

## Insurance Industry of Bangladesh

Continued from page 17  
scheme and be paid 10 per cent as service charge by the insurance companies. This arrangement came into effect from 01/04/1990.

Moreover according to Section 23, Sub-Section 3(b) of the Insurance Corporation Act, 1973 "Public Property" means a project financed out of loan or with external aid until it reaches normal production or put to the use for which it is intended. This also includes all insurance on project set up by private entrepreneurs with foreign loan. It is long-standing demand of the Association that the term "public property" should be redefined to exclude from its scope undertakings set up with foreign loan in the private sector on which the insurance premium is fully paid by the private entrepreneurs. This provision is hindering the growth of the private insurance companies.

The Sadharan Bima Corporation is not only having a monopoly over the underwriting of the public sector business but also has a free hand to underwrite private sector business. Private sector insurers strongly hold the view that both public sector and private sector insurance should be open to free competition for healthy growth of insurance market and to keep up the spirit of privatization policy of the government.

**Reinsurance:** Although it was the demand of the Association that private sector non-life insurers should be allowed to place their entire portfolio of reinsurance in foreign market if they so desire, the Insurance Corporations (Amendments) Act, 1990 met up the demand partially and provided that 50 per cent of all the reinsurance must be placed with the Sadharan Bima Corporation and the remaining 50 per cent may be placed with the Sadharan Bima

Corporation or with any other insurer in Bangladesh or abroad. But this has not changed the position at all. The companies are being obliged to place 100 per cent of their reinsurance with Sadharan Bima Corporation, because after placing 50 per cent compulsorily in the portfolio of the individual companies becomes too small to be placed abroad. As a result, the companies are deprived of getting better terms and conditions from foreign reinsurers.

The Sadharan Bima Corporation has been performing dual functions-direct underwriting and reinsurance. This means that Sadharan Bima Corporation is a competitor to the private sector insurers. This practice is nowhere prevalent in the world. To solve this problem the Association has been suggesting that a separate reinsurance organization has to be set up in the country at the initiative of the government. Such an organization will help develop proper insurance expertise within the country with exposure of global reinsurance market to acquire valuable experience, obtain better terms from the international market, conserve more foreign exchange within the country and also play an effective role in the international reinsurance market, specially in Asia and the Middle East. The Asian Development Bank also recommended that a separate reinsurance organization should be set up and expressed its willingness to co-operate in its formation with fund and expertise.

**Investment:** To protect the interest of the share holders and policy holders, the Insurance Act provides certain regulatory provisions in the investment of life insurance fund, as laid down in section 27 of the Insurance Act 1938 which are as follow:

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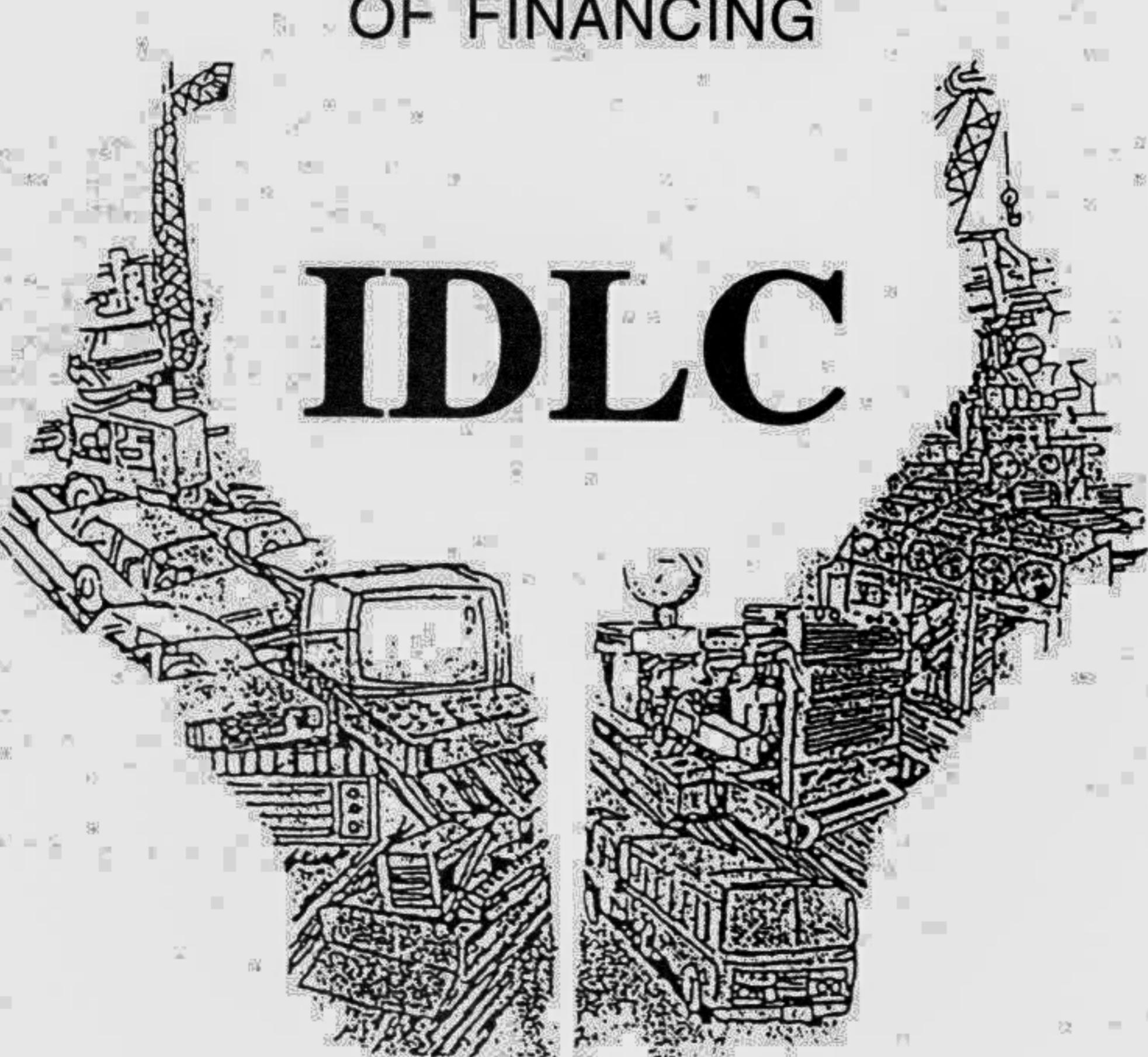
ধীন ডেল্টা ইন্সুরেন্স কোম্পানী লিমিটেড  
Green Delta Insurance Company Ltd.

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1. Thirty per cent of life insurance fund to be invested in government securities.

2. A further thirty per cent in government and other securities.

3. The balance forty per cent in approved investments.

In this regard the Asian Development Bank has prepared a report on the Study of the Insurance Industry and Pension Funds Operations in Bangladesh and pointed out that it is essential that insurance companies invest their funds judiciously with combined objectives of liquidity, maximization of yields, security and most importantly ensure that they can meet the lia-

bilities when required. This report of the ADB recommended for reduction of the percentage of funds to be compulsorily invested in government securities from existing 60 per cent to 25 per cent.

The Bangladesh Insurance Association is in line with ADB recommended to the government that section 27 of the Insurance Act should be changed as follows:

1. Twenty-five per cent of life insurance fund to be invested in government securities.

2. The balance seventy-five per cent in approved investments.

Approved investments will mean investment in real estate,

mortgages, shares, debentures, bridge financing etc. and may by notification in the official gazette, be specified from time to time.

About investment of life fund it is reported in the daily "The Financial Express" dated 4th August, 1999 that 30 per cent of insurance money will be invested in government securities or the government approved investment schemes while the remaining 70 per cent in market instruments. The recommendations as reported, if considered by the government, will certainly damage the policy holders' interest and seriously discourage life insurance business in the country.

We conveyed our reaction on the report as well as on the recommendations of the Security and Exchange Commission to the government.

**Professionalism:** The progress of insurance industry on the proper lines depends on professionalism for which there should be adequate arrangement of training. For this purpose, the Bangladesh Insurance Academy has been established by an executive order of the Ministry of Commerce. It has not yet been given the status of an autonomous body. The Association has been constantly urging the ministry concerned to convert it into an autonomous body.

**c) Stock Market:** Several measures have been taken to boost the ailing stock market of the country. These include exemption of tax on income from mutual funds established and operated in the private sector and non-inspection of previously untaxed income provided it is invested in the stock market. However, such investors must pay tax at the rate of 7.5% thereon and retain bought shares for at least a year. The existing ceiling of Tk 10,000 for deduction of tax from dividend has been raised to Tk 30,000.

To attract foreign investment in Bangladesh, the following tax benefits are also available:

i) Exemption of tax on interest payments to foreign lenders  
ii) Exemption of tax on dividend payments to foreign shareholders

The lessor's gross rentals are subject to tax after charging depreciation calculated under the prevailing taxation rules. While normal depreciation throughout the lease term is allowed the provision for initial depreciation have been withdrawn. Lease rentals paid by the lessee are fully tax deductible.

**Funding:** To meet funding requirements, a leasing company can issue shares, debentures and bonds. Moreover, they are allowed to procure long term credit from commercial banks, insurance companies and other financial institutions, both local and foreign.

Leasing companies are also permitted to obtain deposits from public institutions and individuals. Recent regulations require leasing companies to maintain a non-interest bearing cash reserve equivalent to

## Insurance and Leasing Companies talk to The Daily Star

Continued from page 18

to ensure discipline and regularity in their operations, particularly with regard to their adherence to statutory provisions concerning business ethics.

(iii) The Insurance Companies shall have to be encouraged and motivated to expand their activities towards developing non-traditional and people-oriented insurance schemes apart from their aggressive efforts for the development of conventional classes of insurance.

(iv) Concerned Govt authority may take necessary steps so that the banks and financial institutions can not blacklist insurance companies arbitrarily when they (the insurance companies) lawfully reject claim under the terms and conditions of concerned insurance policies. If this is not done it will be difficult for the insurance companies to operate within the provisions of the law of the land particularly the Insurance Act and Insurance Rules of the country.

(v) The role of Govt Agencies such as Sadharan Bima Corporation and Chief Controller of Insurance should be so designed as to provide assistance to the private insurance companies for their operation, development and growth and not as their controller and competitor as is the position now prevailing in Bangladesh insurance industry.

(vi) The private sector general insurance companies should be allowed to arrange and place their reinsurance cover partly or 100 per cent with local and/or foreign reinsurance companies according to their own choice and without monopoly of Sadharan Bima Corporation in the field of reinsurance in Bangladesh. If we encourage competitors in purchasing reinsurance, services of Sadharan Bima Corporation will not only improve but also insurance companies will secure best available

7. Green Delta Insurance Company since its inception in 1986 has been underwriting all types of general insurance business such as marine cargo, marine hull, fire, motor, burglary, cash-in-transit, cash-on-counter, public liability, product liability, medical & health insurance, contractors/erection all risk, MBD, DOS, Aviation and other miscellaneous types insurances including insurance guarantee.

8. From the point of view of market share of business Green Delta Insurance Co Ltd, Progati Insurance Co Ltd and Reliance Insurance Co are leading the private sector insurance market in Bangladesh. There is very tough competition among the insurance companies with regard to:

(i) Rate of commission.  
(ii) Standard and quality of service rendered both in respect of underwriting of risks and settlement of claims.

(iii) Scope of cover.  
(iv) Sales promotion measures.

9. Green Delta Insurance Company generally insures the following:

(i) Movable and immovable properties and stock of industrial, commercial and residential establishments and other general risks against material loss.  
(ii) Construction and

10. Prime Finance & Investment Limited is a newly established company. We have Equipment Leasing and Hire Purchase activities.

11. PFIL is one of the leading Merchant Banks in operation at the moment in Bangladesh.

12. We are yet to advertise in any media. We did not feel the necessity of advertising.

eraction risks against material damage and third party liabilities.

(iii) Various types of transports against material damage and third party liabilities, personnel risks, pecuniary risks such as consequential loss arising out of interruption of business operations through material damage to various enterprises, employers' liabilities etc.

10. Not applicable to Insurance Companies.

11. The standard of an insurance company is rated generally on the basis of the following factors:

(i) Quantum of business and quality of business.

(ii) Financial status including (a) assets, (b) reserves, (c) liquidity position, (d) dividends given.

(iii) Quality of management and its attitude to risk.

(iv) Quality of services rendered particularly with regard to prompt and quick settlement of claims.

12. Initially Green Delta Insurance Company came to be known in the market mainly by virtue of the standard of service, it could give the clients and the reputation of its professional management which comprised a number of qualified and experienced executives well known in the local industry and abroad.

13. At the moment, insurance sector appears to be overcrowded with too many companies chasing too little business. With the stagnation of the industrial growth and more entrants in the insurance sector, there is intense adverse competition, which is harming the business. The leasing sector is somewhat better. However, the sector is suffering from chronic liquidity problem and high cost of fund. This is leading to high lending rate.

14. As a leasing company, cost and availability of fund is the restraining factor to the growth and development of this sector. Bangladesh Bank has to explore ways and means of providing low cost funding so that we may pass on the benefit to the lessees and effectively compete with the Banks.

15. As mentioned earlier, cost and availability of fund is the greatest problem. In addition to this, frequent changes in government regulation, rising interest rate and uncertainty in the Financial market are some of the other constraints.

16. Prime Finance & Investment Limited is a newly established company. We have made a modest beginning and expect that in time we shall firmly establish our products in the market.

17. Prime Finance & Investment Ltd. (PFIL) has been authorised to con-

duct Merchant Banking and Lease Financing activities. Merchant Banking operation consists of Underwriting of shares, Portfolio Management and Issue Management. The Merchant Banking unit started its operation in the year 1996 and the Leasing Unit from January 1, 1998.

Under the Leasing Oper-

ation, we have Equipment Leasing and Hire Purchase activities.

7. PFIL finances all types of industries.

8. In General Insurance, Green Delta Insurance Co. Ltd. and Progati Insurance Company Ltd are reportedly the largest.

Currently Industrial Development Leasing Co. of Bangladesh Ltd. and United Leasing Co. Ltd. are going neck and neck.

9. Our equipment are mostly vehicles, industrial machinery, generating sets etc.

10. Commercial Banks cater mostly to import/export finance, short term lending and to a lesser extent Industrial Financing.

Leasing companies enter into contracts for period between 36 to 60 months depending upon type of equipment.

11. PFIL is one of the leading Merchant Banks in operation at the moment in Bangladesh.

12. We are yet to advertise in any media. We did not feel the necessity of advertising.

## Leasing in Bangladesh

Continued from page 17

Corporate tax rate for publicly listed banks and financial institutions, including leasing companies, has been reduced from 40% to 35% in the previous budget. This measure removed the discrimination in tax rates between publicly traded financial institutions and non-financial businesses.

**Accounting for Leases:** No specific accounting standard for the lessor or lessee has yet been established. Generally Accepted Accounting Principles (GAAP) are being followed under which the leased assets are being shown in the book of the lessor while the rental payments are considered as revenue expenditure by the lessee.

**c) Stock Market:** Several measures have been taken to boost the ailing stock market of the country. These include exemption of tax on income from mutual funds established and operated in the private sector and non-inspection of previously untaxed income provided it is invested in the stock market.

Accordingly, depreciation on such assets is charged in the books of the lessor although the accounting depreciation may differ from the depreciation stipulated in the tax law.

**Regulatory Body:** As per the Financial Institutions Act, 1993, the operation of leasing companies is controlled by the Central Bank which also regulates foreign exchange transactions and transactions with commercial banks. Leasing companies are required to furnish monthly, quarterly, semi-annual and annual reports on their operational performance to Bangladesh Bank in addition to weekly statements on the position of their liquid assets and liabilities as well as public deposits and cash reserve maintained with the Central Bank. The Chief Controller of Imports and Exports regulates the importation of lease equipment. For establishment of joint ventures with leasing companies from the Board of Investment, Ministry of Industries and Bangladesh Bank is necessary. For issuance of shares and debentures, prior permission from the Securities and Exchange Commission is required. Permission from Bangladesh Bank as well as the Bangladesh Export Processing Zones Authority is required for any leasing company wishing to finance in foreign currency as an off-shore unit in Export Processing Zones.

**ন্যাশনাল লাইফ ইনসুরেন্স**  
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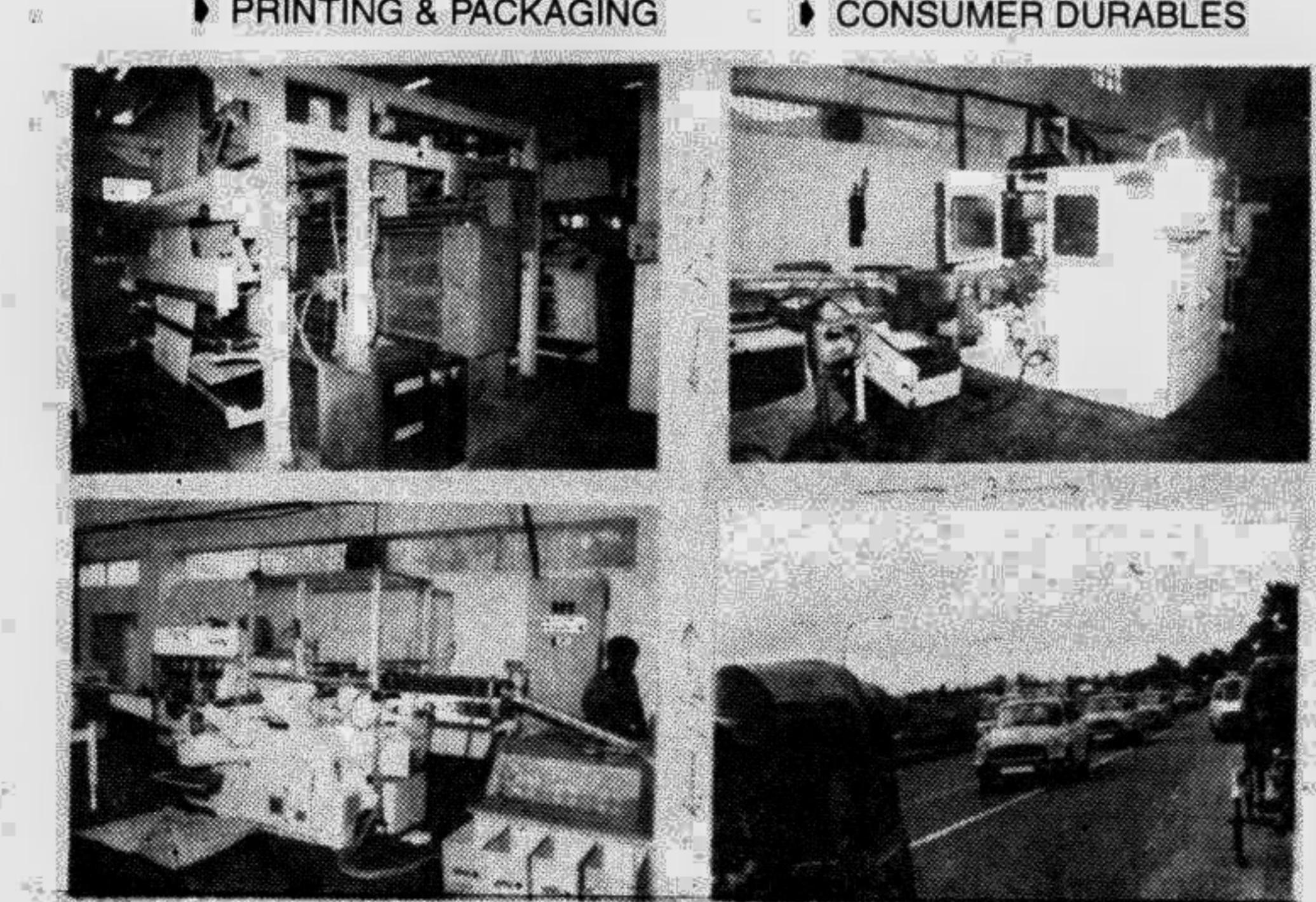
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