

**IN 1ST QUARTER 2012, NON-LIFE INSURANCE COMPANIES PERFORMED WELL ABOVE EXPECTATIONS EVEN AFTER NEGATIVE INVESTMENT INCOME GROWTH BECAUSE OF BEARISH CAPITAL MARKET; THE BOTTOM LINE GROWTH IS MAINLY ATTRIBUTED TO CORE BUSINESS GROWTH RESULTED FROM ENFORCEMENT OF RULES OF SETTING THE PREMIUM ACCORDING TO THE RATE SPECIFIED IN INSURANCE TARIFF AND UNIFIED COMMISSION RATE OF 15 PERCENT BY IDRA.**

BY MD ASHADUZAMAN RIADH, RAJIB KUMAR DAS & NAZMUL EHSAN OMIYA

PHOTOGRAPHY : LBSL

Insurance industry had been deprived for long period because of lack of awareness, regulatory supervision and political stability. Before the formation of IDRA (Insurance Development and Regulatory Authority) in 2010, Insurance Act was governed by the Controller of Insurance under Ministry of Commerce which was formed in 1938. At that time, lack of human resource and technological know-how were the impediments for supervising and monitoring the insurance sector. But after the formation of IDRA, this sector has seen

light at the end of the tunnel where new rules and policies have been set for the betterment of this sector. Non-life insurance companies now feel that IDRA is working for creating a level-playing field for them where there will be little room for unhealthy competition. Also, IDRA's rules

regarding setting the unified commission rate of 15 percent has improved the bottom line of non-life insurance companies.

In this regard, we have met the leaders in non-life insurance industry and tried to gain insight on how recent regulatory changes can have an impact on their financial statements as well as their performance in coming days.

Recent regulatory developments in the insurance sector have been a benediction for the non-life insurance companies. Now, non-life insurance companies have to set their premium according to the stated tariff rate which is specified in Insurance Act, 2010. Also in February 2012, IDRA ordered non-life

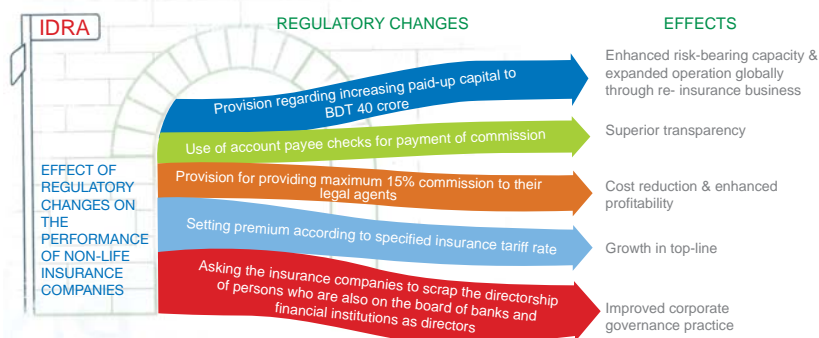
insurance companies to provide maximum 15% commission to their authorized agents. Until February 2012, there was no uniform agent commission for the non-life insurers, leading to an unhealthy competition among the companies. This specified commission rate will also serve as a cost-reduction tool for non-life insurance companies. IDRA scrapped the non-life insurance companies' existing system of making financial adjustments with premium earning. For this reason, IDRA made the use of account payee cheques for payment of commission so that increased

commission for soliciting clients can be identified. Moreover, IDRA asked the insurance companies to scrap the directorship of persons who are also on the board of banks and financial institutions as directors. This step will further improve the corporate

governance practice of non-life insurance companies.

For the proliferation of insurance sector, appropriate regulatory actions must be in place. IDRA- as a regulator of this industry is putting its best efforts to form adequate rules and regulations which will bring discipline in this sector. For having a proper structure, IDRA is overcoming their internal bottlenecks gradually by forming statistical, legal and other administrative departments separately.

Out of 43 non-life insurance companies, most of the companies are not large enough to compete in this industry. According to the new act, non-life insurance companies have to increase their paid up capital to 40 crore BDT which will enhance their risk-bearing capacity in coming days.



Only 18 percent of non-life insurance companies had posted negative earnings growth; surprisingly, Green Delta Insurance, top ranked insurance company in terms of gross premium, performed worst experiencing 29.33 percent negative growth. Negative investment income growth has caused the bottom line downfall since more than 80 percent of the fund is invested in the capital market. Only four among the lot recorded outstanding bottom line growth of more than 100 percent.

Company	NPAT (BDT mn)		Profit Growth (%)	EPS (BDT)	
	1Q 2011	1Q 2012		1Q 2011	1Q 2012
Agrani Insurance Co. Ltd.	5.14	5.5	7.00%	0.23	0.25
Asia Insurance Limited	25.61	19.11	-25.38%	0.45	0.45
Asia Pacific General Insurance Co. Ltd.	24.76	25.63	3.51%	0.58	0.60
BGIC	26.18	23.77	-9.21%	0.48	0.44
Central Insurance	14.68	17.12	16.62%	0.57	0.66
City General Insurance Co. Ltd.	8.94	18.36	105.37%	0.37	0.43
Continental Insurance Ltd.	15.21	18.2	19.66%	0.58	0.58
Dhaka Insurance Limited	7.79	15.26	95.89%	0.21	0.41
Eastern Insurance	12.78	28.03	119.33%	0.52	0.65
Eastland Insurance	41.1	47.21	14.87%	1.09	1.25
Federal Insurance	6.47	13.29	105.41%	0.4	0.32
Global Insurance Ltd.	19.49	20.13	3.28%	0.89	0.92
Green Delta Insurance	81.02	57.26	-29.33%	1.59	1.12
Islami Insurance Bangladesh Limited	6.59	9.43	43.10%	0.33	0.48
Karnaphuli Insurance	16.35	12.89	-21.16%	0.44	0.35
Mercantile Insurance Co. Ltd.	14.7	25.4	72.79%	0.67	0.66
Nitol Insurance Co. Ltd.	13.57	13.67	0.74%	0.66	0.67
Northern General Insurance Company Ltd.	21.71	37.21	71.40%	0.85	1.46
Paramount Insurance Company Ltd.	5.4	6.99	29.44%	0.28	0.37
Peoples Insurance	16.25	21.73	33.72%	0.35	0.47
Phoenix Insurance	38.77	52.99	36.68%	1.2	1.64
Pioneer Insurance	34.77	73.72	112.02%	1.1	2.09
Pragati Insurance	41.11	48.58	18.17%	0.83	0.99
Prime Insurance	13.9	11.98	-13.81%	0.47	0.41
Provati Insurance Company Limited	5.97	7.19	20.44%	0.32	0.38
Purabi General Insurance	1.38	1.14	-17.39%	0.15	0.12
Reliance Insurance	70.11	81.95	16.89%	1.48	1.74
Republic Insurance Company Limited	11.54	21.36	85.10%	0.58	1.07
Rupali Insurance	16.86	25.21	49.53%	0.71	1.06
Sonar Bangla Insurance Ltd.	7.38	9.19	24.53%	0.33	0.41
Standard Insurance Limited	6.81	11.98	75.92%	0.34	0.60
Takaful Islami Insurance Limited	12.76	15.45	21.08%	0.55	0.67
United Insurance	16.82	18.05	7.31%	0.46	0.55

Source: Company Quarterly Statements & LBSL Research

“IDRA as a regulator of insurance sector is trying their best to bring discipline as well as striving to create a level-playing field for the insurance companies where there will be no room for unhealthy competition. This will improve our performance for sure.”



Mihir Kanti Barua  
Assistant Managing Director  
Pragati Insurance Limited

For maintaining the pace of economic growth, insurance sector has to grow. Presently, non-life insurers are trying to grab the untapped opportunity in this sector which was hindered due to lack of regulation and unhealthy competition. Mihir Kanti Barua- Assistant Managing Director of Pragati Insurance Limited, has shared his optimism regarding the insurance sector of Bangladesh. The visionary leader outlined some prospects of insurance sector of Bangladesh which can be a tool for increased foreign investment, industrial production and tax revenue. Given the growth of our economic activity, Barua expects that gross premium growth in Bangladesh in this ongoing year will be approximately 12-15%.

While asked about the major challenges for the insurance sector, he stated that the major hindrance for the insurance sector is unhealthy an unethical competition among the incumbents. Paid up capital of these companies are small in size, so do their risk-bearing capacity. For soliciting clients, these companies are setting their premium rate below the stated rate specified in the insurance tariff. But IDRA’s rule regarding setting the premium according to the insurance tariff will bring more conformity in this sector. Moreover, IDRA is prohibiting on inaugurating an insurance policy with clients before taking premium.

For bringing discipline in this sector, IDRA has increased its supervision regarding premium income, management expense and commission,” said Barua.

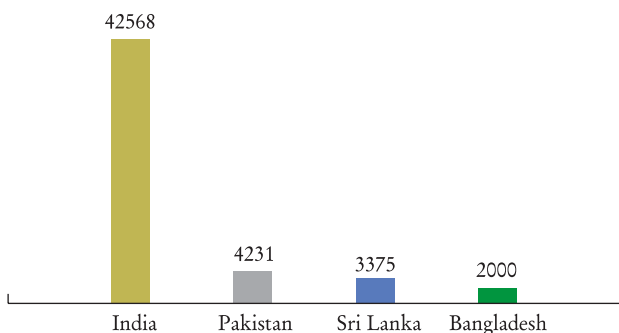
Though insurance penetration is still below 1% in Bangladesh, 62 insurance companies are operating of which, 43 companies are non-life insurance companies. The reason behind the small participation rate can be attributed to the lack of awareness among people regarding insurance. But the number of insurance companies gives a difference picture here. 43 non-life insurance companies are operating in Bangladesh which is creating extra burden on them and encouraging unhealthy competition in this sector. On the other hand, despite being a large country, India has only 48 insurance companies of which, 19 companies are non-life and 29 companies are life. Pakistan has 36 insurance companies of which. 30 companies are non-life and 6 companies are life. Sri Lanka has 17 insurance companies.

According to the “ Insurance Act 2010”, life and non-life insurance companies have to increase their paid-up capital to BDT 300 million and BDT 400 million respectively. The increased paid up capital will increase the risk bearing capacity of insurance companies.

“Previously, general insurance companies provided 50-60% commission of their premium income to their clients which created an uneven competition among them. But IDRA has set the maximum commission rate to 15% which will reduce the unhealthy competition in this sector. Also, IDRA stated that commission must be given to agents through an accounts payee check so that appropriate records of transactions remain in place. For bringing discipline in this sector, IDRA has increased its supervision regarding premium income, management expense and commission.”



### Gross Premium Income in 2011 of Non-life Insurance Companies in South Asian Countries (In Crore BDT)



Source: Pragati Insurance Limited

**“With larger capital, we will be able to bear more risk and operate more efficiently. We are not thinking of expanding our business, rather we will use this capital as a buffer against risk,” said Barua.**

Investment income is one of the core businesses of non-life insurance companies. In 2010, it has been found that approximately 80% of the funds of different insurance companies have been invested in the capital market. As a result, they had been able to reap the rewards of a bull-run in the capital market in 2010. But scenario has changed now with a major correction in the capital market. They couldn't make money as much as in 2010. Apart from investing in stock market, non-life insurers invest in mutual funds, treasury bills/bonds and other fixed-income securities. Also, non-life insurers invest a large portion of their funds in real-estate. IDRA is working on setting provisions regarding investments of funds of non-life insurance companies. Once the rule gets published, insurance companies will have to invest their funds according to the rule.

Increased number of small insurance companies with little paid up capital are unlikely to sustain if IDRA increase its supervision for implementing recent rules and regulations in this sector. Therefore, this sector is likely to be consolidated in near

future. But in Bangladesh, mergers and acquisitions are not prevalent. At this situation, small companies will be forced to exit this sector in future.

While asked about the recent regulatory change in the insurance sector regarding scrapping the directorship of persons who are also on the board of directors in banks and financial institutions, Barua stated that this will improve the corporate governance of non-life insurance companies.

Insurance sector can contribute a lot for the proliferation of an economy. Through insurance products and services, people and institutions can hedge their risk against unavoidable circumstances. In Bangladesh, non-life insurance sector could not operate efficiently due to little regulatory oversight. But steps taken by IDRA to bring more discipline in this sector have reduced the unhealthy competition among the incumbent firms. We expect that enforcement of different rules and provisions by IDRA along with setting the maximum commission rate to 15 percent of premium income will reduce the costs of non-life insurance companies. Also, enforcement of rules regarding setting the premium rate according to insurance tariff will improve the top line of insurance companies. Overall, these combined effects will improve the bottom line i.e. profitability of non-life insurance companies.

Insurance can be deemed as a tool for hedging against unforeseen circumstances.

**“Making people aware of insurance is our ultimate responsibility. As people become aware of insurance, country's economic and social security will be ensured to a greater extent,” he said**

Q A F M Serajul Islam  
Managing Director  
Pioneer Insurance Company Limited



This sector can be of great support for an economy to maintain its growth and entrepreneurial spirit where businesses can hedge its risk against probable natural or manmade disasters. With this vision, Bangladesh government had nationalized the insurance sector in 1972. At that time, there were four different organizations under Jatiya Bima Corporation. Among them two were life insurance organizations and other two were non-life insurance organizations. In 1973, Government decided to form only two organizations. One for life insurance, another for non-life insurance named as “Jiban Bima Corporation” and “Sadharan Bima Corporation”. From 1973 to 1984, there were only 2 corporations operating in the insurance industry. But after 1984, Bangladesh Government led private companies to operate in this sector. Within 1985, sixteen non-life and four life insurance companies were operating in the insurance sector. Q A F M Serajul Islam, Managing Director of Pioneer Insurance Company Limited, shared his observation with us regarding the prospects and challenges of non-life insurance sector in our country. After completing his M.S. in Physics, Islam joined as a Lecturer in a private college. While working as an engineer in an air-conditioning project at Sadharan Bima Corporation, he made up his mind to join the insurance industry.

With an affirmative mood at his office, Islam highlighted the importance of insurance sector of Bangladesh. He said that in developed world insurance sector plays its dominating role in the development of the economy as banking sector does. But he is frustrated about the perception regarding the insurance sector in Bangladesh. People view insurance policy as a burden here. But they omit the fact that insurance can support them at their bad times. “In 1991, 160 crore BDT was indemnified due to cyclone. In 1998, 80 crore BDT had been disbursed due to insured property loss. It’s time to convey the message to the people that insurance can support them at their bad times,” said Islam.

Where Banking and Finance is being learnt at college and university level, insurance courses are not included. For a vibrant insurance sector, insurance

learning must be practiced. After graduation, students strived to start their career in banking, but insurance sector can also be a large platform for them to build their career. “Perception of our people must be changed; insurance companies are providing equal benefits like banks and other financial institutions to their employees. Our young people have to change their view about the insurance sector. Efficient and knowledgeable human resources are essential for the development of our insurance sector,” said Islam.

In last 10 years, there have been some developments in the insurance sector of Bangladesh. In 2009, non-life insurance sector’s growth was 10%. The Insurance Act in 2010 created a level-playing field for the insurance companies where they can operate more efficiently in coming days.

---

**“The biggest priority for non-life insurance companies should be the stakeholders’ interests. Whenever claims arise, insurance companies must promptly and timely settle their claims. Thus, trust will build up in this sector and people will be encouraged to insure their properties and liabilities.”**

---

Currently, non-life insurance companies are insuring assets and liabilities of insured parties. In Bangladesh, people are reluctant to insure their property unless required by regulation. But higher premium rate is a major bottleneck. “Policy premium is higher in Bangladesh relative to other South Asian economies. Therefore, purchase capacity of insurance policies remains a concern. These issues need to be addressed as soon as possible,” Islam expressed his concern.

Currently, major proportion of the funds of non-life insurance companies is being invested as fixed deposits. Also, insurers invest their funds in real-estate and IPOs.

IDRA, as a regulator is trying its best to bring discipline in the insurance sector of Bangladesh by enforcing rules and regulations. Now, risk bearing capacity of an insurance company is determined by considering the solvency margin. The provision for increasing the paid up capital to 40 crore will be an advantage for the non-life insurers to expand their re-insurance business internationally. Also, they will be able to bear more risk than before.

Insurance business is built on trust. For building trust, appropriate regulation and disciplinary actions must be in place. For bringing transparency in the insurance industry, the use of accounts payable checks for payment of commission had been made mandatory by IDRA. IDRA is also warning non-life insurers to reduce management expenses. “The unified commission rate (15%) specified by IDRA will reduce the unhealthy competition in this industry while our profitability will be improved for sure,” said Islam.

Claim ratio of non-life insurers stood approximately 15 percent over the last four year on an average. While seeking opinion regarding this issue, Islam described that this claim ratio is referred to as net claim payable as a percentage of net premium. Net claim is determined by deducting re-insurance recovery amount from the gross claim amount. He stated that even if claim ratio becomes as large as 30 percent, insurance companies will be able to operate their business smoothly.

With a dream of 16 crore people coming under a single umbrella of insurance, Islam, a veteran in insurance industry with 36 years of experience spelled out his buoyancy regarding the insurance sector of Bangladesh when people will consider insurance profession as an honorable profession. He affirmed that Insurance sector ensures economic and social security of assets and liabilities. For insurance sector to grow in our economy, awareness must have to be built up in people’s mind.

## LBSL's research reports are also available on Bloomberg LANB <GO> lankabangla.duinvest.com

### Disclaimer:

*This document ("the Report") is published by LankaBangla Securities Ltd ("LBSL") for information only of its clients. All information and analysis in this Report have been compiled from and analyzed on the basis of LBSL's own research of publicly available documentation and information. LBSL has prepared the Report solely for informational purposes and consistent with Rules and regulations of SEC. The information provided in the Report is not intended to, and does not encompass all the factors to be considered in a best execution analysis and related order routing determinations. LBSL does not represent, warrant, or guarantee that the Report is accurate. LBSL disclaims liability for any direct, indirect, punitive, special, consequential, or incidental damages related to the Reports or the use of the Report. The information and analysis provided in the Report may be impacted by market data system outages or errors, both internal and external, and affected by frequent movement of market and events. Certain assumptions have been made in preparing the Report, and changes to the assumptions may have a material impact on results. The Report does not endorse or recommend any particular security or market participant. LBSL, its analysts and officers confirm that they have not received and will not receive any direct or indirect compensation in exchange for expressing any specific recommendation, opinion or views in its Report. The information and data provided herein is the exclusive property of LBSL and cannot be redistributed in any form or manner without the prior written consent of LBSL. This disclaimer applies to the Report in their entirety, irrespective of whether the Report is used or viewed in whole or in part.*

### LBSL Research Team

Md. Ashaduduzaman Riadh      Research in-Charge      ashaduzaman@lbsbd.com/lbangla@bloomberg.net

Analyst	Industry	Designation	E-mail
Mahfuzur Rahman	Bank/Pharmaceuticals/Mutual Fund	Research Analyst	mrahman@lbsbd.com
Rajib Kumar Das	Power/Insurance	Research Analyst	rkdas@lbsbd.com
Maksudul Haque Chowdhury	Cer/Eng	Research Analyst	maksudul.haque@lbsbd.com
Istiak Ahmed	Research Analyst	Research Analyst	istiak@lbsbd.com
Ms. Tanzina Ahmed Chowdhury	Research Analyst	Research Analyst	tanzina@lbsbd.com
Nazmul Ehsan Omiya	Cement/Tannery/Textile	Trainee Analyst	nazmul.ehsan@lbsbd.com
Nazib Haider Chowdhury	Trainee Analyst	Trainee Analyst	nazib.haider@lbsbd.com
Farahnaz Zarrin	Trainee Analyst	Trainee Analyst	farahnaz@lbsbd.com
Rubayat Mahmud	Trainee Analyst	Trainee Analyst	rubayat.mahmud@lbsbd.com

### Institutional & Foreign Trade Execution Department

Rehan Muhammad      Assistant Manager      rehan@lbsbd.com/rmuhammad1@bloomberg.net

---

#### LankaBangla Securities Limited

Research & Analysis Department

Corporate Office

A.A. Bhaban (Level-5), 23 Motijheel C/A, Dhaka-1000, Bangladesh

Phone: +880-2-9513794 (Ext-118), Fax: +880-2-9563902

research@lbsbd.com Website: www.lbsbd.com

---