Corruption-plagued insurance sector overlooked by reforms

SUKANTA HALDER and AHSAN HABIB

Although Bangladesh's insurance sector has suffered a confidence crisis due to widespread corruption over the past 15 years, the interim government has not taken notable reform measures for the industry.

The liquidity crisis has intensified so much in the sector that the accumulated amount of unsettled life insurance claims increased by over 66 percent in the last five years to the second quarter of 2024.

Moreover, insurance penetration in Bangladesh currently hovers around 0.5 percent—placing it among the lowest globally—compared to the emerging markets' average of 3.3 percent, India's 3.2 percent, and China's 2.4 percent, according to data from the Insurance Development and Regulatory Authority (Idra).

Despite these figures, the interim government has not pursued significant reforms in the insurance sector beyond replacing the chairman and members of the Idra following the political shift caused by the July 2024 uprising.

Instead, initiatives have been taken to strengthen governance in the banking, stock market, and revenue sectors to curb corruption and reduce irregularities, while no notable actions have been implemented for insurance.

However, the insurance sector continues to struggle with longstanding challenges, including a lack of transparency and poor protection of policyholders.

An audit commissioned by the Bangladesh Securities and Exchange Commission in 2021 partially revealed the industry's condition, showing that Fareast Islami Life Insurance alone siphoned off over Tk 2,100 crore from policyholders' funds between 2010 and 2020.

Meanwhile, Sikder Insurance invested approximately 73 percent of its total assets in the stock market, primarily in a junk stock like National Bank, in violation of Idra regulations.

These are just a few of the scams that have occurred in the sector.

Of Bangladesh's 82 insurance companies, 36 are life insurers and 46 are non-life insurers.

Life insurers in Bangladesh have settled 34 percent of claims as of 2024, while non-life insurance companies have settled just 10 percent of claims in the first nine months of the year, according to Idra.

Data from the past 14 years paints a grimmer picture, with over 26 lakh insurance policies lapsing in Bangladesh.

In 2009, the total number of policies was nearly 1.12 crore, but by 2023, it had declined to 85.88 lakh, according to Idra.

Despite the availability of this data, the interim government has avoided taking comprehensive reform measures for the sector.

Professor Md Main Uddin of Dhaka University believes the interim government has not taken the necessary steps to resolve these issues or to curb corruption and irregularities in the sector.

"Corruption, whether it involves Tk 1 or Tk 100 crore, should be treated with equal importance," the insurance and banking expert told The Daily Star.

Banking, the stock market, and insurance should all be reformed together to ensure an overall improvement in financial sector governance, he added.

"Those responsible for dragging down the insurance market must be identified and punished. However, even after six months in office, the interim government has yet to take any initiative in this regard."

Corruption in the banking sector receives more attention because the amounts involved are significantly larger, he noted.

However, in percentage terms, the insurance sector is more corrupt than banking, Main Uddin said.

Bangladesh's relatively small insurance market could have been operating efficiently with proper management, he added.

The professor also pointed out that the task force formed for financial sector reforms has given almost no attention to the insurance sector.

He recalled attending a task force meeting as a discussant, where the topic of the insurance market was brought up but was dismissed in a manner suggesting it was better not to discuss the sector at all.

However, Md Solaiman, deputy director of the non-life department and spokesperson for Idra, thinks differently.

He said the interim government has taken several initiatives to address the problems in the insurance sector.

A draft amendment of the Insurance Act 2010 has been prepared to help resolve industry challenges, he said.

Additionally, solvency margin regulations for life and non-life insurers have been issued, and a draft amendment of the Insurance Policy 2014 has been prepared, Solaiman added.

He also mentioned the issuance of the Idra Research Guidelines, 2025.

However, Fahmida Khatun, executive director of the Centre for Policy Dialogue, also thinks the insurance sector has remained underdeveloped in Bangladesh due to several challenges and the lack of adequate regulatory reforms.

Reforming the sector does not mean only changing the Idra chairman and preparing guidelines, she mentioned.

The existing problems should be identified, and bottlenecks should be removed, she added.

Regulatory reforms should be implemented by strengthening solvency regulations to ensure financial stability and expanding digital platforms for better customer service and claims processing, she said.

The insurance sector in Bangladesh should also encourage foreign direct investment to meet the demand for better services, Khatun said.

Bangladesh needs to adopt global insurance regulatory frameworks, she added.

Though most people have limited disposable income for insurance, the potential for agricultural insurance, health insurance, and pension schemes is huge given the large size of the population, she said.

There is also a need for financial literacy and insurance awareness programmes among the people, the economist said.

Another insurance expert, speaking on condition of anonymity, also highlighted some major reforms needed for the insurance sector, such as granting Idra the power to dissolve and restructure the boards of insurers when necessary.

Bangladesh Bank has the authority to restructure the boards of private commercial banks, but Idra lacks similar legal powers in the case of insurance companies.

While Bangladesh Bank can track and report daily transaction volumes for banks, Idra does not have real-time access to transaction data from insurance companies, the expert said.

"Addressing this gap through regulatory reforms could improve monitoring and accountability within the sector."

The expert also noted that Idra can only appoint administrators, which limits its ability to take broader corrective actions.

Liquidity crises remain a major challenge for many life insurance companies in Bangladesh.

Additionally, the expert pointed out the need to reform the mandatory investment requirements for insurance companies.

There is room for improvement, as insurance companies in Bangladesh have to invest 30 percent of their total investments in government securities, whereas the requirement in India is 50 percent, the industry insider added.

TROUBLED INSURANCE SECTOR

MARKET

- 82 insurers
- Total policies 85.88 lakh in 2023
- Insurance penetration 0.5%

WHY IS THE SECTOR STRUGGLING?

- 66% life insurance claims remained unsettled
- 26+ lakh policies lost in 14 years
- Fund mismanagement and fraud
- Regulator lacks enforcement power
- Poor claim settlements, governance

RECOMMENDATIONS

- Strengthen solvency regulations
- Adopt global insurance frameworks
- Grant Idra authority to dissolve insurer boards
- Ensure real-time oversight of transactions
- Increase mandatory investment in govt securities

Stocks fall after four-day rise

STAR BUSINESS DESK

The stock market fell yesterday, ending a four-day rising streak, with turnover also plunging.

The DSEX, the broad index of the Dhaka Stock Exchange (DSE), dropped 14.10 points, or 0.27 percent, to close at 5,253.

The DSES index, which represents Shariah-based companies, declined 2.34 points, or 0.20 percent, to 1,173.

Meanwhile, the DS30 index, comprising blue-chip stocks, fell 4.18 points, or 0.22 percent, to 1,926.

Of the issues traded on the DSE, 127 advanced, 208 declined and 62 remained unchanged.

Turnover fell 23.68 percent to Tk 463 crore compared to the previous day's trading session.

Bashundhara Paper Mills led the gainers, rising 9 percent, while Midland Bank saw the steepest drop, also at 9 percent.

IFIC Bank Limited was the most traded stock, with a turnover of Tk 14.5 crore.

In its daily market update, Shanta Securities noted that the market movement was driven by negative changes in the market capitalisation of the travel and leisure, banking, and financial institutions sectors. However, the paper and printing, tannery industries, and fuel and power sectors saw rises.

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Meghna Petroleum profit soars 66% in Q2

STAR BUSINESS REPORT

State-run Meghna Petroleum's profit rose in the second quarter of fiscal year 2024-25.

It posted a profit of Tk 163.32 crore in the October-December quarter of 2024, marking a 66 percent year-on-year increase.

Shares of Meghna Petroleum went up 0.73 percent in mid-day trading yesterday at the Dhaka Stock Exchange.

Its earnings per share (EPS) stood at Tk 15.09 for the quarter, up from Tk 9.06 in the same period the previous year, according to its financial statements.

For the first half of the fiscal year, the company's EPS increased to Tk 27.82 from Tk 17.48 a year earlier.

The net operating cash flow per share of state run oil marketing company surged to Tk 158.78 in July-December 2024, compared to Tk 60.27 in the negative last year.

Unit prices of Bangladesh's RMG exports to the EU fell in 2024

STAR BUSINESS REPORT

Bangladesh's readymade garment (RMG) exports to the European Union grew in 2024, but exporters saw unit prices decline as the growth in volume outpaced the increase in value.

The South Asian nation's apparel shipments to the EU rose by 4.86 per cent year-on-year to $19.77 billion in 2024, according to Eurostat data.

During this period, Bangladesh exported 1,230.51 million kilogrammes (kg) of readymade garments to the EU, up 10.18 per cent from the previous year's 1,116.77 million kg.

Within a year, the per-unit price fell to $16.07 per kg in 2024 from $16.88 per kg in the previous year, marking a sharp 5 per cent drop.

Meanwhile, the EU's overall apparel imports increased by 1.53 per cent year-on-year in value to reach $92.56 billion in 2024, while the import volume grew by 8.98 per cent, according to Eurostat data.

This resulted in a 6.83 per cent decline in average unit prices, impacting major sourcing countries, including Bangladesh, said Mohiuddin Rubel, additional managing director of Denim Expert Limited.

China remained the largest apparel exporter to the EU, posting a 2.61 per cent export growth to $26.07 billion in 2024. Bangladesh ranked second, followed by Turkey and India.

All four of these countries, along with Vietnam and Cambodia, also saw declines in unit prices.

Bangladesh maintained its position as a key supplier to the EU market, but the decline in unit prices underscores the need for strategies to address profitability concerns amid global price reductions

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Rubel said falling prices highlight the challenges of maintaining profitability.

Several factors contributed to the steady rise in export volume and value growth, including the production of value-added garments, duty-free market access, adherence to workplace safety standards, and the combined efforts of manufacturers and workers.

"These developments bolstered buyers' confidence, enhancing the business environment and fortifying Bangladesh's position as a key player in the export market," he said.

Despite fluctuations throughout the year, with a slow start followed by a surge in the last quarter of 2024, Bangladesh saw substantial year-on-year growth in October, November, and December.

"This positive trend, along with increasing exports, fuelled the current growth trajectory."

While 2024 showed improvement over 2023, earnings still fell short of the levels achieved in 2022.

"Looking ahead, the outlook remains optimistic as work orders are expected to increase, sustaining the growth momentum into 2025. With buyers regaining confidence and expanding their sourcing activities in the country, the growth trend is poised to continue."

Rubel said that while Bangladesh showed resilience in maintaining export volume and value, the data reveals a critical need for strategic shifts for future growth.

"Value addition and market diversification are essential for Bangladesh to secure its competitiveness and safeguard profit margins in the face of persistent global price deflation."

Why China may struggle to unlock the power of AI

REUTERS, Hong Kong

Artificial intelligence will play a critical role in shaping China's fortunes as a great power. Yet Beijing's attempt to translate wins by today's innovators like DeepSeek and others into wider gains for the $18 trillion economy will be challenged not just by the United States but also by the Chinese Communist Party's own desire to maintain control.

Technological revolutions have underpinned history's great power transitions. Just as the United States supplanted the industrial dominance of the British empire in the 20th century through widespread adoption of electricity, machinery and motor vehicles, AI offers a similar opportunity for China to shift the balance of power in its own favour.

Whether Chinese leader Xi Jinping aims to displace America in technology or economic or military terms is an ongoing subject of debate in Washington.

Mike Waltz, national security adviser to the US President Donald Trump, reckons America and China are in a cold war, though Beijing's 2017 "New Generation Artificial Intelligence Plan" simply calls for the People's Republic to establish itself as a world AI leader and innovator by 2030.

If there is a battlefield, Hangzhou-based DeepSeek is opening a new front. Its AI training models are groundbreaking and perform as well as those of Western rivals like OpenAI at a fraction of the cost. It's the latest sign, along with similar offerings from Alibaba, Tencent and peers, that China can lead on innovation to close the gap with the $27 trillion US economy.

To that end, Xi is mobilising his corporate troops. In a rare and highly choreographed meeting last week he urged the chiefs of homegrown innovators such as BYD the world's top electric vehicle maker, and telecoms conglomerate Huawei, which is leading China's efforts to develop high-end chips to rival California-based Nvidia, to "show their talent". The successes of DeepSeek and Xi's show of support for private sector has pushed Hong Kong's Hang Seng Tech Index up by more than a quarter since the start of the year, outperforming the Nasdaq.

Yet sustaining its AI advances will require a big effort. Like the United States and others, China needs to invest huge sums to build out physical infrastructure – including for power generation. It will also need to keep overcoming Washington's latest measures blocking its access to cutting-edge chips and chipmaking equipment.

The next hurdle may prove to be the hardest to clear, though. For gains to be broad-based, China will need the technology to be adopted and integrated across industries. Here, China may run into a "diffusion deficit", a term used by Jeffrey Ding, a US-based political science professor.

In his recent book, "Technology and the Rise of Great Powers: How Diffusion Shapes Economic Competition", Ding argues that countries with weak "skill infrastructure" – institutions that help widen the base of new skills - tend to struggle to implement and disseminate innovations across an array of sectors.

He concludes that policymakers in Washington are too focused on innovation, rather than diffusion, and may be overestimating China's rise as science and technology superpower.

The People's Republic, for example, boasts one of the largest pools of engineers and scientists in the world but fourth-year computer science majors in the United States "substantially" outperform peers in top universities in China. Ding's analysis of Japan during the 1980s and 1990s provides a cautionary tale on how this could morph into a big disadvantage.

Japanese firms once controlled global computer and chip production, but the country suffered from a talent gap with the United States; annual inflows of skilled workers into the American information, communication and technology labour pool outpaced those in Japan by 68 percent in 1995; by 2001, this gap had widened to 300 percent. This, among other things, contributed to low growth and poor productivity in many sectors.

Area chart showing China's patent applications have surpassed the US by far

Indeed, Chinese businesses are laggards when it comes to adopting technologies. According to a domestic survey last year, more than 60 percent of 500 small and medium sized enterprises polled are only in the "early" stages of digitisation, using basic data management and IT applications. Less than a fifth of Chinese companies that responded to a separate survey said they had integrated generative AI into their business processes, trailing the United States by five percentage points.

Some of the diffusion problem can be explained by the Chinese Communist Party's desire to protect itself.

China has access to vast amounts of data required to train AI models but the People's

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A robot serves coffee during the Global Developer Conference, organised by the Shanghai AI Industry Association, in Shanghai on February 21.

PHOTO: AFP