

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 development 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

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 are bound to operate to the detriment of the insuring community as well as insurers.

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

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 prac-

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 mal-practices

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 formalities

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

But here the practice has developed not to enlist an insurer unless he places a substantial amount of fixed deposit with the bank. These are actually impediments to free activity and economic growth.

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

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 prohibitive order was not in line with the legal and commercial norms. Accordingly, he ordered the concerned persons to arrange withdrawal of the prohibitive 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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Thirty years of Bangladesh agriculture

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For closed water culture fisheries, improved fish culture techniques have been introduced, though at a limited scale with credit support from the government and the NGOs. The exports of shrimps and other fishes, as mentioned above, have emerged as an important activity of the sub-sector. Much of the growth in fish exports, however, is based on shrimp farming, rather than fishing, using agricultural land in the coastal areas. An issue of concern is the displacement of crop cultivation due to growth in shrimp farming and exposure of the soil to long term ecological degradation threatening the livelihood of poor farmers. This needs adoption of efficient and area-based strategy to mitigate adverse social and ecological externalities of shrimp farming.

Livestock activities are labour-intensive and provide employment to a significant proportion of the rural population, specially the poor. In the 1990s, production of milk increased largely due to the establishment of dairy farms in the private sector. The breeds of milch cows improved with the increase in the number of private sector hybrid cow farms. The production of meat also increased (from 0.51 million metric tons in 1994/95 to 0.65 million metric tons in 1998/99). In particular, the supply of poultry meat increased rapidly through growth of private sector poultry farms. Intensive development efforts of public and private sectors and the NGOs through expanded vaccination, feed production and management training contributed to recent success.

The forest area has declined over the years. Total forest area in Bangladesh has steadily declined from 5.42 million acres in 1980/81 to 4.58 million acres in 1993/94. Forest supply a number of products such as timber, firewood, bamboo and raw materials for industries. The total production of major forest products (excepting bamboo) has been declining over the years. In fact, the current production levels for timber and firewood are lower than they were in the eighties. The current production levels of essential forest products (e.g. timber and firewood), therefore, reduced sharply in per capita terms. Moreover, the total forest area is inadequate to provide the basis for preserving ecological balance and long term environmental security. It is generally recognized that between 25 to 35 per cent of total land area should be kept under forestry in order to preserve ecological balance in a country. In Bangladesh, only about 17 per cent of the total land area is either forest or potential forest land. In recent years, however, the strategy to develop and protect forest resources through involving local communities under various programmes e.g. agro-forestry, homestead forestry, social/community forestry, and in partnership with NGOs and community organization has yielded positive results.

Options for Accelerated Agricultural Growth

As observed earlier, Bangladesh agriculture has achieved significant progress in the late 1990s. Both foodgrain production and non-crop agriculture increased rapidly. In fact, the average agricultural growth rate has been higher than any period in the past. The development of agriculture has, however, been constrained by several natural and demographic factors. Natural disasters e.g. floods, droughts, tropical cyclones etc has been a recurring phenomenon, resulting in massive losses of crops, livestock and other resources. These are chronic constraints which adversely affect the growth performance of agriculture. Moreover, the high density of population exacerbates conflicts over land, water and other resources. With nearly all the available land under cultivation, the pressure on land will intensify further with the increase of urbanization and the growth in population.

The future agricultural development, therefore, needs to adopt a comprehensive approach to agricultural growth including improved services, market links and institutions for promoting agricultural transformation to meet domestic requirements and exploit new opportunities in the emerging global market. Two key elements need to be emphasized for ensuring sustained growth of agriculture. These are: exploitation of the economies of scale along lines of comparative advantage, and acceleration of investment embodying technological innovations. Bangladesh has strong potential to increase agricultural growth even with limited and declining land for agriculture. From a broader perspective, the realization of the growth potentials in Bangladesh agriculture requires action in:

- !intensification of production of existing crops (e.g. rice)
- !diversification of agricultural production to high value crops having comparative advantage
- !improvements in non-crop agriculture

Intensification of Crop Production: The intensification of crop production is a necessity which needs to come through increased yields and higher cropping intensity. International comparisons 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. The removal of agronomic and other constraints to transform the potential area from local into HYVs of rice will contribute to increased rice yields. Similarly, in areas which are suitable for local rice varieties, measures to raise yields will contribute to increased production. The major challenge in removing the constraints to expan-

sion of HYVs of rice lies in developing coastal, central and northeastern regions which warrant investments in water control and salinity. The potential for increasing production by converting existing local variety of aus and aman areas into irrigated HYVs is quite large. This requires availability of irrigation during the kharif season. Irrigation systems are required to be made effective during both rabi and kharif seasons. This will also increase cropping intensity which is the only viable option for relaxing the land constraint in Bangladesh.

Crop Diversification: While much in line with country's comparative advantage rice production will continue to dominate the agricultural sector in the foreseeable future, not all efforts should be concentrated on rice alone. An accelerated pace of crop diversification is needed on several grounds. These are: changes in demand and market opportunities, nutritional balance and environmental considerations. This requires creation of favourable policy environment and removal of agroecological and technological constraints. The past growth in crop production was characterized by expansion of mechanized irrigation leading to wider coverage of HYV boro at the cost of most non-cereal crops grown during the dry season. The HYV boro rice cultivation is profitable on medium-high, medium-low and low lands with irrigation. The relative profitability of HYV boro rice is low on high lands where alternative non-rice crops can be grown. 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 except for a few import competing crops such as sugarcane, oilseeds and spices, Bangladesh has comparative advantage in the production of most agricultural crops. There are crops such as vegetables and potatoes which give higher financial and economic returns than those of modern varieties of rice that have spread very fast over the last decade. The exploitation of this potential will, however, depend on investment for developing infrastructure for storage, processing, marketing and financial services, for which public support is needed. Particularly investment for reliable supply of power to rural areas, development and maintenance of an efficient transport network, and modern communication facilities for low-cost and timely exchange of information is crucial. The development of infrastructure



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 (a) promote electrification of tubewells with uninterrupted/regular power supplies so that operation and maintenance costs are reduced.

Public procurement of foodgrains during the harvest months has been construed as price support policy to provide incentives for increasing foodgrain production in the country. However, a careful analysis of the grower's and procurement prices suggests that the government intervention in the form of domestic procurement has largely failed in maintaining effective flood prices and therefore, ensuring incentive prices to farmers. The government therefore, need to devise appropriate measures to make domestic procurement programme more effective in order to provide price support and thereby sustain production incentives to the farmers, especially in the face of rising costs of production following the removal of explicit subsidies. One may also think of a trade-based mechanism for price stabilization which would rely on private sector-trade and a public sector export/import stabilization fund to subsidize/trade as necessary to keep domestic prices within acceptable limits. While the private sector import of grains has increased, an effective mechanism for price stabilization is yet to be

developed. The fertilizer crisis in 1995 clearly points to the need of a government role in the marketing of fertilizer. However, the crisis does not necessarily mean that one should revert to the old model of public marketing. It seems that even though the market has been operating competitively at the retail and wholesale levels, the supply from factory gates has all along been a reflection of oligopolistic structure and behaviour. Unless it is possible to introduce competition at the apex level, any distortion at the apex level will spread rapidly through the whole system. The introduction of competition at the apex level, however, may be difficult because of size of demand, scale economy in production, as well as historical background in the development of fertilizer industry. The solution lies in (a) organizing a management monitoring system, that would anticipate emerging problems and inform policy makers well ahead of time in order to take corrective action, and (b) developing of a regulatory mechanism for supply and pricing of fertilizer at factory gates.

The issue of environmental sustainability of agricultural development is important for Bangladesh. Signs of land degradation resulting from inadequate cropping and soil management are already noticeable. Part of the problems is attributed to removal of nutrients and its uneven replenishment due to increased application of fertilizer without taking into account soil characteristics. While there is no alternative to intensive production strategy to accelerate crop production through expansion of minor irrigation, HYV seeds with complementary use of pesticides and higher doses of chemical fertilizer, its implications for environment should also be considered. This would require adoption of environment-friendly technology and practices as well as measures to prevent and mitigate adverse environmental effects.

The prospects for accelerated growth in agriculture in the medium term would rely primarily on enhance-

ing land productivity and exploiting potential for diversification into higher value crops for domestic and external markets. The potential for yield improvement and growth needs to be exploited through increasing coverage of irrigation and HYVs, arresting soil degradation and pursuing balanced development of cereals and other crops. (The intensification efforts need to be directed to rice cultivation through several options such as pursuit of a breeding strategy with focus on grain quality, shorter maturity and hybrid/super rice offering better prospects for increasing yields, adaptive research and effective research-extension linkages; and efficient water resources management. The strategic actions for diversification need to include: intensification of rice production to release land and other resources for non-rice crop cultivation; specific targeting of flood-free uplands, incorporation of non-rice crops in rice-based farming systems, promotion of agribusiness and agro-processing, and investments in transport and communication infrastructure and information network.) The foodgrain production strategy needs to avoid policies which might distort the incentive regime and discriminate against non-cereal crops and agricultural diversity. The development of non-crop agriculture requires concerted efforts in improving breeds and management practices. Along with targeted measures to address technological and marketing constraints, home-stead based subsistence production requires credit and other support for effective organization of production and processing.

In response to the changing pattern of demand, the future strategy for agricultural growth must contain elements to promote noncereal crops and fish and livestock production. Faster development of livestock and fisheries may promote both equity and food security by focusing attention on disadvantaged social groups and regions where the crop production environment is unfavourable. Livestock and poultry raising are usually performed by women who can do the work within homesteads, while doing their usual household chores. Because women from poor families are under pressure to engage in income-earning work, providing them access to credit for poultry and livestock raising could support their efforts to raise family incomes and improve their access to food. Commercial fishermen belong to low-income groups and community fishing in the floodplains is done by the rural poor. The promotion of the rice-fish cropping system in the deepwater floodplains and saline-affected coastal areas (the areas bypassed by the Green Revolution) could help improve economic conditions of the rural poor, particularly in Bangladesh's less developed regions.

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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 two 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 organization involved in strengthening social capital polis 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. Afterall, 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 can we now claim that those chains have been atleast loosened if not broken?

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