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Muhith's plan for insurers hits snag

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The bar on a director of an insurance company to hold the same post in a bank or finance company has turned into a big challenge for the finance minister.

AMA Muhith included the provision in a bid to prevent concentration of wealth in the hands of a few.

But the minister's plan hit a rough patch and was dubbed 'contradictory' as the laws for governing banks and finance companies allow a director to hold the same post in other finance companies, including insurance.

Now the government will have to amend two related laws -- Banking Companies Act and Finance Act -- if it wants to impose the restriction.

"We'll not enforce it for now as it is contradictory," said Shefaque Ahmed, chairman of the Insurance Development and Regulatory Authority.

Also, industry people were surprised to see the bar in the newly enacted laws, as the government could not apply the provision despite its presence in the previous laws because of a court order.

The government passed laws for the insurance sector in March 2010 and after 10 months it appointed a chairman and four members for the regulatory authority. But the industry, which has been growing at double-digit rates for years, is yet to benefit from the new laws for absence of rules and regulations and contradiction with the directorship.

"The finance minister included the bar on the directorship of an insurance company because he did not want concentration of wealth to a few people," said a top official of an insurance company who along with other companies had several meetings with the minister before the law was finally enacted last year.

He said: "If the bar is imposed, the directors would shift their shares to their wives, children or even servants."

According to the insurance industry, there are at least 150 insurance directors who are either directors in a bank or a finance company or the both. Many renowned businessmen are included on this list.

"Many are capable and have much-needed resources. It is not wise to bar them (insurance entrepreneurs) from becoming directors in banks or non-banks," said Rafiqul Islam, former chairman of Bangladesh Insurance Association.

Chief regulator Ahmed said it is not feasible to impose the bar on directors unless the government amends banking and financial company laws.

The insurance sector is increasingly becoming an important lifeline to the economy. The industry has employed thousands of educated youths. But successive governments have long neglected the industry and vested quarters took the chance by opening name-based insurance companies.

Sixty-two insurance companies operate in the private sector, of which 17 are life insurers and 43 are general. The government owns two companies -- Sadharan Bima (general) Corporation and Jiban Bima (life) Corporation.

The industry generated premium income worth nearly Tk 1,500 crore in 2009.

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TIMELINE

July 2007: The caretaker government approves two new insurance laws to replace the 1938 laws

OCTOBER 2008: President promulgates Insurance Regulatory Authority Ordinance and Insurance Ordinance

FEBRUARY 2009: Awami League-led government leaves out caretaker government's ordinances without ratification

MARCH 2010: Parliament passes new laws: Insurance Development and Regulatory Authority 2010 and Insurance Act 2010

JANUARY 2011: The government appoints a chairman and four members for the authority

MAY 2011: Draft rules and regulations lie with the finance ministry barring new laws to be implemented

FBCCI refutes Bangladesh Bank claim

Star Business Report

The apex trade body yesterday insisted it never lobbied with the Bangladesh Bank to extend the deadline for bringing down the banks' exposure to stockmarket as has reportedly been claimed by the central bank.

In a statement, the Federation of Bangladesh Chambers of Commerce and Industry said neither it nor any business organisation made such recommendation.

The FBCCI moved after a number of newspapers reported that it has lobbied with the BB to extend the deadline to cut banks' exposure to the stockmarket.

"During the discussion with the BB governor, we said the BB did not take any initiative to limit the banks' exposure to market."

"In early 2010, the index was 4,200 and crossed 6,000 by June. The central bank gave warning, but did not fix CRR [cash reserve requirement]. As a result, banks made huge investment that took index unusually to 8,900," said the statement.

"When the BB announced CRR for banks in December, they made unusual profits by selling shares, resulting in a debacle."

"As a result, small investors suffered huge losses," the statement said.

Economic growth beats record

Star Business Report

Bangladesh's economic growth beat all records this year, riding on buoyant exports and robust agricultural outputs, said the Bangladesh Bureau of Statistics (BBS) yesterday.

The growth rate -- 6.66 percent -- is the highest since 1973-74, said Aynul Kabir, director of National Accounting Wing of the state-run BBS.

In 1973-74, a couple of years after the country's independence, the economy grew by 9.59 percent, which came after a negative growth in the previous years imposed by the war in 1971.

The actual growth of fiscal 2009-10 was 6.01 percent.

Kabir said this growth calculation is provisional as the growth estimate will be final in May next year. "This is provisional statistics as the BBS has not received many data since December."

The provisional calculation has also included the month of June, which has just begun, he added.

The economic growth for the current fiscal year (2010-11) to be ended this month was at 6.66 percent, particularly banking on the robust export growth, which was more than 42 percent in the July-April period, and exciting agricultural outputs, he said.

"The export sector, especially ready-made garment, performed exceptionally well. We are also expecting a robust boro output," he said.

The BBS took 18 major sectors in consideration to calculate the economic growth, he added.

Economists forecast a 7 percent growth next fiscal year, as the country's export sector is showing strengths, attracting increased orders from across the world, including China, a major competitor in exports.

The growth of Bangladesh's manufacturing sector hovered around 9.51 percent buoyed by soaring garment exports, showed the BBS data.

Mustafa K Mujeri, director general of Bangladesh Institute of Development Studies (BIDS), attributed the growth to rising exports led by RMG, encouraging boro output buoyed by adequate supply of electricity, fertiliser and other inputs, and absence of natural disaster.

He said the provisional figure could still be adjusted once all the related data including the real boro output estimation are available.

The former chief economist of the central bank thinks this year's growth could be the highest in the country's history. "The growth of 1973-1974 came after a negative growth in the previous years imposed by war."

"The level of production was lower soon after the Liberation War. But when the normal production picked up in 1973-1974 the growth jumped higher. The growth at that time was calculated on low base," said Mujeri.

Stocks continue gaining streak

Star Business Report

Stocks gained yesterday for a fourth day as investors went for heavy buying following a meeting of the apex trade body with the central bank aimed at increasing credit flow in the market.

The benchmark general index of Dhaka Stock Exchange edged up 154 points or 2.76 percent to close at 5,758.

The selective categories index of Chittagong Stock Exchange added 219 points or 2.1 percent to end the day at 10,311.

The buoyancy came as the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) discussed with the Bangladesh Bank the ways to increase cash flow in the market and decrease interest rates on banks lending.

In various forums, FBCCI President AK Azad also said most of the commercial banks made hefty profits from the stockmarket; so they should reinvest the profits into the bourses.

The banking sector gained 5.54 percent, making up 28.4 percent of the total market capitalisation. All of the sector's 30 issues closed positive.

DSE GENERAL INDEX

Most of the institutional investors became active as the central bank extended the deadline for banks to cut their exposure to the stockmarket by four months, said a market operator.

The banking sector gained sharply following the meeting between the FBCCI and the central bank, he added.

M Khairul Hossain, chairman of Securities and Exchange Commission (SEC), said, "The decision that the DSE will introduce electronic trading in the stockmarket also boosted investor's confidence."

"It will help establish a vibrant capital market for the investors," said Hossain.

Salahuddin Ahmed Khan of Dhaka University said the investors now follow how SEC works to stabilise the market.

The investors hope the government will give some incentives to the market, he said.

The non-bank financial institutions gained 2.41 percent, with all of its 21 issues closing positive.

The fuel and power sector rose 2.08 percent, while Grameenphone gained 0.54 percent.

The total market capitalisation stood at Tk 268,810 crore.

The DSE turnover stood at Tk 730 crore, up from Tk 418 crore the previous day.

Of the 259 issues, 148 advanced, 108 declined and three remained unchanged.

MI Cement topped the turnover leaders with 16.77 lakh shares worth Tk 24.14 crore.

The other turnover leaders were Beximco, United Airways, BSRM Steels, Titas Gas, Bextex, First Lease Finance and Investment, Peoples Leasing and Financial Services and United Commercial Bank.

UCB was the biggest gainer of the day, posting a 9.57 percent rise, while Alltex Industries slumped 8.75 percent to end the day as the worst loser.