DHAKA SUNDAY SEPTEMBER 22, 2024, ASHWIN 7, 1431 BS ● starbusiness@thedailystar.net

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Sales of cement nearly halved in the last couple of months as real estate developers shelved plans while public projects came to a halt

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# Political favouritism eroded confidence in insurance sector

## Most insurers got licences during Awami League regimes

SUKANTA HALDER

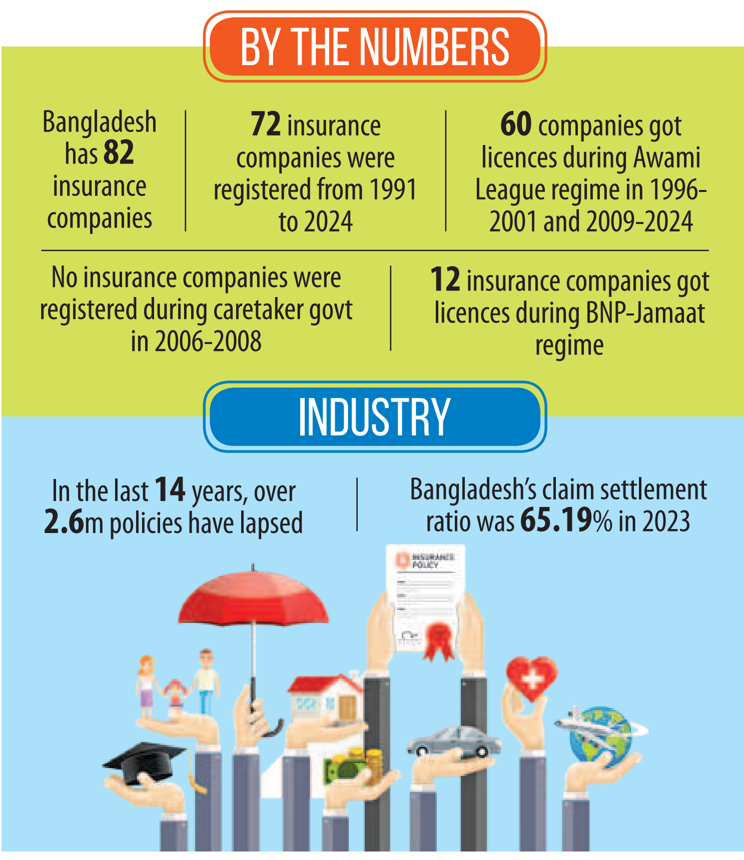
More than two-thirds of the insurance companies registered in Bangladesh since 1990 were approved during the regimes of the Awami League government led by former prime minister Sheikh Hasina.

However, these companies could hardly attract clients due to fragile customer confidence.

In Bangladesh, 72 insurance companies have been registered since 1991, according to the Insurance Development and Regulatory Authority (Idra). The highest number of registrations, 60, occurred under Sheikh Hasina's governments.

No insurance companies were registered under the caretaker government, which held power from 2006-2008, according to the data.

Economists say political patronage in business licensing activities contributed to a market that is oversaturated relative to the size of the Bangladesh economy.




This market lacks professionalism and public trust, as many companies were licensed simply based on political favours.

Given the poor record of claim settlement and growing liquidity concerns among companies in the sector, experts are now calling for drastic measures such as mergers and strengthening of the regulator.

The four straight terms of the Awami League led to the emergence of various interest groups seeking financial benefits, according to Md Main Uddin, a Banking and Insurance professor at Dhaka University.

"These groups often prioritise making money while maintaining political power. Granting licences for banks, insurance, and financial institutions had become a tool for political patronage," he commented.

According to Main, both those who receive approval for these companies and those who grant it stand to benefit financially.

He criticised the government's intention to license so many insurance companies without simultaneously strengthening the Idra.

Due to political interference and weak regulatory oversight, public confidence in the sector has not improved, said the professor.

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# Forex market on the mend as remittances rebound

AM JAHID

After a prolonged period of crisis, the foreign exchange market in Bangladesh, especially the interbank forex market, is showing signs of recovery, driven by a rebound in remittance receipts and key policy interventions by the central bank.

The interbank forex market, which is crucial in facilitating international trade, had been under huge pressure lately owing to a crisis of US dollars, which was triggered by a combination of high import bills, lower-than-expected remittance inflows, and dwindling foreign exchange reserves.

However, the recent rebound in remittance inflows and some key policy decisions, such as the adoption of a crawling peg exchange rate system, are helping normalise the interbank forex trade.

"The interbank forex market is moving towards a stable phase riding on the strong rebound of remittance inflows," said Md Shaheen Iqbal, head of treasury and financial institutions at BRAC Bank Limited.

He added that the foreign exchange crisis is easing and the interbank forex market is functioning more smoothly.

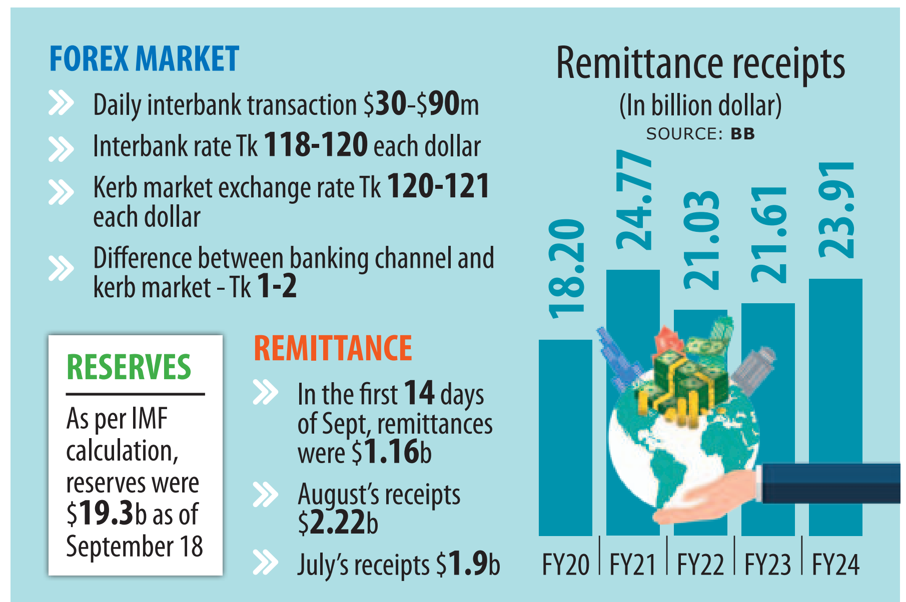
Remittance inflows, a major source of foreign currency for Bangladesh, fell to a 10-month low in July, when the Awami League government imposed a five-day internet blackout to quell protests centring the students' quota reform movement.

However, receipts began to pick up again after former prime minister Sheikh Hasina fled to India on August 5 as many expatriates started campaigns to send money through formal channels to build the country.

Remittance receipts climbed 16.10 percent in August compared to the month prior, hitting $2.2 billion.

In the first 14 days of September, remittance receipts reached around $1.17 billion, as per central bank data.

Riding on higher remittance inflows, the country's foreign exchange reserves are now showing signs of recovery. The foreign exchange reserves stood at nearly $20 billion as of Tuesday, according to the BPM-6 calculation standard of the International Monetary Fund (IMF).




Another benefit of increased inflows is that banks can now trade among themselves smoothly in the interbank forex market, Husne Ara Shikha, spokesperson of the Bangladesh Bank, told the media last week.

The price of the US dollar will also stabilise as the interbank forex transactions are active, she added.

Apart from rising remittances, some measures adopted by the central bank, including the introduction of the crawling peg, have also had a positive impact on the interbank forex market, said Mohammad Shams-Ul Islam, former managing director of Agrani Bank.

The Bangladesh Bank introduced the crawling peg, which allows the currency to adjust exchange rates based on demand and supply, on May 8 this year.

This move has reduced volatility in the market and helped narrow the gap between the US dollar price in the formal banking sector and the kerb market, Islam said.

Currently, the difference in US dollar prices between banking channels and the kerb market stands at about Tk 1 to Tk 2. Each dollar is sold for Tk 118-120 on the interbank forex market while it fetches Tk 120 to Tk 121 in the open market, according to market insiders.

Besides, after taking charge as the Bangladesh Bank governor, economist Ahsan H Mansur has taken some steps such as by reconstituting the boards of different crisis-hit banks.

He also stopped providing liquidity support to banks from the foreign exchange reserves.

These moves have restored the confidence of depositors, remitters and businesses in the banking sector, thereby improving the overall flow of interbank foreign exchange within the country, said Islam, former managing director of Agrani Bank.

As an example, he said, banks like the Bangladesh Krishi Bank, which receive a good amount of remittance but do not face pressure to open letters of credit (LCs), are supplying dollars to the interbank market, reducing the pressure

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# BB should develop property price index to assess risks: IMF

STAR BUSINESS REPORT

The Bangladesh Bank should focus on developing a publicly available Residential Property Price Index (RPPI) for the assessment of developments and risks in the property market and to understand the linkages between property markets and financial soundness, according to the International Monetary Fund (IMF).

From a broader perspective, analysts, policymakers, and financial institutions follow trends in house prices to expand their understanding of real estate and credit market conditions.

For instance, lenders often give loans against property which is kept as collateral. So, if there was a RPPI, it would help them better understand the value of such properties.

Similarly, central banks around the world often rely on movements in house price indices to monitor households' borrowing capacity and debt burden and their effects on aggregate consumption.

The multilateral lender made the recommendation in a report that was published recently based on its technical assistance mission that visited Bangladesh from May 19-27 this year to assist the central bank with the ongoing development of their index.

The BB should publish the experimental RPPI for Dhaka on their website, along with the sub-indices for the six regional strata, the IMF said.

Initially, the indices can be circulated internally, requesting feedback from researchers and economists, it said.

The authorities should publish the RPPI on their website, labelled as experimental, along with an

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