

Build Your Wealth



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Reach of life insurance

SAJJADUR RAHMAN

FAMILY is the most important thing to anyone. But what would happen to your family if you did not go back home today? Considering the worst -- an unforeseeable tragedy, would your family have the same home and status they enjoy today? Would your loved ones be able to pay house rents or an instalment on a bank loan? How can you be certain that you can give and provide for your family, even after death?

The answer could be in life insurance.

With it, one can ensure that in the event of death, the family is protected. The idea of having an effective life insurance policy is to take care of the family.

Insurance began as a way of reducing the risks of traders, ship owners and individuals.

Life insurance has several hundred years of history. In ancient Rome, 'burial clubs' covered the cost of members' funeral expenses and helped survivors monetarily. But modern day life insurance started in the 17th century in England.

Life insurance was introduced in Bangladesh in the pre-independence period with the opening of business by the then American Life Insurance Company, popularly known as ALICO (now Metlife Alico).

Although the business of life insurance has developed a lot over the years in Bangladesh, people still perceive it to be an underground business of sorts. It is also evident in the number of policyholders.

According to insurers, only four persons out of 1,000 have a life insurance policy in Bangladesh. The number is 37 in India and 21 in Pakistan. In developed countries, an individual may even have four to five policies.

People are still somewhat less interested about life insurance policies that can give them and their families a big support in the event of death or an accident.

"There is a huge prospect of the life insurance business in Bangladesh. But we have also got limitations," said Ekramul Ameen, managing director of Fareast Islami Life Insurance.

According to Ameen, the limitations include a serious shortage of experts, product design and develop-



late cash value. Term is generally considered 'pure' insurance, where the premium buys protection in the event of death and nothing else.

There are three key factors to be considered in term insurance: face amount (protection or death benefit), premium to be paid (cost to the insured), and length of coverage (term).

Various insurance companies sell term insurance with many different combinations of these three parameters. The face amount can remain constant or decline. The term can be for one or more years. The premium can remain level or increase.

The insurer calculates the policy prices with intent to fund claims to be paid and administrative costs, and to make a profit. The cost of insurance is determined using mortality tables calculated by actuaries who are professionals.

The three main variables in a mortality table are: age, gender, and use of tobacco.

There are many allegations that insurers exploit people and do not want to pay the claims, although they keep on motivating people to purchase a life insurance policy.

"Ninety percent of people have a negative attitude about insurance," said Dipen Kumar Saha Roy, deputy managing director of National Life Insurance, one of the biggest insurers in the country.

"These days, more people are interested in purchasing life policies, seeing friends and family benefiting from it," said Roy.

He credited development of the industry on the companies. The government did not do anything to help the sector flourish, he added.

"Although life insurance is a permanent business, a company has to renew its licence every year by paying Tk 3.5 for every Tk 1,000 premium, which is very high," said Roy.

Insurers said a lack of actuaries is another big problem that hinders growth of the sector. Actuaries employ actuarial science, based on mathematics (primarily probability and statistics), to develop a product, and value and revalue assets. Mortality tables are statistics-based tables showing expected annual mortality rates. It is possible to derive life expectancy estimates from these mortality assumptions.

There are only four actuaries in Bangladesh. Of them, two live abroad.

"We are thinking of developing our products from outside Bangladesh at higher costs because of the crisis," said Ameen of Fareast.

But even doing this with the help of foreigners has also become a problem. The newly formed Insurance Regulatory and Development Authority imposed an embargo on employing an actuary living abroad.

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BY THE NUMBERS

Insurer	Premium	Policyholders
National Life	606	11.69
Pragati Life	150	3.5
Delta Life	499	17.39
Metlife Alico	1147	10.76
Fareast Life	651	10.99

Gross premium in crores of taka and number of policyholders in lakh
Source: Bangladesh Insurance Association

ment, and an absence of rules and regulations.

"The level of transparency must be raised to attract people into taking out insurance policies," he said.

Fareast is a fast growing life insurance company. The company's 'Life fund' now stands at Tk 1,352 crore.

There are 19 life insurance companies in Bangladesh, including one state-owned. These companies could not even bring one percent of the country's 160 million population base under the umbrella of life insurance policies.

Life insurance may be divided into

two basic classes -- temporary and permanent -- or the following subclasses -- term, universal, whole life and endowment life insurance.

Term assurance provides life insurance coverage for a specified term of years in exchange for a specified premium. The policy does not accumu-

New entrants: friend or foe

SAJJADUR RAHMAN

THE life insurance industry fears that with new entrants, the market will become over saturated. On the other hand, other players think the threat of new entrants might not be a hindrance at all. The big and established players might rather get more competitive advantages over the small new comers.

The issue came to the focus after the government announced last month that more insurance companies would be given licences.

"I doubt whether a new insurer can do business or not," said Yusuf Ali, managing director of Popular Life, the largest locally owned private insurance company.

Ali said the business health of some existing companies is still poor.

The life insurance industry in Bangladesh is growing at a higher rate than most other industries and life insurance penetration continues to increase in recent years. In other words, life insurance still has a long way to go before the market becomes saturated.

The share prices of the life insurance companies, which is relatively higher than other stocks, may also prompt businesses to come into the market and make money from it, existing insurers said.

Bangladesh already has 19 life insurers, including state-owned Jiban Bima Corporation and foreign-owned Metlife Alico. The remaining

17 are locally owned, private companies. Analysts believe the Bangladesh market has reached saturation and an influx of new entrants may distort market dynamics.

"Despite India being a far larger economy than Bangladesh, it only has six life insurance companies," said Ali.

According to finance ministry officials, there are nearly 200 applications (life and non-life) pending with the ministry for permission.

"There is no problem if new licences are given out to create healthy competition in the market," said Dipen Kumar Saha Roy, deputy managing director of National Life Insurance.

He said there is still scope of

PRESENCE IN STOCKMARKET		
Insurers	Face value	Current market price
Delta Life	100	39773
National Life	100	7090
Popular Life	10	372
Pragati Life	100	3281
Fareast Life	10	350
Meghna Life	10	263
Prime Life	10	332
Progressive Life	100	2660
Rupali Life	100	2421
Sandhani Life	10	264

business as life insurance coverage has not yet reached to the level at other South Asian nations.

Ekramul Ameen, managing director of Fareast Islami Life Insurance, said there might be more

insurers in the life sector, considering the country's population size.

"But Bangladesh lacks expert manpower to run even the existing companies, let alone new entrants," said Ameen.

The managing director of a private life insurer, however, said some people want a licence for an insurance company not to make business from a competitive market, but just to make money from the stockmarket.

"It is easy because directors will sell a portion of their shares at prices several times higher than what they bought it for," said the managing director, requesting not to be named.

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