

Microinsurance in Bangladesh: A promising sector

Mr Kazi Md Mortuza Ali, Managing Director of Prime Islami Life Insurance Limited, traces the history of the microinsurance and microtakaful in Bangladesh, the birthplace of microfinance, and looks into areas of improvement.



In 1980, Grameen Bank of Bangladesh started lending to poor people without collateral security, thereby revolutionising finance and banking. Inspired by this scheme initiated by Dr Mohammad Yunus, founder of Grameen Bank, a life insurance company – Green Delta of Bangladesh – came forward in 1988 to provide financial security to the poor in the form of microinsurance at a small amount of monthly premium.

After its introduction in Bangladesh, microinsurance spread among other life insurance companies at a rapid pace. To date, almost every life insurance company in Bangladesh operates at least more than one microinsurance project. For eight life insurance companies, more than 50% of premium income comes from microinsurance. For others, microinsurance constitutes an average of 30% of total premium income premium.

In 2008, about two million new policies were sold under microinsurance, compared to a million under ordinary individual life. Total microinsurance premiums in 2008 amounted to around half of ordinary and other life premiums.

For the last few years, microinsurance portfolio of different companies have grown at an average rate of more than 20% per annum. This spectacular growth of microinsurance in such a short period reflects the necessity and acceptability of microinsurance among the masses in the country. Given that this trend is expected to continue in the years to come, premium income under the microinsurance portfolio will likely overtake ordinary life premium in about five to six years' time.

The formal sector

The most popular microinsurance plan launched by the commercial life insurers is Deposit Pension Scheme (DPS). This plan gained popularity not because of the benefits it provides in relation to its premium rate but mainly because of the familiarity among the common people of a deposit scheme introduced by some of the commercial banks earlier with the same title. The premium rates of DPS is determined usually by dividing the amount of sum assured with the number of premium installments payable during the term of the insurance. At maturity, total amount of premiums paid during the term is payable together with the accrued



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bonuses. A policyholder, instead of receiving the total amount of premiums at maturity, may exercise the option of pension benefit.

Premium rates are not age specific but uniform for all ages across all microinsurance plans. Premiums are usually payable monthly, but in many cases, frequency of payment has been kept flexible. Maximum sum assured is generally fixed at BDT100,000 (US\$1,475) but in a few cases, it exceeded the prescribed maximum. Premiums are collected in most cases from door to door. The documentation has been made simpler than what is required under the traditional insurance plans. Some microinsurance products also cover health and accidental risks with additional premiums (Table 1).

Microtakaful

The Bangladesh government started permitting Islami insurance (takaful) activities during early 2000. All the three life takaful companies have had microinsurance products since their beginning and today these products constitute around 30% of their total business. The annual growth is around 30% which is very much encouraging.

Informal microinsurance

Most of the large NGOs in Bangladesh offer a variety of microinsurance products to their clients. These NGOs had several hundred thousand clients, strong information tracking capabilities through their large network of branches throughout the country, and a stable saving and credit portfolio before they developed microinsurance product on their own.

Microinsurance products offered by NGOs in Bangladesh cover the outstanding loan balance, health, disability and provide, in some cases, an additional one-time monetary benefit to the client's designated beneficiary. These NGOs appeared in the microinsurance scene in the late 1990s and early 2000s with the exception of Gonoshastho Kendro, which developed health microinsurance product in 1978.

Grameen Bank and BRAC, as well as other NGOs also provide health microinsurance. It is not possible to verify

Table 1: Bangladesh – Results of takaful companies

Name of company	Number of policies sold in 2007			% of micro Takaful
	Total	Micro Takaful	Ordinary Life	
Prime Islami life Insurance Ltd	112,675	50,321	62,354	45%
Fareast Islami life Insurance Co Ltd	181,616	87,795	93,821	48%
Padma Islami life Insurance Ltd	336,749	218,423	118,326	65%
Total	631,040	356,539	274,501	57%

whether the pricing of these products is based on standard techniques. Health insurance coverage for some of the organisations is provided partly by donor's support. It is not clear how the pricing of health insurance would be changed after withdrawal of donor's support in order to make the scheme financially viable.

Grameen Bank has two insurance schemes for its members, namely, loan insurance and life insurance. Under the loan insurance scheme, in case of death of a borrower all outstanding loans are paid off from the insurance fund. Insurance fund is created by the interest generated through annual deposits in the savings account of the borrower. Borrowers are required to put an amount equal to 3% of the loan amount each time in a designated savings account. In the case of life insurance, each family receives BDT15,000 against the death of the borrower. Borrowers are not required to pay any premium. They come under insurance coverage by being a shareholder of the bank.

Grameen Kalyan (GK), a subsidiary of Grameen Bank, started providing curative and preventive health insurance services in 1996. GK received a US\$42.5 million Endowment Fund from its parent organisation to generate income for the scheme and meet any shortfall in the operating expenses. GK's premium rates do not seem to be based on actuarial calculations, rather it was established through a process of trial and error.

Regulatory aspects

The insurance sector in Bangladesh is relatively small. However, the sector has shown remarkable growth in recent years. There are now 62 companies, including two public sector corporations operating in the country. The insurance sector, which is now an important component of the financial system of Bangladesh, provides a facility for the transfer of risk and the accumulation of long-term savings for promoting economic growth.

The Insurance Act of 1938 prohibits one from carrying out any class of insurance business in Bangladesh unless a certificate of registration for that class of business is obtained from the office of the Chief Controller of Insurance. The Microcredit Regulatory Authority Act, on the other hand, allows microfinance institutions to provide insurance services to their borrowers and members of their families. Many NGOs have been providing microinsurance services in one form or other to their members outside the radar of any regulatory framework.

Therefore, it is very important to have a well-designed regulatory framework to promote the orderly growth of microinsurance business, both in the formal and non-formal sector. This can only be ensured if the Central Bank, office of the Chief Controller of Insurance, Microcredit Regulatory Authority and other stakeholders can work together to design a standard regulatory framework for microinsurance

in Bangladesh.

Recent developments

The Asian Development Bank (ADB) has recently proposed a Grant Assistance of US\$2 million for the development of microinsurance sector in Bangladesh. The objective of the grant project is to protect the livelihoods of poor households, especially women, from risks such as accidents, illness, theft, or natural disasters, to secure their welfare and productive or non-productive assets through the development of microinsurance services. The objective is expected to be achieved through, among others, developing institutional expertise of at least 20 microfinance institutions.

Microinsurance services are now being provided by different classes of organisations, some of which are operating outside the umbrella of regulatory framework. Although insurers registered by the office of the Chief Controller of Insurance are carrying out the microinsurance business within the insurance laws, high lapse ratios and high management expenses together with lower than the expected rate of return on investment of assets constituting the life fund, may pose problems for some of the insurers in the foreseeable future.

It is, therefore, necessary that Chief Controller of Insurance specifies how microinsurance business is to be transacted by the insurers registered under the Insurance Act, 1938.

Microinsurance regulation is a must. The proposed regulation may include, among other things, the definition of microinsurance products, distribution channels, investment of funds generated out of microinsurance business, commissions payable for acquisition of microinsurance business, and limitation of expenditure of management expenses. This suggested regulatory framework is likely to be formalised through a process of consultation, to be funded by ADB. More work will be needed to translate it into legal framework. When this is done, microinsurance in the formal and non-formal sector will grow further in a scientific manner. 

