Insurers can partner with banks to spread reach

A senior official of Metlife tells The Daily Star

JEBUN NESA ALO

BANGLADESHI insurers should partner with banks in an effort to penetrate deep into the country's booming villages and rural towns, a senior Metlife official said recently.

The South Asian nation remains one of the least explored insurance markets in the world, despite its booming economy and 77 non-life and life insurers, including the global heavyweight -- Metlife.

Annual premium income of the sector stands depressingly at 0.5 percent of Bangladesh's Gross Domestic Product, compared to 3.5 percent in India and the same percentage in much impoverished Nepal.

In Bangladesh, overall insurance penetration, both life and non-life, stood at 0.72 percent in 2015, down from 1.13 percent in 2010, according to Swiss Re, a leading global reinsurer. Of the penetration rate, 0.53 percent came from life and 0.19 percent from non-life insurance companies.

The industry expects the income would grow to 3.5 percent of the country's nearly $220 billion GDP in four years, when the nation celebrates 50 years of its independence and the industry marks three decades since it was deregulated.

Chris Townsend, Metlife's Asia president, said the insurers' business tie-up with banks --- there are some 55 private and public banks in Bangladesh -- could throw up new opportunities for both the financial sectors.

"There is a huge opportunity to increase availability of insurance products for the customers through banking channel," Townsend told the Daily Star during a visit in Dhaka.

"Now the challenge to grow the insurance penetration is to increase people's access to products. Banks can be a good distribution channel for taking insurance (nationwide)," he said.

At present, banks provide a simple form of life insurance credit to reduce the risk for borrowers should they fail to pay back loans. But the product makes up only a small fraction of the banks' business.

Chris Townsend

Bangladeshi banks have thousands of branches across the country, lending several billions of dollars every month. Insurers too have branches nationwide, but they mostly sell tiny micro life products -- just like micro-loan provided by micro-creditors like Brac -- to the rural people.

"There are more opportunities for life insurance companies to provide more sophisticated products to clients of banks. Bank insurance can play a vital role in improving penetration," said Townsend.

He did not elaborate on the possible products, but banks and insurers in much of the Western world collaborate at grass-roots levels, jointly selling lucrative products such as car insurance or home mortgages.

MetLife, which bought now defunct Alico's Bangladesh operations after the global financial crisis in 2008, has rolled out new products through its 15,000 agents in all of the nation's 64 districts.

Last year its net premium income grew to Tk 2150 crore ($276 million), making it one of the largest multinationals in the country. It alone now accounts for 28 percent of the country's life insurance market.

The company has been the biggest insurer in terms of annual premium income, profits and tax payment for the last 20 years in Bangladesh. It has sold more than one million policies, much of it in the two main cities of Dhaka and Chittagong.

Townsend said MetLife's total premium stood about $1 billion last year, as the company's aggressive expansion in new territories has paid off. "We expect to grow it to 50 percent in the next four to five years," he said.

Townsend said MetLife Foundation, the main corporate social responsibility arm of the New York-based company, has made a commitment to invest $200 million in boosting financial inclusion in the five years to 2018.

"A major part of the investment has taken place in Asia and a significant portion has been invested in Bangladesh," he said.

MetLife has invested $1.3 billion of its premium income in the country, including $1 billion in bonds, which has made the company one of the largest holders of Bangladesh government securities.

While Townsend agrees that Bangladesh insurance sector has the potentials to leapfrog many of its richer neighbours, he said the industry is held back by lack of skilled workforce including an acute shortage of actuaries.

MetLife has provided scholarships to students to pursue Actuarial Science in foreign universities as Bangladesh does not have any exclusive institution to train actuaries.

The MetLife Asia chief underscored the role of the agents, who work as distribution channel for the company to sell insurance products, in building trust between customers and the insurers.

"So agents should be trained so they can dispel negative perception about the insurance sector," Townsend said, adding the sector also needs to raise awareness about the importance of insurance and make various products easily available.

Bangladesh is the fourth most profitable market for MetLife in Asia, just after Japan, South Korea and Australia.

Townsend has also called for better customer care in the sector, asking the companies to make maximum use of software and new technology to provide services.

MetLife recently introduced a technology solution called Projaopti (butterfly in English) for its agents to make them more effective.

There are 31 life insurance companies and 46 non-life insurance firms in Bangladesh, with Metlife -- the successor of Alico -- being the oldest. It started operation in the then East Pakistan in 1952.

Philips posts sevenfold jump in profits

AFP, *The Hague*

Dutch electronics giant Philips on Monday posted a sevenfold leap in first quarter profits after spinning off its lighting business last year.

Net profit soared to 259 million euros ($281 million) in the first three months of 2017, compared with 37 million euros in the same period last year.

The year-earlier figure had been down some 63 percent, due mainly to taxes linked to its efforts to divest the lighting business.

The Amsterdam-based group said sales also rose to 5.7 billion euros from January to March, up 3.6 percent over the first quarter of 2016. Growth was mostly due to sales of specialised medical equipment, up some three percent.

"We had a solid start to the year," chief executive Frans van Houten said. "As we become a clearer company there are less incidentals, so it is the absence of incidentals that have actually increased the profit," he told reporters on a conference call.

He highlighted "continued volatility in the markets in which we operate" but stressed that "our HealthTech portfolio grew three percent and achieved further operational improvements."

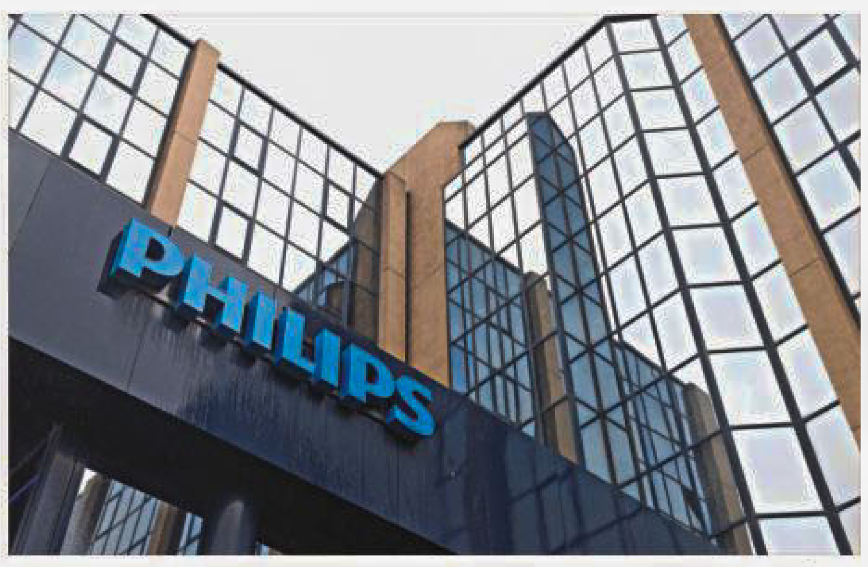
Philips was best known for the manufacture of lightbulbs, electrical appliances and television sets.

But it pulled out of these activities in face of fierce competition from Asia to focus on health technology such as computer tomography, and diagnostic and molecular imaging.

It also manufacturers such vital medical equipment as defibrillators, as well as household appliances -- from electrical and hi-tech toothbrushes to kitchen equipment.

The group, which sold its first lightbulb a few years after it was founded in 1891, listed its Philips Lighting division at the end of May, netting proceeds of 750 million euros.

Philips further reduced its shareholding in Philips Lighting to 55 percent, selling a further 26 million shares on February 8.



REUTERS/FILE

The logo of Philips is seen at the company's entrance in Brussels.

How bad corporate debts are holding back India's growth

AFP, *New Delhi*

THE recent arrest of Vijay Mallya highlighted the problem of bad loans in India, but analysts say the tycoon's unpaid debts are just the tip of an iceberg that is already holding back the country's economic growth.

The multimillionaire owner of a Formula One team and founder of the Kingfisher beer brand was arrested on Tuesday in Britain, where he fled a year ago after allegedly defaulting on loans from Indian state banks worth more than $1 billion.

From the mid-2000s onwards, Mallya and much of corporate India went on a shopping spree, picking up assets both at home and overseas even as a financial crisis hit the global economy.

As a result, Indian banks are now saddled with some of the highest levels of bad debts in the emerging markets according to the International Monetary Fund.

"Banks are so stretched that they're not even lending to healthy companies, holding back growth," Rajeswari Sengupta, an economist in Mumbai, told AFP.

"That's a very big collateral damage... The biggest fall-out is the lack of private sector investment -- banks are stressed, private sectors are stressed, lending to corporates by banks has totally stalled."

Banks coughed up cash for projects even when the business plans made no sense -- such as a Formula One track on the outskirts of the Indian capital that was practically abandoned after three races.

Regulators, eager to spur growth, allowed many industries to restructure loans rather than write them off, and also agreed to a moratorium on interest payments.

The excesses of the period remained hidden as banks sought to keep companies afloat by giving them enough capital to service their loans -- a practice known as ever-greening -- to disguise their own bad debts.

By 2015, the share of companies it monitored that could not even service the interest on their loans had reached nearly 40 percent, Credit Suisse said in a February report.

That has led to a situation where both banks and their clients are financially stretched.

India remains the world's fastest-growing major economy, with GDP expanding by seven percent in the last three months of 2016 -- the last quarter for which data is available.

But economists say that growth is fragile because it is being driven by consumer spending rather than investment.

India's government is seeking to extradite Mallya and try him for fraud.

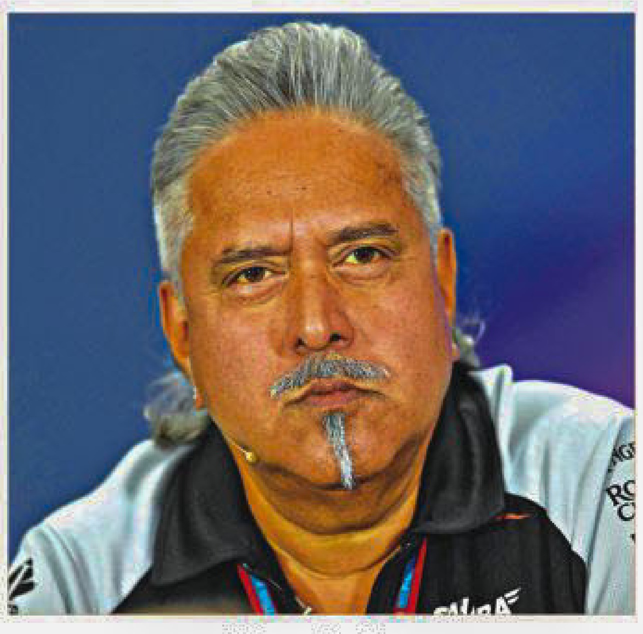
He has said there is a "witch hunt" against him, arguing that there were much bigger defaulters.

By September 2016, about 16.6 percent of loans to corporates -- or about 8.4 percent of GDP -- had been declared non-performing, according to Credit Suisse.

"Eight percent of the GDP is a very big number," Sengupta told AFP.

"When the size of NPAs (non-performing assets) hits five percent of the GDP, that is considered a crisis, and we have gone way past that."

Banks were finally forced to confront the problem in September 2015 when the central bank set them a deadline of March 2017 to clean up their balance sheets.



Vijay Mallya

But more than a year into the forced clean-up, "corporate NPL formation still hasn't abated at both (state-owned) and private corporate lenders," according to the Credit Suisse report.

By its count, some 12 trillion rupees ($185 billion) have soured, the bulk of it at public-sector banks.

The 10 largest corporates in the country -- including the owner of that abandoned F1 track -- are also the most burdened with debt and owe a collective 7.5 trillion rupees.

"There is still no sign that the affected companies are regaining their health, or even that the bad debt problem is being contained," said Ashish Gupta, Credit Suisse's head of equity research.

"To the contrary, the stress on corporates and banks is continuing to intensify, and this in turn is taking a measurable toll on investment and credit."

China's quota threat charges up electric car market

AFP, *Shanghai*

CHINA'S electric-car market is already the world's biggest, but a government proposal to introduce "new energy" vehicle quotas for automakers is further charging it up.

With the threat of the measure looming, major manufacturers at the annual auto show in Shanghai are announcing big plans to boost their electric vehicle (EV) offerings in China.

Volvo has confirmed it will introduce its first 100-percent electric car in China in 2019, while Ford will market its first hybrid vehicle in early 2018 and envisions 70 percent of all Ford cars available in China will have electric options by 2025.

Industry players say the push could have a profound impact on the green-car sector, as resulting economies of scale bring down the costs of producing and buying such cars.

Chinese sales of "new energy" vehicles jumped 53 percent last year to 507,000 units, fuelled by government incentives.

Overall, a world-leading 24.38 million passenger cars were sold in China in 2016.

"Right now, the (EV) market has been driven by regulatory and government (subsidies)," admitted David Schoch, Ford's Asia-Pacific president.

"But we do believe that in the very near term, as we scale up more batteries, the cost will come down."

China has offered incentives for EV purchases to help fight chronic air pollution, but has begun scaling back those inducements this year, causing sales to stumble.

Instead, the government intends to force the hand of manufacturers.

A proposal published in September could require "green" vehicle production quotas as early as 2018, under a complex system of earned credits.

Market leader Volkswagen sold four million cars in China in 2016 but only a few hundred were "green". The German manufacturer now plans to begin production of an electric car in China next year, in a joint venture with Chinese group JAC.

VW expects to sell around 400,000 new-energy vehicles in China in 2020, said Jochem Heizmann, CEO of Volkswagen China.

The quota plans have brought some pushback, with German Chancellor Angela Merkel lobbying Chinese Premier Li Keqiang over the issue.

Chinese Industry Minister Miao Wei said in March that a reduction or deferral of the quotas was possible.

But automakers plan to get ready.

"We are fully, with all forces, working to be able to fulfil this quota system already next year," Heizmann said.

General Motors says it plans to launch at least 10 new energy vehicles in China, targeting 150,000 in annual sales by 2020.

"We have a pipeline ... that is going to put us in a very good position from a fuel-economy requirement perspective" that will enable GM to meet any EV rules, said Matt Tsien, head of GM China.

The Chinese market is dominated by local manufacturers including sector pioneer BYD, which sold 96,000 EVs last year.

Despite the reduced subsidies, "the trend of electrification is irreversible," said BYD president Wang Chuanfu.

AFP

The photo taken on April 19 shows a Denza EV car displayed during the first day of the 17th Shanghai International Automobile Industry Exhibition in Shanghai.

German business confidence edges up in April

AFP, *Frankfurt Am Main*

German businesses felt more confident in April but were cautious about the future economic outlook, a monthly survey from the Munich-based Ifo institute showed Monday.

Ifo's closely-watched business confidence index climbed to 112.9 points from 112.4 points in March, beating analyst expectations to reach its highest level since July 2011. Businesses were much more confident about the present economic situation but slightly gloomier about the future outlook, the survey of around 7,000 firms showed.

"The mood in German boardrooms has improved again," commented Ifo president Clemens Fuest, noting that "the German economy is growing powerfully," despite the slightly less positive expectations for the coming months. Looking to different sectors, manufacturers were less upbeat than in March, while retailers, wholesalers and construction firms all saw the mood improve.

"The German economy seems to have entered an almost endless positive cycle," said analyst Carsten Brzeski of ING Diba bank, pointing to "earlier reforms, low interest rates, a weak euro and strong private and public consumption".

"Not only the German economy, but the entire eurozone economy could become the positive growth surprise of 2017," Brzeski went on.