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**Q** What is your evaluation for the industry in the year 2012?

**A** I think there is a mix effect in the insurance industry due to implementation of the new law by IDRA (Insurance Development and Regulatory Authority). The authority is also newly formed. At the same time, the Insurance Act-2010 is also getting implemented. So, there is a mix reaction in the market but overall, the result was good in my opinion. Issuing insurance policy in credit has been almost stopped now. Unethical commissions that many companies used to give their clients have come to certain levels of control now. And the practice of undermining tariffs has also become substantially less. As these three parameters have been addressed, there has come a positive effect in the insurance market especially regarding the cash flow. Our cash flow has become better as we are getting the whole amount in cash at a time. The rate-cutting that used to happen in the past has been reduced due to tariff. At the same time, through not giving any unethical commission, we are experiencing a huge savings. So, overall, our liquid money-flow has increased substantially and we were very comfortable during this year. But what I feel is that growth may decline by some points due to the implementation; the 18-19 percent growth of the industry that we were experiencing in last two years, this I feel will decline due to the limitations being implemented. However, I feel that financial capability of insurers has increased; claim-payment capacity has also increased; these are of course good signs for the industry.

**Q** What were the major challenges the sector faced and how well it dealt with those challenges in 2012?

**A** Insurance is globally linked. Especially, 2011 was a year of catastrophic events. The flood in Thailand continued for 90 days causing loss of more than USD 3 billion. The earthquake in Japan & New Zealand, the cyclone in Philippines- these have impact in the Asian market; this is happening because the Asian insurers, who are based in Malaysia, Singapore, and India, they became a bit harsh as they became very selective. As they suffered much in 2011, the reinsurance market has become hardened and with respect to that in the last renewal as well as next renewal in 2013-14, we faced & expected to face higher reinsurance cost. When reinsurance market gets hard, price gets increased which poses a great challenge for us in the next years.

**Q** Compared to the Asian peers, how would you evaluate Bangladesh insurance sector's performance?

**A** Compared to the Asian peers, Bangladesh was good in last year. As three of the Asian countries suffered catastrophic losses, so naturally they have been penalized more than us, by the reinsurers. As we did not experience any catastrophic event in our country, that's why we are getting less penalized than the countries that suffered from catastrophic losses. So, in comparison to other countries, I think Bangladesh is in a bit better position.

**Q** Compared to other conventional industries, the parameters to evaluate Insurance companies are quite different. For a potential investor, what need to be understood or what attributes should he /she consider when investing in an insurance company?

**A** Stock market investors have to follow a general ethics. They have to see the promoter of the company, the paid up capital, growth and financial capability, and so on. They should consider these elements of a company while investing; not the name and fame that's on round. Going through the annual reports and entrepreneurial history is very important. If you can recall, just two years back there were many insurers whose share values were apparently very high in comparison to better insurance companies; now that has become stabilized. The Insurance Act. 2010 increased the Paid Up Capital for Non-life insurers to BDT 40 Crore from BDT 15 Crore. The only way a company can increase its paid up capital is to issue bonus or right shares which made investors run for buying shares of insurers having small paid up capital neglecting the fact that whether the company would be able to sustainably supply with good dividend in future or not. This phenomenon made many investors becomes misled while investing in insurance companies in past years.

**Q** What is your view on the format for financial reporting for the Insurance companies?

**A** The Insurance Act duly formats the accounts and annual report we make complying the formats. But the way of presentation by different insurers may be different. Those who go through the financials of insurers may be confused of the fact that many companies do not show the gross premium. Basically, there is not much link-up between gross premium and net profit. For example, my gross premium income is BDT 100 Crore and the reinsurance premium is BDT 60 Crore, then my net premium becomes BDT 40 Crore; another company having the same

gross premium incurs reinsurance premium of BDT 40 Crore resulting in net premium worth BDT 60 Crore. Therefore, whose net income is BDT 60 Crore that is the better company when you calculate profits; so gross premium carries little value in an insurer's financial statements. That might be the reason many insurers do not quote the gross premium in their statements.

**Q** What policies have been in act which is playing role in shaping to what extent insurance companies are having exposure in the capital market?

**A** Basically, the insurance companies in Bangladesh have most of their investments in IPOs; there are only a few who trade in the secondary market. But we are facing problems as many IPOs come with substantially high premium and when they start to be traded in the secondary market, their prices fall below Gross IPO prices; there lies the risk for us. I strongly feel SEC should set a limit to what limit premium pricing of an IPO could be.

**Q** IDRA brought some regulatory changes in 2012, what are your views on that note? Do you think IDRA is heading towards right direction for sustainable development of insurance industry? Do you have any kind of recommendations?

**A** I don't think they have made any regulatory change; in fact there is very little difference in the new and older act. IDRA has mainly focused on the implementation of the main provisions of the Insurance Act. They have addressed three main aspects-stopping insurance business on credit, maintaining a proper tariff rate, and stopping the practice of giving unethical commissions. Throughout 2012, IDRA was busy implementing these three regulations and I feel they have so far performed well in doing so; these are just the implantation of Insurance Act-1938 too. What I want to say is that- there are few minor changes in the new act but the level of surveillance and implementation of the regulations started taking place in 2012 with which IDRA was busy the whole year; I did not see much effort to develop the insurance sector may be due to shortage of appropriate planning and manpower, IDRA was also engaged in framing the rules for the insurance sector of which 5-6 have already got approval. When these rules will come to effect, the Insurance Act could then be said to have been really implemented in the sector.

**Q** Is it only the responsibility of regulators to fine tune the sector? What are the responsibilities of all stakeholders related to insurance sector? Are all the stakeholders playing their due role for the development of insurance sector?

**A** Our regulatory authority was previously named as "Controller of Insurance"; now it has been named as "IDRA" which stands for "Insurance Development and Regulatory Authority". The very name says that their first job is to develop the industry

and then to regulate. It's the opposite in India where they named their regulator as "IRDA". Though we named the authority in our country as "IDRA" but when they started to oversee the sector, they found there are such serious lacks in the implementation of regulations that these should be addressed before thinking of development.

**Q** Do you think ethical culture is practiced in insurance sector with due diligence? If not, what are your suggestions to incorporate this?

**A** Insurance companies run on utmost good faith; there should not be anything unethical. But due to our short of knowledge about insurance, the things IDRA is trying to implement are not showing effect as expected. For example, they have set a limit that no insurer can give commission above 15 percent. These kind of regulations have no record in anywhere in the world to be perfectly coming to good effect. That's why insurance is divided into two types-tariff insurance and non-tariff insurance. Most of the markets in the world are non-tariff markets. No debate takes place there regarding commission and rate cutting. I feel the problems in Bangladesh can be rooted out only if the market is made non-tariff. There is no scope for competition if I have to maintain a fixed price for my products aligned with my competitors. Make the market non-tariff and it will become automatically self-regulated.

**Q** Is there an event, if any, which you would state as a major one in 2012 for this sector?

**A** None; as there was no major catastrophe.

**Q** What is your expectation for the Insurance sector as a whole in 2013? Please delineate the prospects, problems and challenges?

**A** I am very ambitious about the sector. I feel if we are given time and systemized as a self-regulatory market, Bangladesh insurance industry has a very prosperous and bright prospect.

**Q** Any policy which you would like to see get implemented for the well being of the sector in the coming year?

**A** One of the most neglected sectors by our government is the insurance sector. I personally believe that if the government does not support the sector, then the companies alone will not be able to grow beyond a certain limit. We don't provide international standard service and we don't have the capability either. Our policies should be shaped in such a way so that we become capable of providing international standard services to our customers.

*Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.*