

History of Insurance Industry Development in Bangladesh

Mir Nazim Uddin Ahmed
Managing Director
Islami Commercial Insurance Co. Ltd.

After the liberation the government of the People's Republic of Bangladesh in 1971, nationalized the insurance industry along with the banks in 1972 by Presidential Order No. 95. By virtue of this order, all companies and organization transacting all types of insurance business in Bangladesh came under this nationalization order. This was followed by creation of five insurance companies in the life and non-life sector. Further changes were brought on 14th May, 1973. Through the enactment of Insurance Corporation Act VI, 1973 which led to creation of two corporations namely Sadharan Bima Corporation for general insurance and, Iban Bima Corporation for life insurance in Bangladesh. In other words Sadharan Bima Corporation (SBC) emerged on 14th May, 1973 under the Insurance Corporation Act (Act. No. VI) of 1973 as the only state owned organization to deal with all classes of general insurance & re-insurance business emanating in Bangladesh. Thereafter SBC was acting as the sole insurer of General Insurance till 1984. Bangladesh Government allowed the private sector to conduct business in all areas of insurance for the first time in 1984. The private sector availed the opportunity promptly and came forward to establish private insurance companies through promulgation of the Insurance Corporations (Amendment) Ordinance (LI of 1984) 1984. The Insurance Market in Bangladesh now consists of two state-owned corporations, forty five and thirty private sector general & life insurance companies respectively, a total of 77 Insurance Companies.

Growth in insurance coverage is strongly associated with rising incomes, the development of an increasingly sophisticated banking sector, and low or moderate levels of inflation. The strong contribution of rising incomes to greater insurance coverage might be attributable to demand factors (rising demand for coverage as individuals become wealthier), supply factors (it becomes more cost-effective to provide insurance as the economy expands, providing both a stronger institutional environment and greater returns relative to transactions cost), or a combination.

The overall institutional environment plays an important role, in terms of political stability and openness as well as government effectiveness, rule of law, and control of corruption. Religious factors also play a role,

with insurance consumption inversely correlated to the share of the population that is Islamic.

The evidence suggests there is substantial potential for insurance to make a greater contribution to economic growth and social welfare in many lower and middle income countries. Indeed, industry experts argue that insurance lags behind other financial services in the extent of globalization, providing substantial growth opportunities. Contribution of Insurance Industry to the



Economic Development in Bangladesh

The commitment of the government to promote development of the insurance sector is of enormous consequence for its promising future. In view of the pro-active policy support of the government that the sector has so far received in an unstinted manner, we certain that within the next few years we will be able to make insurance a very important component of the country's financial system. This will go a long way for eradication of poverty and promoting sustainable economic growth. Insurance serves a number of valuable functions which are very different from those rendered by other types of financial intermediaries. The indemnification and the risk pooling properties of non-life insurance facilitate transaction and the provision of credit by mitigating losses as well as the measurement and management of risk.

■ Formation of capital & increase of investment

Insurance companies received premiums from insured persons. These premiums increase national capitals. By investing these capitals, national productions increase.

■ Reduce of hindrance of risk:

Every sorts of business consists of risks. These risks are more hazardous in Bangladesh. Non Life Insurance companies minimize these risks by giving privileges on loss.

■ Distribution of risks:

Insurance companies deal with lots of

insured people and properties. So risks are being distributed among them to their insurer.

■ Extension of business:

By taking all uncertain business risk insurance companies extended the field of business in our country. Insurance gives the assurance of indemnity and help to collect the capital to launch a new business and expand the existing business.

■ Provide safety and security:

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death, as a token of death or accidental claim.

■ Generates financial resources:

Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds.

■ Life Insurance encourages savings:

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of savings money by paying premium.

■ General Insurance claims payments to continue business:

By paying claim General Insurance help the business man to start his business in full sweing by covering loss and also to help bank to protect liquidity for the clients business loss or bed debt of loan paid to the clients who have suffered loss.

■ Promotes economic growth:

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated, capital into productive investments.

■ Medical support:

A medical insurance considered essential in managing risk in health. Anyone be a victim of critical illness unexpectedly. And rising medical expense is of great concern. The insured gets a medical support in case of medical insurance policy.

■ Spreading of risk:

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of

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persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

■ Increase of awareness:

As the maximum people of our country are illiterate so they have not much knowledge about the future life and what will do to enhance the living standard. Different types of advertisement, publicity and others awareness activities of insurance company which helps to increase the awareness of general people.

■ Human resources development for insurance industry:

To develop the human resource for the insurance industry in Bangladesh. BIA has arranged professional training others private institution also provide training pro-

grams for business development & technique for reducing losses for the officers of the private insurance companies operating in Bangladesh.

■ Paying Taxes:

Insurance companies and their employees pay taxes, which fund government programs that help needy people, contribute to education, protect the country, and maintain and expand the infrastructure.

■ Contribute specialized expertise:

Insurers also contribute specialized expertise in the identification and measurement of risk. This expertise enables them to accept carefully specified risks at lower prices than non-specialists. As a result, the insurance market generates price signals to the entire economy, helping to allocate resources to

more productive uses.

■ Incentive to control losses:

Insurers also have an incentive to control losses, which is a significant social benefit. By offering discounts to seat belts, smoke detectors, or other measures that reduce the frequency or severity of losses, they lower their eventual claims costs, in the process saving lives and reducing injuries.

■ Invest long term Government Projects:

Now a days for the requirement of development economic, insurance company can invest their ideal funds for long term to the Government Projects like Padma Bridge, Fly Over, Airways Runway, Airways Terminals, River & Sea Port etc. If Government Agencies give assurance of timely return of their investment benefits,