

In this e-alert we provide some background on the emerging Bangladeshi life insurance market which is starting to attract more interest from potential global investors. The article comments on issues facing the industry and possible future developments.

Economy and industry structure

Bangladesh is home to an estimated 160 million people with a GDP of about USD 300 billion. While the economy has been growing fairly strongly since 2010 with real growth rates of 6% to 7%, insurance growth has been muted based on the limited statistics available. Players attribute this to poor market practices, which have sapped consumer confidence in the industry. Life insurance penetration remains low at about 0.4% of gross domestic product (GDP).

Following Bangladesh's independence in 1971 from Pakistan, the domestic players in the industry were nationalised with the establishment of the Jiban Bima Corporation (JBC). Insurance regulation closely follows that of India, with the Insurance Act, 2010 being very closely modelled on the Insurance Act, 1938 (when Bangladesh was part of India). Several waves of new entrants have since entered the market from the domestic private sector and there are now 32 life insurance players in the market. Many of the leading players are listed with market capitalisations at the time of writing in the range of USD 20 million to USD 300 million. Life funds for the leading players as at 30 September 2018 are in the range USD 70 million to USD 1,440 million.

There has been limited foreign participation in the market so far, with MetLife (formerly ALICO) having a fully owned branch since 1952 and LIC of India having a subsidiary, LIC Bangladesh, which commenced operations in 2016.

Products and surplus distribution

Products in the market are mainly individual participating products with reversionary and terminal bonuses. There is also significant group protection business, microinsurance and Takaful insurance (given the largely Muslim population). Individual protection business is largely absent from the market and there is no unit-linked business.

In Figure 1, we give a breakdown of the gross premium volume for the first three quarters of calendar year 2018 by product type based on statistics published by the local regulator, the Insurance Development and Regulatory Authority (IDRA).

Figure 1: Gross Premium Volume, Q1-Q3 2018

Product category	Gross premium (USD millions) ⁽¹⁾	% of gross premium
Ordinary life	461	65.44%
Microinsurance	105	14.94%
Group and health	49	6.95%
Takaful	89	12.67%
Total	705	100.0%

(1) We have taken the local currency (BDT) figures published by IDRA and assumed USD 1 = BDT 82.

The gross premium for the entire calendar year 2017 was USD 987 million (using the same exchange rate as Figure 1).

Products follow a 'file and use' procedure whereby products have to be certified by the insurer's Appointed Actuary and filed with IDRA. Products cannot in practice be launched in the market until IDRA has approved them.

Surplus distribution for participating policies follows the '90:10' rule. While shareholders in nonparticipating products are entitled to the entire surplus, most companies have not segregated their policyholder funds into separate participating and nonparticipating funds and therefore the entire surplus is shared '90:10.'

Valuation and solvency norms

A net premium method of valuation is used with prudent interest rates. Participating business often has a materially lower valuation rate of interest than nonparticipating business to implicitly allow for future bonuses. No valuation regulations as such set out the assumptions to be adopted but we understand that the valuation basis needs to be approved by IDRA.

While the Insurance Act, 2010 sets out solvency margin provisions they have not yet been specified.

Minimum capital and equity caps

There is a minimum capital requirement of BDT 300 million (c. USD 3.6 million). However, IDRA may specify a higher amount and according to press reports LIC of India had its initial application to launch with a paid-up capital of BDT 300 million rejected. LIC Bangladesh has an authorised capital of BDT 1 billion (c. USD 11.9 million) and paid-up capital of BDT 600 million (c. USD 7 million).

No specific formal foreign equity cap has been specified, and we understand that the cap is determined on a case-to-case basis. LIC of India holds 83.33% equity in LIC Bangladesh but post-listing that is expected to fall to 50%.

Licenses were granted with the precondition that players would have to list within three years of commencing operations. However, to date most insurers have not done so, with recent press reports indicating that the Finance Minister has warned players that licenses will be suspended if they are not compliant by the end of 2019, with continued noncompliance possibly resulting in the cancellation of licenses.

Several players in the Asian region have been evaluating entry into the market either through a green field venture or a stake in an existing venture. Existing domestic companies recognise that a foreign partner could help them scale up their capabilities, particularly in the actuarial/risk management and technology areas and are therefore open to foreign investment.

Expense and commission caps

There are management expense limits which are broadly speaking specified as a percentage of first-year premium plus a percentage of renewal premium, with the percentages varying by premium payment term. Commission caps are set out in Insurance Act, 2010 shown in Figure 2.

Figure 2: Commission Caps

	For companies within the first 10 years of operation	For companies which have been operating for more than 10 years
First-year premium	35%	45%
Second-year premium	10%	12%
Subsequent years' premiums	5%	6%

Issues in the market

Several players have expenses in excess of the management expenses limit specified by the regulation. Furthermore, for many players 13th-month persistency is about 50%, although there are signs of improvement. Also we understand several companies in the market struggle to pay claims, which impacts the industry's reputation.

The ability of the sector to attract and retain quality talent is also an issue, given the number of insurance players in the market.

Conclusions

In many ways the Bangladeshi life insurance market is similar to the state of the Indian life insurance market around the time of the latter's privatisation in 2000. As in India at the time, products are traditional in nature with a total absence of unit-linked products, a very limited range of individual protection products, and with distribution dominated by agencies. Expense and commission limits are also similar to those prevailing in India.

A key area of difference is the large number of life insurance players, 32, which in many ways is similar to the situation prevailing in the Sri Lankan market. The large number of players has contributed to high expense ratios for the smaller players but also acts as a powerful incentive for companies to invest in technology and become more efficient, of which some evidence is emerging.

The recent interest in the market has been driven on the back of the large population, the growing economy (growing at c. 6% to 7% per annum) and the potential size of the market, with companies viewing Bangladesh as a new 'frontier' market. MetLife's continued presence demonstrates that it is possible to successfully build a business and we expect further interest from insurers and private equity players alike.

The market is likely to be given a boost from future regulatory changes, including measures to introduce bancassurance. The development of human capital will, however, likely remain a challenge for the foreseeable future.

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