Insurance: The evolution story

M SHAMSUL ALAM

INSURANCE as a service industry was known to this part of the Indian sub-continent which is now Bangladesh since the London based Insurance companies started operation in the British India. Calcutta was at first the Capital of India and then it became the Capital of Bengal. Calcutta was the hub of Commercial and Industrial activities during British rule. As a result, foreign insurance companies established their offices in Calcutta and other big towns in India to cater to the insurance requirements of the British Trading Community. During those days only ship and goods were the main subject matter of insurance. Thereafter, the life assurance also slowly but steadily developed. In fact, most people would mean by insurance as life assurance only and to some extent it is true even now.

Alongside the foreign companies the local entrepreneurs also came forward and established insurance companies and these companies thrived at a rapid pace because of national, regional or community fervour. Most of these companies were mixed companies i.e. they were doing both General and Life assurances.

When Pakistan came into being one of such national companies was based in Chittagong by shifting their registered office from Calcutta before partition. It did flourishing business in the initial days as all other companies had their Head Offices and Principal Offices in Calcutta and other major cities of India.

New companies started coming up in Pakistan and at the time of our independence in 1971 the number swelled to 49 of which 39 had their head offices in the then West Pakistan. 10 companies had their head offices in Dhaka and Chittagong.

Out of 10 at least 4 were Pakistan based companies. The West Pakistan based companies belonged to the big business houses like Adamjees, Dawoods, Bawanis etc. They had tied business here and were simply transferring the premium earned from East Pakistan to West Pakistan. They were even doing their reinsurance with their Head Office in West Pakistan. The truly East Pakistani Companies of Bengali entrepreneurs were new and in real bad shape. The overall premium income in East Pakistan was very low as compared to the whole of Pakistan as there was very little growth of industry and commerce in this part of Pakistan as the economic disparity between the two wings was glaring. It was about 10 to 15% of total premium income of Pakistan and the bulk of which were controlled by companies based in West Pakistan. Bangladesh was, however, lucky in one respect that it inherited about one third of the qualified technical personnel of the whole insurance industry in Pakistan.

After independence in 1971 the Government of Bangladesh nationalized insurance industry and created two Corporations. Sadharan Bima Corporation was given the task of doing general insurance business and Jiban Bima Corporation was created to do life assurance business. All the employees working in the erstwhile companies and Pakistan Insurance Corporation were absorbed into these two Corporations. Both these Corporations were given powers to do Public and Private sector business and no other national or foreign insurance company was allowed to operate in the country with the sole exception of one or two foreign life offices like American Life which was allowed to do life assurance business alongwith Jiban Bima Corporation. They had monopoly and business came to these corporations automatically and they grew very big.

Though insurance is a service industry people had a general complain about these two corporations that honest and efficient service were lacking in them and a demand from the Public was always there to allow private insurance companies to operate so that people can get honest, efficient and devoted service from the companies. The successive Governments were also under pressure from business community to privatize insurance for free and competitive market. Finally the Government allowed private insurance companies to operate in Bangladesh side by side with the two Corporations in the year 1985. The companies were to do only private business whereas the corporations were given powers to do both private and public business. In addition, the Companies had to do their entire reinsurance with these two corporations. Inspite of these initial handicaps the private companies did well to capture over 80% of the existing private sector business and extend the facilities to those who simply refused to insure with the corporation unless they were compelled by banks. This was only possible because of the dedicated and personalized service provided by the private insurance companies both in case of general and life assurance. This resulted in the employment of large number of young and educated people in the insurance industry.

The market expanded, the premium income increased, untapped areas came under the purview of insurance industry. The total premium income by the companies & SBC rose to Tk.407 crores in the year 2000. The premium from life assurance in the same year was Tk.673 crores resulting the growth in geometrical proportion specially in the life insurance sector. However such development is still far from the real potential of the market.

There were still many problems faced by the insurance companies.

The entire reinsurance requirement of a private company had to be placed with Sadharan Bima Corporation & Jiban Bima Corporation and the companies had to accept whatever rates and terms SBC and JBC offered. They had no choice, no bargaining power. In fact, these two corporations always treated the companies as their subordinate offices. They dictated everything from underwriting to claim settlements.

With the advancement of science and technology demand for diverse and complex insurances grew rapidly. Without SBC's agreement and help the insurance companies found it extremely difficult to sell these insurances timely because SBC was unable to provide the appropriate reinsurance protection.

So long, we had only rudimentary insurances like fire and marine cargo insurance. But the people needed many kinds of products to protect their properties, interests and liabilities and without reinsurance protection it was difficult to develop and sell these products in the market and SBC was not fast enough to cater to the needs of the people vis-à-vis the insurance companies.

The Government since then allowed the Private insurance companies to take out 50% of their reinsurance requirements of general insurance companies outside the country and 100% by the life insurance companies. It has not served any useful purpose for technical reasons as these subdivisions made the things more difficult and foreign reinsurers found it unattractive difficult and uneconomical to enter into any agreement. As a result SBC still remains the sole reinsurer of the country because the companies do not find any market to sell the 50% option allowed to them.

The correct solution would be to make the insurance companies free to go anywhere in the World for their reinsurance requirements. This would benefit the companies immensely in the form of new techniques and ideas, innovation and marketing of new products, development of personnel through training with the foreign reinsurance companies and above all bringing in huge foreign currency in the form of claims recovery incases of a Catastrophe which befell this country every five to ten years.

The Insurance Act and the Rules and Regulations are almost obsolete and out dated. There is no mechanism to monitor control and supervise the unscrupulous practices when committed by certain insurance companies.

The role of the Commercial banks is also a big hindrance to the growth of insurance industry. An insurance company has to make fixed deposit of a huge amount for getting enlistment. They also interfere with the settlement of claims and always insist on payment inspite of the fact that a particular claim is not payable under the terms and conditions of the policy. In case of repudiation of a claim the insured may apply for arbitration or may go to a Court to redress his grievances. This is precisely the practice followed by the free civil society throughout the world. Though it is not fair but the bank simply cancels the enlistment of an insurance company if they are not happy with a particular claim where the bank is interested.

The sheer number of insurance companies in Bangladesh is another factor for negative growth of insurance in the country. There are now 44 General Insurance and 8 life assurance companies. The permission has been granted without taking into consideration whether there is enough business for so many companies. Technically competent people are not available to man the responsible posts for such a large number of companies. Many companies do not have personnel who are qualified to issue the simple fire & marine insurance policies.

Most of these companies do not know the simple mechanism of reinsurance. They have no idea about the risk inherent in insurance and do not know what they buy and what they sell and what will happen when there is a loss. Most of them have no idea about the cost of an insurance, the reserve, the exceptional reserve and other intricacies of insurance. Some even do not know whether at the end of the day some balance will be left to meet the expenses of the company.

Rebates from the premium in cash and kind to the insureds, bank officials are another form of malpractice which is ruining this industry like anything. If this important industry is to survive some drastic measures must be taken before it is too late. A few suggestions are given below to salvage the insurance industry.

Only the private insurance companies will do the private sector business. Sadharan Bima Corporation should not touch private sector business.

Sadharan Bima Corporation should be transformed into a Reinsurance Corporation with a provision of 15 to 25% compulsory cession by the private insurance companies to it in order to minimise the outgo of foreign currency from the country in the form of reinsurance premium. For the balance the private companies should be free to reinsure either with SBC or any other reinsurer anywhere in the world.

SBC will only underwrite the Government business and distribute the premium income to all the private companies under a formulae as it was done by erstwhile PIC in the form of a National Co-insurance Scheme.

Tariff Market is never conducive to healthy growth of the insurance industry. It only gives rise to many forms of corruption like commission, rebate under cutting of rates etc. The tariff system of rating should be abolished and the companies should be allowed to quote their own rates of premium like any other business.

Heavy penalties should be imposed by the government for doing business on Credit by the private companies.

A ceiling should be imposed about the maximum percentage of dividend a company may declare so that substantial reserve is built up over the years to increase the financial strength of the company.

Permission for new companies should not be given for at least ten years.

The standard of education and training given by the Bangladesh Insurance Academy should be improved.

Standardisation of the existing products and development of new products must be made keeping pace with new inventions and ideas and new types of industries.

Life assurance companies are now living on Group term policies which are taken by the employers as an act of welfare to their employees.

Young employed people are not interested in pure life or Endowment life policies because the value of money in our country deteriorates so fast that people think that they will get less after 10 or 15 years than what they have paid in terms of premium.

New schemes must be evolved so that the insuring public may think that in addition to life risk they would also gain in the long run.

In addition to SBC the local insurance companies should also be encouraged to accept reinsurance or do insurance on a co-insurance basis in order to accommodate large acceptance of risk with greater spread.

A restructured SBC purely as National Reinsurance Company may adopt the concept of entirely of Public Ownership or of combined Public and Private Public participation and it must be run professionally and should be kept entirely out of the bureaucratic Control in any form.

The Bangladesh Insurance Academy should be left entirely to private sector management.

In the life sector pension & annuity business should be encouraged.

Let me say again, our insurance laws have become outdated, it has become necessary to update them in line with the modern era. The new laws should be formulated by the Financial Services Authority which ought to have a supervisory role over all financial institutions including insurance in order to meet the present day needs of the insurance industry so that it is enabled to play its due role in respect of the property, liability and interest and other kinds of insurances.

Such an Authority should be established at the earliest opportunity. This will ensure interaction, avoid overlapping between different financial institutions and bring about harmony and cohesion amongst the service industries. Only through the establishment of such an authority that the desired goal of service to the members of the public can be achieved.

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Why Bangladesh should scale down its Protection Regime

DR. ZAIDI SATTAR

Unless Bangladesh acts very soon and resumes its trade liberalization program, it will be left behind by the rest of South Asia, including India and Pakistan, and will be in poor shape to compete with China and the rest of the developing world.

A COUNTRY'S trade policy regime can offer its indigenous industry and services either a protective or a competitive trading environment. A protective trade regime reduces competition from comparable imports, raises profitability of domestic production through the support of tariffs or import restrictions, and compensates for high production costs. What is often ignored is that this does not come at zero costs to the economy and society. Protection is a tax on the consumer and a subsidy to the producer of import substitutes. Sustained protection breeds inefficiency by sapping the incentive of producers to be efficient and competitive. Competition on the other hand creates the drive for reducing costs and raising productivity. There was a time when infant industry protection was a popular argument for sheltering and supporting newly established industries in developing countries. Pretty soon, however, this argument lost its credibility in trade literature as the world became littered with "geriatric infants" who either lacked the incentive or failed to grow up.

Starting in the 1980s, Bangladesh took the first steps in moving away from the policy of import-substituting industrialization and towards liberalization of the trade regime. This process was intensified in the early 1990s. Together with the other South Asian countries, Bangladesh greatly reduced its tariff and other non-tariff barriers against imports, liberalized its foreign exchange regime, and now has a much more open and competitive economy than in the past. This general liberalization of Bangladesh's import regime complemented and supported the impressive development and expansion of the export oriented garment industry.

However, the import liberalization process has stalled since the mid-1990s. Customs tariffs continued to fall, but this was offset by the protective effects of a variety of other taxes applied to imports (i.e. Infrastructure Development Surcharge, license fee, regulatory duty, non-neutral application of supplementary duties and even of the VAT). As a result, at present, while the average Customs duty is about 17 percent, adding the protective effects of the other taxes raises average nominal protection to over 22 percent. In contrast to the accepted policy of using customs duty as the only instrument of protection, it seems that, increasingly, protection has become more dependent on other taxes and levies than customs duties. The result is a non-transparent tariff structure with too many conflicting objectives.

In addition, tariff dispersion, though on the decline, remains high, signaling high levels of effective tariff protection. Dispersion refers to the spread between tariffs on inputs and outputs. Given a level of value addition, effective protection on final product is higher with greater spread between input and output tariffs. Again, given a certain spread between input and output tariffs, effective protection is inversely related to value addition, i.e. lower the value addition, higher the effective protection, and vice versa. With the top tariff rate coming down, there has been some compression of rates, but compensatory scaling down of input tariffs have left dispersion and effective protection high. The effect of compression has also been partly mitigated by the imposition of levies and surcharges, noted above.

While Bangladesh had substantially reduced quantitative restrictions (QRs) on imports, many banned and restricted products remain listed in the government's current Import Policy Order (1997-2002). The list of banned items includes: cotton fabrics, woven fabrics of silk, synthetic fabrics, poplin, twill and corduroy, insecticides, chicks, eggs, gypsum, petroleum gas, ropes of nylon and polyethylene, fishing nets, etc. (page 41-43). The list of restricted items include: cement, paper bags, coconut oil, common salt, sugar, and chemical fertilizer, etc. (page 45-59). Based on the nature and extent of trade restrictions in Bangladesh, IMF has rated the country eight (higher end) on a ten-point IMF index of trade restrictiveness of its member countries.

For many years protection levels in Sri Lanka, Nepal, Maldives and Bhutan have been considerably lower than in India, Pakistan and Bangladesh, and for the past five years protection in many dimensions (tariffs, QRs, local content schemes, agricultural state trading monopolies) has also been coming down rapidly in Pakistan. In India, the trade liberalization that got under way in the early 1990s lost momentum around 1996/97, with some liberalizing trends since then (especially the removal of import licensing from consumer goods) offset by various non-tariff measures, anti-dumping activity and tariff increases. However, there are strong indications that the stalled trade liberalization process is about to resume, with the announcement by the Finance Minister that the general maximum tariff will be 30 percent in the 2002/2003 budget. Unless Bangladesh restarts its trade liberalization process, it will soon be left behind other South Asian countries.

Because Bangladesh economy is far smaller, both the static economic costs and the lost opportunities for faster economic growth resulting from high protection, are proportionately greater than in very large countries such as India and China. But even these mega-countries are moving to reduce protection and further open their economies to trade. For example, in acceding to the WTO China has bound all its industrial and agricultural tariffs, and by 2005 the simple average of these bindings will be approximately 10.4% (agricultural tariffs 17%, non-agricultural tariffs 9.44%). Among other things these strong trends toward more trade openness in the other South Asian countries and also in China will strengthen the competitiveness of their export industries, including especially the competitiveness of their textile and garment exporters. This alone is a strong reason for Bangladesh to take immediate measures to push ahead with further liberalization of its trade regime.

With a few exceptions, Pakistan's top tariff rate is now 30 percent, the simple average MFN (most favored nation) tariff is 20.4% (compared with 42.7% in 1996/97) and the government has announced that the maximum tariff will be reduced to 25 percent in the coming 2002/03 budget. In contrast, Bangladesh's maximum Customs tariff is 37.5%. If allowance was made for the protective effects of other taxes, levies and surcharges, the general maximum tariff in Bangladesh exceeds 42.5%. In the case of textile fabrics, because of the exemption of local production from the VAT, the combined protection is approximately 59%. By contrast, Pakistan has no additional protection-increasing taxes on imports over and above its Customs duties.

Pakistan has abolished nearly all its quantitative restrictions (QRs). The most significant (local content rules in the engineering industries) are in the process of being phased out, with its car industry local content rules finishing in December 2003. By contrast, as noted above, import bans and restrictions still protect major industries in Bangladesh.

Like Bangladesh, Pakistan also has an escalated tariff structure. Its present Customs tariff slabs are 30, 20, 10 and 5, compared to 37.5, 25, 15 and 5 in Bangladesh. In both countries special exemptions given by SROs further increase the escalation of tariffs affecting individual industries. But because Pakistan's top rate is lower, the effective protection the tariff structure gives to processing margins is considerably lower than in Bangladesh, especially after allowing for the effects of Bangladesh's other protective taxes. As a result, the overall protectiveness of Pakistan's import regime is considerably less.

India still has the highest protection levels in South Asia. Even though its general import licensing system terminated in April 2001, it has high tariffs and uses anti-dumping extensively. However, in India's recent 2002-03 budget, the general maximum Customs tariff was reduced from 35 to 30 percent, and it was announced that the general maximum tariff will be reduced to 20 percent in the next two years, i.e. by March 2004, and moreover, that it will move to a greatly simplified structure of tariffs with just two rates, 20 and 10 percent.

In all of the South Asian countries, there are some exceptions to the general levels of protection discussed above. For example, in India, there are very high tariffs protecting the auto industry, edible oils and some primary commodities as well as widespread anti-dumping duties, while Pakistan has very high tariffs on imported cars.

The comparisons of protection levels discussed above refer to the protection potentially available from tariffs and other taxes or non-tariff restrictions. Whether this protection is actually used, however, depends on many factors including the extent of competition between domestic producers and especially on whether local firms have to compete with smuggled products. For many Bangladesh industries, competition from smuggled products is considerable, so the realized or actual levels of protection in those cases may be significantly lower than the protection available from tariffs or other measures. That is, local firms cannot and do not in many cases raise their prices to the full extent that protective measures such as tariffs and other barriers to imports would allow. However, this is also true in the other South Asian countries. When there is redundant protection, tariffs and other protective instruments can be reduced with less impact on local producers, and tariff revenues may increase as more goods are imported through official channels.

The underlying thesis of this paper is that high protection for long and sustained periods is not in the best interest of Bangladesh. High protection to domestic producers particularly if it is prolonged indefinitely undermines any efforts to improve efficiency and productivity. Industrial productivity and efficiency improves most in the industries exposed to greater export or import competition. For instance, Bangladesh's largest industry textiles -- has been subject to high protection for a long period. This impeded the development of low cost, high quality, internationally competitive textile industry until the 1990s. The old textile mills (set up before 1990s) were unable to supply high quality, low cost fabrics to the RMG industry, -- an industry right at their doorstep with growing demand for fabrics.

Recognizing the intensity of global competition and the need to position themselves in the global market-place, with highly productive and efficient industries, the latest budget announcements coming out of India and Pakistan suggest they are resuming their stalled liberalization process. In joining the WTO, China has committed itself to far reaching further liberalization of its trade regime as well as trade related domestic reforms. Unless Bangladesh acts very soon and resumes its trade liberalization program, it will be left behind by the rest of South Asia, including India and Pakistan, and will be in poor shape to compete with China and the rest of the developing world.

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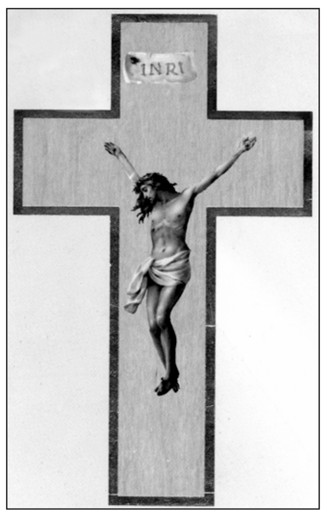
GOOD FRIDAY

The death and resurrection of Jesus Christ

REV. MARTIN ADHIKARY

THE Gospel according to St Matthew records that Jesus rebuked his "Prime disciple" St Peter for not accepting the idea that Jesus would die on the cross (Matt. 16: 21-23). To Peter it was unthinkable that the Messiah was to die the ignominious death as on a cross, and a death of a slave convicted of terrible crime. In this Peter represented the mind and thought of the then Jewish society. Not only in the Jewish society the thought of a crucified Messiah was utterly abominable, it was also unthinkable to the Hellenic society. The Greeks considered it a foolish idea that the God-appointed Messiah should have such a fate. The Jews hoped that the Messiah would be an earthly ruler of superb ability and power who would bring under his authority all the gentile nations, who once had humiliated them. He would be a super and extraordinary human person, one with whom the association of the cross was an abomination. But St Paul wrote this in his Epistle to the Corinthians: "We preach Christ crucified, a stumbling block to the Jews and a folly to the Gentiles" (I Cor. 1:18). On the third day after his crucifixion God raised Jesus from the grave. Those who crucified him thought that they had totally liquidated him. But God with his supernatural power wrought the miracle of the Resurrection of his Son and vindicated him. God shows his power when sinful men climb up their extreme height. His ways are different to that of man. The Resurrection of Jesus Christ is one of the two central mysteries of the Christian faith, the other being his Incarnation. It is so central to Christianity that without it there is no raison d'etre.



In his Gospel St John records that before Jesus died on the Cross he had said, "It is finished!"(John 19:30). The original common first century Greek word for it is 'Tetelestai', implying the completion or accomplishment of certain work or job or task. This utterance was that of a satisfaction on the part of dying Jesus that by his vicarious suffering and death he completed the work of redemption of Man from the bondage of sin. He accomplished his mission. As the sinless Son of God Jesus paid the penalty that was due for us. God in his mercy and grace withdrew the punishment that was due us on the one hand, and he allowed his Son to die on the Cross. Therefore, the Cross of Jesus is the universal Christian symbol. We do not worship the Cross, but we are reminded by it that Christ gave up his life on it because of his selfless love for us. God gave his Son as a ransom price for the redemption of sinners from the captivity of sin. In the Cross of Jesus we see him, not only as our Savior, but also as the supreme model of self-giving love and forgiveness. However when we think about this matter deeply how can we really say that this satisfaction of Jesus bears any meaning to us personally? It is true that Jesus accomplished his mission for which he came to the world. But from the subjective point of view the message of the Cross has to be a transforming one in the life of those who believe. It calls for a radical change in repentance for sin. Unless the meaning and motive of the sacrificial death of Christ is personally internalized the word of Jesus from the Cross -- "It is finished" would not carry meaning. Jesus has called his disciples to bear their own crosses. This is his call to each one of us. We continue the work that he started in faith and trust in God that our innocent suffering will bear fruit in transforming the lives of others.

Today our societies create monsters and demons. This way human values continue to get eroded. We now live in a world where a vast majority of people lives with pains and hopelessness.

This is a world to which Jesus came and gave his holy life for the salvation of mankind from the bondage of sin. But the world has not changed much since then. Wherever there is hatred, greed, lust and jealousy Jesus is still crucified there. What does that mean then when Jesus said that 'It is finished'? The mission of Christ is something that needs to be followed up and carried on. But Jesus forgave sinners even from on the cross while he was tortured and humiliated to death. Even after Jesus came the state of things in the world has not changed much. People take revenge; and revenge begets revenge. This has always been ever since the Fall of Mankind. God created the world and looked at it and saw it in its perfect condition. He declared "Good". But with the egotism and jealousy of man sin has permeated in and through mankind. Therefore, there is hatred, lust, unfaithfulness, greed, killings and destruction of God's good creation. There are also exceptions: great people here and there have led lives full of grace and mercy of God transforming lives of people and societies. They are really "the salt of the earth and light of the world". But they are so rare.

We cannot fully enjoy the blessings of this life justly and equitably with our neighbours because of our selfishness and envy. Nations war and envy with each other, just as families, tribes, sects, individuals, groups, parties, etc. There are cravings everywhere. Our desires know no bounds. We talk about peace and justice for all, but we are not ready to pay for it. The refugee baby Jesus of Christmas tells us that we need to get our attitude and life-styles changed and transformed. Let me quote here St James from his Epistle, "What cause wars, and what cause fightings among you? Is it not possessions that are at war in your members? You desire and do not have; so you kill. You covet and you cannot obtain, so you fight and wage war. You do not have because you do not ask. You ask and you do not receive, because you ask wrongly, to spend it on your possessions" (James 4:1-3). People need big change from within their hearts. The world is in great need of a healing and wholeness. This healing is to be a sustained process of harmonious relationship between individuals, communities and societies. This will result in the multiple harmony in our natural, human environments and in the right relationship of people with their own inner-selves and with the Creator and Sustainer of all.