at source from income on savings instruments at 10% on such income has been made in the new budget. No deduction, will, however, be made if the total amount of interest does not exceed Tk. 25,000. The

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General Insurance Business in Bangladesh: A Synopsis

Background of General Insurance in Bangladesh: At the time of Bangladesh emerging as an independent country in December 1971, there were 49 insurance companies operating here. The head offices and assets of most of these companies were maintained outside Bangladesh. The nine-month war had completely shattered the economy of the country. In 1972, the government nationalised all the general insurance companies and merged them into a single national insurance corporation, namely Sadharan Bima Corporation, which became the sole insurer to underwrite business.

Before long, however, Sadharan Bima Corporation fell victim to the usual defects of a monopolistic system. The inevitable result was chronic customer neglect, lack of initiative, and a rapid slide to general inefficiency.

There was persistent demand for the introduction of some if not full competition into the business, and the government passed a law in 1984 allowing the formation of general insurance companies in the private sector. These companies were to be allowed to underwrite the business of the private sector only. Sadharan Bima Corporation was given the monopoly to underwrite the business of the public (Government) sector and it could also underwrite the business of the private sector. Further the private sector companies were required to reinsure all their business with Sadharan Bima Corporation.

The Government made some significant changes in the general insurance rules and regulations in 1990 whereby:

1. Private sector companies were allowed to place 50 per cent of their reinsurance business either at home or abroad. Balance 50 per cent was to be compulsory placed with Sadharan Bima Corporation.

2. By mutual agreement, 50 per cent of all Govt sector business of Sadharan Bima Corporation is to be shared equally between the private sector companies and the balance 50 per cent will be retained by Sadharan Bima Corporation.

3. Premium rates would be governed by tariffs for all classes of business transacted in Bangladesh. The tariffs are prepared by the Central Rating Committee headed by the Controller of Insurance. The rates are reviewed from time to time on the basis of experience. All insurance companies are bound by an agreement to follow the tariffs. It is also a condition of the Sadharan Bima Corporation, the sole reinsurer for all private companies that reinsurance is accepted from them only on the condition that they charge tariff rates for insurances granted by them. They will refuse their share of any claim if tariffs are flouted. The Controlled by heading the Central Rating Committee also sees that tariff rates are charged to ensure healthy growth of insurance vis-a-vis the private insurance companies in Bangladesh.

M. Shamsul Alam
Managing Director
Reliance Insurance Co. Ltd

The demand by private sector insurance companies for complete free market competition in the general insurance persists and it is hoped that further improvements in the market conditions will follow soon.

Today, there are twenty-four general insurance companies in the private sector in addition to the government's Sadharan Bima Corporation.

Insurance in Bangladesh: Tariff Market: Bangladesh insurance is a Tariff Market like India and Pakistan and there are premium tariffs for all kinds of insurance that are being effect in Bangladesh. These tariffs have been prepared by the Central Rating Committee headed by the Controller of Insurance, Government of the People's Republic of Bangladesh. All general insurance companies including the government owned Sadharan Bima Corporation are bound to follow these tariffs. Any insurance company who will not follow the tariffs may place the insured in serious trouble as Sadharan Bima Corporation in their capacity as the sole reinsurer for the insurance companies will definitely refuse to pay their share of any claim where tariff rates were not charged by an insurance company. It is one of the conditions of the reinsurance agreement of the insurance companies with SBC that only tariff rates would be charged. One should appreciate that big risks must be properly reinsured as no single insurance company in Bangladesh has the capacity to bear all by themselves a loss which may be of considerable magnitude.

Reliance — the Company: Since emergence of Bangladesh as an independent nation, insurance industry was nationalised along with banking and major industrial sectors of jute, textile, sugar and other heavy industries. Under the nationalised scheme, only two corporations in the name and style of Sadharan Bima Corporation (General Insurance Corporation) and Jiban Bima Corporation (Life Assurance Corporation) were set up by the government for carrying out general and life insurance business respectively. While no private Bangladeshi owned enterprises was allowed either in general or life business, foreign owned companies were, however, allowed to carry out life assurance business. With gradual liberalisation of investment in industry and commerce, insurance business was also allowed in the private sector in 1985. As a result, a number of companies were set up. Reliance Insurance Limited was the fourteenth in line to start general insurance business in the private sector.

The Company was incorporated on 20th March 1988 and was allowed to commence business by virtue of the Certificate of Commencement of Business issued by the Registrar of Joint Stock Companies on 22nd March 1988. The Company obtained Certificate of Registration issued by the Controller of Insurance on 7th April 1988.

The Company carries on the business of all types of insurance except life assurance. It has now 30 branches, one local office with the Head Office at Dhaka.

The Company's main business operations are being carried out in the following areas:

(a) Underwriting of Fire Insurance
(b) Underwriting of Marine (Cargo & Hull) Insurance
(c) Underwriting of Miscellaneous Insurance
(d) Underwriting of Public Issue of Shares and Debentures
(e) Investment of Shares and Debentures

The Sponsors of the Company include a number of renowned limited companies operating successfully for many years. The representatives of the sponsor companies form the Board of Directors of the Company. The control of the company and the management of its business is vested in the Board of Directors.

The Company has issued shares to the general public in May 1995 at a premium of Tk 185.00 per share on a public issue of 300,000 shares which was over-subscribed. It may be mentioned here that this is the highest amount of premium so far allowed on a share of Tk 100.00 of a private insurance company on its public offering by the Securities Exchange Commission, Government of the People's Republic of Bangladesh.