

## Insurance as propeller of economic development: Issues necessitating attention

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INSURANCE is a mechanism of spreading the risk of one upon many. Indeed, it is a method of distributing the burden of loss of one person on a number of persons within the group formed for this purpose. The concept of spreading the risk through modern day insurance can be traced and linked back to one of the oldest conventions known to the civilized world, that is to say the convention of General Average used to be practised in maritime trade and adventure during the Rhodian time from 916 B.C. This convention, still in practice, is nothing but sharing by all interests involved, the extraordinary and voluntary sacrifices or expenditures undertaken by the master of the vessel at a time of peril to save the adventure imperilled. Historians can also go back to 4th Century to find out the trace of risk sharing concept in the practice of Bottomry & Respondentia Bonds in maritime trade where the loans taken by ship owners & cargo owners under such bonds were to be repaid only if the adventure reached safely.

Having said all these, insurance in its present form actually started in England sometime during the 12th and 13th centuries with Marine Insurance to come up first in the list. The casualties of ships and cargoes in high seas concerning trade between England and Italy basically created demand for such protection and Lombard Street of London gradually became the nerve centre of marine insurance. The next class of insurance to start was Fire Insurance during 14th Century, although the demand for such insurance started becoming prominent as a result of the Great Fire of London, 1666 and the Tooley Street Fire of London, 1861. The third in the list of development was Life Insurance during 15th and

16th Century and the last in line was Accident Insurance during the 19th Century prompted by Industrial Revolution of 19th Century giving birth to various scientific developments and associated accidents.

Although insurance started basically as a risk management concept, it gradually became, because of huge fund availability a prominent force in nation-building and economic development of a country. This has been particularly true with regard to countries suffer-

ing from capital constraint.  
**As a means of economic development**

Insurance performs multifarious functions some of which are specifically related to individual classes of insurance business, such as, marine, fire, life and accident and some of which are common functions related to all classes of insurance business particularly focusing towards economic activities as a means of economic development. Whilst specific functions mainly deal with individuals in mitigating their financial losses, the common functions mainly aim at providing boost to economic development of a country. Some such economic activities are narrated in the following paragraphs:

**Investment:** Insurers by the nature of their business are constantly receiving sums of money in the form of premiums and much of this money will be required to be paid out in the shape of claims. All such money they receive are not in fact required at a time and, therefore, in the position of custodians of vast sums they are able to invest it for earning interest in the capital market. Whilst the general insurance investment has to be on short term basis, life funds can necessarily be invested on long term basis. The investment is usually made on government securities, mortgages, industrial loans and shares, debentures etc. The insurance market as such is largely relied upon by commerce and industry as one of the main sources of investment capital and therefore, it obviously contributes much in the overall economic development of a country.

It has to be appreciated that in a small economy like Bangladesh, the insurers are constantly pumping into the capital market a huge amount of approximately Tk 2,000 crores or more, which is being utilised by those who need borrowed capital for industrial and other types of economic development of the country. With the passage of time this amount will go on increasing at a progressive rate.

**Invisible Export:** Insurance has immense potentiality to work as invisible export of a country by way of providing insurance services abroad. This may be done either by providing direct insurance services abroad or by accepting reinsurance from abroad. Such an export will definitely have a favourable impact

on the balance of payment of a country and can indeed assume a major proportion of the total exportable items.

Unfortunately, Bangladesh Insurance Market is not yet strong enough to underwrite direct insurance business of foreign countries, nor can it reinsure risks of foreign countries as reinsurers. However, a time may come when insurance will play a dominant role in the invisible export of the country.

**Assistance to Business Enterprise:** No large scale business could possible function freely were it not possible to transfer many of its

from the banker who signs it to the banker or other person to whom it is addressed to honour the draft of the person named in it on production of some other documents that may be required. This draft is usually in the form of a bill of exchange against the value of each shipment. Provided it is accompanied by other required documents of title to the goods, the bank will be prepared to discount the bill.

Such other required documents to title are:

- Bill of Exchange
- Bill of Lading
- Invoice

merchant to insure his goods against marine perils, but in practice this must be done as the bank will insist for it. Even where shipments are not financed by a bank, common prudence calls for marine insurance protection, particularly as the cost is only a fraction of the market value of the goods.

**Issues Necessitating Attention**

Insurance is not a new idea or proposition to the people of Bangladesh. We may go back by almost a century when during the British Rule in the then India, some insurance

Unless these are taken well into account the envisaged economic growth will be deterred. The burning issues are:

**Unrestricted number of insurers:**

The concept of privatisation is no doubt good for the overall economic development of the country, but the way the number of players have been allowed to operate in Bangladesh market is quite alarming considering the market potentiality and some evil effects of uncontrolled free competition. When potentiality is less in comparison to players in the market, evils, cut-throat competition and unfair practices

big impediment to commercial discipline and economic growth through insurance.

We are pleased to mention here that this matter of enlistment and delistment was taken up recently by the Bangladesh Insurance Association with the present Honourable Minister of Finance. He gave a patient hearing and maintained that such a prohibitory order was not in line with the legal and commercial norms. Accordingly, he ordered the concerned persons to arrange withdrawal of the prohibitory order.

At the same time he also maintained that the system of enlistment also should be abolished. We are indeed thankful to the present Finance Minister for his clear understanding about the issue and bold decision in this regard.

**Tendency to take insurance from outside the country in violation of law:** As per provision of Insurance Act all insurances in respect of properties belonging to and situated in Bangladesh is to be effected with insurers of Bangladesh.

It seems that in many cases the foreign investors violating the provision of law are having their insurance with foreign insurers, thereby depriving the local insurers of huge premium earning with resultant deprivation of foreign exchange earning of the country. This has to be stopped in the interest of the country.

**Status of Bangladesh Insurance Academy:** The status of Bangladesh Insurance Academy which was established in 1973 through an Extra Ordinary Resolution of the Government is required to be changed for disciplined market growth. We proposed time again to Government to give a permanent shape to this Academy by giving an autonomous status like ICA, ICMA, BIBM etc. Numbers of meetings were also held under the Ministry of Commerce and Draft Act was also prepared. But it has not advanced further.

For the advancement of insurance education and Training and also for international recognition the Academy must be given autonomous status through Act of Parliament.

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risks to insurers. In the absence of insurance business, most of the business men would have been required to put aside some of their capital resources against the possibility of unforeseen losses or contingencies. Insurance safeguards this capital and makes it free for further development of the business. Apart from this, by means of quick settlement of claims, insurers facilitate reinstatement of the business which ultimately help in the process of further production.

**Aid to International Trade:** Marine Insurance occupies important position in overseas trade and commerce. As it affords protection against fortuitous losses, it enables all those engaged in overseas trade to venture their capital more freely than would otherwise be possible and in this way helps greatly to expand the scope of their operations.

The study of the importance of marine insurance in international trade, particularly to exporters will not possibly be complete unless its importance is visualised from a different angle as well. In the present day commerce, the banks are largely responsible for financing the overseas trade of the world. The usual method is for the buyer to forward to the seller of goods letter of credit drawn on a banking house. This is a non-negotiable document, being merely an authority

Marine Policy

In this way the seller is put into funds immediately instead of waiting for sometime for a remittance to be received from his customer abroad for the goods shipped. This system makes it possible for the exporter to use his capital always and more frequently instead of having it locked up in goods in transit. This accelerates the economic growth of a country by recycling the same capital.

**The importance of marine insurance** is this credit system is such that the bank will not discount the bill of exchange unless the goods, as specified the letter of credit, are insured against marine risks and the policy, alongwith other documents, is lodged with the bank as collateral security. The advance made by the bank is primarily secured on the goods, and if these are lost or damaged in transit, the security would, but for the insurance, be lost or diminished. The documents are forwarded to the bank's branch or agent at destination and are delivered to the buyer against payment of the amount of the draft. He can then collect his goods from the ship against the bill of lading, and if they are damaged he can claim on the insurers for such damage, where it is recoverable under the terms of the policy.

There is no legal compulsion on a

companies started transacting insurance business, both life and general, in this part of the World. Since 1947 until 1971 insurance business gained momentum here what was then known as East Pakistan, presently Bangladesh. These were mostly limited liability companies operating under a free economy.

With the emergence of the People's Republic of Bangladesh the insurance industry was nationalised by the government in 1972.

**Free market economic concept** with its associated advantages over socialist or controlled economic system resulted everywhere in encouraging private enterprises, and in line with this overwhelming acceptance of the concept the Government of the People's Republic of Bangladesh decided to allow, *inter alia*, operation of insurance companies in the private sector along side the public sector. The important enactments in this regard are Act L, and Act LI of 1984 ((Insurance Corporations (Amendment) Act, 1984) giving opportunities for floating insurance companies, both life and general, in private sector subject to certain restrictions.

This being the market scenario, however, for sustained economic growth of the country through insurance certain disciplines are required which were hitherto being ignored.

Companies are bound to operate to the detriment of the insuring community as well as insurers. To survive, an insurance company must have a minimum amount of premium earning. Whilst allowing insurance companies in the private sector this aspect was presumably not looked into by the Government. The result has been the granting of a huge disproportionate number of insurance companies, particularly general insurers (43 in number) in the market. The present yearly total premium volume of the private general insurance sector is around Tk 370 crores. For a company to survive economically, taking all relevant factors and economic indicators into account, it must have a premium volume of roughly take 15 to 20 crores annually. In this way the present total market premium of the country justifies the existence of only 18 to 20 general insurance companies. Unfortunately, we have 43 general insurance companies in the market. The result has been the importation of evils, cut-throat competition and various unfair and unethical practices into the insurance arena of Bangladesh. The position is not as dismal yet in so far as life insurance is concerned.

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number of insurance companies might perish in the process eventually, as they will not be able to survive. To be optimistic in conclusion, and as an alternate to extinction, I can definitely see a trend of possible merger or amalgamation amongst these companies in near future for survival in groups particularly for the following reasons:

**Small uneconomic premium volume**

Huge overhead expenses

Unethical competition and malpractices

Dearth of technical staff

**Bank Enlistment:** This practice of enlistment of insurance companies by the banks for placing insurance business is totally uncalled for bearing in mind that the security of an insurance company is ensured by:

(a) Companies Act

(b) Capital formation & asset build up of a company

(c) Insurance Act and the requirements to be strictly observed under it

(d) Embargo as to fulfilment of reinsurance practices

(e) Strict control and supervision of the Controller of Insurance

It seems that in many cases the foreign investors violating the provision of law are having their insurance with foreign insurers, thereby depriving the local insurers of huge premium earning with resultant deprivation of foreign exchange earning of the country. This has to be stopped in the interest of the country.

**Bank Delistment:** The issue of delistment of eight top grade insurance companies by three nationalised banks arose in connection with non payment of some deterioration of stock claims due to cyclone of 1991. The claims were clearly outside the scope of policy coverage and as such were repudiated by all the concerned insurance companies. Being dissatisfied, the concerned parties and their banks took up the matter with the Finance Ministry. We explained in clear terms the reasons for rejection and also maintained that if the insured thought the claims were payable they could always go to the Court of Law or to Arbitrator or to the Chief Controller of Insurance for redress.

However, without giving any importance to our stand the Hon'ble Minister of Finance of the last A. L. Government through meetings dated 21.5.2000 & 11.6.2001 ordered the concerned banks to delist all concerned insurance companies from receiving any insurance business. This is indeed a

continuation of the Chairman and Managing Director of Bangladesh General Insurance Co. Ltd., the first General Insurance Co. in the private sector and formerly Chairman of Bangladesh Insurance Association

**Fighting poverty**

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As I indicated earlier I have been involved in an on-going participatory research on budget-making process from the perspective of the poor for many years and I must say the knowledge of the poor about poverty is enormous. To them poverty is much more than lack of income. It includes lack of productive asset, housing, means to face crisis, having to accept demeaning works, lack of even a means to decently bury their dead. One could perhaps add a few more things (ala Anisur Rahman) : lack of more serious medical care, old age security, entitlement for women to safe movement, means to buy law and order security and justice etc. The poor are also not in a position to enjoy their lives 'creatively and aesthetically.' So any attempt at defining poverty should include lack of both subsistence and human requirements.

The on-going forces of globalization have been putting additional pressure on the living condition of the poor. This too deserves to be included in the definition of the poor. Besides, it needs to be recognised that the poor too are part of the civilization and they, therefore, deserve to be treated as human beings with flesh and mind. They too have the right to participate in the process marketisation which globalization has been unleashing.

The poverty reduction strategy if prepared around above premise, it will certainly gain wider acceptability of the citizens of the country. The way forward would then be to know the details of the realities of the poor their priorities and creative options for freedom out of abyssal poverty. This strategy seen through the eyes of the poor will surely have the potential of bringing notable changes in their lives. Based on various participatory assessment reports it can now be argued that fighting poverty is a serious business and hence can not be left to the state alone which has been largely ineffective in reaching the poor. The role of NGOs and many other civil society organizations involved in strengthening social capital polus socially committed private sector should as well be made integral to this strategy. In more concrete terms the poverty reduction strategy besides addressing the strategic issues of governance, should have atleast the following nuts and bolts:

Build the strategy around realities of the poor focussing on their formal and informal livelihoods, health protection, infrastructure development, literacy and skill, how to cope with lawlessness, corruption, accountable local government, fiscal decentralization, public access to information including innovative ICT.

Invest in organizational capacity of the poor so that they can bargain with the rich, the administrative elites, negotiate with the market agents, can develop stronger coalition with other organizations.

Strengthen community driven

approaches including stronger local government, community groups with authority and control over decision-making.

Develop partnership with NGOs, civil society organizations, the media and even the private sector.

Support development entrepreneurs.

Help change mindsets of the service provider and their leaders regarding pervasive gender-inequality, environmental degradation and the quality of services they provide to the citizens.

Continue to support pro-poor growth process, focussing particularly on agriculture and small and medium sized enterprises.

Ensure economic security of the poor first and then encourage social mobilization.

Bangladesh is quite lucky in terms of a number of civil society initiatives to face the challenges and seize the opportunities of development.

Thousands of non-profit organizations have been active in poverty reduction activities. Their range of innovations (e.g. in the areas of group formation, technology, non-formal education, water selling, legal aid) is enormous.

The media too has been very pro-active on the issue of poverty eradication. At least two task force reports are now available on how poverty can be eradicated. Professor Rehman Sobhan was instrumental in constituting these task forces, one in the early 90s and the other very recently. The policy suggestions of these task force should ideally constitute the starting points for any strategy on poverty reduction.

Hopefully the on-going PRSP strategy has been using these two reports gainfully.

Finally, the issue of poverty cannot be isolated from the overall approach of designing a comprehensive home-grown development agenda for the country. Unless the growth process is truly participative, the macro-economic indicators are stable and the political commitment across the board for social justice is total, fighting poverty may continue to be illusive despite huge noises in Paris or in Dhaka. After all, poverty of values is no less significant than the poverty itself in the bizarre political and economic ground realities of Bangladesh. It is quite painful for many of us to talk about a strategy for poverty reduction even after thirty years of liberation of Bangladesh. Poverty should have been identified as the number one development challenge long back and then confronted squarely. The ordinary people of Bangladesh whole heartedly participated in the war of liberation in 1971 not only for curbing a separate physical landmass but wanted to free themselves from the chains of poverty and social injustices. But after all these years we can now claim that those chains have been atleast loosened if not broken?

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will also reduce the cost of processing, storage and marketing of fisheries and livestock production, which may encourage private sector investment in these activities.

In order to sustain the profitability of HYV boro cultivation using tubewell irrigation, it is necessary among others, to ensure sustained increase in its yield. This would require continuous improvement in fertilizer uses, soil management, agronomic practices and plant protection measures. From entrepreneurial point of view, tubewell owners/managers would need to improve their efficiency pertaining to on-farm water management in a competitive but regulated environment, so that command area per machine is increased and cost of supplying water per unit of land reduced. Another possible area of government policy intervention is to intensify cultivation on irrigated high land, if profitability of non-cereal crop production is realized through removing several constraints. This indicates that area under non-cereal crops can be increased on irrigated high land, if profitability of non-cereal crop production is realized through removing several constraints. In fact, the country has a wide range of agroecological conditions suitable for growing various non-cereal crops.

**Rethinking Strategies and Policies**

The production system in the crop sector continues to be dominated by rice. Once the foodgrain deficits are met, rice should give way to other higher productive and more profitable crops. Several recent studies on domestic resource cost ratios suggest that yields can be raised in Bangladesh for a wide variety of crops, including rice and wheat. The yields can be raised by developing and adopting new and high yielding varieties, improving extension system, using balanced and efficient fertilizer, and incorporating better soil and water management. In case of rice, nearly 47 per cent of the total area is currently planted with local varieties although the average yield of local varieties is half the yield of HYVs.