BGMEA should create captive insurance for apparel makers

MR KHAN

INSURANCE premiums for readymade garments (RMG) and textile industries are on the rise. In addition, changes have also recently been made in the marine cargo insurance procurement process. These are bound to have an effect on the overall competitive pricing of the exported product from Bangladesh. BGMEA may consider alternative modes of risk transfer to reduce, or at least maintain, the cost of insurance.

There is no denying that the insurable loss from RMG and textiles has significantly and detrimentally affected the reinsurance rates for the entire Bangladesh market.

Until 2000, the insurance loss from RMG and textiles was approximately 1,600 percent. The losses were so frequent that major international reinsurers refused to participate in the Bangladesh reinsurance programmes unless measures were taken to curb the exposures.

Since then, several restrictive remedial terms and conditions have been put in place. While back in 2000, the size of the individual factories was significantly smaller (less than Tk 50 crores or $5 million), hence the losses were also relatively monetarily small (but frequent).

RMG and textiles mills in Bangladesh today are significantly larger in size, capacity, and investment (more than Tk 400 crores, or $50 million). As a result, when there is a loss, they tend to have an impact on the overall market. Losses such as the Standard Group fire loss is a good example, where the claims reached an unprecedented Tk 300+ crores.

To tackle the costs of rising insurance premiums, and its effect on the market, few of the first captive insurance companies had been formed more than 100 years ago.

Captive insurance companies are group or association owned insurance companies created to respond to their unique insurance needs. Certain industries (such as nuclear and tobacco liability) become unattractive or uninsurable by the mainstream or traditional insurance markets.

Extreme examples of such incidences are the nuclear insurance pool which helps insure the nuclear industries, and the tobacco insurance cooperative (TIC) which helps insure property and casualty exposures from the tobacco industry.

As a matter of fact, one of the first captive insurance companies was formed when a group of textile manufacturers in New England, USA were looking for a way to help mitigate rising fire insurance rates back in the late 1800's.

Captive insurance growth surged as the premium rates hardened in the mid-1900's, leading to increased costs to the businesses.

Recently, the Insurance Development and Regulatory Authority (IDRA) revised the rates for RMG and textile risks. While the premium rates have been slightly adjusted (increased) -- most actuaries and underwriters would argue that the rate remains extremely competitive.

In 2016, I surveyed a set of the best RMG factories in Bangladesh in order to seek rates and terms from the Lloyd's market. While the rates offered by the local insurer was 0.09 percent, we were unable to find any support from any good international security at less than 0.16 percent,

STAR/FILE

Insurable loss from garment and textiles has affected the reinsurance rates for the entire Bangladesh market.

even though I have argued that these factories were far better in safety and risk management than most RMG factories in the world, thanks to the efforts of Accord and Alliance.

So, what is a captive and how can it help BGMEA?

A captive is an insurance or reinsurance company established specifically to insure or reinsure the risks of its owners, or parent company. Captives can be formed by a business or group of businesses with the primary purpose of allowing the operating business to take control of its risk management by transferring the risk to an insurance company (Captive) controlled by the business.

Risks inherent to the RMG or textile industry may not be available or affordable, but could be effectively self-insured through a captive. Captives allow a company or members to not only have better coverage, but it rewards the owners for the years when claims are low.

There are now over 6,500 captive insurers worldwide. Over 90 percent of Fortune 500 companies employ some type of captive insurance company arrangement. While regulation currently does not permit captive insurers in India, there are more than 70 captives operating in Singapore.

Captives offer significantly more efficiency, flexibility and control than a typical insurance programme. The advantages of captives are in multitude and can be significant, such as potential short and long-term cost savings; customised property and employee benefit insurance schemes; and captives can become a profit centre, instead of an annual drain on member company's resources.

The BGMEA Captive Insurance could be the first captive insurance company by the RMG industry in the world.

The first captive insurance company in Bangladesh would be leading the way of progress and relief to the traditional insurance and reinsurance markets which could be emulated by other industries such as power, leather and jute.

With BGMEA's captive, its members can enjoy favourable rates, terms and conditions which may otherwise be too restrictive in the traditional insurance market. This would help RMG and textile mills to remain competitive in their prices.

Moreover, the captive would bring relief to the insurers who are struggling to find reinsurance support for the members of BGMEA. By extension, the BGMEA Captive could also help with the insurance and reinsurance needs to BKMEA, BTMA, and related industries.

Amendments to the existing licensing of insurance companies may be required. However, with the help of IDRA, Sadharan Bima Corporation and the government authorities, the establishment of the first captive insurance can and should be facilitated.

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WTO RULING ON ANTI-DUMPING

China can now hit US with $3.6b in tariffs

REUTERS/FILE

Delegates arrive for a special meeting of the General Council Preparatory Committee on Trade Facilitation at the World Trade Organization headquarters in Geneva.

AFP, Geneva

A World Trade Organisation arbitrator on Friday authorised China to slap tariffs on US imports worth up to $3.58 billion annually in a years-long dispute over US anti-dumping practices, a trade official said.

China had asked the WTO for permission to hit the US with more than $7 billion in tariffs in the case.

But the WTO ruling said it had determined that the illegal US anti-dumping practices had caused "nullification or impairment of benefits accruing to China" to the tune of $3,579.128 million, and that Beijing could impose tariffs on goods not exceeding that amount per year.

The decision marks the first time the WTO has authorised China to impose tariffs in a trade dispute.

Washington voiced disappointment with the decision, with a US trade official stressing the continued commitment "to using antidumping duties to address injurious dumping" and arguing that the ruling "has no foundation in economic analysis".

"Moreover, we do not believe the Arbitrator's Decision will have any impact on continuing trade discussions between the United States and China," the official said, adding that the US government would discuss with stakeholders "on how to move forward".

Beijing still needs to formally request the right to impose that or a lesser sum in tariffs, but it would take opposition from every WTO member to block such a request.

China initially filed its case against the United States back in December 2013, taking issue with the way Washington assesses whether exports have been "dumped" at unfairly low prices onto the US market.

The use of anti-dumping duties are permitted under international trade rules as long as they adhere to strict conditions, and disputes over their use are often brought before the WTO's Dispute Settlement Body.

In this specific case, China alleged that the United States, in violation of WTO rules, was continuing a practice known as "zeroing", which calculates the price of imports compared to the normal value in the United States to determine predatory pricing.

In October 2016, a panel of WTO experts found largely in China's favour in the case, including on the issue of "zeroing".

The United States, which has repeatedly lost cases before the WTO over its calculation method, said in June 2017 that it would implement the panel's recommendations within a "reasonable" time frame.

But it failed to meet an August 2018 deadline set by the WTO's Dispute Settlement Body to bring its practices in line with the ruling.

China then requested permission to impose sanctions, prompting the WTO to appoint an arbitrator in the case to determine the appropriate amount.

Merkel renews push for FTA with India, pledges green funds

REUTERS, New Delhi

GERMAN Chancellor Angela Merkel said on Saturday there was a need for a fresh attempt to restart talks on finalising a free trade agreement (FTA) between India and the European Union.

Merkel who is in India along with several cabinet colleagues and a business delegation, began talks with Indian Prime Minister Narendra Modi on trade, investment, regional security and climate change.

A free trade pact with India has been a long-pending demand from Germany which is India's largest trading partner in Europe. The pact has been in discussion for years.

"We need a new attempt for an EU-Indian FTA. We were already close once," Merkel said in New Delhi, adding that she held an intensive discussion about the FTA with Modi.

"With the new EU-commission there will be a new attempt," she said.

With more than 1,700 German companies operating in India, a free trade pact could help minimise the uncertainty experienced by German investors after an investment protection agreement between the two countries ended in 2016.

While addressing an audience at the Indo-German Chambers of Commerce, Merkel said she had an open discussion with Modi about problems faced by German companies and difficulties reported by small and medium enterprises to find way around the "bureaucracy labyrinth".

In recent months German firms have raised a a few other concerns, including slowdown in India's auto sector, lack of stable policymaking and ad-hoc decisions which they say have affected buyer sentiment and created uncertainty among carmakers.

Merkel said Germany will spend one billion euros ($1.12 billion) in the next five years on green urban mobility projects conceived under the new German-Indian partnership.

German funds will be used to finance several environment-friendly projects such as the introduction of electric buses to replace diesel ones used for public transport in urban centres.

Fresh funds pledged by Germany come at a time when pollution made the air so toxic in India's capital New Delhi that officials were forced to declare a public health emergency.

Photos of Merkel's official visit show the visible effects of smog at the presidential palace - though both Modi and Merkel ignored the declared public health emergency and did not wear masks.

Saudi Aramco: from 'prosperity well' to energy giant

AFP, Dubai

FROM its beginnings in 1938 when it first struck oil with the aptly named "Prosperity Well", Saudi Arabia's energy giant Aramco, whose IPO could be announced Sunday, has delivered unimaginable riches.

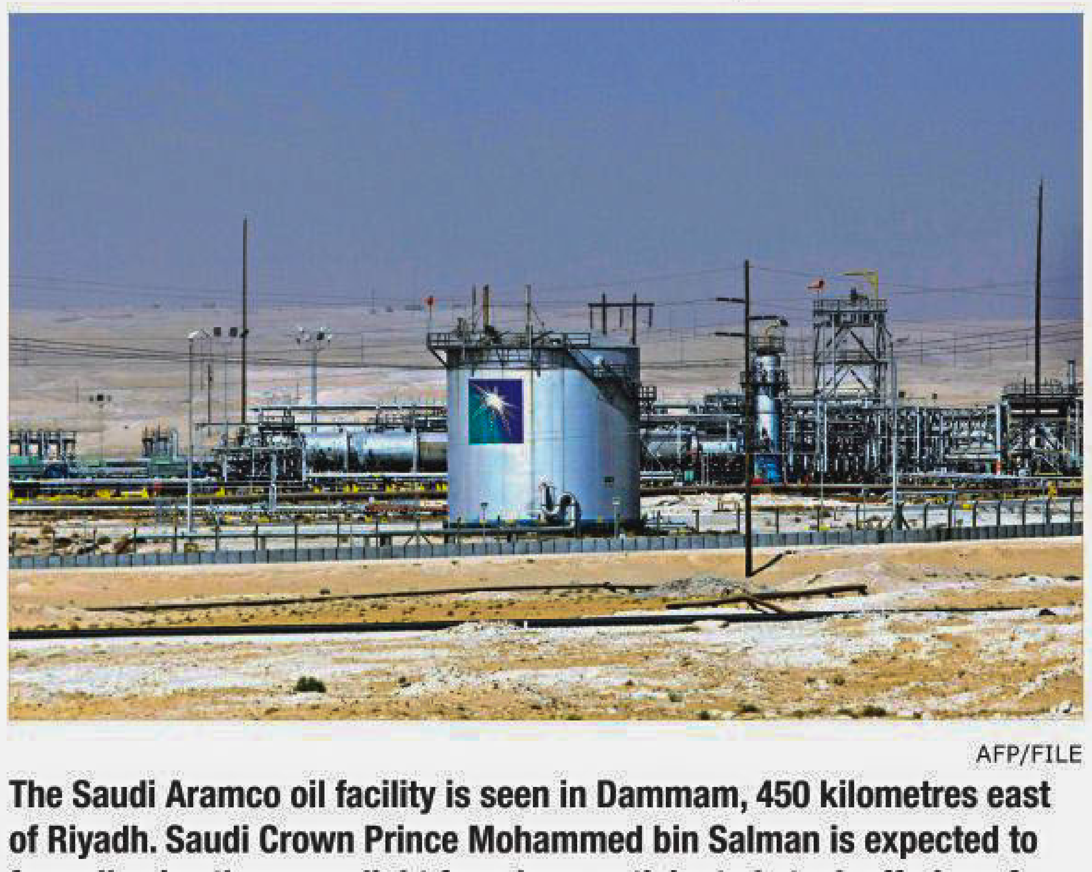
A person close to the matter told AFP on Friday that Crown Prince Mohammed bin Salman is expected on Sunday to formally launch the long-anticipated and delayed stock offering of the state-owned company.

Aramco is poised to sell a total of five percent on two exchanges, starting with an initial listing of two percent on the Tadawul Saudi bourse in December.

Over the decades, it has grown into the world's largest and most profitable energy concern, generating some 10 percent of global crude supplies and trillions of dollars in income.

The company is valued at between $1.5 and $1.7 trillion, with the combined listings set to raise $75 billion to $85 billion in the event that this valuation is achieved.

Aramco was expected to launch the first part of the two-stage IPO in October, but the process was delayed, reportedly due to the prince's dissatisfaction with the



AFP/FILE

The Saudi Aramco oil facility is seen in Dammam, 450 kilometres east of Riyadh. Saudi Crown Prince Mohammed bin Salman is expected to formally give the green light for a long-anticipated stock offering of Saudi Aramco.

valuation, which fell short of a hoped for $2 trillion.

The energy giant has been hit by a recent string of attacks on its oil facilities, the latest and most serious halting the flow of 5.7 million barrels of oil per day -- over half of its output -- in drone strikes on September 14.

The strikes had threatened to undermine plans for Aramco to make its stock market debut.

The firm has its origins in a 1933 concession agreement signed by the Saudi government with the Standard Oil Company of California. Drilling began in 1935 and the first oil began flowing three years later.

It gained its current name from the subsidiary created to manage the agreement that was called the Arabia American Oil Company in the late 1940s.

In 1949, oil production hit a milestone 500,000 barrels per day and the following year Aramco built the 1,212-kilometre (753-mile) Trans-Arabian Pipeline to export Saudi oil to Europe across the Mediterranean Sea.

Production rose rapidly after the discovery of large offshore and onshore oilfields including Ghawar, the world's largest with some 60 billion barrels of oil, and Safaniya, the biggest offshore field with 35 billion barrels.

In 1973, with prices spiking at the peak of the Arab oil embargo -- imposed against the US over its policy on Israel -- the Saudi government acquired 25 percent of Aramco to increase its share to 60 percent and become a majority stakeholder.

Seven years later, it was nationalised, and in 1988 it became the Saudi Arabian Oil Company, or Saudi Aramco.

From the 1990s, Aramco invested hundreds of billions of dollars in massive expansion projects, raising its oil output capacity to over 12 million bpd, alongside making bold international acquisitions and pursuing joint ventures.