

# Insurance Journal

*Volume: 62*

*April : 2016*

*ISSN: 1684-0437*

**Dr. Muhammad Ziaul Haq Mamun**  
**Problems and Prospects of Insurance Business in  
Bangladesh from the Companies' Perspective**

**Kazi Md. Mortuza Ali**  
**Shariah Governance and Regulatory Aspects of Takaful**

**Professor Dr. Bashir Ahmed Bhuiyan**  
**Training Strategies of Bangladesh Insurance Academy:  
Exploring the Strategies for Development**

**Sadia Noor Khan**  
**Investment Portfolio Analysis of State Owned  
Insurance Companies of Bangladesh:  
An Empirical Study on Shadharan Bima  
Corporation and Jiban Bima Corporation**

**S.M. Ibrahim Hossain, ACII**  
**Money laundering Risk Assessment in  
Insurance Sector of Bangladesh.**

**Md. Ibrahim**  
**Legal Aspects and Regulatory Frame work  
Of Insurance Industry in Bangladesh**

**Kazi Nazmul Huda**  
**Exploring Job Stress Symptoms and Sources of the  
Financial Associates of Life Insurance Companies:  
A Study on Bangladesh**



**Bangladesh Insurance Academy**



ISSN: 1684-0437



# Insurance Journal of Bangladesh Insurance Academy

Volume: 62

April : 2016

---

*The Editor and the Editorial Board do not bear any responsibility for the views expressed in papers by the contributors*

**Bangladesh Insurance Academy**  
***Board of Editors***

Professor Mamtaz Uddin Ahmed	:	Chairman
Mr. A.K. Azizul Haque Chowhdury	:	Member
Professor Shibli Rubayat-ul Islam	:	Member
Mr. K.M. Mortuza Ali	:	Member
Mr. Ahmedur Rahim	:	Editor.

**Published by:**

Bangladesh Insurance Academy  
53, Mohakhali C/A.  
Dhaka-1212., Bangladesh  
Phone 8820900, 9899008, 9899292-3  
Fax : 880-02-9882071  
E-mail: bangladeshinsuranceacademy@gmail.com  
website:www.bia.gov.bd

<b>Subscription rates</b>	<b>Abroad</b>	<b>Local</b>
One year	6 US \$	Tk. 200
Two years	10 US \$	Tk. 400
Three years	15 US \$	Tk. 600

Printed by :

## Contents

<b>Dr. Muhammad Ziaul Haq Mamun</b> <b>Problems and Prospects of Insurance Business in Bangladesh from the Companies' Perspective</b>	05
<b>Kazi Md. Mortuza Ali</b> <b>Shariah Governance and Regulatory Aspects of Takaful</b>	49
<b>Professor Dr. Bashir Ahmed Bhuiyan</b> <b>Training Strategies of Bangladesh Insurance Academy: Exploring the Strategies for Development</b>	65
<b>Sadia Noor Khan</b> <b>Investment Portfolio Analysis of State Owned Insurance Companies of Bangladesh: An Empirical Study on Shadharan Bima Corporation and Jiban Bima Corporation</b>	95
<b>S.M. Ibrahim Hossain, ACII</b> <b>Money laundering Risk Assessment in Insurance Sector of Bangladesh.</b>	118
<b>Md. Ibrahim</b> <b>Legal Aspects and Regulatory Frame work Of Insurance Industry in Banglades</b>	125
<b>Kazi Nazmul Huda</b> <b>Exploring Job Stress Symptoms and Sources of the Financial Associates of Life Insurance Companies: A Study on Bangladesh</b>	148

## **PROBLEMS AND PROSPECTS OF INSURANCE BUSINESS IN BANGLADESH FROM THE COMPANIES' PERSPECTIVE**

---

**Dr. Muhammad Ziaul Haq Mamun**

### **ABSTRACT**

The insurance industry of Bangladesh has witnessed a steady growth and attracted a lot of interest in the recent years. Even then, the industry is bundered with problems. This study is a reflection of the severity and likelihood of the problems and prospects of the insurance industry from the viewpoint of the insurance companies themselves. The report revealed that low qualification of the agents to be the most pressing human resource management problem while the lack of technical employees stood as the most important operational problem. Customers' lack of understanding of insurance terms and policies and unhealthy competition enough to as the most severe marketing and ethical problems respectively. Only human resource management problems were found to vary in their degree of severity among life and general insurance companies; these problems proved to be more critical for the life insurance companies, especially the state-owned ones. State-owned life insurance Companies are also the greatest sufferer of marketing, operational and ethical problems among all categories of life insurance companies.

Higher demand for insurance, saturation of the insurance industry within the next decade and higher underwriting capacity of the insurance companies were judged to be the most likely prospects. Furthermore, there is a high likelihood of growth of fire and marine insurance, and micro-insurance services. With economic expansion of the country the potential for this industry is quite high. With higher income and literacy rate, people are expected to recognize the benefits of insurance in life and business and thus raising the demand of insurance services. In order to stimulate the demand, effective marketing initiatives with ethical competition needs to be undertaken. In addition to that recruitment of more qualified employees at management level, proper training and orientation of the agents/employees, development of information technology, service diversification within the industry, fully functioning regulatory system etc. are essential.

---

**Dr. Muhammad Ziaulhaq Mamun**  
Professor  
Institute of Business Administration  
University of Dhaka, Bangladesh

## 1.0 ISSUE

In Bangladesh, the Insurance business - after an early stage of dislocation, adventure and experimentation for about half a century - has now been established as a nascent industry. The Insurance market in Bangladesh consists of 46 general and 31 life insurance companies. Of these there are two state-owned corporations (one in life and one in general) and one foreign life company. Insurance Development and Regulatory Authority (IDRA), is the regulatory-body of the country's insurance sector, became operational in 2011. Although there is high potential for growth, the Insurance Sector of Bangladesh is engulfed with various problems that are considered to be major obstacles to development of this sector. As a result it has not been able to establish itself as one of the attractive industries in Bangladesh.

The insurance industry in Bangladesh had its roots in the British colonial era. Almost a century back, some insurance companies started transacting business in Bengal but the insurance industry started gaining momentum during 1947-1971 when forty nine local and foreign companies started transacting in life and general insurance schemes.

After liberation war, the government of Bangladesh nationalized insurance industry in 1972 by the Bangladesh Insurance (Nationalization) Order 1972. All insurance companies, except postal life and foreign life insurance companies were placed under five corporations in public sector. However, cost of maintaining five corporations soon outweighed the benefits. Thus on 14 May 1973 a restructuring was made under the Insurance Corporations Act 1973. In place of five corporations the government formed two: Sadharan Bima Corporation for general business and Jiban Bima Corporation for life business.

In 1984, a change was brought in the structural arrangement to keep pace with the new economic trend of privatization due to poor performance of nationalized businesses. The Insurance Corporations Amendment Act 1984 allowed insurance companies in the private sector to operate side by side along with nationalized insurance companies. The Act of 1984 made it a requirement for the private sector insurance companies to obtain 100% reinsurance protection from Sadharan Bima Corporation. This virtually turned Sadharan Bima Corporation into a reinsurance organization.

In 1986, when private insurance companies started functioning, the total premium income was Tk. 1.71 billion (both life and general), out of which the private sector share was Tk. 280 million, i.e. 16.37 per cent. This figure rose to Tk. 23.06 billion in 2004, out of which the share of private sector was Tk. 20.31 billion, i.e. 88 per cent. The growth of the insurance industry during last 18 years is quite impressive due to operation of private sector insurance companies.

However mushrooming effect of this private sector have resulted in several irregularities within the sector starting from non standard recruitment process of marketing and sales agents to unethical means of attracting business. The nationalized insurers are the major victim of these setbacks. The bureaucratic redundancy and lack of proper fund in these organizations have impeded the development of the workforce in terms of providing effective training and contemporary communication technologies for enhanced functionality.

The stiff competition, unethical practices such as credit business, high rate of procurement cost popularly known as commission, shortage of professionally qualified personnel, step-motherly attitude from the banks etc., are some of the acute problems eroding the development of the insurance sector. Moreover the absence of an assertive and efficient regulatory body, imprudent taxation policy of the government, weak corporate governance and communication gap between general public and the insurance companies are some of the common problems retarding the development of the whole insurance sector in Bangladesh. Implementation of the insurance regulatory authority is now the most important need of the sector to establish a degree of accountability and balance in financial principles in the industry.

The rising trend of the economic condition of the country uncovers huge potential for the industry. With higher income and literacy rate, people are expected to recognize the benefits of insurance in life and business and thus raising the demand of insurance services. However, with more demand the need to cater to individual needs will become crucial. Presently most of the companies provide similar services but to beat competition insurers can introduce innovative policy schemes rather than employing huge rate of commission to policy holders. The uniqueness of protection plans should be communicated along with quality pre and post sale services in order to justify high premium. This will help the insurance companies to stay afloat even not participating in the unhealthy competition. Overall effective marketing efforts should be implemented especially for nationalized insurers in order to remove any misconceptions and fear regarding claim settlement and premium payments.

The unethical practices involving commission payments or business development expenditures are the synonyms of a deeper malaise. Its remedy might necessitate some radical surgery. The government should perform that without delay by encouraging merger and acquisition of units in the sector. The present situation of the insurance industry and suggestions to seek remedial measures are statistically and qualitatively explained in the research paper. Of course, this will be an uphill task, the maxim being it is very easy to say but difficult to implement. It will require strong commitment on the part of the concerned authority.

Different researches identified several problems and prospects within the insurance industry of Bangladesh. It was found that insurance does have a significant prospect in Bangladesh with fire, marine and motor insurance being made compulsory by several businesses and more number of people purchasing life insurance policies (Huq 2004). Also there are complains of low quality service as well as significant complications in terms and conditions in the contract (Azam 2005) Professionalism from the employees themselves is a major problem with low qualification level of employees and unorganized structure of recruitment (Haq 2006).

The Insurance Industry at this moment is lagging behind the other service sectors of Bangladesh. At the same time insurance is deemed to be a key component for every business and human life. To enhance the growth of insurance business in Bangladesh, the problems hampering the growth of this business must be identified. The main issue of this study is find these problems and look for several prospects congruent to the industry's growth.

## **2.0 OBJECTIVES**

The broad objective of the study is to find out the problems that has hindered the growth and development of the insurance industry and its overall prospects in Bangladesh. Specifically this study tried to identify:

- ✓ the extent of human resource management problems affecting the Insurance business.
- ✓ the operational inefficiencies that are hindering the growth of Insurance Business.
- ✓ the lack of marketing skills deterring insurance companies from acquiring new customers.
- ✓ the ethical problems affecting the activities of life insurance companies.
- ✓ the differences in opinion between life and general insurance companies regarding the problems identified.
- ✓ the industry scope for expansion.
- ✓ the prospects of various categories of insurance under Life Insurance Business.
- ✓ the prospects of various categories of insurance under General Insurance Business.
- ✓ the differences in opinion between life and general insurance companies regarding the prospects identified.
- ✓ the prospects in Insurance sector accelerated by economic expansion.

### 3.0 METHODOLOGY

The research made use of both primary and secondary data and pertinent literature review. The secondary data was collected from various journals, reports and published materials on insurance industry of Bangladesh. These mainly include Bangladesh Insurance Association annual reports, insurance companies' annual reports and Insurance Development and Regulatory Authority (IDRA) publications. For the primary data, a sample survey was conducted using a structured questionnaire. The survey was conducted on 96 employees of 32 insurance companies chosen at random (69 officials from 24 were general insurance and 27 officials from 8 life insurance companies). The scope of the research is limited to Insurance Companies located in Dhaka City only, as most of the corporate offices are situated in Dhaka and can be considered as a representative sample of the whole industry.

The primary interview of top level executives of the insurance companies, both General and Life was conducted to identify the prevailing problems as well as the potential prospects for both types of businesses. From the information gathered from expert interviews as well as secondary sources, 20 problems and 20 prospects regarding insurance business of Bangladesh have been identified (Appendix 1 and 2). A questionnaire was designed for survey of officials from various insurance companies regarding severity of the problems and likelihood of the prospects identified. The *Likert Rating Scale* was used to rate the twenty problems and twenty prospects identified in a scale of 1 to 7 (1 signifies minor problem or least signified prospect and 7 signifies major problem or extremely likely prospect). The questionnaire was divided into two parts. The first part of the questionnaire comprised of twenty problems. The problems were divided into four functional groups: Human Resource Management, Marketing, Ethical, and Operational. The second part of the questionnaire comprised of twenty prospects. The prospects were also divided into five groups: Economic, new entries, Operational, Life Insurance Business (education, health, micro, Islamic), and General Insurance Business (fire, asset, car marine).

With the use of several statistical tools such as, paired t-test; independent sample t-test; AVOVA and mean score comparison the problems and prospects of the insurance industry have been established, grouped and ranked.

### 4.0 ANALYSIS AND FINDINGS

#### 4.1 Mean Comparison of Different Problems

From the information gathered from primary interviews as well as secondary sources, 20 problems regarding insurance business of Bangladesh have been identified. The problems were categorized into four groups: Human Resource

Management Problems, Marketing Problems, Ethical Problems, and Operational Problems. The respondent officials from various insurance companies were asked to rate the severity of the problems in a scale of 1 to 7 (1 signified minor or no problem and 7 signified major problem). The findings from the responses were analyzed below.

### Human resource management problems

Five HR related problems are identified in the study (Table 1). Two of them are related to trainers (1-2) and 3 are related to agents (3-5). From the responses it can be seen that the mean score of all the problems of the industry (Life and General) are of moderate level ranging between 4.39 to 5.21 (Table 1). The low qualification of agents is the most significant problem (Overall 5.21, General 5.12, Life 5.44), while ineffective training of agents (Overall 5.09, General 4.91, Life 5.56), recruitment and selection of agents (Overall 5.00, General 4.88, Life 5.30) and lack of skilled trainers (Overall 4.93, General 4.74, Life 4.93) are almost equally problematic. Trainers' lack of awareness regarding company's code of conduct appeared to be the lowest among the five (Overall 4.39, General 4.00, Life 5.37).

**Table 1 : Mean Comparison of Different Variables in HRM Problems**

Insurance Category		Lack of skilled trainers (1)	Trainers' lack of awareness regarding company's code of conduct (2)	Process of recruiting and selecting agents (3)	Ineffective training of agents (4)	Low qualification of agents (5)
General	Mean	4.74	4.00	4.88	4.91	5.12
	N	69	69	69	69	69
Life	Mean	5.41	5.37	5.30	5.56	5.44
	N	27	27	27	27	27
Total	Mean	4.93	4.39	5.00	5.09	5.21
	N	96	96	96	96	96

As can be noted from the findings, the life insurance industry is facing comparatively more HRM problems than general insurance industry. To validate it further analysis of variance (ANOVA) was conducted to check whether there is significant difference between and within the mean scores of each variable in their respective categories. It is noted that at 5% level of significance ( $p$ -value  $0.001387 < 0.05$ ), there is significant difference in mean score of variables between and within the groups.

## Operational problems

The study identified seven operational problems (Table 2): five core internal (1-5) and two auxiliary internal (6-7). The problem indices found to range between 3.31 and 4.31. The table shows that the required minimum paid-up capital (Overall 3.31, General 3.09, Life 3.89) is considered to be minor problem by the insurance companies, while lack of personnel with technical knowledge (Overall 4.31, General 4.33, Life 4.26), commission ceiling (Overall 4.23, General 4.16, Life 4.41) and expense ceiling (Overall 4.29, General 3.96, Life 5.15) remains moderate problems. Although the mean score for lack of personnel with technical knowledge is considered to be a moderate problem, many experts within the insurance industry believe that it is a much more severe problem as many technical experts are unwilling to join any insurance companies. Low underwriting capacity (Overall 4.15, General 3.97, Life 4.59) remains a significant problem but it is being dealt with seriously by the top management as more people are being hired in this department.

As can be noted from the findings, the life insurance industry is facing comparatively more operational problems than general insurance industry. To validate it further ANOVA was conducted to check whether there is significant difference between and within the mean scores of each operational variable in their respective categories. It is noted that at 5% level of significance ( $p$ -value  $0.000947 < 0.05$ ), there is significant difference in mean score of variables between and within the group.

**Table 2: Mean comparison of different variables in Operational Problems**

Insurance Category		Low underwriting capacity (1)	Commission ceiling on single business (2)	Expense ceiling on management (3)	Required minimum paid-up capital (4)	Lack of Sponsors (5)	Lack of IT development (6)	Lack of personnel with technical knowledge (7)
General	Mean	3.97	4.16	3.96	3.09	4.00	3.75	4.33
	N	69	69	69	69	69	69	69
Life	Mean	4.59	4.41	5.15	3.89	4.26	4.00	4.26
	N	27	27	27	27	27	27	27
Total	Mean	4.15	4.23	4.29	3.31	4.07	3.82	4.31
	N	96	96	96	96	96	96	96

## Marketing problems

The study identified four marketing problems (Table 3): two inherent challenges (1-2) and two companies specific (3-4). The index of these problems ranges between 4.45 and 5.50 (Table 3). The customers' lack of understanding of insurance policies (Overall 5.50, General 5.48, Life 5.56) is a severe problem for both the categories of insurance companies (general and life). Many of the companies place their terms and conditions in such a manner that become difficult to comprehend even for knowledgeable people as well as the agents. This might result in miscommunication between the clients and the employees (Overall 4.45, General 4.45, Life 4.44). Low awareness of insurance benefits (Overall 5.11, General 4.91, Life 5.11) and ineffective marketing strategy (Overall 5.08, General 5.01, Life 5.56) are the other problems that still persist in the industry.

The findings noted that, the life insurance industry is facing comparatively more marketing problems than general insurance industry. To validate it further ANOVA test was conducted to check the probability of difference between and within the mean scores of each marketing variable in their respective categories. It is noted that at 5% level of significance ( $p$ -value  $0.000026 < 0.05$ ), there is significant difference in mean score of variables between and within the group.

**Table 3: Mean score of different Marketing Problems**

Insurance Category		Low public awareness of the insurance benefits (1)	Customers' lack of understanding of insurance policies (2)	Ineffective marketing strategy (3)	Miscommunication by agents (4)
General	Mean	4.91	5.48	5.01	4.45
	N	69	69	69	69
Life	Mean	5.63	5.56	5.26	4.44
	N	27	27	27	27
Total	Mean	5.11	5.50	5.08	4.45
	N	96	96	96	96

## Ethical problems

The study identified four ethical problems (Table 4): two created by agents and customers (1-2), and two environmental (3-4). The index of these problems ranges between 4.23 and 4.91 (Table 5). Unhealthy competition (Overall 4.91, General 4.71, Life 5.41) is the most severe problem for the insurance companies. The problem is even more serious for the life insurance companies, as ineffective regulations allows insurance companies to entice new clients through lower premiums and offering other benefits outside the legality of the insurance

companies. Many insurance companies are tied up with large parent organizations which means that clients for the sister concerns are obliged to become clients of those specific insurance companies. Claim fabrication (Overall 4.84, General 4.67, Life 4.84), especially for the life insurance companies (5.30) and agent malpractice (Overall 4.69, General 4.74, Life 4.56) are other severe problems faced by the insurance companies at a regular basis. Effectiveness of the rules and regulations of the regulatory body (Overall 4.23, General 4.09, Life 4.59) also remains a concern, but insurance companies seem to become immune to this ineffectiveness.

The findings noted that, the life insurance industry is facing comparatively more ethical problems than general insurance industry. To validate it further ANOVA test was conducted to check the probability of difference between and within the mean scores of each marketing variable in their respective categories. It is noted that at 5% level of significance ( $p\text{-value } 0.00766 < 0.05$ ), there is significant difference in mean score of variables between and within the group.

**Table 4: Mean score of different ethical problems**

Insurance Category		Claim Fabrication (1)	Agent Malpractice (2)	Unhealthy Competition (3)	Effectiveness of rules & regulation (4)
General	Mean	4.67	4.74	4.71	4.09
	N	69	69	69	69
Life	Mean	5.30	4.56	5.41	4.59
	N	27	27	27	27
Total	Mean	4.84	4.69	4.91	4.23
	N	96	96	96	96

#### 4.2 Mean Comparison of Different Prospects

The primary interview of top level executives of the insurance companies as well as data from secondary sources identified 20 potential prospects for insurance business of Bangladesh. The prospects were divided into five groups: Economic, new entries, Operational, Life Insurance Business (education, health, micro, Islamic), and General Insurance Business (fire, asset, car marine). The respondent officials from various insurance companies were asked to rate the potential of the prospects in a scale of 1 to 7 (1 signified minor or no problem and 7 signified major problem). The findings from the responses were analyzed below.

##### Economic prospects

As the population, especially the working age population, is increasing in the country, the demand for insurance is rising significantly. This is supported by the

insurance industry representatives (Table 5). The increase in GDP income will also help in the growth of the insurance industry. The most debatable issue is whether the insurance industry is capable of recovering from the losses incurred due to capital market downturn. Many experts believe that the insurance industry is not affected significantly from the capital market fluctuation, but many think differently. This confusion is reflected in the medium range mean score of 4.09.

**Table 1 : Mean Score of Different Economic Prospects**

Insurance Category		Higher per capita GDP income stimulating growth of the insurance industry	Ability to recover from losses incurred due to capital market downturn	Greater penetration of the insurance industry in rural areas	Rising demand for insurance products caused by rising working age population	Greater confidence of customers on insurance companies
General	Mean	5.39	4.19	4.77	5.33	4.96
	N	69	69	69	69	69
Life	Mean	5.30	3.85	5.89	5.59	5.59
	N	27	27	27	27	27
Total	Mean	5.36	4.09	5.08	5.41	5.14
	N	96	96	96	96	96

### New Entrants

Many of the insurance experts still agree that the insurance industry will nearly become saturated within the next 10 years. As the industry is getting more attention from the relevant authorities and different kinds of insurance have been made compulsory for businesses, more investments might occur within the industry that would encourage new entrants. Many new local companies are expected to enter the industry as opposed to foreign companies. Both representatives from the general and life insurance agree to such a prediction.

**Table 2 : Mean Score of prospect of new industries**

Insurance Category		Entrance of many new local companies in the insurance industry in the next five years	Admission of foreign insurance companies in the local industry	Saturation of the insurance industry in the next ten years
General	Mean	3.56	3.54	4.38
	N	68	69	69
Life	Mean	4.19	3.37	4.26
	N	27	27	27
Total	Mean	3.74	3.49	4.34
	N	95	96	96

## Operational Prospect

In terms of operational prospects within the insurance companies of Bangladesh, the improved capacity of the underwriting department holds the most ground as a prospect amongst our interviewees. As the demand for insurance is rapidly increasing within the general population, underwriting capacity has to improve to cope with the increase in demand. Increased operational efficiency and new distribution channels have an equal level of prospect for the employees. With banks gaining crucial importance in the financial market, tying up insurance companies with banks will largely help in development of the insurance industry. However, many still doubt that the average premium will decline over the upcoming years. This is mainly because low premium offering is the main reason behind the unhealthy competition amongst the insurance companies.

**Table 3 : Mean Score of Operational Prospects**

Insurance Category		Improved underwriting capacity of local insurance companies	Increased operational efficiency of the insurance companies due to new regulations imposed by IRDA	Introduction of new distribution channels/intermediaries other than agents – such as banks	Drop in average premiums of all insurance products
General	Mean	5.36	4.21	4.72	4.01
	N	69	68	69	69
Life	Mean	4.85	5.04	4.04	3.59
	N	27	26	27	27
Total	Mean	5.22	4.44	4.53	3.90
	N	96	94	96	96

### 3.3.8 Mean score of prospect of different categories of General Insurance

General insurance consists mainly of fire insurance, asset insurance, motor insurance and marine insurance. Amongst the four, fire insurance shows the highest prospect for growth in the next few years. Already, many business companies are obliged to undertake fire insurance for their factories and buildings. Marine insurance also shows a high prospect as all the cargo goods in ships have to fall under the marine insurance category. Asset insurance and motor insurance also has significant prospect but it is at a moderate level since it already has a significant importance amongst the general clients.

Table 4 : Mean Score of prospect of different categories of General Insurance

Insurance Category		Growth of fire insurance in the next five years	Growth of asset Insurance in the next five years	Growth of motor Insurance in the next five years	Growth of marine insurance in the next five years
General	Mean	6.38	5.83	5.57	6.30
	N	69	69	69	69

### 3.3.9 Mean score of prospect of different categories Life (Non-general) Insurance

Many new categories of life insurance are slowly developing in Bangladesh. These include education insurance, health insurance, micro insurance and Islamic insurance. Micro insurance has the highest prospect for growth, showing a mean score of 5.96. Many insurance experts believe that micro-insurance will help the insurance business to reach out to the rural villages. Education insurance and health insurance also looks promising enough but the growth is hampered due to ineffective structure and weak guidelines as to how education and health insurance should be followed. Islamic insurance is a point of contention of the employees. Majority believe that it is just a scam to manipulate the people's religious sentiments and this manipulation will continue to increase over the next few years. Almost all of the interviewees agree that there is no such thing as Islamic insurance but Islamic insurance companies have already gained popularity amongst the general population.

Table 5 : Mean score of different categories of Life Insurance

Insurance Category		Growth of education insurance in the next five years	Growth of health insurance in the next five years	Growth of micro insurance in the next five years	Growth of Islamic Insurance in the next five years
Life	Mean	5.37	5.56	5.96	4.67
	N	27	27	27	27

### 3.4.5 ANOVA Test for Economic Prospect

$H_0$ : The mean score for variables within Economic Prospects are equal

$H_A$ : The mean score for variables within Economic Prospects are not equal

**Table 6 : Result of variables within Economic Prospect**

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	109.7417	4	27.43542	10.78682	0.0000001	2.39071
Within Groups	1208.125	475	2.543421			
Total	1317.867	479				

As, P-Value 0.0000001 <0.05 and  $F > F_{CRIT}$ , the null hypothesis can be rejected and it can be concluded that there is significant difference in mean score of variables within the Ethical categories.

### 3.4.6 ANOVA Test for Prospects for Operational Activities

$H_0$ : The mean score for variables within Operational Prospects are equal

$H_A$ : The mean score for variables within Operational Prospects are not equal

**Table 7 : Result of variables within Operational Prospect**

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	84.94461	3	28.31487	12.35361	0.0000001	2.62852
Within Groups	866.3879	378	2.292031			
Total	951.3325	381				

As, P-Value 0.0000001 <0.05 and  $F > F_{CRIT}$ , the null hypothesis can be rejected and it can be concluded that there is significant difference in mean score of variables within the Operational Prospects.

### 3.4.7 ANOVA Test for Prospects of New Entrants

$H_0$ : The mean score for variables within Prospects of New Entrants are equal

$H_A$ : The mean score for variables within Prospects of New Entrants are not equal

**Table 8 : Result of variables within in prospects of New Entrants**

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	37.07597	2	18.53799	5.461019	0.004707	3.027556
Within Groups	964.0669	284	3.394602			
Total	1001.143	286				

As, P-Value  $0.004707 < 0.05$  and  $F > F_{\text{CRIT}}$ , the null hypothesis can be rejected and it can be concluded that there is significant difference in mean score of variables within the prospects of new entrants.

### 3.4.8 ANOVA Test for General Insurance

$H_0$ : The mean score for variables within Prospects of General Insurance are equal

$H_A$ : The mean score for variables within Prospects of General Insurance are not equal

**Table 9 : Result of variables within General Insurance**

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	31.22826	3	10.40942	13.12754	0.000001	2.637791
Within Groups	215.6812	272	0.792945			
Total	246.9094	275				

As, P-Value  $0.0000001 < 0.05$  and  $F > F_{\text{CRIT}}$ , the null hypothesis can be rejected and it can be concluded that there is significant difference in mean score of variables within the prospects of General Insurance.

### 3.4.9 ANOVA Test for Life Insurance:

$H_0$ : The mean score for variables within Prospects of Life Insurance are equal

$H_A$ : The mean score for variables within Prospects of Life Insurance are not equal

**Table 10 : Result of variables within Life Insurance**

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	23.74074	3	7.91358	3.579467	0.01642	2.691979
Within Groups	229.9259	104	2.210826			
Total	253.6667	107				

As, P-Value  $0.01642 < 0.05$  and  $F > F_{\text{CRIT}}$ , the null hypothesis can be rejected and it can be concluded that there is significant difference in mean score of variables within the prospects of Life Insurance.

### 3.5 Nominal variables with two possible values (Independent t-test)

For nominal variable with two possible values, independent sample t-tests are used in order to find out whether there is any significant difference in the mean of various problems and prospects between Life Insurance and General Insurance. To identify the factors we have grouped the variables into some broad titles. For example, problems regarding recruitment, training and qualification of agents/employees have been brought under Human Resource Management Problems. Similarly prospects regarding the economic aspects are labeled together as Economic Prospects. The factors identified under this category were:

- (a) Human Resource Management Problems
- (b) Operational Problems
- (c) Marketing Problems
- (d) Ethical Problems
- (e) Economic Prospects
- (f) Operational Prospects
- (g) Prospects for new entrance

#### Hypothesis Development and T-test:

For nominal variables with two values, independent sample t-test is used at 5% significance level. The results for different factors are as follows:

#### 3.5.1 T-Test for HRM Problems

$H_0$ : Mean Scores of “Human Resource Management Problems” are equal for Life and General Insurance

$H_A$ : Mean Scores of “Human Resource Management Problems” are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 11 : Independent Sample t-test for Human Resource Management Problems**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Human Resource Management Problems	Equal variances assumed	.081	.777	-3.522	94	.001	-.68438	.19429
	Equal variances not assumed			-3.305	42.089	.002	-.68438	.20705

As  $0.001 < 0.05$ , the null hypothesis can be rejected and it can be concluded that mean human resource management problems scores for general and life insurances are different. HRM problems therefore have different level of severity in life and general insurance businesses

### 3.5.2 T-Test for Operational Problems

$H_0$ : Mean Scores of "Operational Problems" are equal for Life and General Insurance

$H_A$ : Mean Scores of "Operational Problems" are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 12 : Independent Sample t-test for Operational Problems**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Operational Problems	Equal variances assumed	8.389	.005	-2.363	94	.020	-.47067	.19917
	Equal variances not assumed			-1.942	34.263	.060	-.47067	.24239

Here the significance (p value) of Levene's test is .005 which is less than the  $\alpha$  level (.05). So you should use the bottom row of the output (the row labeled "Equal variances not assumed."). As  $0.060 > 0.05$ , the null hypothesis cannot be rejected and it can be concluded that mean operational problems scores for general and life insurances are not different. Thus, the variables under the factor operational problems have same degree of severity in case of both life and general insurance categories.

### 3.5.3 T-Test for Marketing Problems

$H_0$ : Mean Scores of “Marketing Problems” are equal for Life and General Insurance

$H_A$ : Mean Scores of “Marketing Problems” are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 13 : Independent Sample t-test for Marketing Problems**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference
Marketing Problems	Equal variances assumed	.605	.439	-1.112	94	.269	-.25845	.23246
	Equal variances not assumed			-1.047	42.391	.301	-.25845	.24675

As  $0.269 > 0.05$ , the null hypothesis cannot be rejected and it can be concluded that mean score for marketing problems are not different for general and life insurances.

### 3.5.4 T-Test for Ethical Problems

$H_0$ : Mean Scores of “Ethical Problems” are equal for Life and General Insurance

$H_A$ : Mean Scores of “Ethical Problems” are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 14 : Independent Sample t-test for Ethical Problems**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference
Ethical Problems	Equal variances assumed	21.392	.000	-2.213	94	.029	-.41224	.18626
	Equal variances not assumed			-1.784	33.407	.084	-.41224	.23112

As 0.084 (Significance of Levene's Test was less than .05) >0.05, the null hypothesis cannot be rejected and it can be concluded that mean ethical problems scores for general and life insurances are moderately critical.

### 3.5.5 T-Test for Economic Prospects

$H_0$ : Mean Scores of "Economic Prospects" are equal for Life and General Insurance

$H_A$ : Mean Scores of "Economic Prospects" are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 15 : Independent Sample t-test for Economic Prospects**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference
Economic Prospects	Equal variances assumed	.839	.362	-1.391	94	.168	-.31691	.22790
	Equal variances not assumed			-1.422	49.798	.161	-.31691	.22790

As 0.168 > 0.05, the null hypothesis cannot be rejected and it can be said that the variables of *Economic Prospects* factor are equally promising for both life and general categories.

### 3.5.6 T-Test for Operational Prospects

$H_0$ : Mean Scores of "Operational Prospects" are equal for Life and General Insurance

$H_A$ : Mean Scores of "Operational Prospects" are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 16 : Independent Sample t-test for Operational Prospects**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference
Operational Prospects	Equal variances assumed	23.181	.000	1.071	92	.287	.21550	.20125
	Equal variances not assumed			.844	31.298	.405	.21550	.25537

As 0.405 (Significance of Levene's Test was less than .05) >0.05, the null hypothesis cannot be rejected and it can be concluded that mean operational prospects scores for general and life insurances are not different. Therefore according to the respondents, life and general insurance business will be affected in the same degree by *Operational Prospects* variables.

**3.5.7 T-Test for New Entrants**

$H_0$ : Mean Scores of "Prospects for New Entrants" are equal for Life and General Insurance

$H_A$ : Mean Scores of "Prospects for New Entrants" are not equal for Life and General Insurance

After using the independent sample t-test it was found out that:

**Table 17: Independent Sample t-test for Prospects for New Entrants**

		Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference
Prospects for New Entrance	Equal variances assumed	1.535	.218	-.336	93	.738	-.09513	.28338
	Equal variances not assumed			-.309	40.877	.759	-.09513	.30760

As  $0.738 > 0.05$ , the null hypothesis cannot be rejected and it can be concluded that mean prospects for new entrance scores for general and life insurances are not different.

### 3.6 Comparisons of Problems between three categories of life insurance companies

In Bangladesh, three types of life Insurance Companies are in operation.

- 1) State Owned Company (Jibon Bima)
- 2) Local Private Companies
- 3) Multinational Company (MetLife Alico)

The problems have been classified in 4 major categories

- Human Resource Management Problems
- Marketing Problems
- Ethical Problems
- Operational Problems

The mean scores for each respondent for every category have been obtained by dividing the total of the individual scores for every target variable by the number of variables. In this way 4 new variables were created using transformation command in SPSS.

Next the mean responses of the three categories in life insurance categories were compared to identify the differences. Since there are three categories, ANOVA (one-way) have been used to compare the means and for drawing inferences. For every test, the level of significance was considered to be 5%/0.05. Since the degree of freedom were 2 and 24 for the between and within groups respectively, the critical value for F was found to be **3.40**.

#### 3.6.1 Difference in responses under HRM Problems

$H_0$ : The mean score for problems in HRM category are equal

$H_A$ : The mean score for problems in HRM category are not equal

**Table 18 : Mean score for problems in HRM category**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5.602	2	2.801	3.804	.037
Within Groups	17.672	24	.736		
Total	23.274	26			

Since significance value is  $0.037 < 0.05$ , and the F value being greater than the critical value, the null hypothesis can be rejected and it can be concluded that there are significant differences in responses regarding the various issues creating HR Problems between the three categories of Life Insurance companies. Overall, all the groups maintained that HRM is a major problem and the issue in Nationalized Companies received higher degree of severity compared to other categories.

### 3.6.2 Difference in responses of Marketing Problems

$H_0$ : The mean score for problems in the Marketing category are equal

$H_A$ : The mean score for problems in the Marketing category are not equal

**Table 19 : Mean score for problems in the Marketing category**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6.103	2	3.051	3.497	.046
Within Groups	20.939	24	.872		
Total	27.042	26			

Since significance value  $0.046 < 0.05$  and  $F > F_{crit}$ ,  $H_0$  can be rejected and it can be concluded that there is significant difference in responses regarding the various issues creating marketing problems between the three categories of Life Insurance. The issue was treated as a major problem in state owned companies while it is considered as a moderate and minor problem in Foreign and Local Private Companies respectively.

### 3.6.3 Difference in responses of Operational Problems

$H_0$ : The mean score for problems in Operations category are equal

$H_A$ : The mean score for problems in Operations category are not equal

**Table 20 : Mean score for problems in Operations category**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	18.614	2	9.307	15.641	0.001
Within Groups	14.281	24	.595		
Total	32.895	26			

Since significance value  $0.001 < 0.05$  and  $F > F_{crit}$ , the null hypothesis can be rejected and it can be concluded that there is significant difference in responses regarding the various issues creating Operational Problems between the three categories of Life Insurance. The State Owned company regard Operational Problems as major problems while the local private ones regard them as minor problems and foreign company respondents regard them as moderate problems.

### 3.6.4 Difference in responses of Ethical Problems

$H_0$ : The mean score for problems in Ethical category are equal

$H_A$ : The mean score for problems in Ethical category are not equal

**Table 21 : Mean score for problems in Ethical category**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	15.007	2	7.503	5.998	.008
Within Groups	30.026	24	1.251		
Total	45.032	26			

Since sig. value  $0.008 < 0.05$  and  $F > F_{crit}$ , the null hypothesis can be rejected and it can be concluded that that there is significant difference in responses regarding the various issues creating Ethical misdemeanors between the three categories of Life Insurance and . The State Owned companies regard this as major problems while the local private ones regard it as minor problems and Foreign Company respondents regard them as moderate problem.

### 3.7 Comparisons of Prospects between three categories of life insurance Companies

The prospects have been classified in 5 major categories

- 1) Economic Prospects
- 2) Entrance of New Companies Operational Problems
- 3) Prospects in Operational Activities
- 4) Prospects of Various types of Insurance under Life Insurance Business
- 5) Prospects of Various types of Insurance under General Insurance Business

The mean scores for each respondent for every category have been obtained by dividing the total of the individual scores for every variable by the number of

variables. In this way 5 new variables were created using transformation command in SPSS.

Next we compared whether the mean responses of the three categories in life insurance categories are different or not. Since there are three categories ANOVA Analysis have been used to compare the means and for drawing inferences. For every test the level of significance was considered to be 5%/0.05. Since the degree of freedom were 2 and 24 for the between and within groups respectively, the critical value for F was found to be **3.40**.

### 3.7.1 Difference in responses of Economic Prospects

$H_0$ : The mean score for Economic prospects are equal

$H_A$ : The mean score for Economic prospects are not equal

**Table 22 : Mean score for Economic prospects**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.642	2	.321	.325	.725
Within Groups	23.704	24	.988		
Total	24.347	26			

Since Sig. Value  $0.725 > 0.05$  and  $F < F_{crit}$ , the null hypothesis cannot be rejected and it can be concluded that there is no significant difference in responses regarding Economic Prospects between the three categories of Life Insurance. The mean score obtained from different categories were similar with the score from State owned companies being slightly higher.

### 3.7.2 Difference in responses of Prospects of Entrance of New Companies

$H_0$ : The mean score for responses related to Prospects of new entrants are equal

$H_A$ : The mean score for responses related to Prospects of new entrants are not equal

**Table 23 : Mean score for responses related to Prospects of new entrants**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.512	2	1.256	.645	.533
Within Groups	46.731	24	1.947		
Total	49.243	26			

Since Sig. Value  $0.436 > 0.05$  and  $F < F_{crit}$ , the null hypothesis cannot be rejected and it can be concluded that there is no significant difference in responses regarding the prospect of Entrance of New Companies between the three categories of Life Insurance. The respondents suggested that prospect of new entrants in multinational and national companies are quiet low and in the case of local private companies it is moderate.

### 3.7.3 Difference in responses of Prospects in Operational Activities

$H_0$ : The mean score for responses related to Prospects Operational Activities are equal

$H_A$ : The mean score for responses related to Prospects of Operational Activities are not equal

**Table 24 : Mean score for responses related to Prospects of Operational Activities**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6.368	2	3.184	2.339	.118
Within Groups	32.664	24	1.361		
Total	39.032	26			

Since Sig. Value is  $0.118 > 0.05$  and  $F < F_{crit}$ , it can be conclude that there is no significant difference in responses of Prospects in Operational Activities between the three categories of Life Insurance Business. In this case the mean score for the only multinational company was higher compared to other categories.

### 3.7.4 Difference in responses of Prospects of various types of Life Insurance Services

$H_0$ : The mean score for responses related to Prospects of Life insurance are equal

$H_A$ : The mean score for responses related to Prospects of Life insurance are not equal

**Table 25 : Mean score for responses related to Prospects of Life insurance**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.213	2	.607	.598	.558
Within Groups	24.329	24	1.014		
Total	25.542	26			

Since Sig. Value  $0.598 > 0.05$  and  $F < F_{crit}$ , we can conclude that there is no significant difference in responses regarding prospects of various types of Life Insurance Services between three categories of Life Insurance Business. However, in this issue the respondents maintained that the prospect for state owned companies were slightly higher compared to other groups.

Since the fifth category of prospects was only applicable for General Insurance, no Analysis was done under this heading as in this section; we are concerned with the three categories of life insurance companies only.

## **5.0 Findings & Analysis**

### **3.1 Problems of Insurance Companies**

The prevailing setbacks in the business have been primarily grouped under HRM; Marketing; Operational and Ethical heads. The variables under these parameters have been statistically computed in order to find the most crucial problem in the industry as well as factors inflicted with most of the predicaments (Table ). The analysis is made in a scale of 1 to 7 (1 represents minor/no problem and 7 that of major problem). The overall extent of problems in the insurance industry is somewhat moderate with no variable achieving a mean above 6 or below 3.

By comparing the group mean for each factor the problem groups have been ranked. The ranking shows marketing problems (5.04) to bring the strongest blow on the future growth of the industry. Next position is assigned to human resource management problem (4.92) in the sector with inadequate number of properly trained, educated and oriented workers. Ethical problem (4.67) stands at the third position thus reinstating the importance of healthy corporate governance in the sector for its further expansion. Operational problems (4.03) stand the last among the groups. The detailed functional area problem analysis is given below:

**Table 26 : Summary of Mean Scores**

Functional Groups	Variables	Mean Scores
Human Resource Management (4.92)	• Low qualification of agents	5.21
	• Ineffective training of agents	5.09
	• Inefficient recruiting and selection of agents	5.00
	• Lack of skilled trainers	4.93
	• Lack of trainers' awareness regarding organization's code of conduct	4.39
Operations (4.03)	• Lack of personnel with technical know-how	4.31
	• Expense ceiling imposed on the management	4.29
	• Commission ceiling imposed for single business	4.23
	• Low underwriting capacity	4.15
	• Lack of Sponsors	4.07
	• Poor IT development	3.82
	• Required minimum paid-up capital	3.31
Marketing (5.04)	• Policy holders' lack of understanding of insurance policies and terms	5.50
	• Low awareness of the insurance benefits among public	5.11
	• Ineffective marketing strategy	5.08
	• Miscommunication between agent and Policy holders	4.45
Ethical (4.67)	• Unhealthy Competition	4.91
	• Claim Fabrication	4.84
	• Agent Malpractice	4.69
	• Effectiveness of rules and regulation of regulatory body	4.23

#### 4.1.1 Problem ranking within groups

##### HRM problems

The summarized table depicts that *low qualification level of agents* is the most important problem in human resource management attaining the highest mean of 5.21 in the group. Poor training of trainers (5.09) and inefficient selection and recruitment process (5.0) are next in line. Overall group mean is found to be 4.92. The primary interviews taken for questionnaire development and some further secondary studies have revealed that:

- ✓ The sector is over employed with people having little or no knowledge about the insurance industry thus resulting in poor professionalism amongst the agents.
- ✓ The basic educational qualification required for agent selection is set at very low level; officially the SSC level.
- ✓ The sector is failing to attract recruits with above average intellect both in terms of academic superiority as well as communications.

- ✓ The recruitment and selection process does not follow a standardized system; agents are sometimes recruited through reference of the companies' influential and prospective clients.
- ✓ Training and orientation of field and marketing agents are not adequate which later results in the gap between quality of service promised to customers and that of actually delivered.

All these aspects contribute to the problems of the HRM sector of the industry. Since human resource development is at the centre of the essence of an industry to flourish, such fundamental shortcomings have resulted in problems in several other functionalities of the industry.

### **Operational problems**

The extreme problem in the operational sector of insurance business is the utter absence of *sufficient numbers of technical expertise* (4.31). Without proper training and supplementary insurance education there is lack of knowledgeable and competent professionals. The industry requires people with technical knowledge to be able to do futuristic financial forecasting for determining premium rate, risk price quotation, etc. Moreover, the use of IT in the industry is very scarce and plans for integrating computerized systems for efficient operational management is also in the rudimentary stage compared to the extensive use of such technology in sectors like banking and brokerage.

The next problem to address in the operations factor is the expense ceiling imposed by the regulatory authority on the management (4.29). The research revealed that, it is not possible to maintain the expenses of the company within the stated amount since companies need to expend a good amount of money as commission to agents, agents' employers and sometimes policy holders. Also the commission ceiling dictated by the authority is not effective since almost every insurance company especially general insurance are offering commission up to 60% to 70% in different ways.

The government eliminated the commission system from the insurance sector in March 2002 following a request by the Bangladesh Insurance Association. However, the insurance firms were giving increased percentage to their agents in the name of business development. The unstable condition of the insurance industry has been caused due to the increased business development expenditures incurred as companies have tried to harness policy clients by offering higher commission rates to fend off the stiff competition in the market. As the overhead expenditure of all insurance companies exceeds limitation, there is a possibility of misappropriation of the money which may retard the growth of the insurance industry.

In fact the irregularities in the commission process have resulted in an unhealthy rat race in the industry where outrageous commissions are offered to policy holders in order to attract business. They are involved in under hand dealings with the policy holders which are increasing their expenses barring the operational efficiency. This has made the insurance sector itself a “Problem Sector”. Bank managers, importers, policy holders are the beneficiary of this immoral competition of the insurance companies and the government is being deprived of revenue. Insurance sector has failed to strength its position due to the unethical and unhealthy competition among the companies.

That is why the government has reintroduced the commission system to help increase government revenue as well as bring financial discipline in the sector. The government will get licence and renewal of licence fee from the insurance agents and employers of agents and also offering of extra commission will be detected automatically, transparency and accountability will thus be established in the sector eliminating unhealthy competition.

With the growth of the industry, underwriting capacity is no longer considered to be low anymore. Many companies are available for reinsuring and there are also available financially capable sponsors. Companies do not consider the paid up capital requirement to be a problem, in fact some companies recommended a higher amount of minimum paid up capital to compete better.

### **Marketing problems**

The major marketing problem is the customers’ lack of understanding of insurance policies and terms (5.5). The general public is not yet well aware of the benefits of insurance (5.1) and the prevailing unhealthy practices in the sector of commission system and delayed claim payments after incidents have reduced the level of trustworthiness of the insurance companies. Moreover, the intakes of less competent sales people have also dropped down the popularity of the overall insurance business. This also causes miscommunication between the agents and customers. Some general insurance companies depend on target based marketing agents who are employed on the condition of meeting certain premium volume from LC clients. They, do not, therefore, require any marketing activities.

However, marketing strategy in life insurance and other form of general insurance may prove to be ineffective (5.08). There is a negative perception towards the insurance business among general public and people are largely unaware as the benefits of insurance are not advertised. Managements are not taking initiatives to increase their marketing expansion with adequate level of advertisement, sales promotion, public relation, personal selling and direct marketing necessary to reduce the apprehension in the consumers’ minds involving the sector.

## **Ethical problems**

*Unhealthy competition* (4.91) in the sector involving attracting clients by offering rising level of commission to the policy holders is the major ethical problem. Company representatives interviewed opined that customers sometimes accept such policies from a company that do not provide their minimum risk coverage, only because they are offered a higher percentage of commission than the competitor. As a result the insurance provider gets business and the clients get the commission but have almost no real risk coverage for the insured incident.

This ethical predicament is also paired with *claim fabrication* (4.84) by clients in order to achieve a higher claim. The fabrication is sometimes done by the insurer as well, coupled with the act of the payment of commission. Insurance may cover only accidental events, where there is uncertainty of loss. In some cases fraudulent and exaggerated claims are also made by the client. Companies sometimes provide claims late or in less amount and in extreme cases do not realize the claim at all. This creates negative impression of the insurance business amongst general public.

Agent malpractice (4.69) is the next prevailing ethical problem. There are agents who take premiums from clients but do not submit the amount to the accounts. Sometimes clients are not educated enough to ask for a payment receipt and sometime they have blind faith on their agents. Such acts are depicted to be important ethical problem on an individual level basis. Officials primarily interviewed believe that improper channeling of recruits through recommendations and inadequate educational qualification sometimes lead to such unwanted events. Such activities are spurred by the practice of credit business in some companies where premium or Letter of Credit (LC) payments are usurped by both the agents and the clients.

It is time consuming and expensive for the companies to investigate agent malpractices and fraudulent transactions for which they sometimes simply forgo the cash inflows thus adding up to their losses. The *rules and regulation* (4.23) applied by regulatory body was ineffective thereby causing mismanagement in the industry, legal complications and unethical practices to flourish. Although the new regulatory body comes with promises, the insurance business is still waiting for these new regulations to be implemented.

The above group statistics conforms to the present situation of the sector. Application of non-standardized recruitment and selection process through client favors and other unprofessional means have resulted in a pool of under qualified, less motivated, inadequately trained and non professional front-line employees who according to some respondents, did not learn the insurance business. Such major setbacks in the development of sales persons and marketing agents cause major misunderstanding between them and clients thus leaving customers largely

unaware of the benefits of insurance. This facilitates the buildup of a negative attitude of general public towards the insurance business. Moreover, the companies lack in astute management who would adopt effective marketing strategies when necessary to redeem the misconceptions associated with the business and to reduce consumer doubts and fear.

#### 4.1.3 Paired Comparison between Problem Groups

Problem groups have been paired to see if there are any significant differences in the mean response scores between the categories using the paired-t test (Table 1). The test results show only human resource management and marketing pair had no significant differences in their mean scores (at  $\alpha=0.05$ ). That is respondents believe both Marketing and HRM problems are equally crucial to address. Agreement among respondents was missing in case of other problem pairs (i.e., Marketing–Operational, etc.) at 5% level of significance indicating these group problems can be prioritized as per their index values.

**Table 27 : Results of different pairs of problem groups (Problems)**

		Mean	Std. Deviation	Sig(2-tail)
Pair 1	Human Resource Problem - Marketing Problem	- 0.12396	1.04047	.246
Pair 2	Human Resource Problem - Operational Problem	0.90957	.88228	.000
Pair 3	Human Resource Problem - Ethical Problem	0.25625	.90476	.007
Pair 4	Marketing Problem - Operational Problem	1.03353	1.06235	.000
Pair 5	Marketing Problem - Ethical Problem	0.38021	1.09723	.001
Pair 6	Operational Problem - Ethical Problem	- 0.65332	.76356	.000

From the table it can be seen that there is no difference in mean scores in responses between Marketing problem and Human Resource Problem at  $\alpha=5\%$ . Therefore, there is a relation between HRM and marketing variables. The respondents who consider setback in human resource a major problem also regard marketing inefficiencies an equally crucial problem for the insurance business. However for all the other pairs, it can be said that the mean scores of these pairs are significantly different from each other. Therefore for the rest of the paired categories there is no significant relationship between the variables of the paired groups.

#### **4.2 Problem variability among Life and General Insurance companies**

Independent sample t-test has been carried out in order to find out if the problems differ in severity in life and general insurance businesses. The mean scores for the four problem groups for life and general insurance respondents were compared to look for any significant difference.

Human resource management problems have significant difference in scores thus depicting that the problem has different degree of severity among life and general insurance companies. The mean score for the HRM problems are higher for life insurance and a lower for general insurance companies. Life insurance companies appoint licensed agents who are given commission on the number of policy holders they can attract. The sales people have to be convincing to increase the premium volume. Therefore life insurance requires agents with effective communication skills which is not the case due to the evident problem variables of training, agent qualification etc. On the other hand, general insurance business has mostly marketing employees who are appointed on the basis of contracts to fulfill a certain targets. In such cases it is the employee's responsibility to meet the desired target and therefore training and other qualification needs are not that very important to the management.

*Operational problems* are moderately critical for both life and general insurance companies. Both types of insurance business operate in similar business condition with the expense and commission ceilings imposed for both of them. The integration of information technology is in the coarse stage for both the business types thus exposing the lack of competent and skilled technical employees. So, the mean scores of respondents of life and general insurance did not differ.

*Marketing problem* mean scores did not have significant differences among the life and general insurance companies respondents. Both the business types are affected in the same grade by the negative perception of the insurance practices entailing in the sector. The problem of consumers' lack of understanding of insurance benefits and the functioning of different policies equally affect both the business types. And both life and general insurance business are inflicted with the absence of proper marketing efforts in order to attract business.

*Ethical problem* poses same severity of problem in the two business categories. Unhealthy competition in the business in terms of unethical commission payment to policy holders is prevalent in both life and general insurance businesses. Agent malpractice and falsification of claims are evident in both business types. Regulatory system for both life and general insurance companies are inadequate for surveillance of the mismanagement in the sector. Therefore the scores did not significantly differ for the two types stating the problem to equally disturbing for the two businesses.

### 4.3 Problem severity in 3 categories of Life Insurance companies

ANOVA (one way) was used to find out the difference in responses between the problem groups and the three types of life insurance companies in Bangladesh: i) State-owned (Jibon Bima) ii) Local Private companies and iii) Multinational company (MetLife Alico). *HRM* problems have different degrees of severity among the three categories of life insurance business. State owned company is facing more trouble in its human resource development section due to the bureaucratic work in implementing effective recruitment and selection process as well as the financial deficiency to provide proper training. Local private companies are realizing the need to develop their workforce and are using funds available to them to arrange for training and even insurance courses for prospective employees. Multinational company has entered the market with its own training and recruitment policies which is aloof of the traditional practices in the market. Therefore HRM problems for it are fairly moderate.

*Marketing* problems have major impact on state owned company. Foreign and local private companies advertise their offerings and policies to their target customers. Although the overall marketing package may not be very effective, still these categories of life insurance try to be competent in communicating with the public. Their efforts reduce the level of misconceptions to certain degrees for which they are attracting new clients. Whereas nationalized company advertise itself and its policies sparsely and also shows low level of innovations and competence in its offerings. As a result a large portion of new potential consumer base remains untapped.

There is a significant difference in mean score for *Operational* problems among the three categories. Local private companies are already operating far beyond the expense ceiling and are offering commission percentage excessively above the percentage set by government. Most of the local private companies have political immunity which has strengthened the rat race competition of attracting policy holders. Nationalized company, which is restricted to certain level of commission, loses potential clients to the private companies. Therefore for state- owned company operational setbacks create major problems.

*Ethical* problems are considered to be a major problem in nationalized life insurance company and a minor problem by the local private companies. The local companies have sprouted like mushrooms and they have attained clients and businesses by employing several unethical practices such as under -hand commission payment etc. Most of the companies are operating with huge overhead expenses. Since the unhealthy competition of offering unrestraint percentage of commission has allowed the private companies to flourish they do not consider the idea of such competition as problematic. However, the state-owned company does not have the financial freedom to offer any level of commission to clients. So it is losing business and therefore considers the unethical competition as a major problem.

#### 4.4 Prospect Analysis

The prospects of this industry due to different socio-economic factors, forces and scenario have been categorized in five groups: 1) Economic prospects, 2) Prospects of new entrants', 3) Operational prospects, 4) Sectoral Prospects (different types of life insurances and general insurances). Within the group a number of possible prospect variables are tabulated in Table 12 and analyzed below:

##### 4.4.1 The Most likely prospect

The mean scores of the prospect groups were compared to find out which of the *Economic* prospects is the most likely to occur in the next 5 years. Almost all respondents agree that the demand for insurance will increase with rising working age population. As more people are in the labor force the probability of policy purchases rise accordingly. Higher income of people reflected in the higher GDP per capita of the country, encourages people to insure themselves for safeguarding them from several incidents. Higher income also promises the capability of the insured to pay premiums thus increasing the premium volume for the sector. Penetration to rural markets is also considered to be likely prompting the insurance companies to diversify their services and consumer base.

In case *New Entrants* prospects, the insurance industry has already reached above its saturation point. Where according to the premium volume of Bangladesh 20/25 life and general companies should operate, there are in fact 62 companies chase annual premium worth only US\$ 1 billion. With the challenge of having sufficient number of qualified insurance professionals as well as participating in the unhealthy competition, possibility of new players entering in the sector will aggravate these problems. Therefore many respondents believe it is not very likely that new foreign or local companies will enter in the sector and also it is likely that the industry may be saturated within the next 10 years.

The *Operational* prospect involves the high likeliness of underwriting capacity of the insurance companies. With the increase in demand of life insurance as well general insurance regarding LC and asset insurance for bank loans, the companies will have higher premium income thus enabling them to have a sturdy underwriting capacity. Including bank as a distribution member will facilitate the growth of the insurance industry in the financial markets as well. There is low possibility according to the respondents that the average premium price will fall in future since, providing low premium offers to policy holders plays the main role in initiating the unhealthy competition in the first place.

Under the *General Insurance Category* fire and marine insurance services are depicted to have high growth in next 5 years. With the buildup of several import and export industries in the country spurred by its economic growth, factories require to be insured against fire hazards. Also following the growth in export businesses, insurance of goods in cargo ships is also following a rising trend. Entrepreneurial activities have grown in the last decade with the requirement of insuring capital machineries and other assets for SME bank loan purposes. This trend will increase the growth of asset insurance. Studies have shown that increasing population is accompanied by a rising number of public vehicles and public vehicle requires insurance policy. Therefore the rising population shows possibilities for motor insurance as well.

*Life Insurance category* shows high prospect of micro insurance. Insurance companies are already saturated in city based markets for which they plan to expand in rural markets as well. Micro insurance acts as a service diversification as well as help the established companies to move into newer, profitable and untapped target base. Many new insurance companies may find it cost inefficient to operate in rural markets whereas bigger companies can operate cost effectively in asking little insurance premiums from small rural business owners with easy terms. This will allow rural people to afford to minimize their risks and after a certain period they will become used to it thus ensuring a promising future for micro insurance.

#### **4.4.2 Prospects in Life and General Insurance companies**

For both *Life and General Insurance* business types, there is no significant difference in the extent of benefits from economic, operational and new entrant prospects. The *rising GDP* will be affecting the demand of both kinds of insurance as economic growth results in higher sense of personal and familial security as well as in increased level of industrial activities. So both business categories will be benefitted. The escalated demand will cause both the types' *underwriting capacities* to rise resulting in higher operational efficiency. Finally, the industry overall is moving towards saturation with a few more new companies of both types opening during each political tenure.

#### **4.4.3 Prospects in three categories of life insurance**

Among the three categories of life insurance being, state-owned, multinational and local private companies, the state owned company is most likely to enjoy some of the prospects. Although all the prospects have no significant difference in their likelihood of occurring in the three categories, the nationalized company, Jibon Bima can take some advantage from the growing economic prospects since it

already has a level of consumer trustworthiness as a the only government life insurer. Entry of anew nationalized insurer is very unlikely to happen however it is moderately likely that some local private life insurance companies will open up in coming years. The paired t-test showed that variables in economic prospects and life insurance categories are related thus the rise in income and population will affect the sale and demand of several life insurance services.

### 3.2 Comparison of means scores of Prospects between groups

To find whether there is any difference in mean scores between various categories of prospects paired-t-test analysis has been conducted at a level of significance of 5%. A total of 69 general and 27 life insurance respondents were surveyed respectively and paired up against the three prospect categories: economic, operational and new entrant possibilities. The prospect categories were also cross paired to find the mean score differences amongst the total 96 responses. The Results are shown in the Following Page:

**Table 28 : Results of Different pairs of prospect groups**

No.	Pairs of Variables	Mean	Std. Deviation	Sig(2-tail)
Pair 1	Economic Prospect - Operational Prospect	0.54010	1.20056	0.000
Pair 2	Economic Prospect - Prospects for New Entries	1.14854	1.29517	0.000
Pair 3	Operational Prospect - Prospects for New Entries	0.60844	1.47381	0.000
Pair 4	Economic Prospect - Prospect for General Insurance Category	-1.09058	1.00353	0.000
Pair 5	Economic Prospect - Prospect for Life Insurance Category	-.14444	0.76074	0.333
Pair 6	Operational Prospect - Prospect for General Insurance Category	-1.37319	0.85063	0.000
Pair 7	Operational Prospect - Prospect for Life Insurance Category	-1.34259	1.63370	0.000
Pair 8	Prospects for New Entries - Prospect for General Insurance Category	-2.18242	1.34643	0.000
Pair 9	Prospects for New Entries - Prospect for Life Insurance Category	-1.43790	1.54091	0.000

From the result tabulation we can see that only pair 5 shows significant difference in the mean scores at 5% significance level. Therefore variables of Economic Prospect and Prospect for Life Insurance Category are related. Other factors however do not have any significant difference in means across the paired observations thus, not establishing any firm relationship between the concerned variables.

## 6.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Although the growth of insurance industry of Bangladesh is quite impressive but it has not made much qualitative development. In economics, there is a difference between 'growth' and 'development'. The presence of too many companies, 43 general and 17 life insurance private sector companies and two state owned corporations, total 62 companies in a small market has given rise to all the unethical practices and maladies retarding the growth of the industry in the past decades. Besides, compared to other neighboring countries, our industry is yet to go a long way to attain a favorable position.

Till date Bangladesh is a grossly underinsured nation. Therefore, in order to build a healthy insurance industry, a set of measures may be adopted. Few recommendations are extracted from the study and from observations of practices in neighboring countries, in order to facilitate the reemergence of the healthy business condition of the insurance sector.

***Increased number of qualified professionals:*** It is now widely accepted that quantitative growth and real development are not synonymous. Growth is sought to be measured or quantified in terms of the increase in aggregate premium income; on the other hand, development of insurance industry means not only an increase in premium income but also a reduction in cost, rendering of best service to the clients, fulfillment of the needs of the insuring community, extension of social security, and prompt settlement of claims. All these can be attained if the workforce in the industry is more knowledgeable, has specialized education on insurance and can rightly communicate the business benefits to customers. The general insurance companies have to abolish the out of the book recruitment practices through recommendations etc. and adopt a standardized method. Moreover in case of life insurance businesses, agent qualification levels have to be set at a higher level for passing the examination and training sessions to be a license holder.

***Extension training:*** the agents and marketing employees need proper training and orientation with the company's code of conduct so that they can avoid

miscommunication with the clients regarding policy benefits and claim realization. The only way is to go for extensive training of the employees through institutions such as Bangladesh Insurance Academy. The curriculum and training program should be set in accordance to the present need of the industry such as including premium forecasting, policy innovations, loss assessment techniques, underwriting skills and management acumen. Training facilities is a crying need for state owned companies.

***IT development:*** the sector needs specialized and technical knowhow on advanced form of communication technologies. Incorporation of IT system in the businesses will result in fast and efficient maintenance of policy records as well as several software can help in forecasting risk quotation price and maintain claim realization dates automatically. The management needs to have the technically adept workforce and allocate fund to train them in order to reap the benefits of technological advancements.

***Efficient marketing efforts:*** to regain and maintain a positive public image, the insurance companies should overcome the dissatisfaction in regards to services and claim settlements through maintaining a service standard in their direct marketing and personal selling efforts. Insurance companies especially the nationalized ones should increase their public appearance through increased advertisements in newspapers and other potential customer touch points to buildup awareness about insurance among general public. The marketing and sales force should be informed and competent to be able to cater to the needs of each individual.

***Eliminating unhealthy competition:*** operational effectiveness can be achieved by the reduction of the unhealthy competition involving commission payment among companies mostly the local private general insurance ones. Some respondents of the research recommend that the commission system be abolished for smooth operations. They opined that if commission system is eradicated, the prevailing practice of giving high commission to agents in unethical way in order to procure more businesses can be prevented. As a result, the unhealthy competition among companies that currently plagues the industry can be reduced. Moreover, by eliminating the commission system altogether problems such as misappropriation of money, less than required real risk coverage can also be minimized to a great extent. However, continuation of the commission will enable the government to keep tab of excessive commission payouts and impose accountability on the insurers.

Diverting companies from the rat race will engage their concentration in better product innovations, value chain management, new underwriting techniques and

post sales service including claim settlement practices. Instilling a healthy competition would allow companies to expand their investment and risk-sharing opportunities in wider geographic regions.

***Restricting the number of new entrants:*** Bangladesh still has a large population base not under the incumbency of insurance. The existing players therefore have to still tap into this consumer base. Although the prospect of the sector seems quite promising, entrance of new players will only aggravate the prevailing unhealthy competition thus resulting in sky high management expenses and inadequate capital base for expansion into newer markets.

***Merger and Acquisition:*** when many developing countries during the last decade adopted the policy of merger and acquisition in order to reduce the number of companies and, thus, to build up strong companies to face mega foreign insurers, in Bangladesh a large number of insurance companies have been floated presumably on political motivation. Many respondents feared that the level of technical and professional inefficiency of local general insurance companies may attract large, well-organized foreign insurers into Bangladesh's market. In such cases it will be difficult for the domestic insurance industry to survive. The collusion of local insurers in this case may help the domestic market to fight off such foreign giants.

***Fully- functioning regulatory system:*** the insurance and to some extent the banking system are the two glaring examples that the persons in authority could vitiate the business climate. Past political tenures have allowed the floating of many banks and insurance companies in the private sector. This mushrooming has created all the problems regarding unethical practices and commission competition. The banking sector is rather fortunate for the fact that the central bank through legal and other means could face the situation. However, for insurance sector things have been tougher due to the absence of a central, assertive and effective regulator like the Bangladesh bank for the banking sector. Implementation of the insurance regulatory authority set up by the government should gain speed to reestablish proper corporate governance in the sector. Moreover scopes for punishment should be there in case of breach of insurance act/laws.

***Reinsurance opportunities:*** According to present law, 50% of the general insurance businesses have to be compulsorily reinsured with Sadharan Bima Corporation (SBC). SBC providing insurance service itself is a competitor and therefore it does not seem logical for the private companies to reinsure with it. In addition, SBC cannot establish as a professional re-insurer as well. Therefore permission may be given to private insurance companies to solely act as reinsurers

which will create new opportunities many private insurers. The private companies can argue in favor of their capability to act as reinsurers on the basis of the fact that as of 2006, the total capital belonging to government owned general insurance companies is Tk. 550 million while the private sector insurance companies own Tk.2500 million. With SBC as only a competitor there will more transparency in the system.

***Use of bank draft:*** since agent malpractices occur by not submitting premium or fraudulently not providing the money receipt to the client, some interviewees suggest that the use of pay check and bank draft be made mandatory for any kind of monetary transaction within the business. This helps to keep accurate record at the same time avoids any sort of deceptive activities by either agents or clients.

***Increased return on investment:*** Insurance sector should provide return on investment to clients compared to other financial tools. Although the nature of insurance is different, general public believes in receiving higher return for their deferred consumption. The private insurance companies are realising the fact that more money can be made if the scope of investment activities is broaden. Investing into areas such as money market, leasing, housing and health can prove to be profitable if managed by capable and experienced personnel.

***Service diversification:*** Insurance is not just a tool of risk coverage. It is also an attractive instrument of savings. The mixture of risk coverage with savings gives the opportunity for innovative product designing which means service diversification. In a dynamic insurance market one can expect to see new products being promoted at regular intervals. So far very little efforts have been taken to innovate and introduce need oriented insurance services in response to existing market potentials.

For example the insurance business can penetrate the rural consumer base by providing low risk premium services based on occupations and geographic locations. Services can be catered for agricultural risk coverage due to natural calamities. Moreover due to increased private and government expenditure in this sector, the insurance industry has great prospect in diversifying its service in terms of protection against crop loans, livestock loans, fisheries loans and equipment loans.

## REFERENCES

- Asia insurance review (2011, January 21). Bangladesh: 400 applications received to set up new insurance companies. Retrieved on 1 July 2011 from <http://www.asiainsurancereview.com/pages/eweekly.asp?country=10&articleID=13391#13391>.
- ABM Nurul Huq (2008, August 15). Globalization and its impact on insurance industry on Bangladesh. The Financial Express. Retrieved 1 July 2011 from <http://www.thefinancialexpress-bd.com/2008/08/15/42696.html>.
- Azam, Md. Shah (2005). Customers attitude towards General Insurance Service: Contrasting the Private and Public Sector of Bangladesh”, *Insurance Journal*, Vol. 56, July 2005.
- Haq, A.B.M Nurul (2006). “Need for Professionalism in Insurance Sector”, *Insurance Journal*, July 2006.
- Jasim Uddin Khan (2005, June 27). Commission in general insurance reintroduced. The Daily Star. Retrieved 2 July 2011 from <http://www.thedailystar.net/2005/06/27/d50627050150.htm>
- Mohammed Muniruzzaman (2011). Exclusive Interview of Tawhid Samad, Chairman of Bangladesh General Insurance Co. Ltd. *Bank-Bima*,09, 27-29.
- Chowdhury,T.A & Rahman, M.I (2007). Perceptions of the customers towards insurance companies in Bangladesh – a study based on Servqual model [electronic version]. *BRAC University journal*, Vol. 4, pp. 55-66.
- Appendix 1: Coordination schema depicting the problems faced by the insurance industry of Bangladesh

Parameter	Complex Variable	Simple Variable
Human Resource Problems	Problems attributable to the company	Lack of skilled trainers
		Lack of awareness of trainers regarding organization's code of conduct
	Problems attributable to agents	Ineffective process of recruiting and selecting agents
		Ineffective training of agents
		Low qualification of agents
Operational Problems	Core internal	Low underwriting capacity
		Commission ceiling imposed for single business
		Expense ceiling imposed on the management
		Required minimum paid-up capital of Tk. 400 million
		Lack of Sponsors
	Auxiliary Internal	Lack of personnel with technical knowledge
		Lack of IT development
Marketing Problems	Inherent challenges	Low awareness of the insurance benefits among public
		Customers' lack of understanding of insurance policies and terms
	Problems attributable to the company	Ineffective marketing strategy
		Miscommunication created by agents between customers and companies
Ethical Problems	Created by agents and customers	Claim Fabrication
		Agent Malpractice
	Environmental	Unethical/Unhealthy Competition
		Effectiveness of rules and regulations of regulatory body

**Appendix 2: Coordination schema depicting the prospects faced by the insurance industry of Bangladesh**

Parameter	Complex Variable	Simple Variable
Economic Prospects	Macro External	Higher per capita GDP stimulating growth of the insurance industry
		Ability to recover from losses incurred due to capital market downturn
	Micro Market	Greater penetration of the insurance industry in rural areas
		Rising demand for insurance products caused by rising working age population
		Greater confidence of customers on insurance companies
Operational Prospects	Performance of the industry	Improved underwriting capacity of local insurance companies
		Drop in average premiums of all insurance products
	Regulatory performance	Increased operational efficiency of the insurance companies due to new regulations imposed by IRDA
		Introduction of new distribution channels/intermediaries other than agents – such as bank-assurance
Prospects for New Entrants	Competition	Entrance of many new local companies in the insurance industry in the next five years
		Admission of foreign insurance companies in the local industry
		Saturation of the insurance industry in the next ten years
Growth of different subsectors	Growth of General Insurances	High growth of fire Insurance in the next five years
		High growth of asset Insurance in the next five years
		High growth of motor Insurance in the next five years
		High growth of marine Insurance in the next five years
	Growth of General Insurances	High growth of education insurance in the next five years
		High growth of health insurance in the next five years
		High growth of micro insurance in the next five years
		High growth of Islamic Insurance in the next five years

**List of Insurance Companies Surveyed:**

1. Desh General Insurance Co. Ltd.
2. Rupali Life Insurance Company Limited
3. Green Delta Insurance Company Limited
4. Provati Insurance Company Limited
5. South Asia Insurance Company Limited
6. Sandhani Life Insurance Company Limited
7. Sonar Bangla Insurance Limited
8. Meghna Insurance Company Limited
9. Rupali Insurance Company Limited
10. Eastland Insurance Company Limited
11. Agrani Insurance Company Limited
12. Bangladesh General Insurance Company Limited
13. Pragati Insurance Company Limited
14. Republic Insurance Company Limited
15. General Insurance Company Limited
16. Dhaka Insurance Limited
17. Prime Insurance Company Limited
18. Continental Insurance Limited
19. Phoenix Insurance Limited
20. ALICO

21. Sunlife Insurance Company Limited
22. Delta Life Insurance Company Limited
23. Peoples Insurance Limited
24. Far East Islami Life Insurance Company Limited
25. Progressive Life Insurance Company Limited
26. Jibon Bima
27. United Insurance Company Limited
28. Federal Insurance Company Limited
29. Mercentile Insurance Company Limited
30. Jonota Insurance Company Limited
31. Pioneer Insurance Company Limited
32. Northern General Insurance Company Limited

# Shariah Governance and Regulatory Aspects of Takaful

**Kazi Md. Mortuza Ali**

---

## **Introduction**

Every takaful scheme is and intended to be a legally binding agreement between the participants and the takaful operator and between the participants. Thus the law of contract is the very basis of the takaful operation. There are social and economic aspects of takaful which set it apart from tangible goods. Takaful operators, in effect serve as trustee of participants fund. Therefore, it is necessary to protect the best interests of participants, shareholders and all related stakeholders. Regulations and supervision of takaful industry is a practical necessity. In this paper, we will discuss the laws of contract, Shariah governance, and regulatory aspects of takaful operation.

## **Shariah Principles of the laws of contract**

The simple definition of a contract is that it is a legally binding agreement. In other words a contract is an agreement enforceable by law. As a general rule, all agreements are binding to law unless they fall under one of three exceptions:

- a) One can not be forced in to making contract, if it is not legally binding.
- b) Agreements between members of a family or friends relating to purely social or domestic matters.
- c) Agreements which are void abnitiu and no legal consequences can arise from entering in fo them.

The essentials of a valid contract are as follows:

- a) The parties to the contract must have contractual capacity
- b) The object of the agreement must be lawful
- c) There must be valid offer and acceptance
- d) There must be a legally binding agreement
- e) Legal formalities if any are required to be complied with
- f) There must be some consideration

---

**Kazi Md. Mortuza Ali**

Chief Consultant to the Board  
Prime Islami Life Insurance Ltd

Shariah scholars do not invalidate these essentials of a valid contract. However we will discuss some of the Shariah aspects of valid contract. In an Islamic financial transaction, validity of the contract is important in determining whether a transaction be considered Halal or Haram. According to the majority of jurists, there are only two possible rulings on the status of a contract: valid and invalid (Shahi or Gayer Sahi). A valid contract from an Islamic view point is one in which all the essential conditions of contract are fulfilled. Valid (shahi) contract establishes all the legal implications the Shariah has assigned in a contract of that type. For example, the buyer attains the exclusive right to possess and utilize the bought asset, when the seller becomes entitled to the consideration. The majority of jurists hold the view that the effectiveness of a valid contract may be suspended until the occurrence of a future event.

A contract is invalid which violates the Shariah conditions of the contract. From the Shariah point of view, an invalid contract does not produce the legal effects of the contract. There is no exchange of financial rights and responsibilities due to it. The buyer does not have any right to dispose off the assets, while the seller cannot possess the income realized out of invalid sale transaction. Some of the factors which render a contract invalid are:

- a) If the sold item is prohibited by the Shariah
- b) If the asset is not fully possessed by the seller
- c) If there is gharar (excessive uncertainty) regarding delivery date, price, etc.
- d) If the parties involved in the contract do not qualify the legal eligibility to execute contract.

The Hanafi school of thought classifies contracts into three categories. These are (a) Shahi, (valid) Fasid (irregular) and Batil (void). According to this classification “Fasid” is an intermediary class between Shahi and Batil. If the defect in a fasid contract can be rectified it becomes a valid contract. If the defect is fundamental and cannot be rectified, it becomes void or batil. Batil is a contract that is invalid due to a defect in any of the essential elements fundamental to a valid contract. A fasid contract on the other hand is not valid because it contains an element of some external prohibited factor attached to the fundamental elements of valid contract.

Since the defect element is not fundamental one, the contract is irregular but rectifiable by removing the external factor attached to fundamental elements. For example, when an insane person sells pork for a payment of wine to another drunk person the contract is absolutely void. But if one gram of gold is exchanged with two grams of gold the contract is irregular. This is because of existence of increment in weight. If and when this increment is removed, the contract becomes valid.

There are several factors which lead to an irregular contract. These are

- a) Selling essential items which will cause harm to seller
- b) Ambiguity regarding time of delivery, price, quantity etc.
- c) Insufficient information or lack of information regarding quantity, price, surety, delivery time etc.
- d) Existence of an element of riba makes a contract irregular
- e) Existence of an invalid condition (inconsistent with nature and implication of the contract)
- f) Existence of duress (ikrah) of lower grade.

An Islamic insurance/ takaful contract must fulfill the following requirements to be valid:

- a) There must be an offer (ijab) and an unqualified acceptance (kabal) of that offer. However, the takaful contract is contract of donation based on mutual help and mutual protection. Therefore, takaful contract is a contract between those who are giving and receiving protection at the same time and the takaful operator. The takaful contract defines a unique relationship between the takaful operators and participants. It requires takaful operators to duly observe fundamental obligations towards participants and other stakeholders.
- b) The parties to a contract can be individual, group or legal entities, if they have the legal capacity to enter into the contract. A takaful contract fulfills this criteria
- c) The object of the contract refers to the subject matter. In case of takaful contract, the subject matter is risk coverage.

- d) The object must be known to the contacting parties in terms of nature, quality, quantity and delivery. This is why a takaful contract has to be transparent.
- e) A takaful contract must be binding by Shariah laws

There is no insurer-insured relationship between takaful participants and takaful operator. Takaful contract is essentially concluded between a participant and other participants with the purpose to provide mutual help and mutual protection. This is unilateral contract wherein the consent of the recipient is not required. In a unilateral contract only one party makes a promise to donate for creating a common fund (tabarru).

Tabarru is initially at the discretion of the donor. Muslim scholars have permitted commitment to tabarru in takaful products in order to promote cooperation which takaful aims to achieve. The payment of the compensation and or financial aid to the participants is made from the common fund created from donation. It is permissible to make conditional donation (hibah-bi-shari). Donation is a non-commercial contract but this is linked to commercial venture of the operator.

Apart from donation contract, in takaful there is contract of engagement between participants and takaful operator. This is called mudarabah contract wherein the takaful participants provide the capital (the collected contribution) and the takaful operators provide the management service. There can be also Wakalah contract wherein the takaful participants create the fund and authorize the takaful operator to manage the fund and related activities on behalf of the fund. The operators act as fund manager in exchange of fixed fee paid up front. Performance fee may also be paid based on certain benchmark in relation to surplus. Surplus is defined as the balance outstanding after the payment of all claims to participants and relevant expenses. Some scholars advocate the trust concept wherein the participants as the settlors pay contribution to the trustee (operator) for the benefit of beneficiaries which may include the settlors themselves.

### **Shariah Governance system and role of Shariah Council**

The takaful contract defines a unique relationship between the takaful operators and participants. It requires takaful operators to duly observe fundamental obligations toward participants, particularly in terms of adhering to Shariah

principles, undertaking fiduciary duties and meeting prudential standards. In order to ensure compliance with Shariah rules and principles, it is necessary to develop a Sharia Governance system in takaful operation.

Shariah Governance system refers to the set of institutional and organizational arrangements through which a takaful operator needs to ensure that there is effective independent oversight of Shariah compliance. A key characteristic of independence is the ability to exercise sound judgment and views without any influence from any quarter. While carrying of his/her duties a member of the Shariah Council/Board should always have complete moral, intellectual and professional independence.

Islamic Financial Services Board (IFSB) has prescribed certain guiding principles on Shariah Governance system for institutions offering Islamic financial services. A takaful operator can follow these guiding principles to ensure Sharia compliance. These principles are as follows:

- a) The concerned Shariah council must have clear terms of reference regarding its mandate and responsibility. There can be a sound code of ethics and conduct that would enhance the integrity, professionalism and credibility of the members of the Shariah council.
- b) The takaful operator shall ensure that any person mandated with overseeing the Sharia governance system (SGS) fulfills acceptable criteria.
- c) The takaful operator shall facilitate continuous professional development of persons serving on its Shariah council as well as its internal Shariah Compliance & Audit department.
- d) There should be a formal assessment of the effectiveness of the Shariah council as a whole and of the contribution by each member to the effectiveness of the Shariah council.
- e) The Shariah council should play a strong and independent oversight role, to exercise objective judgment on Shariah related matters. No individual or group of individuals shall be allowed to dominate the Sharia council's of decision making process.

- f) In order to fulfill its responsibilities the Sharia council should be provided with complete, adequate and timely information prior to all meetings as on an ongoing basis.
- g) Shariah council members should ensure that internal information obtained in the course of their duties is kept confidential
- h) The takaful operator should fully understand the legal and regulatory framework for issuance of Shariah pronouncements/resolutions. It should also ensure that the Shariah council strictly observes the said framework and, wherever possible, promotes convergence of the Shariah governance standards.

Shariah pronouncements/resolutions refers to a juristic opinion on any matter pertaining to Shariah issues in Islamic insurance/takaful given by the appropriately mandated Shariah council. A Shariah pronouncement/resolution shall be issued only through appropriate due process. In jurisdictions where there is a central authority such as National Shariah Board/Council or Fatwa council, the central authority should have power to issue such pronouncements and the respective Shariah councils of the operators should ensure its compliance

Each takaful operator should have Shariah compliance review/audit department for verifying that Shariah compliance has been satisfied. Any non-compliance should be recorded and reported and as far as possible be addressed and rectified. The internal Shariah compliance and audit department shall recommend to management to rectify and address the issues and subsequently report to Shariah council.

The burden of ensuring a sound and effective Shariah Governance system should not be left to members of the Shariah council only. Every stakeholder in takaful business, the customers, employees, agents, brokers, management, shareholders and the regulatory authority should also play a part in sharing the responsibility. However, the primary duties of Shariah council are as follows:

- a) To Advise the Board of directors on Shariah related matters.
- b) To Preview and endorse Shariah related policies and guidelines
- c) To Prepare a Shariah process manual.
- d) To Endorse and validate relevant documentation for new products and services, including contracts, agreements etc.

- f) To Observe the computation and distribution of Zakat or any welfare fund channeled to charity
- g) To Delegate some of its functions to any or group of council members, management team or outside experts.
- h) To Endorse and validate product guidelines, investment guidelines, marketing, advertising and sales literatures, illustrations etc.
- i) To Submit reports regularly to Board of directors in relation to Shariah Audit findings, product design, balance sheet, financial statements
- j) To Submit annual Shariah compliance report for onward disclosure & distribution to share holders, policy holders and member of the public.
- k) The secretary of the Shariah council shall be responsible for recording the minutes of meetings. All minutes to be properly archived by the secretary for future reference.
- l) Relevant minutes of the Sharia council meeting be submitted to relevant departments and senior members of management.
- m) To Ensure that the council is transparent and its independent character is not jeopardized
- n) To Promote appropriate ethics and values within the organization and ensure continuous improvement of Shariah control process
- o) Each member of Shariah council should contribute to the best of his/her ability in enriching the discussion and deliberation of the issues raised in the Shariah council's meetings.
- p) Each member of Shariah council should strive for continuous self-improvement, demonstrate integrity and accept responsibility with due care and diligence.
- q) Each member of the Shariah council should exercise rational and logical reasoning, demonstrate willingness to learn from others and strive to be in achieving qualities.

Shariah members should possess competency regarding academic qualification and or reasonable experience in Islamic finance, Islamic commercial law (fiqh al

Muamalat) and be able to demonstrate an adequate understanding of Shariah based financial transactions. Shariah members are also expected to have strong skills in the philosophy of Islamic law (Usul-al-fiqh) and be very conversant in the primary sources of the Shariah. It is also expected that the members of the Shariah council should have good knowledge of Arabic and be able to converse in English. Furthermore, a member should be able to display and understanding of the following:

- a) Shariah rules relating to takaful operation
- b) General legal and regulatory framework that may apply in takaful transactions
- c) Impact of introducing takaful schemes to the market in achieving the object of Shariah (maqasid al Shariah)

### **Rules, Regulations and Role of Regulator**

Generally rules are promulgated by the government and executed by the Regulatory Authority. However, the rules are usually drafted by the regulator or by a special committee for the purpose. Takaful industry needs appropriate rules and regulations in different jurisdictions. There are few countries which have promulgated separate Takaful Act but in most jurisdictions the regulators and or operators have raised several issues and it becomes difficult to resolve those.

In majority of the jurisdictions, the cart has been put before the horse. Despite this situation, the takaful industry has witnessed significant transformation in the last three decades and more. The rapid expansion of the industry warrants for an operational framework to be clearly laid out to guide the takaful operations. These guidelines may be provided by the respective regulatory authority in line with the I.F.S.B guidelines or of the regulatory guidelines of Malaysia, Bahrain, K.S.A, Pakistan and other countries where separate Act or appropriate rules have been promulgated.

Takaful industry requires legal and the regulatory frame work, because they are expected to conduct operations in prudent and ethical manner as per Shariah law. To promote takaful, the regulator should provide guidelines, regulations and or

rules if not separate law. The regulations/rules should outline the parameters to govern operational processes of takaful operators. The guidelines in the form of rules/regulation define in detail requirements to promote the sustainability of takaful operations and concurrently fulfill the prudential requirements expected by the regulatory authority. The purpose of these rules/regulations should and or law of the parliament is to promote uniformity in takaful business practice and to enhance the operational efficiency of the takaful industry to safeguard the interests of participants and other stakeholders.

Takaful operators are required to undertake the necessary measures to enhance operational system, procedures and process to be consistent with the rules and regulations. The operational model shall be based on contracts (Mudarabah, Wakalah, Hybrid etc) preformed by the takaful operator and duly approved by the Shariah council and the regulatory authority. The operational model of the takaful operator shall define clearly its contractual relationship and fiduciary duties to the participants. The takaful operators are also required to segregate the assets of the takaful operators. Within the takaful fund the takaful operators are required to establish and maintain separate takaful funds for each class of takaful business. The takaful funds for the family takaful business shall be segregated into two funds: Participants risk fund (PRF) and participants investment fund (PIF). The separation of the risk and savings /investment funds is necessary to recognize the different ownership, purpose and risks associated with the contributions.

The participants risk fund (PRF) shall be used to pool the tabarru portion of the contributions. The PRF is maintained to provide mutual financial help and aid to participants when claims are made from risks covered under the takaful contracts. The PIF is to be maintained to pool the savings/ investment portions of the contributions. The PIF is individually owned by participants.

As per Shariah and regulatory guidelines, the takaful operators shall adopt appropriate investment and management strategies to earn returns that are reasonable. For investment linked takaful schemes, the PIF shall be in unitized form ie the amounts invested are converted into units. For nonlife takaful business the PRF is maintained to pool the tabarru portion of the contribution for the general takaful schemes. The PRF shall be utilized to provide mutual financial aid and assistance to participants when claims are made for risks covered under the general takaful contract.

As per regulations/ guidelines provided by the regulatory authority the takaful operators shall maintain records of all the assets, liabilities, revenues and expenses relevant to the funds. The method of allocation and the proportion of contribution allocated to the takaful funds must be made transparent in the takaful contracts. It is necessary that the wordings of the takaful contracts and funds are consistent with the operation and management of the takaful products and funds.

In case of family takaful and health/ medical takaful schemes the method and proportion of allocation must also be consistent with the actuarial certificates and Shariah guidelines. Takaful operators must ensure that efficient processes are established to manage the takaful funds and effective risk controls and monitoring systems with a view to safeguard the takaful fund and protect the interest of all the stakeholders.

It is the responsibility of the Regulatory Authority to ensure that takaful operators exercise diligence in product design and ensure that the products offered include adequate takaful coverage and are suitable and appropriate to the targeted market segment. Takaful operators shall ensure adequate tabarru allocation into the participant risk fund to cover risk and obligations associated with the takaful contract. Takaful operators shall also ensure that the contribution charged is sufficient to cover the tabarru throughout the term of the product.

In determining the price of the products, prudence must be maintained to avoid under pricing and balanced with due care to avoid participants from being charged excessively. Takaful operators shall manage the underwriting process effectively to avoid anti-selection and ensure viability of takaful funds in the long run. They will also be held responsible to objectively evaluate and assess the underwriting risk and exposures of potential participants to ensure that risks accepted are consistent with assumptions used in determining the contributions.

Rules and regulations be framed in the following areas of takaful operations:

- a) Retakaful policy and management strategy to be followed to ensure that the retakaful arrangements are well diversified.
- b) Sound investment management in line with Shariah requirements and participants expectations

- c) Appropriate and prudent valuation basis and methodologies taking into consideration the nature of the products, in term of the takaful contracts and the amount of takaful benefits.
- d) Appropriate systems and controls in claims handling process and payment of claims from the correct funds in line with the takaful contracts.
- e) Effective management of takaful funds operation to ensure that the funds experience is within the assumptions made in the pricing of takaful products.
- f) Assessment of the strengths of takaful funds to ascertain the extent to which it would be appropriate for surplus distribution without affecting the solvency
- g) Effective management of operating cost to result in fairer contribution and higher returns to the shareholders.

### **Role of IFSB**

IFSB (Islamic Financial Services Board) is an international standard setting organization which was inaugurated in November, 2002 at Kuala Lumpur Malaysia, and became operational in March, 2003. As on 2015, it has total strength of 188 members out of which 61 are supervisory and regulatory authorities, eight, inter-governmental and international organizations and more than one hundred (119) are market & professional players in over 45 jurisdiction. The organization promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the sectors providing Islamic financial services which includes banking, insurance (takaful), capital markets, sukuks, (Islamic bonds) etc. The IFSB conducts research and coordinates initiatives on industry related issues. It also organizes roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end the IFSB works closely with relevant international, regional and national organizations.

The objectives of IFSB are as under:

- To promote the development of a prudent and transparent Islamic financial service industry through introducing new, or adapting existing, international standards consistent with Shariah principles, and recommending these for adoption.

- To provide guidance on the effective supervision and regulation of institutions offering Islamic financial products and to develop for the Islamic financial service industry the criteria of identifying, measuring, managing and disclosing risks, taking into account international standards for valuation, income and expense calculation, and disclosure.
- To liaise and cooperate with relevant organizations currently setting standards for the stability and the soundness of the international monetary and financial systems and those of the member countries.
- To enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management.
- To encourage cooperation amongst member countries in developing the Islamic financial services industry.
- To facilitate training and personnel development in skills in areas relevant to effective regulation of the Islamic financial services industry and related markets.
- To undertake research into, and publish studies and surveys on, the Islamic financial services industry.
- To establish a database of Islamic banks, financial institutions and industry experts.
- Any other objectives which the General Assembly of the IFSB may agree from time to time.

As on 2015 the IFSB has issued 24 Standards, Guiding principles, Guidance and technical Notes for the Islamic financial services industry. The standards and guidelines proposed by the IFSB follow a lengthy due process which involve, among others the issuance of exposure draft and where necessary, the holding of a public hearing. The IFSB is actively involved in the promotion of awareness of issues that are relevant or have an impact on the regulation and supervision of Islamic financial organizations by conducting seminars, workshops, conferences training and dialogue in different countries. The published documents are as follows:

- Risk Management (IFSB- 1)
- Capital Adequacy (IFSB- 2)
- Corporate Governance (IFSB- 3)
- Transparency and Market discipline (IFSB- 4)
- Supervisory Review process (IFSB- 5)
- Governance for Collective Investment Schemes (IFSB- 6).
- Special Issues in Capital Adequacy (IFSB- 7)
- Guiding principles on Governance for Islamic Insurance (Takaful) operations (IFSB- 8)
- Conduct of Business for Institutions offering Islamic Financial Service (IIFS) (IFSB- 9)
- Guiding principles on Shariah Governance system (IFSB- 10)
- Standard on Solvency Requirements for takaful (Islamic Insurance) undertakings (IFSB- 11)
- Guiding principles on liquidity Risk Management (IFSB- 12)
- Guiding principles on Stress Testing (IFSB- 13)
- Standard on Risk Management for Takaful (Islamic Insurance) Undertakings (IFSB- 14)
- Revised Capital Adequacy Standard (IFSB- 15)
- Revised Guidance on key Elements in the Supervisory Review process (IFSB- 16)
- Core principles for Islamic Finance Regulations (IFSB- 17)
- Recognition of Ratings on Shariah Compliant Financial Instruments (GN-1)
- Guidance Note in Connection with the Risk Management and Capital Adequacy Standards: Commodity Murabahah Transactions (GN-2)
- Guidance Note on the practice of Smoothing the profits payout to

#### Investment Account Holders (GN-3)

- Guidance Note in Connection with the IFSB Capital Adequacy Standard: The Determination of Alpha in the Capital Adequacy Ratio (GN-4)
- Guidance Note on the Recognition of Ratings by External Credit Assessment Institutions (ECAIS) on Takaful and Re-Takaful Undertakings (GN-5)
- Quantitative Measures for Liquidity Risk Management (GN-6)
- Development of Islamic Money Markets (TN-1)

The IFSB in an effort to guide the takaful industry towards a stable and sound financial environment published its first two standards in December 2010. The first standard IFSB -8 provides the industry with guiding principles on the appropriate governance framework for a takaful operator. The second standard IFSB 11 provides a framework for ease of management of the takaful/ Islami insurance and the regulatory body.

Solvency supervision of a takaful operation and other related documents were published by the IFSB is IFSB-10 (Shariah governance system). IFSB -9 (Principles on conduct of business for Islamic financial service) also provide guidance in the areas of Shariah governance systems of takaful operators. Another important standard is IFSB – 14 which provides the standards on risk management for takaful (Islamic insurance) undertaking. The principles and recommendation set forth in IFSB – 14 are intended to help understand the risks to which a takaful operator is exposed and to provide minimum standard for the development of a risk management framework.

#### **Why we need standards?**

There must be honesty, integrity, trust and reliability involved in all sorts of financial transactions. The role of IFSB is to provide an unswerving podium to converse the problems and concern faced by IFIs and focus on the development of Islamic accounting, governance and other relevant standards. Their role is also to cater the needs and requirements of multiple countries with respect to their infrastructure and policy environment.

IFSB provides a comprehensive framework to the IFIs and all the other institutions dealing in Islamic financial services to promote and inculcate the importance of Islamic finance. It provides the significant inputs from the experts of the industry who are usually member of these standard setting bodies.. It provides regulations which are usually referred as mandatory or advisory services for meeting a specific requirements. The standards provided by IFSB are with the intent to frame regulations through different regulatory bodies, modify and amend them with respect to the countries' requirement, update and issue new standards on various products from time to time to ensure that the Islamic financial services across the globe are regularized and standardized.

Although the involvement of regulators is very critical in the development of the standards to justify the role of these standard setting bodies but their goal is comprehensive and as the demand for Islamic finance is increasing, which bring more practicable reasoning of their valuable role in the industry. The functions of the standard setting bodies especially the IFSB are to harmonize and converge all the standards under one roof. These bodies (IFSB) significantly add values to the Islamic money market, capital markets, banks, takaful operators and other relevant areas of Islamic finance like corporate governance, capital adequacy and supervisory review process.

The concept of Shariah governance, code of conduct in business and ethics are focused in these standards to assure the investors and authorities that the Islamic finance is indeed differently practiced and are indeed a better solution than conventional system. Initially when the IFIs started their operations the disclosure and transparency in the financial reports were not observed and thus these institutions faced a lot of criticism in terms of their operations and performance. The IFSB promoted and encouraged the Islamic financial institutions to be more transparent to the investors and to the share holders as well as to other people so that they may have the confidence to engage with the IFIs.

The regulators role for applying the standard setting bodies does not look very dominant and still there is an extensive room for improvement. Since these bodies are playing their part in harmonizing the Islamic finance, other institutions must also perform in consonance with them to promulgate the idea of standardization among the Islamic finance industry. The global growth of Islamic banking and insurance is taking advantage of the diversity and flexibility in the fiqh opinions (often referred to as Shariah) to meet the challenges of growth.

While the flexibility in fiqh opinion is presently contributing to global growth, it may soon become a constraining factor in the global growth of the industry if the challenges arising out of the use of diversity and flexibility in fiqh are not properly recognized and taken care of. This is the area where Shariah standard setting bodies must perform their role in indulging and diversifying the Islamic financial services industry and should come up with the diversity in the Fiqh ruling and make their impression in the arena of market players. The IFSB need to be more efficient globally as well as their significance must be incumbent with the idea that the standardized procedures and guidelines must be in consonance with the Shariah and business requirements.

### **Concluding Remarks**

The takaful industry is currently not transparent enough on details of Shariah application. IFSB is performing its roles and they kept emphasizing on the transparency in the financial reporting of the Islamic financial institution to gain more trust and social capital from the investors. Shariah scholars who understand and disagree with some declared applications chose to remain silent as an expression of respect for other Shariah opinions but it is not the Shariah scholars who needs to enforce compliance of these standards rather, the Regulators must govern and set conditions to the takaful operators for the implementation of the standards set by themselves or by international standard setting organizations.

Since takaful is known for its Islamic features, they ought to be free from shariah non-compliant elements. The products and services offered by the TOs carry with them not only a financial but also a religious obligation to be fulfilled. For takaful to achieve its objectives, concertect effort needs to be made by all the stakeholders. It is necessary to identify a successful cooperation mechanism between the regulatory authority, the Ministry of finance, takaful operators and the concerned Shariah Council. It is also necessary to understand the roles and responsibilities of each of the stakeholders.

## **Training Strategies of Bangladesh Insurance Academy: Exploring the Strategies for Development**

**Professor Dr. Bashir Ahmed Bhuiyan**

Department of Business Administration  
Leading University, Sylhet-3100  
Bangladesh.

---

### **Abstract**

*Present study based on the desk research and citation methods evaluated the contributions of Bangladesh Insurance Academy in training and development programs for the insurance sector development in Bangladesh. The study found training and development strategies of BIA commendable and worth contributing towards the insurance industry development vis a vis it is identified that training programs of the academy are facing some limitations with the passage of the time and needs of the market consistent to the changes in the micro and macro environmental factors. It is suggested to apply the systems thinking philosophy in designing and implementing the training programs of BIA for bringing fundamental changes in the training programs and making them more market oriented and effective. To make the insurance sector vibrant and competent with the global insurance development systems thinking philosophy gives much insight that increase the training efficacy. Finally, the study suggested applying different organization development interventions such as, visioning, laboratory training, action research, appreciative enquiry, critical incident method and business process reengineering for enhancing the capability of the BIA and making vibrant the insurance sector of Bangladesh.*

*Keywords: Training strategies, system thinking metaphors, OD interventions, design thinking, visioning, laboratory training.*

---

<sup>1</sup> Professor Dr. Bashir Ahmed Bhuiyan, Department of Business Administration  
Leading University, Sylhet-3100, Bangladesh,  
Email: bashir.dba1970@gmail.com; bashirlu@gmail.com , Mobile: 01976000184

## **Introduction**

Training practices help an organization to gain competitiveness and provide benefits to each of the stakeholders in the long run. Organizations strive to compete through differentiation depends on skills, knowledge and motivation of their people. Training and developmental activities provide benefits to individuals, teams and organizations in manifold ways. Individuals and teams are benefitted through improving tacit skills, abilities for innovation and communication, empowerment, self-efficacy and so on. Organizations are benefitted through enhancing employees and customers' satisfaction, increasing effectiveness, profitability and sales, and improving organizational effectiveness (Aguinis & Kraiger, 2009). Training leads to an increase in turnover and higher employee retention. It critically influences the success of an organization (Colarelli & Montei, 1996). Training and developmental activities play very crucial role for making dynamic, market responsive and making fit an organization in the faces of the multi oriental challenges. It is true for all kinds of organization including banks, financial, nonbank financial institutions and Insurance.

Insurance plays a significant role for the economic development and economic stability of a country. As a service sector, insurance helps to accentuate economic development by resource mobilization, its utilization and creation. Insurance as a device to handle risk to collect premium from the customer to promise compensation of monetary loss due to the damage or destruction of property possessed by individuals and organizations. And thereby provides financial protection through principle of pooling risks, collecting premiums from the customers and soldering the same to bring about the economic advantage of a society. To marshal challenges in the dynamic market, insurance sector should be responsive to aiming to serve the diversity of safety and security needs through innovative development of the products, market coverage and satisfaction of all stakeholders that warrant the needs for training and organization development interventions to face the challenges in competitive markets. Bangladesh Insurance Academy (BIA) is long been involved in providing training to enhance the performance of both life and non-life insurance industries in Bangladesh. Present study aims to examine the role of Bangladesh Insurance Academy in organizing training activities, their contribution in the development of the insurance sector and suggest important options for reorienting their training and organization development interventions strategies for improvement of the insurance sector of Bangladesh.

### **Significance of Training and Development Programs**

Training in organizations produces clear benefits for individuals, teams, organizations and society (Aguinis & Kraiger, 2009). Training and development has an important strategic role to gain competitive advantage through a highly skilled and flexible workforce in today's turbulent economic conditions. Comprehensive, systematic, well planned, dynamic and liberal training and development policies provide benefits to an organization through high productivity and quality performance (Rao & Kishan, 2012). An employee can avail the opportunities for learning through training to meet current job requirements and prepare own-self to face the challenges continuously coming from dynamic and changeable job environment. According to open systems perspective an effective training system is designed to transform organizational inputs into output that meets the organizational, environmental and stakeholders needs and attain equilibrium through interfacing between the favorable and restraining forces (Blanchard & Thacker, 2007). Training provides adequate criteria to an individual to perform better in a given task and subsequently contributes to the firm performance and attempts to enhance human productivity (Drucker, 1999). It has been found in some studies that performances of trained employees are superior as compared to untrained employees (Khan, Khan, & Khan, 2011). Training and development aim to develop different competencies such as technical, human, conceptual and managerial for continuance of individual and organizational growth (Oribabor, 2000).

Thus, it is evident that through training and development activities employees can learn how organizational resources can be utilized in a desired manner to achieve expected output. An effective training program changes uninformed employees into informed, unskilled into the skilled gradually and contributes in the attainment of the excellence in operations, improvement in efficiency of production, individual performance and organizational productivity. It assists in decreasing operational cost and limiting organizational liability.

### **Factors Influencing the Designing of an Effective Training and Development Program and Systems Thinking Reorientation**

Training should be designed very carefully. Factors that have the influences on the designing and implementation of training programs must be considered and analyzed beforehand. Before designing training programs job profiling and core competencies of the organization should be completed based one which levels of competencies gap should be identified. Changes in the organizational policies and

industry environment and operational environmental factors are also very much pertinent to consider (Verma & Goyal, 2011). Other factors need to be considered are previous background of the trainees, needs to transfer of training skills to job, attitude of management, employees position in the hierarchy of the organizational levels, cost and resources to be required in implementing the training programs etc. In designing training program responsiveness towards customers and orientation regarding quality and delivery of services are also needs to be reflected (Ivancevich, 2009). Purpose, place and time of training are also important factors. Purpose without training is useless. Choice of training methods is determined by place and technology plus supportive equipment available in this place or venue. Training should be provided at the right time and updated knowledge. Late training with outdated knowledge creates lesser or no benefits to the employees. So, training with right time and duration has pervasive impacts and it helps to increase ultimate efficacy in achieving the desired results (Sharma). Needs of individuals and organizations are foremost to consider before designing any training programs. In today's turbulent organization we need to create more information than we can absorb to accelerate change far faster than ability to keep pace, to foster greater independence than we can imagine. Thus, by considering information overload of today's organization, the overwhelming complexity and rapid change Peter Senge emphasized on '*Systems Thinking*' which is also considered as *fifth discipline*, for survival through the sustainable competitive operations (Senge, 1990). Systems in organizations are interrelated components that take in resources (Inputs), apply some means for transformation (Processes), and turn out products and services (Outputs). All of these organizational systems are *adaptive* in responding to events and forces from the external and internal environments. We are living through the complexity of various subsystems which are the parts of various larger systems in the society. Any organization is the part of total systems of a particular society (Board, 2005). So, in designing training programs it is foremost to explore and recognize those systems and learn how they interact in the organization to take advantage and protect from the possible adversities created through the dynamic interfaces of internal and external factors. If a training program is not designed properly it is to be attributed as loss of time, money and resources and ultimately wastage in the form of expenditure. So, for identifying the training targets, contents and milestone chart formal needs assessment should be done through conducting a diagnostic study focusing the systems thinking dimensions with broad-based vision of learning organization (Kozlowski & Salas, 2003).

## **The Driving Factors in Designing, Structuring and Implementing the Training Programs**

Training has both micro and macro level perspectives and multidisciplinary outlook. The science of training has been rooted in various disciplines. Training in an organization influences or are influenced by individual, group or organizational level performance (Salas & Kozlowski, 2010 ). Every organization is now facing changing consumer expectation and other complex constraints created from multiple constituents to operate through innovation in the dynamics of environmental changes (Board, 2005). Opportunities and challenges faced by an organization have greater influences on the training and development of an organization. Cross-cultural workforce, different motivational structure, approaches to learning and rapidly emerging technologies all are pressing to the needs for development of an adaptive, flexible workforce which may accelerate or distract an organization from employee development depending on their resource support and enabling environment (Salas, Tannenbaum, Kraiger, & Smith-Jentsch, 2012). BIA as a training institution in the insurance sector of Bangladesh is facing the needs for dynamism to operate through the multiple stakeholders for creating surpluses in the ever changing competitive world. As a training institution BIA may determine and implement training and developmental strategies to serve the clients' ever-changing needs and demands to keep abreast with the contemporary skills and knowledge of operations. And make equip all the participants through the different training programs with updated operational knowledge of different insurance operations. They may go for collaboration with competent institutions in designing, developing and implementing the training programs and action plans. All the member institutions under Bangladesh Insurance Association may extend their support collectively and through collaboration to modernize the training and developmental programs by soft and hard skills through collaborative arrangements. Technological advancement should be considered to take its benefits by the employees of the insurance companies continuously to improve the methods and procedures of operations. To survive and grow in the competitive market high standards of productivity should be achieved. Arousal of interest and enable the participants for facing the challenges and mastering them properly may lead to the generation of achievement oriented motivation and an employee groups with high moral for survival and sustenance of operations. Quality training assists in achieving greater accuracy in operations and infusing high standards of quality in products and services which provides competitive edge through ensuring

efficiency and better customer satisfaction. Moreover, BIA is facing all the driving forces and challenges created from them which need skillful maneuvering to develop its competitiveness in designing, development and implementation of the training programs to help expansion and change of the insurance industry of Bangladesh in the global perspective.

### **Bangladesh Insurance Academy: A Historical Overview**

Immediately after independence, in the year 1972, the Government of the People's Republic of Bangladesh nationalized all the insurance companies at that period. The one of the important philosophies behind the massive nationalization of insurance industries were to ensure social service and safety net of the public interest. But it has been found that most of the insurance companies of that time inherited from erstwhile East Pakistan were facing acute shortage of skilled and educated professional human resources in the insurance sector due to negligent attitude of then government towards insurance sector of Bangladesh. To enhance the competitiveness of the insurance industry and to mitigate the dearth of skilled manpower, the Government of the People's Republic of Bangladesh established the Bangladesh Insurance Academy in November 1973 as an autonomous institution under the administrative control of the Ministry of Finance, Banks and Financial Institutions Division.

The members of the Board of Governors constitute the highest policy making body of the BIA taking membership from concerned ministries, regulatory authorities, state insurance corporations, private insurance companies, Bangladesh Insurance Association and University of Dhaka. The Executive Head of the Academy, appointed by the Government and the Secretary of the Ministry of Finance, Bank and Financial Institution Division, is the Chairman of the Board.

### **Operational Purview of BIA**

The BIA is entrusted with designing, implementing and conducting the training programs by the blending of theoretical and practical aspects of insurance operations. It offers basic, comprehensive and field based training courses on life and non-life insurance operations and other allied areas. The institution provides Certificates or Diplomas based on the training provided. Within the scope of operational purview the institution facilitates, conducts and promotes research activities on the problems of the insurance industries. Publishing journal, research monographs and books related to the insurance and risk management is another

notable function. Sometimes collaborations are made between BIA and some local and foreign training and academic institutions through joint offering of courses and exchanging faculties and trainees on insurance related affairs. Occasionally awards are provided for recognizing the contributions for development of the insurance sector of the country.

### **A Survey on the Training Programs of BIA**

The under mentioned table depicts the survey results regarding the conduct of training programs by BIA on different issues. The table shows that the total training offered by BIA can be categorized into three broad areas: life, non-life and allied areas of training courses. In addition to regular training programs the institution offers some tailor-made training opportunities to the insurance companies based on their specific requirements. The survey found that different seminars / workshops are also conducted on relevant issues of the contemporary demand. The duration of the training programs conducted are ranged from minimum of three days to maximum of ten days. Relevant courses in the life insurance operations are basic courses, agency management and marketing, underwriting and claims management, sales and marketing of life insurance products and social responsibilities of insurance business. Courses in the non-life insurance are basic courses, practices of marine insurance, practices of fire insurance, practices of reinsurance management miscellaneous and engineering insurance courses. In the allied area the courses offered are: English language proficiency, stress management and meditation for content life, Training of trainers course, finance and accounts practices, internal audit strengthening, advanced management for insurance organizations, office management course and basics of takaful insurance etc. Some tailor-made courses are offered to meet the specific demand of the target clients such as security and fire-fighting and enterprise risk management etc. All the courses are offered for development officers, officers, mid-level executives and executives of different government and private sectors life and non-life insurance companies, survey firms, banks and leasing companies and executives of the accounts and audit departments of the insurance companies.

Data presented in the table shows that BIA provided training to 2386 trainees on different issues of life insurance from 2008 to 2014 through 78 training sessions. It has been found that in terms of number of training the trend is upward and

growth of training considering the number of trainees are also commendable. In this period of time total 982 trainees have received training on different issues of non-life insurance. Total number of training provided in this category is 49. Besides, life and non-life insurance the BIA provided training on different issues related to the allied area where number of participants were 651 and total number of training conducted is 25. From 2008 to 2014 BIA conducted 23 Seminars / Workshops where total number of participants were 1520. It is evident in the table that in this period of time BIA conducted a total of 176 training and seminars / workshops where participants were 5556. Average number of participants per year and per training is 32.

From the table it is evident that BIA has been performing a very commendable role in developing the insurance sector of Bangladesh through providing diversified standards and customized need based training programs. Most of the training programs are short in duration. Training issues also have some sort of consistency where very little changes have been found in terms of diversity and innovations in training topics, contents and methodologies of conducting the training programs. Present training programs provide opportunities to the new participants, existing insurance employees, officers and managers for upgrading their skills in different dimensions to make them adaptive in the changed needs of operations and demand of dynamics world of insurance organizations to a limited extent. But due to consistency in choosing the training issues, methods, contents and topics BIA could not achieve due objectives of innovating training programs to match the demands of the changed business worlds in the insurance operations keeping balance with global perspective as it deserves. So, to avoid the pitfalls of the present training programs BIA needs to reorient their training programs through designing, diversifying and innovating new issues, methods and contents.

**Table: Training Programs Conducted by Bangladesh Insurance Academy**

Title of the Training	Duration in Days	Target Participants	Year Wise Distribution of the Number of Participants Attended the Training (Number of Training Conducted)						
			2008	2009	2010	2011	2012	2013	2014 <sup>1</sup>
<b>Life Insurance Training:</b>	-----	-----	-----	-----	-----	-----	-----	-----	-----
Basic Course	08	Officers of Life Insurance Companies(LICs)	57 (02)	19 (01)	-----	31 (01)	16 (01)	-----	24 (01)
Agency Management and Marketing			-----	-----	-----	-----	-----	-----	113 (02)
Underwriting and Claims Management	10	Officers of Public and Private LICs	27 (01)	70 (03)	23 (01)	28 (01)	28 (01)	21 (01)	
Sales and Marketing Course	03-08	Development Officers and Managers of LICs	178 (08)	239 (07)	260 (09)	232 (07)	326 (10)	422 (13)	245 (07)
Corporate Social Responsibility in Insurance		-----	-----	-----	-----	-----	27 (01)	-----	
<b>Sub Total</b>	-----	-----	<b>262 (11)</b>	<b>328 (11)</b>	<b>283 (10)</b>	<b>291 (09)</b>	<b>397 (13)</b>	<b>443 (14)</b>	<b>382 (10)</b>
<b>Non-Life Insurance Training:</b>	-----	-----	-----	-----	-----	-----	-----	-----	-----
Basic Course	10	Executives of Insurance Organizations (IOs), Survey firms, Banks and Leasing companies	52 (4)	52 (04)	49 (02)	-----	153 (05)	90 (04)	92 (03)
Practices of Marine Insurance	07	Do	26 (02)	12 (01)	07 (01)	-----	19 (01)	14 (01)	30 (01)
Practices of Fire Insurance	07	Do	11 (01)	12 (01)	18 (01)	-----	17 (01)	26 (01)	
Practice of Reinsurance Management	03	Executives of Insurance Companies	13 (01)	24 (01)	13 (01)	-----	25 (01)	25 (01)	
Miscellaneous and Engineering Insurance	07	Executives of Insurance Organizations, Survey firms, Banks and Leasing companies	07 (01)	13 (01)	12 (01)	-----	19 (01)	12 (01)	19 (01)
Tailor-made Course:		Designed for Specific Target Clients	-----	14 (01)	14 (01)	-----	-----	-----	
Security and Firefighting		Do							49 (01)

<sup>2</sup> For the year 2014 data have been furnished for the achievement of January - June Months.

Title of the Training	Duration in Days	Target Participants	Year Wise Distribution of the Number of Participants Attended the Training (Number of Training Conducted)						
			2008	2009	2010	2011	2012	2013	2014 <sup>1</sup>
Enterprise Risk Management		Do							43 (01)
<b>Sub Total</b>	----	----	<b>109 (09)</b>	<b>127 (09)</b>	<b>113 (07)</b>	----	<b>233 (09)</b>	<b>167 (08)</b>	<b>233 (07)</b>
<b>Allied / Combined Course:</b>	----	----	----	----	----	----	----	----	----
English Language Proficiency	10	Mid-Level Executives of Ios	13 (01)	25 (01)	16 (01)	----	35 (01)	23 (01)	37 (02)
Stress Management and Meditation for Satisfying Life		----	----	----	----	----	----	----	30 (01)
Training of Trainers Course	07-10	Mid-Level Executives of IOs	----	19 (01)	----	----	16 (01)	----	----
Finance and Accounting	07	Mid-Level Executives of IOs	23 (01)	19 (01)	17 (01)	----	36 (01)	36 (01)	----
Internal Audit Strengthening	03	Mid-Level Executives of IOs	----	----	----	----	40 (02)	----	----
Advanced Management for IOs	05	Mid-Level Executives of Accounts and Audit Dept. of IOs	----	----	----	58 (02)	36 (01)	20 (01)	----
Office Management Course	05-07	Executives of Insurance Organizations (IOs), Survey firms, Banks and Leasing companies	----	----	----	91 (02)	----	48 (02)	56 (01)
Basics of Takaful	07	Executives of Insurance Organizations (IOs), Survey firms, Banks and Leasing companies	13(01)	----	20 (01)	----	----	----	----
<b>Sub Total</b>			<b>49 (03)</b>	<b>63 (03)</b>	<b>53 (03)</b>	<b>149 (04)</b>	<b>87 (03)</b>	<b>127 (05)</b>	<b>123 (04)</b>
<b>Seminar / Workshop</b>			<b>278 (05)</b>	<b>227 (04)</b>	<b>228 (03)</b>	<b>246 (03)</b>	<b>230 (03)</b>	<b>254 (04)</b>	<b>57 (01)</b>
<b>Grand Total</b>			<b>698 (28)</b>	<b>745 (27)</b>	<b>677 (23)</b>	<b>686 (16)</b>	<b>983 (29)</b>	<b>972 (31)</b>	<b>795 (22)</b>

Source: Data Collected from the Official Records of the Bangladesh Insurance Academy. Numbers in the parentheses indicate numbers of training conducted by BIA.

<sup>3</sup> For the year 2014 data have been furnished for the achievement of January - June Months.

### **Features of the Existing Programs of BIA Training and Development:**

From the abovementioned analysis some lessons can be learnt regarding training programs of the BIA and their important features. The notable features are mentioned below:

- BIA has been functioning as an autonomous body under the administrative control of the Ministry of Finance taking membership in the Board of Governors from other concerned ministries, regulatory authorities, state owned and private insurance companies, Bangladesh Insurance Association.
- Training provided by the BIA is mostly related with the operational practices of the life and general insurance organization.
- All the training programs are short term in duration.
- Almost all the training programs are structured and have little diversification and innovation in selecting the training topic, contents and methods.
- Some training programs are offered in the allied areas which also have the supportive role in the functioning of the insurance business operations.
- Present insurance operations are very much sensitive to the changes of the global operations. But BIA could not keep pace with these trends of changes in the global insurance perspective.
- Trainers of the BIA for insurance training are competently handling the training programs to meet the demands of the insurance sector. But there have ample scope for further development of the trainers to make them globally competent and to enable them for innovations of the insurance operations in Bangladesh.
- BIA offers seminars, workshop and other tailor-made training programs to meet the specific contingency requirements of the client organizations.
- BIA use training technologies to facilitate the training programs and to augment the learning process to equip the trainees at expected level.

- In addition to training programs BIA is also involved in promoting research work and publishing research findings through their regular insurance journal as well as publication of different books.
- BIA has linkage with different other local and foreign academic and training institutions to organize joint programs and to invite students and trainees from abroad.
- Recognize the contributions in insurance sector through proving awards and other forms of recognition.

### **Limitations of the Training and Development Programs of BIA**

In spite of having commendable features BIA has been facing some impediments in organizing and offering their training and development programs that needs to iron out to make all the programs need based and adaptive . The notable limitations are mentioned below:

- Lack of wide angle vision with fragmented thinking makes design and implementation of training and development programs of BIA narrowed down in their focus and interventions.
- Orientation and philosophy of the Training programs are characterized by so called '**content bins**' syndrome which is limiting its benefits as compared to its potentiality, nexus and premise.
- Presently most of the training programs of BIA can be attributed as static in nature without focusing the needs for change in different dimensions. Trainings offered by BIA are mostly short term emphasizing functional approach in terms topics, contents and methods. Although diversification and innovations of the training programs are necessity of the times.
- BIA is working as an autonomous body rendering their training services under the administrative control of the Ministry of Finance guided by the Board of Governors. Since this institution is controlled by abovementioned authority, so, it has limitations in taking and implementing decisions to conform the balanced interest of all constituents.

- Paucity of funds is another limiting factor. BIA could not initiate innovative training programs and invest required funds to modernize its different programs due to limitations in the discretionary power.
- It has some structural constraints which are creating limitations in taking decisions dynamically on different strategic, tactical and operational aspects. Such as innovations of the training programs with sufficient funding supports warrants by the necessity of the time.
- Organization structure itself is the limiting factor. Structural rigidity and bureaucratic nexus makes its operations complicated and limit the scope of changes in broad dimensions.
- Present operational purview of BIA is ignoring its prospects of realizing long term benefits through using change management and organization development concepts, methods and intervention technologies which has been considered as one of the notable impediments in the way of making the insurance sector of Bangladesh vibrant, dynamic, market oriented and globally competent.

### **Thinking Metaphors and Needs for Reorienting the Training Programs by Enhancing Systems Thinking Capacity of BIA**

Like the human body, systems have parts which are interdependent and interconnected that affect the performance of whole. In a human body the liver interacts with and affects other internal organs—the brain, heart, kidneys, etc. In the contemporary age corporate world at anywhere or any country can be attributed as a large and complex social system with many interrelated parts. When changes are made in one part, affect other parts in a cascading and unpredictable manner. Likewise, many lower order changes affect results in unintended consequences where no extensive planning with best of intentions and better predictions may provide the guarantee of success in diversified interactions of complex systems and in these perspectives rarely it is possible to forecast the impact of even small changes that are intensified over time (Reed, 2006).

Metaphors play an important role in understanding organizations and management in the dynamics of environmental changes. The use of metaphor entails a way of thinking and a way of seeing that how we understand our world and resulting mindsets that develop. Traditionally, most of the metaphors used to describe

organizations and their complex problems from the mechanistic view that creates blind spots without capturing the total perspectives of human and social systems in the more complex and effervescent context. To get rid of from different blind spots and to obtain long sighted developmental goals administrators in an organization should play the roles as promoters, challengers, creators and coordinators. He / she should assume the responsibility not only as a competent leader but also as a designer, an architect and an artist who have creative imagination to create a learning atmosphere in an organization.

Thinking, communicating and learning constitute an interdependent system and each of these systems work in relation to other that helps to realize synergies. These three systems also create self-re-in forcing system in the process of learning. “Systems thinking” is separated by two terms “systems” and “thinking”. Systems constitute the combination of the subsystems of a whole thing. **Thinking constitutes two activities:** constructing mental models and then simulating in order to get meanings, draw conclusions and make decisions out of experiences. Through simulation interplay of relationships among various factors and forces under various “what if” scenarios have been assumed for selecting best courses of action. Constructing a mental model includes two activities: selecting and representing. Two relevant questions relating to these activities are **what should be included** and **how are to be represented** the choice in constructing a mental model (Richmond B. , 1992-1997). Traditional systems of teaching and learning are characterized by paradigmatic flaws that creates constraint in the development of the whole set of skills through constructing and simulating activities and thwarting development of thinking capacity. We learn through the self-scrutiny of our mental model. When this mental model is misrepresented, our learning becomes erroneous. Thinking process and communicating are inextricably interwoven to each other. Mental model, relevant simulation and decisions / conclusions provide input in the process of communication. Receiving information and getting feedback through the processes of comparison drives us for reenergizing the stage of learning. The extent of learning occurred in this stage is shaped and reshaped by the quality of feedback received (Richmond B. , 2000).

Through systems thinking we can avail the opportunities of synergies or cross fertilization. It is a quite powerful, unique and broadly useful way of thinking and learning and transparent in leveraging the way we learn or manage our business. Organization should focus on building the broad-based systems thinking capacity that's needed to improve the way the world works. System thinking helps people to

build capacity for generating wisdom for them and collectively for organization. Systems Thinkers look to articulate and subsequently dissolve complex problems from totality viewpoints, while design thinkers view the same complex problems from a variety of perspectives and selecting a conceptual model that combines the differing systems and design approaches increase the possibility of being successful and sustainable through operations.

Systems thinking carry with the language of “**stocks and flow**” – the lingua franca – that facilitates cross-disciplinary thinking and focuses on implementation of “**horizontal perspective**”. Stocks characterize conditions within a system and flows epitomize the activities that cause the conditions to change. Systems thinking help an organization to look from a holistic viewpoints rather than concentrating on the parts. In traditional fragmented thinking organizations miss the crucial interactions between the parts and fail to recognize that optimizing the performance of one part may have consequences elsewhere that are adversely influencing the whole operational processes and perspectives. Many methodologies are derived from the systems thinking of world view including interactive planning, soft systems thinking and systems dynamics etc. The essence of encapsulated thinking in the concept of systemic wholeness implies an interconnected complex of functionally related components, failing of that leads to sub-optimization of the performance. Due to sub-optimization organization could not achieve the organizational goals with balance and fails to understand the influences of organizational complexity, change and diversity on the performance (Jackson, 2003). Systems thinking explain a set of non-obvious interdependencies among the factors, such as, different units, sections or departments in an organization; corresponding actions performed and its clients or competitors; quantitative and qualitative variables and short and long-term consequences of managerial decisions etc.

To run an organization heading towards the new challenges and innovation it is essential to see the organization from holistic considerations and to ask a question of what new is possible by using existing surroundings and resources. In this direction *design thinking* gives us the new headway. Through design thinking designers use the mode of thought that allows an organization to move knowledge through the knowledge funnel, which travels from mystery to a heuristic of business environment. It focuses on applying a designer’s sensibility and methods to problem solving irrespective of its nature and definition. To understand their world design thinkers use three kinds of logic: deductive (moving from general to

the specific which seeks to understand ‘what is’), inductive (moving from the specific to the general to find out ‘how it works’) and abductive (model a way of thinking to operate in the realm of possibility which is not always depended upon immediate evidence or cannot be immediately proven or disproven by data from the past.) (Martin, 2009). Design thinking emerges by the interplay between the mystery and development of the reliable algorithm of behavior within the environment. Neither analytic nor intuitive thinking alone is sufficient for attainment of the sustainable competitive advantage. Rather both of them have the systematic weaknesses when applying in isolation. Designers use abductive reasoning to seek out new ways of doing things, challenge old options and infer what might be possible in future based on the experiences of past but do not declare any specific conclusion regarding what is to be true or false in actual course or reality. To become successful an organization must learn to balance analytical and intuitive thinking in a way that produces a third approach, i.e. design thinking (Martin, 2009). No formal training can be provided in the institutions for executives or management in the creative design process rather it is the responsibility of the design thinkers to know which methods to apply and when to get more explicit answer that can be shared and refined. One of the important principles of design thinking is that it requires empathy for users to inspire ideas. The appeal of design thinking lies in the human centered heuristics to learn, discover, understand, or solve problems in a designer’s own way by experimenting and evaluating possible answers or solutions and growing track record of success. That is strengths of a design approach and success of design thinking are reflected in the relevant business value and successful outcomes. In other words design thinking is a human-centered innovation which uses designer’s sensibility and methods of problem solving to meet the people’s needs in a technologically feasible and commercially viable way (Brown, 2009).

*Operational thinking* provides consideration on actual course of reality and applies flexibility in choosing the options. It also helps to develop and implement mental models with reliability of structural relationships and time considerations. *Feedback loop or closed loop thinking* enables to conduct more reliable mental simulations, anticipate unintended consequences and helps to identify high leverage intervention points by integrating short or long run tradeoffs. Reinforcing feedback loops create non-linear behavior patterns both in natural and social systems. *Non-linear thinking enables* to construct mental models and to address the pressing social and environmental concerns with multi oriental and multilevel causal relationships.

Development of abovementioned thinking skills assists the learners in the learning process to construct mental models that are more congruent with the actual course of environmental and social factors and reality and to draw conclusions that are reliable in all respects of considerations. As Dr. Barry Richmond coined out if the purpose of education or any learning process is to develop the skills and knowledge to manage the complexity of future problems then the educational institutions are compelled to develop learners who think and behave as **systems citizens**. System citizens as members of global community understand the complexities of today's worldly systems and have capability to face them with an informed capacity to create a positive difference and they also know how to best pursue the systematic orchestrations required to bring expected changes. So, through building different kinds of systems thinking capacity and integrating among them learners prepare themselves today to solve the problems of tomorrow with long lasting citizenry. By stretching the horizontal perspective learners can extend their self-boundaries and develop their insight to tap the potential synergies by mutually reinforcing the process of thinking, communicating and learning.

#### **How to Apply Systems Thinking Metaphors in BIA**

Although training programs organized by BIA have been contributing commendably to enhance the operational skills of the trainees and participants in the direction of their organizational goals but still there is an ample scope for augmenting the opportunities by closing the gap between the benefits presently are exploiting by the BIA from the existing environment and benefits that can be exploited in divergent opportunities that are available in the greater environment and their changeability. It is essential to innovate the new horizons of training and developmental programs by considering the strategic domains of competitive environment for development of product, processes and operations to mitigate the demands for horizontal perspective where mental models can be simulated by keeping the linkage between thinking, communicating and learning. So, to obtain the competitiveness in the sector it is dire necessity to reorient the training programs, processes, technologies and organizations for inculcating values of all thinking skills among the trainees, participants and learners, so that organization development goals can be attained with the timely and consistent interventions through nourishing thinking continuum using a unremitting improvement modeling approach. This vision can be guided by helping the people concerned to make a shift of mind and to internalize a new language to explore the new horizons of business in the existing environmental set up and existing resource structure

through applying, developing and continuously reorienting the appropriate training strategies, methods and technologies consistent with the passage of time (Richmond B. , 2000). And the necessity of time is to develop ability and habits of system thinking among the constituents and trainees and participants to enhance the capacity of the organization for which following issues may be considered to be essential (Benson, 2007):

- Examining mental models of the trainees, participants and people regarding how they affect present reality and future expectation.
- Observing how elements within the systems change overtime, generating patterns and trends.
- Identifying fluctuations and changes in perspectives to increase understanding.
- Recognizing the spherical nature of complex cause and effect relationships.
- Considering both short and long-term effects of the actions.
- Tracing out the existing and emerging sources of unintended consequences.
- Be acquainted with the impact of time delays while exploring cause effect relationships.
- Searching for understanding the big picture of the systems and organizations.
- Identifies how a system's structure generates its concomitant behaviors.
- Approximating successive actions that results in changing interventions and scenarios.
- Identify the nexus among the structure of the systems and subsystems to explore possible leverage actions.
- Go beyond the 'quick fix' solutions rather find out the deliberate options in the dynamics of all rounding environmental changes.

### **Organization Development as Change Interventions for Insurance Sector Development:**

*Organization Development (OD)* as an applied behavioral science uses ongoing, systematic, collaborative and planned process of interventions to understand and manage change process and to develop new and creative organizational solutions effectively in an organization through achieving alignment among the strategy, structure, processes and technology. It provides a system wide application of the integrated framework capable of solving most of the problems confronting by human side of an organization that develop self-renewing capacity of the organization (Meyer & Meyer, 2011). Different OD interventions can be used by BIA for energizing their training and developmental capability or for reorienting their vision.

The important strategy-driven organization development interventions that can be used for planning and implementation of change programs are visioning as a process of framing and reorienting the future success of the organization, laboratory training, action research / survey feedback, appreciative enquiry, critical incident method, organization culture interventions and human process interventions for long term development of the insurance sector and BIA itself.

**Visioning** as catalyst for change involves all stakeholders to realize the dreams understand the future and imagine the prospect of an enterprise or an institutional entity within a particular time perspective might be from six months to sixty years. Peoples as members of an institution imagine their future as collective entity as they would like to see them in the most perfect sense. The participants of the organization develop their mental paradise for realizing the expected future focused on the positive mind's eye of the organization without dwelling upon the problems or bumping on the allegorical road. Going beyond the pen and paper participants envisioned their future and flourish imagination relatively in fluid manner for creating an expected organization through sharing and buying into the created vision and developing an action plan to make the vision into a reality (French & Bell., 1999). Through this intervention members are assembled together to develop and describe their vision of what they want their organization to be like in the future using images of potentials rather than problems as starting points for change. It is attributed as a grassroots movement that makes a difference of the enterprise in the face of the competition and produces confidence through mutual and community support that provides a framework for determining and

implementing strategic actions. By applying this group intervention process broad range of viewpoints and expertise are utilized and ideas are tested, discussed and refined by people from diverse perspectives. The visioning process envisions a positive future, invokes pride in the community, gains commitment by team-building and action-driven activities to foster cooperation among the members and stretches thinking formed through careful dialogue and thought. BIA can use visioning as training intervention for broadening the horizons of thinking of the participants so that they can contribute in framing and implementing wide angle vision of their organization to mitigate the ever changing demands of the sophisticated markets.

**Laboratory training** is one of the potent OD interventions for development of the skills, analytical abilities and insight of the participants. Laboratory training is an unstructured small- group situation where participants learn from their own actions and group's evolving dynamics. In this training method a leader and some pre specified members interact on the particular issue and discuss in a flexible and unstructured manners to reach to a solution. An observer observes the situations, makes records, and takes notes of the interactions between leader and members during the sessions. At the end of the each day the observers will report to the staff what was observed and seen in training / learning session. At the second or third consecutive days members of the workshops are requested to attend in a reporting session at evening for ensued lively and rich discussion of their behavior in the day's session where they can expose their own views and share their own ideas. This feedback session becomes one of the prominent tools for learning through the conferences (Hirsch, 1987). By applying this approach self-insight, interpersonal operational skills, diagnostic and developmental skills of the members and groups are advanced in the practical course of operations.

**Action research** as a method of OD interventions can be applied for finding out nature and causes of problems, making sense of the research results, knowing about the dynamics of organizational changes, making choice of the interventions for improving the organizational performance and stimulating learning process. Through interactive feedback sessions for disseminating research results it helps to understand the reasons for underlying failure, barriers to organizational changes and choices of alternative actions to handle future change processes more effectively (Argyris, Putnam, & McLain). By in depth study of the organizational problems it assists all team members and organization to develop a range of possible solutions for effective implementation. The process of data gathering,

exploration of the data by team members, action planning and implementation for organizational changes, obtaining feedback and sharing research results with all concerned for augmenting the organizational change and facilitating multi-causal learning (Beinum, C., & Van der Vlist, 1996). Survey feedback and action research can complement each other for facilitating the organization development and change process. By collecting and analyzing information about an organization, survey-feedback method is used for improving working relationship between leaders and members and organizational performance that comprised of interviews, observation, and group exploration and discovery processes. In managing change and as a source of motivation it creates linkage between research and action. It is as such that *letting the data speak* which acknowledge the relationship among factors such as data collection and diagnosis, participatory processes, the need for internal ownership and commitment and effective change efforts. It directs actions towards changes and increases understanding of the organizational dynamics (Cummings & Worley, 2001). Before World War II, Kurt Lewin experimented collaborative change process, as an specific type of action research based on a three step process of planning, taking action and measuring results (Lewin, 1958).

*Appreciative inquiry* is a relatively new form of action research that originated in the United States in the mid-1980s and is now being used around the world which studies the positive attributes of organizations to create new conversations among people as they work together for organizational renewal. In its broadest application it emphasizes on the systematic discovery of what gives life to a human system which is most alive, most effective, and most capable in environmental, economic, societal, political, and technological changes in the organizational perspective. It involves, as the art and practice of investigation for strengthening a system's capacity to apprehend, anticipate, and heighten positive potential and change in organizations. It is endeavored to identify or develop the right formula for successful change in the social reality. Every organization has some positive virtues or attributes /practices, even if in small quantities that foster organizational effectiveness. Through applying this intervention people get involved into the best examples of what they want more to create a momentum toward the creation of affirmative changes in the organization. That is, emulating others' and self-positive practices for improvement of the organizational practices and performance. These enquiries should be perceived and applied as appreciative, provocative and collaborative (Serrat, 2008). An organization should endeavor to

discover what is best in itself and others to find more and more that is good, to build a future where the best becomes more common. BIA can apply this practice to bring best of different practices in different enterprises of the country by assembling the members from different organizations and through emulating each from others best for practicing in their own organization. Here, BIA can serve as the facilitating institutions.

**Critical incident method (CIM)** is one of the prominent methods in OD which is applied through a flexible set of principles rather than single set of rigid rules by the observation of the effective and ineffective ways of doing things and collection of the functional or behavioral description of events or problems and determining characteristics which are critical to the success or failure of an organization. It is a subjective report of an incident through minimizing interference from stereotypical reactions varied by the analysis of the personal experiences that have an important effect on the final outcome. It is an open-ended retrospective method of exploration regarding the patterns of behavior, resources, skills and knowledge of people concerned relating to an incident or an organization. Through effectively empowering the interview partners it explores potentials and tangible ideas to develop plausible solutions to the specific organizational problems. Here, tacit knowledge is activated by involving interview partners in a flexible, challenging and conceptually creative manner that reflects a natural setting in participant's own perspectives for development of the innovative horizons of business operations or creative business solutions and practices (Hettlage & Steinlin, 2006). This method was initially used by United States Army Air Force for evaluating and improving the performance or designing functional training programs during World War II (Ansari & Baumgartel, 1981). Instructors and supervisors of German Institutions for Statutory Accidents Insurance and Prevention used CIM in analyzing the job and the results were discussed in relation to determinants that facilitate or impede the application of task analysis procedures. It is one of the important learning interventions for organization development, raising cultural awareness and empowerment of the participants that help to broaden knowledge by introspecting and analyzing events and relating them with the personal experiences for changing the life at expected level and direction (Gavino & Portugal, 2013). With its all attributes CIM can be applied for designing, changing, and development of the training programs by BIA focusing the skills development of their participants.

***Business Process Reengineering (BPR)*** as OD interventions is an effective tool to apply for achieving fundamental business changes. Michael Hammer and James Champy in their book '*Re-engineering the Corporation*' advocated to introduce more innovative processes by discarding the old systems that demands lateral thinking of the people beyond the current boundaries with a view to achieving more effective organization (Hammer & Champy, 1994). It is a revolutionary instrument not only for minimizing the labor cost also for streamlining work processes, removing bureaucratic tangles and increasing efficiency. BPR is initiated with visionary idea which is generated from three sources e.g. benchmarking, buying the idea from consultants or original idea. Benchmarking does not provide competitive advantage, buying the idea is expensive and sometimes irrelevant to the objective for which it is bought while new ideas seem to be the only way to develop unique and relevant solutions developed with existing business frameworks. Due to frame-breaking nature of changes and radicalness, BPR creates many challenges, at the same time at the same time it offers many advantage if it can be implemented successfully. If it is applied with visionary processes it helps to gain commitment and motivation of the existing people and thereby exploring and innovating new policies and methods or new horizons of business for organizational changes and transformation, in case of otherwise it becomes complicated sometimes. Embracing BPR developing through an original idea gives a firm leadership position in the industry through ensuring competitive advantage that have drastic positive impact on the organizational performance (O' Neill, 1997). To get the expected results through BPR employees of an organization should understand the entire business, master challenges, perform many different tasks, should be more accountable for their actions and should have very different skills to perform diversified jobs as demanded in the new structural changes. But at the same time it is more rewarding, enjoyable as allowing more autonomy, facilitate team-based work through increased level of interdependence, demand more collaboration and effective interpersonal skills as outcome of its successful implementation. BPR has been considered as an effective strategic tool for organizational change and it is stated that firm needs to bring moderate change every year and undergo a major change almost every fifty year if they want to survive in the days of the hyper competitive environment.

For successful implementation of this fundamental change process it is to be communicated properly to the human force of the organization through on board

discussion, to make sure of a proper teamwork teams are to be empowered at the expected level, peoples are to be trained and educated, make them committed through strong leadership and adequate resources are to be allocated to make sure the effective implementation of the process. Change management and corporate culture also play the important role in successful implementation of the BPR (Habib, 2013; Huang & Palvia, 2001).

### **Obstacles in the Way of Charting and Implementing the Appropriate Paths and Precautionary Measures:**

Organization Development has been encountered multidimensional challenges in modern organizational life (Rothwell & Sullivan, 2005). Through designing and implementing appropriate OD interventions an organization can change its future with fundamental developments through the norms of optimism, democracy and participation. But objectives of OD are not easy to achieve all time, in all perspective and in all pervasive scope of operations. So, some precautionary measures should be taken and relevant obstacles should be managed properly for charting and implementing the appropriate strategies of OD interventions.

OD should be initiated and supported throughout the processes otherwise it would produce very limited results. Lack of commitment and sponsorship by the top management and absence of direct inspiration from them creates non-inspiration in initiating and executing the OD programs. Lack of readiness to change in all respects, cultural dogmatism and paucity of training and education may create the problems in applying the OD programs. If all the resisting factors cannot be identified and ironed out these may create obstacles in smooth designing and implementation of the OD programs. Lack of motivation and corresponding reward creates the constraints as participants in the process may lose their interest for worth contributing in the way of expected change process. Change programs may face problems due to failure in communicating properly to the participants and constituents. Organizational flaws, ineffective teams, lack of coordination and proper allocation of resources and responsibilities, narrow focus on time based technology are some notable hindering factors in the way of developing an organization with expected changes by different kinds of to the point OD interventions. Theories and concepts should be applied in faired manners along with empowered people in the organization in the actual course of reality. Top management should be oriented with all these philosophies and principles and

habituated with dynamics of adaptability. For survival in the today's business environment latest technologies, especially, the information technologies serve as the key enablers (Abdolvand, Albadvi, & Ferdowsi, 2008). Thus, all the above mentioned forces and factors should be addressed in a befitting manner paired with potent facilitating programs to apply the appropriate OD interventions for reshaping and reorienting the training programs of BIA, to energize the whole insurance sector of Bangladesh, to keep abreast with the global changes in the insurance sectors along with inevitable diversities and diversifications of the product, processes and service technologies. As a major source of failure of the most of the change efforts has been identified in the last decade is the dearth of skills of the leader and consultant in internal domain of people (Anderson & Anderson, 2001).

#### **How to Apply the OD Interventions?**

For successful application of the OD interventions important hard and software infrastructures should be ensured. The important infrastructures have been suggested in the followings:

- Identifying the related problems or issues of development.
- Diagnosing the organization considering its internal strengths, weaknesses and external opportunities and threats.
- Deciding on the appropriate OD interventions to be applied consistent with the problems or issues to be developed.
- Ensuring support of the top management to facilitate change management process throughout the phases of the analysis, selection of the interventions, implementation and feedback.
- Designing communication systems effectively (top to bottom, bottom to top, horizontal and vertical).
- Shifting power and accountability to as lower level as possible through empowering the people of all levels of operations and decision centers.
- Involve personnel from every level and cross functional departments and encourage participation throughout the designing and implementing the OD interventions.

- Educate employees about the change processes and provide them exclusive training at the preparatory levels for applying the interventions.
- Openness to change i.e. positive perception towards change and support the change process throughout its implementation and ensuring support from all constituents in general top management in specific.
- Management competencies and support which includes; commitment from top management and transformational leadership having strong will to bring and manage change, and risk management and planning as well as managing skills.
- Establishing HR infrastructure and organizational structure including adequate job integration approach as per need of the specific OD interventions to support the radical and fundamental changes in the organization.
- Developing cross functional and other kinds of effective team consisting of skillful, experienced, competent and credible team members to support organization development efforts.
- Creating a link of OD strategy with organizational strategy and distribution of responsibilities in a flexible manner to develop the lateral thinking.
- Defining goals as a benchmark and determining roadmap for OD interventions such as; allocating sufficient resources, framing alternative options that best fit the organization and helps achievement of goals effectively and efficiently and monitoring performance.
- Constructing a comprehensive vision for the organization, applying OD interventions for a specific period of time, measuring performance and obtaining feedback as well as reinitiating the process and redesigning organizational development paths in the new cycle.

## **Conclusion**

Training and development help in gaining competitiveness by the firms and institutions. It provides benefits to all constituents obtained through a highly skilled and flexible workforce by enhancing productivity and quality performance. After its inception Bangladesh Insurance Academy has been playing very significant role in the development of the insurance sector of Bangladesh through providing different training programs. It has been found that training programs of the academy has been attributed with many commendable characteristics at the same it has some limitations which need to be ironed out to make the training programs consistent with the contemporary demand and market oriented. In response to changes in the internal and external environmental forces systems thinking orientation may generate more surpluses and values in designing and implementing the training and development programs and making them effective. Finally, it has been suggested that if BIA applies different OD methods as change interventions the insurance sector of Bangladesh will be flourished expectedly with the demands of the time.

## **References:**

- Abdolvand, N., Albadvi, A., & Ferdowsi, Z. (2008). Assessing Readiness for Business Process Reengineering . *Business Process Management Journal*, 14(4), 497-511.
- Aguinis, H., & Kraiger, K. (2009). Benefits of Training and Development for Individuals and Teams, Organizations and Society. *Annual Review of Psychology*(60), 451-474.
- Anderson, D., & Anderson, L. (2001). *Beyond Change Management: Advanced Strategies for Today's Transformational Leaders*. San Francisco: Pfeiffer.
- Ansari, M. A., & Baumgartel, H. (1981). The Critical Incident Technique: Description and Current Uses. *Journal of Social and Economic Studies*, 9 (2), 221-231.
- Argyris, C., Putnam, R., & McLain, S. D. (n.d.). *Action Science: Concepts, Methods, and Skills for Research and Interventions*. San Fransisco: Jossey-Bass Inc.

- Beinum, H. V., C., F., & Van der Vlist, R. (1996). Reflections on the Epigenetic Significance of Action Research. In S. Toulmin, & B. Gustavsen, *Beyond Theory. Changing Organizations through Participation*. Amsterdam: John Benjamins.
- Benson, T. A. (2007). Developing a Systems Thinking Capacity in Learners of All Ages. *Systems Thinking in Schools*. A Waters Foundation Program .
- Blanchard, P. N., & Thacker, J. W. (2007). *Effective Training: Systems, Strategies and Practices*. New Delhi, India: Pearson Education Inc. and Dorling Kindersley Publishing, Inc.
- Board, M. L. (2005). *Beyond Transfer of Training: Engaging Systems to Improve Performance*, . John Wiley & Sons, Inc.
- Brown, T. (2009). *Change by Design*. New York: Harper Collins.
- Colarelli, S., & Montei, M. (1996). Some Contextual Influences on Training Utilization. *The Journal of Applied Behavioral Science*, 32 (3), 306-322.
- Cummings, T. G., & Worley, C. G. (2001). *Organization Development and Change* (7th ed.). Southwestern College Publishing.
- Drucker, P. (1999). The Shape of Things to Come. In H. F., & P. Cohen, *Leader to Leader: Enduring Insights o Leadership fro the Drucker Foundation's Award-winning Journal* (pp. 109-120). San Francisco: CA: Jossey-Bass.
- French, W. L., & Bell., C. H. (1999). *Organization development*. Upper Saddle River: NJ: Prentice-Hall.
- Gavino, J. C., & Portugal, E. J. (2013, November). Leadership Framework: A Preliminary Qualitative Research Using the Critical Incident Method. *World Review of Business Research*, 3(4), 40-52.
- Habib, M. N. (2013, March). Understanding Critical Success and Failure Factors of Business Process Reengineering. *International Review of Management and Business Research*, 2(1).
- Hammer, M., & Champy, J. (1994). *Re-engineering the Corporation: A Manifesto for Business Revolution*,. Maryborough, Victoria: Allen and Unwin.
- Hettlage, R., & Steinlin, M. (2006). *The Critical Incident Technique in Knowledge Management-Related Contexts : A tool for exploration / planning, evaluation and empowerment / animation*. Zürich, Switzerland: Helvetas Swiss Association for International Cooperation.

- Hirsch, J. I. (1987). *The History of the National Training Laboratories 1947-1986*. New York: Peter Lang Publishing.
- Huang, Z., & Palvia, P. (2001). ERP Implementation Issues in Advanced and Developing Countries. *Business Process Management Journal*, 7(3), 276-284.
- Ivancevich, J. M. (2009). *Human resource management* (11th ed.). McGraw-Hill Higher Ed.
- Jackson, M. (2003). *Systems Thinking: Creative Holism for Managers*. Chichester: John Wiley and Sons.
- Khan, R. A., Khan, F. A., & Khan, M. A. (2011, July). Impact of Training and Development on Organizational Performance. *Global Journal of Management and Business Research*, 11(07).
- Kozlowski, S. W., & Salas, E. (2003). *A Multilevel Organizational Systems Approach for the Implementation and Transfer of Training*. NJ: Lawrence Erlbaum Associates.
- Lewin, K. (1958). *Group Decision and Social Change*. New York: Holt: Rinehart and Winston.
- Martin, R. L. (2009). *The Design of Business: Why Design Thinking Is the Next Competitive Advantage*. Harvard Business School Press .
- Meyer, W. S., & Meyer, B. M. (2011). Organization Development: Yesterday, Today and Tomorrow. *Students Research Conference*. Minnesota: University of Minnesota.
- O' Neill, P. (1997). *Business Process Re-engineering: Application and Success in Australia*. Working Paper Series 43/97, Monash University, Department of Management Working Paper Series, Clayton.
- Oribabor, P. (2000). Human Resources Management: A Strategic Approval. *Human Resources Management*, 9 (4), 21-24.
- Rao, D. V., & Kishan, K. (2012, December). Understanding 'Training and Development' in Public Sector Undertakings [www.ejcmr.org](http://www.ejcmr.org). *European Journal of Commerce and Management Research*, 1(1).
- Reed, G. E. (2006, May-June). Leadership and Systems Thinking. *Defense AT & L*.

- Richmond, B. (1992-1997). *An Introduction to Systems Thinking with STELLA*. USA: STELLA Software.
- Richmond, B. (2000). *The “thinking” in Systems Thinking: Seven Essential Skills*. MA: Pegasus Communications, Waltham.
- Rothwell, W. J., & Sullivan, R. L. (2005). *Practicing Organization Development: A Guide for Consultants*. San Francisco, USA: John Wiley & Sons, Inc. Pfeiffer, www.pfeiffer.com.
- Salas, E., & Kozlowski, S. W. (2010 ). *Learning, Training, and Development in Organizations: Much Progress and a Peek Over the Horizon*. New York: NY: Taylor and Francis.
- Salas, E., Tannenbaum, S. I., Kraiger, K., & Smith-Jentsch, K. A. (2012). The Science of Training and Development in Organizations: What Matters in Practice. *Psychological Science in the Public Interest*, 13(2), 74-101.
- Senge, P. (1990 ). *The Fifth Discipline: The Art and Practice of the Learning Organization*. New York: Doubleday Currency.
- Serrat, O. (2008, December). Appreciative Inquiry. *Knowledge Solutions*.
- Sharma, T. (n.d.). Training Process – An Overview; Role, Responsibilities and Challenges to Training Manager. *Lecture Materials for Training and Development Course in the Department of Commerce*. Kurushetra University.
- Verma, S., & Goyal, R. (2011, October). A Study of Training in Insurance and Their Impact on Employees Productivity . *International Journal of Research in Economics and Social Sciences*, 01(01).

#### **(Footnotes)**

- 1 Department of Business Administration, Leading University, Sylhet-3100, Bangladesh. Email: bashir.dba1970@gmail.com; bashirlu@gmail.com , Mobile: 01976000184
- 2 For the year 2014 data have been furnished for the achievement of January - June Months.
- 3 For the year 2014 data have been furnished for the achievement of January - June Months.

## **Investment Portfolio Analysis of State Owned Insurance Companies of Bangladesh: An Empirical Study on Shadharan Bima Corporation and Jiban Bima Corporation**

---

**Sadia Noor Khan**

***Abstract:** An attempt has been made in the present study to analyze the investment portfolio of the state owned insurance companies of Bangladesh, which are Shadharan Bima Corporation and Jiban Bima Corporation. . Data has been collected from the annual report of the selected companies and from the Yearbook published by the Bangladesh Insurance Association. This study discloses strategic portfolio of these insurance companies, which is made up with the combination of Securities, Share and Debentures, FDR and Household Properties in Bangladesh but a lion share of the total investment is made in the form of FDR, which is considered as less risky form of investment. It has been found that Shadharan Bima Corporation has another field to invest, which is Bangladesh Fund. Relationship between investment and other related variables has been drawn in this study also investment barriers and strategies of the selected insurance companies has been mentioned.*

**Keywords:** State owned Insurance Companies, Investment, Portfolio.

### **1. Introduction**

An investment portfolio is a collection of assets owned by an individual or an institution. It can include real estate and so called hard assets. Insurance industry in Bangladesh passed through a century long history of evaluation and also struggling to achieve its mature stage. After the liberalization, as a part of the nationalization process, this particular industry was nationalized by virtue of the order of the president. Again, in the process of denationalization, private sector companies are allowed to operate besides the two state owned companies. Consequence of that, in a small economy, a good number of companies emerged resulting tough and unhealthy competition. Under hand transaction on commission appeared as an open secret. The controller being the regulatory authority failed to unveil the sophisticated control mechanism to bring the industry into a good shape. Shadharan Bima Corporation (SBC) was acting as the sole insurer of general Insurance till 1984.

---

**Sadia Noor Khan**

Lecturer, Department of Banking & Insurance  
University of Dhaka

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 investment made by the insurance companies are determined by the term and maturity periods of the policies and usually the life insurance companies made long term investment rather than the non-life insurance companies. The total investment made by the private sector life insurance companies increased from tk. 171859 million at the end of year 2012 to tk. 193523 million at the end of year 2013. The total assets of the private sector life insurance companies stood at tk. 259827 million at the end of year 2013 as against tk. 224090 million at the end of year 2012 registering an increase of 15.95 percent. The total investment of non-life insurance companies is calculated at about tk. 29119 million at the end of year 2013 as against tk. 25514 million at the end of year 2012. The total amount of assets of non-life insurance companies was estimated as tk. 54875 million at the end of year 2013 as against tk. 48347 million at the end of the year 2012. The investment portfolio of the public sector insurance companies in Bangladesh is the focal point of this paper, where the author tried to furnish and draw the overall scenario of the investment strategies as well as the portfolio through using various tools. Both of the life and non-life insurance companies have to face some barriers while selecting profitable investment fields as well as making proper investment decision. As the nature of operation differs, the barriers also differ from each other's. Selecting profitable investment sector, lack of public awareness, inadequate regulation, lacking of proper knowledge of the agents, making a strategic investment portfolio, unskilled employees, lacking of Actuaries, policy lapse, inefficient risk managers, political unrest, unfavorable market situation etc. are some of them. While preparing this paper it has been found that SBC generally follows both the defensive and hybrid portfolio strategies. Because it invests more than thirty percent of their total investment in the Share, Securities and Debenture, which is an indication of following the Hybrid Portfolio type. Again investing almost seventy percent in FDR reflect the following of defensive portfolio strategy. On the other hand, Jiban Bima Corporation is the only state owned life insurance company and also in the leading position and strong client base. So it needs to make proper investment for generating profit to meet the claims. Basically the life insurance companies prefer long term investment. Hybrid and Defensive portfolio types are also followed by the JBC, because it makes more than sixty percent in the FDR, which is a form of defensive portfolio. Again in

Securities, Share, Debenture and Household Properties, it invests almost forty percent of its total investments which indicates hybrid portfolio strategy.

## **2. Research Objective**

The main objective of the paper is to examine the investment portfolio of state owned insurance companies of Bangladesh. The specific objectives underlying the study are as follows:

- To analyze the investment portfolio of Shadharan Bima and Jiban Bima Corporation
- To analyze the growth rate of some key elements of these two companies
- To describe proportion of investment of their total assets
- To predict future investment trend with the help of Time series analysis
- To find out the relationship of investment with some key variables.

## **3. Literature Review**

According to Business Dictionary investment portfolio is a pool of different investment by which an investor bets to make a profit while aiming to preserve the invested (principal) amount. These investments are chosen generally on the basis of different risk-reward combinations: from 'low risk, low yield' to 'high risk, high yield' (junk bonds) ones; or different types of income streams: steady but fixed, or variable but with a potential for growth.

E Philip Davis (2000) described two alternative approaches to portfolio regulation including with the nature, rational and financial consequences. These approaches have designed for the long-term institutional investment sectors such as life insurance and pension funds. Rules and quantitative portfolio restrictions are prudent by these approaches. Some arguments also arises due to the innovation of these approaches, which include the financial-economics of the investment, different characteristics of institutional liabilities and for the regulatory framework for the financial institutions.

Cummins & Nye (1981) presented a model to assist property liability insurance companies in making product and investment mix decision. This paper also discusses the linkages between ruin theory and utility theory and indicates how these decision rules can be used to select operating points along the efficient frontier.

Hobbs et. Al. (2010) examined strategies to protect insurance companies' investment portfolios against potential inflation scenarios, where he invented an optimal solution for the insurance companies in an inflationary market situation.

Janowicz-Lomott (2011) explained the role of insurance investment management to manage the funds generated by the insurance business. The author further states that insurance investment management must ensure that investment returns preserve the solvency, both regulatory and economic, of the insurance company, earn the return commensurate with the use of its capital and enable it to continue to underwrite profitable insurance business.

Kathleen L. Henebry and Jeanette M. Diamond (1998) has discussed about the investment portfolio composition of life insurance companies. The study concludes that for bonds and real estate, the investment percentage has not changed significantly over time. However, for stock, mortgages and other assets, the change has been significant. Regulations focusing on permissible investment percentages do not seem to have imposed a binding constraint.

Kamrul Hasan and Firoja Akter Khanam (2013) have conducted an article on the topic of performance evaluation of public sector general insurance companies in Bangladesh, where they demonstrated the performance of Shadharan Bima Corporation (SBC). They suggest that for further continuous growth and development, SBC should take some strategic steps including with adoption of modern techniques for asset management, follow-up of modern marketing strategies, launching more research & development programs, develop HRD program, relaxing pricing rules and so on.

Nurul Haq (2008) described that the trend of globalization may create new dimension of challenges for insurance industry. The structure of investment portfolio of these insurance companies was not discussed under those studies. This paper basically focuses on this area of investment portfolio structure of general insurance companies in Bangladesh.

Oyatoye & Arileserre (2012) illustrated that, as it is crucial for insurance industry to survive and develop, the insurance investment enables insurance companies to offset their possible underwriting losses and make a considerable profit. They also have drawn an alternative solution to portfolio investment management by implementing best processes for minimizing the risk for a given expected return. And this is designed in the perspective of Nigeria in a non-linear function.

Quazi Sagota Samina, (2012) analyzed the investment portfolio structure of different insurance companies of Bangladesh and focus on the cause effect relationship between the investment portfolio and profitability. Ran Barniv, Abraham Mehrez and Frederick Schroath, (1995), presented an optimization model for maximizing the insurer's underwriting profits in any particular line of insurance at a point in time. The constraints are imposed on premiums, loss payments and resources allocated for underwriting and loss adjustment activities.

Rehana Fowzia and Nitai Chandra Debnath(2008) have conducted a study on the topic of performance analysis of insurance companies of Bangladesh focusing on the credit rating, which provide a valuable benchmark for comparing companies. The authors attempted to conceptualize credit rating of insurance companies of Bangladesh through describing the procedures and importance of it, where the life insurance is in the better position than the general insurance companies.

#### **4. Methodology of the study**

This paper undertakes a quantitative study based on the core concepts and practice issue needed to examine investment portfolio. Hence the study concentrates mostly on experience taken from annual reports. The details of the analytical framework are furnished below:

**4.1 Data sources** The major sources of secondary data include annual reports of the insurance companies, published journal articles and Yearbook published by the Bangladesh Insurance Association. In order to conduct the study, data from website of the insurance companies have been considered.

**4.2 Data processing and analysis** Data collected from secondary sources have been processed on the basis of different tools like ratio analysis, growth analysis, regression analysis, time series analysis.

Ratio analysis: Key investment valuation ratios in this report, these are:

- Price to cash flow ratio
- Price to earnings ratio
- Price to sales ratio
- Dividend yield ratio.

Regression analysis: Following regression equation has been used to find out relationship of investment with key variables.  $\hat{Y} = a + \beta_1 X_1 + \beta_2 X_2 + \epsilon$ . Where,  $a$  denotes the constant, Dependent Variable =  $\hat{Y}$ , which represents Investment, Independent Variable =  $X_1$ , which represents Total Assets,  $\beta_1$  is the slope or

coefficient of  $X_1$ , Independent Variable =  $X_2$ , which represents Net profit,  $\beta_2$  is the slope or coefficient of  $X_2$ ,  $\epsilon$  represents the error.

Time Series Analysis: The equation of straight line trend is  $y = a + bx$

## 5. Empirical findings

### 5.1 Average Growth rate

The Jiban Bima Corporation (JBC) is the lone state-owned life Insurance company in Bangladesh, which started its maiden journey on May 14, 1973 with assets and liabilities worth TK. 15.70 crore (157 million) of defunct 37 life Insurance companies. Sadharan Bima Corporation is only state-owned General Insurance Corporation operating under the direct control and supervision of the Ministry of Finance, Government of the People's Republic of Bangladesh. It emerged on 14th May 1973 under the Insurance Corporation Act (Act No. VI) Of 1973 to deal with all classes of general insurance & re-insurance business emanating in Bangladesh. SBC, the largest insurance enterprise in the country, has a net worth of Tk.605 crore an authorized capital of Tk.20 crore, paid up capital of Tk. 10 crore and the anticipated revenue during the current financial year is approximately Tk. 417 crore. The Table 1 & 2 shows average growth rate of the selected insurance companies

$$\text{Growth Rate} = \frac{\text{Value of Present Year} - \text{Value of Past Year}}{\text{Value of Past Year}} * 10$$

Table 1: Average growth of Sadharan Bima Corporation.

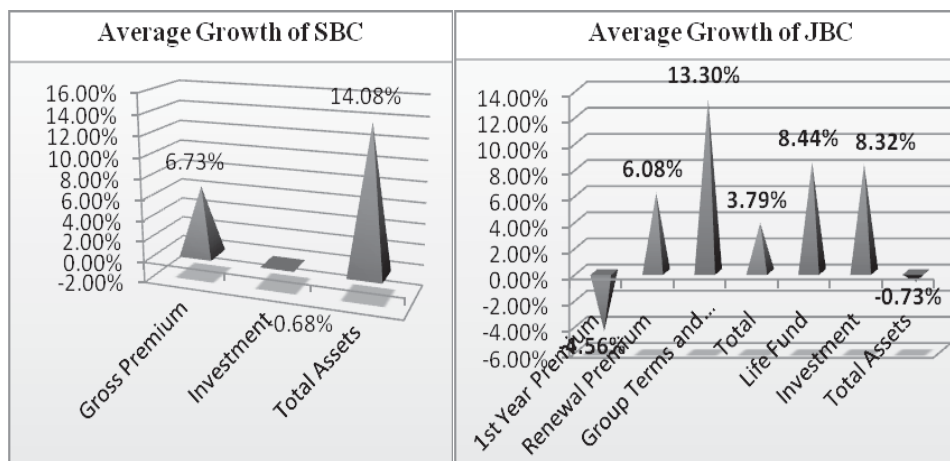
Particulars	Year-2009	Year-2010	Year-2011	Year-2012	Year-2013	Average Growth
Gross Premium (Growth Rate)	1613.51 13.71%	1659.96 2.88%	1974.71 18.96%	2189.24 10.86%	1909.61 -12.77%	6.73%
Investment (Growth Rate)	5034.70 16.23%	5819.29 15.58%	6400.74 9.99%	7347.91 14.80%	2938.50 -60.01%	-0.68%
Total Assets (Growth Rate)	9946.27 3.35%	11211.13 12.72%	13383.79 19.38%	15732.77 17.55%	18471.00 17.40%	14.08%

Source: Insurance Year Book 2013 (Bangladesh Insurance Association)

**Table 2: Average growth of Jiban Bima Corporation**

Particulars	Year-2009	Year-2010	Year-2011	Year-2012	Year-2013	Average Growth
<b>1<sup>st</sup> Year Premium (Growth Rate)</b>	703.34 -8.47%	657.62 -6.50%	680.36 3.46%	643.11 -5.48%	605.88 -5.79%	-4.56%
<b>Renewal Premium (Growth Rate)</b>	2511.85 16.20%	2598.33 3.44%	2206.37 -15.09%	2546.03 15.40%	2811.97 10.45%	6.08%
<b>Group Terms and Others (Growth Rate)</b>	131.63 -11.13%	203.62 54.69%	192.12 0.46%	242.88 26.42%	233.30 3.94%	13.30%
<b>Total (Growth Rate)</b>	3346.82 8.73%	3459.57 3.37%	3078.85 -11.00%	3432.02 11.47%	3651.15 6.38%	3.79%
<b>Life Fund (Growth Rate)</b>	11197.72 11.41%	12671.29 13.16%	13151.10 3.79%	13886.77 5.59%	15031.59 8.24%	8.44%
<b>Investment (Growth Rate)</b>	10109.26 29.65%	10961.25 8.43%	11145.02 1.68%	12134.14 8.87%	11283.88 -7.00%	8.32%
<b>Total Assets (Growth Rate)</b>	13051.42 -29.29%	14547.06 11.46%	14398.32 -1.02%	15543.98 7.96%	16671.92 7.26%	-0.73%

Source: Insurance Year Book 2013 (Bangladesh Insurance Association)



**Interpretation:** The comparison between the premium, total assets and investment of Shadharan Bima Corporation and Jiban Bima Corporation has been drawn by the following charts. SBC's total assets showed a positive trend during the years, on the other hand the assets of JBC owed up-ward and downward trend. Premiums of both of them are in a horizontal trend. Investment of SBC showed positive trend except year 2013 while investment of JBC showed a mix trend.

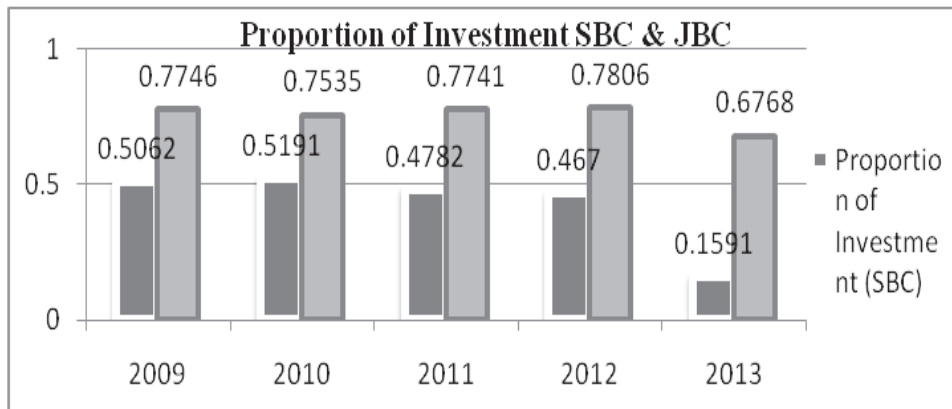
## 5.2 Proportion of Investment of Public Sector Insurance Companies

The main purpose of this paper is to analyze the investment portfolio of the public sector insurance companies in Bangladesh where focused has been given on the investment strategies as well as approaches of investment made by the Shadharan Bima Corporation and Jiban Bima Corporation. calculation of the proportion of investment through Dividing Investment by Total Assets of these two corporations has been given. This will provide us with the information of how they make investment and how much of the amount of total assets is being invested in different sources.

$$\text{Formula} = \frac{\text{Total Investment}}{\text{Total Assets}}$$

### Proportion of Investment of Shadharan Bima Corporation and Jiban Bima Corporation

Year	2009	2010	2011	2012	2013
<b>Proportion of Investment (SBC)</b>	5034.70/ 9946.27 = 50.62%	5819.29/ 11211.13 = 51.91%	6400.74/ 13383.79 = 47.82%	7347.91/ 15732.77 = 46.70%	2938.50/ 18471.00 = 15.91%
<b>Proportion of Investment (JBC)</b>	10109.26/ 13051.42 = 77.46%	10961.25/ 14547.06 = 75.35%	11145.02/ 14398.32 = 77.41%	12134.14/ 15543.98 = 78.06%	11283.88/ 16671.92 = 67.68%



**Chart-5: from table proportion of investment of SBC and JBC**

### **Interpretation**

The following chart showed an overall snapshot of the investment percentage against total assets of Shadharan Bima Corporation and Jiban Bima Corporation from year 2009 to year 2013. SBC invest almost fifty percent of total assets in different sectors of investment to earn profit to settle the claims of the clients. The proportion of investment was satisfactory during the year of 2009 to 2012, which is around 50 percent. But the proportion of investment made by the Shadharan Bima Corporation in 2013 is significantly decreased due to some economic and market variables.

As we already know that the investment strategies for the life and non-life insurance varied due to the length or duration of the policy period. And because of that the Jiban Bima Corporation as a life insurance company makes longer-term investment than the general insurance companies. The proportion of the investment for the Jiban Bima Corporation is almost 77 percent over the year of 2009 to 2012 except a fluctuation in the year of 2013, where the proportion is decreased by almost 10 percent than the previous year's investments. Comparatively JBC invest more portion of their total assets than that of SBC.

### **5.3 Investment Portfolio of Two State Own Insurance Companies**

The vital objective of this paper is to define the investment portfolio of two state-owned or otherwise known as the public sector insurance companies in Bangladesh, Shadharan Bima Corporation and Jiban Bima Corporation and make a comparison between the investment strategies or investment behavior of them.

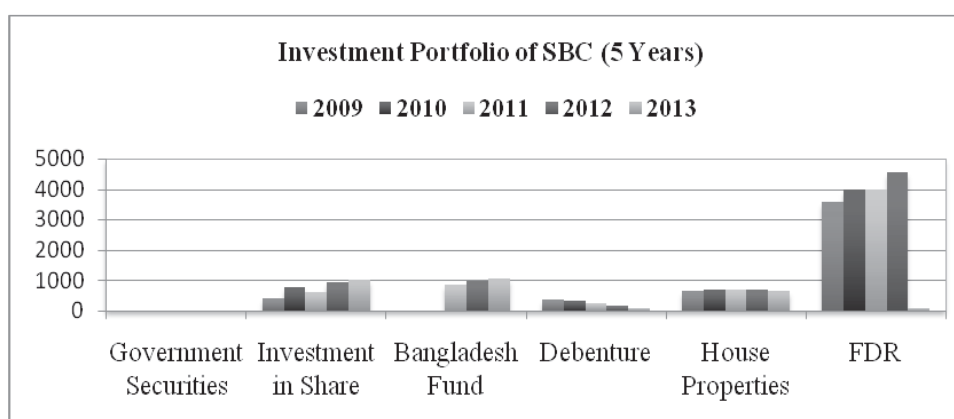
### Investment Portfolio of Shadharan Bima Corporation

As the only state owned non-life insurance company, Shadharan Bima Corporation has operating their business with glory since the period of its inception. Abide by some laws and regulation along with their own strategies, SBC made their investment by making a portfolio. They diversified their risk of investment through making six categories of investment that are: Government Securities, Investment in Share, Bangladesh Fund, Debenture, House Properties and FDR.

### Investment Portfolio of SBC ( Amount in Million)

Particulars	2009	2010	2011	2012	2013
Government Securities	1.72	1.72	1.72	1.72	1.72
Investment in Share	424.70	782.81	597.67	944.79	1040.30
Bangladesh Fund	0	0	870.00	1000.00	1060.00
Debenture	359.49	338.13	236.26	175.55	72.84
House Properties	673.27	711.88	699.48	685.21	671.14
FDR	3575.52	3984.75	3995.61	4540.64	92.50
<b>Total</b>	<b>5034.70</b>	<b>5819.29</b>	<b>6400.74</b>	<b>7347.91</b>	<b>2938.50</b>

Source: Insurance Year Book 2013 (Bangladesh Insurance Association)

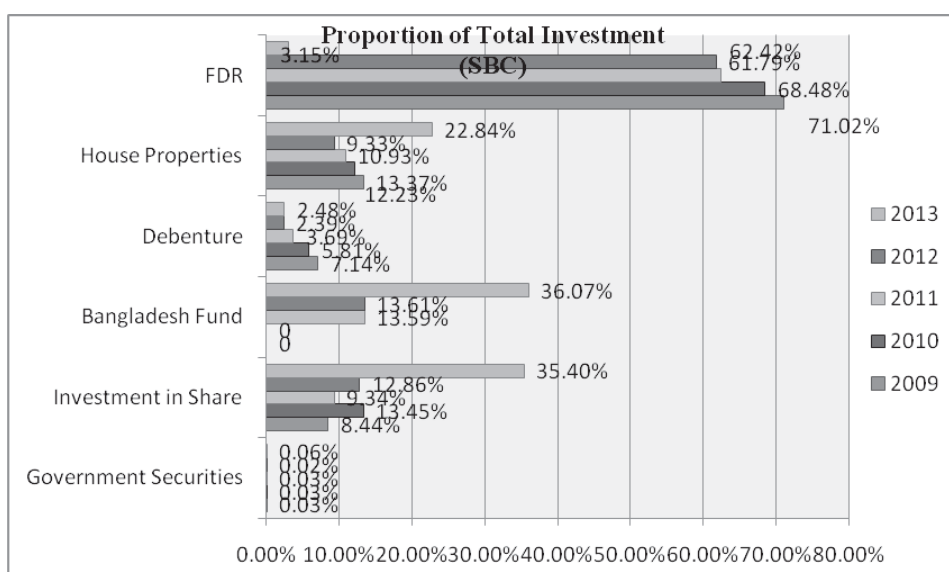


**Chart-7 Investment Portfolio of SBC**

### Proportions of Individual Investment on Total Investment of SBC

Particulars	2009	2010	2011	2012	2013
Government Securities	0.03%	0.03%	0.03%	0.02%	0.06%
Investment in Share	8.44%	13.45%	9.34%	12.86%	35.40%
Bangladesh Fund	0	0	13.59%	13.61%	36.07%
Debenture	7.14%	5.81%	3.69%	2.39%	2.48%
House Properties	13.37%	12.23%	10.93%	9.33%	22.84%
FDR	71.02%	68.48%	62.42%	61.79%	3.15%
Total	100%	100%	100%	100%	100%

Source: Annual Reports of SBC (2009 to 2013)



**Chart-8 Proportions of Individual Investment on Total Investment of SBC**

### Interpretation

Shadharan Bima Corporation invests around 45 percent to 52 percent of their total assets in six sectors. They are: Government Securities, Share, Bangladesh Fund, Debenture, House Properties and FDR. They made almost 60 to 70 percent of their total investment in the form FDR, because of being less risky form of investment. And again 8 to 35 percent in share, 10 to 35 percent in Bangladesh fun, around 10 to 20 percent in house properties and a fixed amount of 1.72 million in government securities during the recent five years.

### Investment Portfolio of Jiban Bima Corporation

To make a secured and profitable investment, Jiban Bima Corporation invests in three specific but secured source of investment, which are: Securities, Share and Debentures, FDR and House Properties and Land in Bangladesh. The figures of the investment portfolio are been collected from the authentic source of Jiban Bima Corporation's publicly disclosed data.

### Investment Portfolio of JBC (Amount in Millions)

Particulars	2009	2010	2011	2012	2013
Securities, Share and Debenture	2973.95	3248.44	3499.89	3822.44	4079.99
House properties and land in Bangladesh	367.76	377.92	369.44	360.21	351.69
FDR	6767.55	7334.89	7275.69	7951.49	6852.20
Total	10109.26	10961.25	11145.02	12134.14	11283.88

Source: Annual Reports of JBC (Year 2009 to 2013)

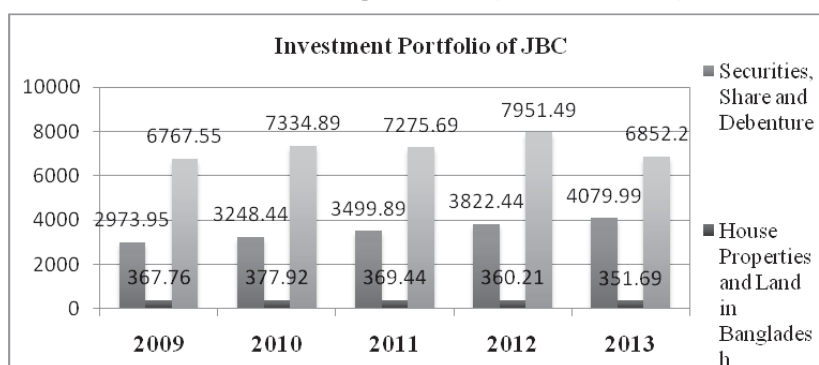
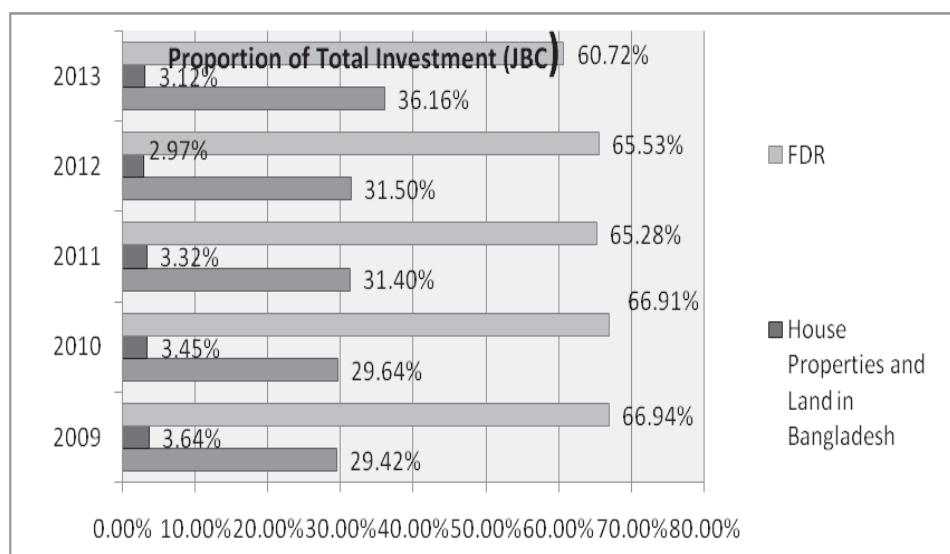


Chart-9 Investment Portfolio of JBC

### Proportions of Individual Investment on Total Investment of JBC

Particulars	2009	2010	2011	2012	2013
Securities, Share and Debenture	29.42%	29.64%	31.40%	31.50%	36.16%
House Properties and Land in Bangladesh	3.64%	3.45%	3.32%	2.97%	3.12%
FDR	66.94%	66.91%	65.28%	65.53%	60.72%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



**Chart-10 Proportions of Individual Investment on Total Investment of JBC**

**Interpretation** The following graph showed that, the investment portfolio of Jiban Bima Corporation is consisting of three components: Securities, share and debenture, House properties and land in Bangladesh and finally FDR. They invest around 60 to 65 percent amount in the form of FDR of their total investment in the recent five years. Then they invest around 30 to 35 percent amount in Securities, Share and Debenture. The rest of the portion of investment is made in House Properties and Land in Bangladesh.

### Comparative Analysis of Investment Portfolio of SBC and JBC

As the nature of the Shadharan Bima Corporation and Jiban Bima Corporation is different from each other, their business strategies are also different. Specially the investment decision made by both of the corporation is different, although they invest in some common sectors. By comparing the investment portfolio of these two corporations, it is found that both of them are investing a lion share in the form of FDR. Again they commonly invest in the form of Securities, Shares and Debenture as well as House Properties and Lands in Bangladesh. But only Shadharan Bima Corporation made investment in Bangladesh Fund and Government Securities.

### 5.4 Comparing the Common Investment Variables

Shadharan Bima Corporation and Jiban Bima Corporation have selected several common field of investment such as: securities, shares and debentures, FDR and household properties in Bangladesh. Comparison between the two companies investment portfolios are given bellow:

#### Securities, Shares and Debentures

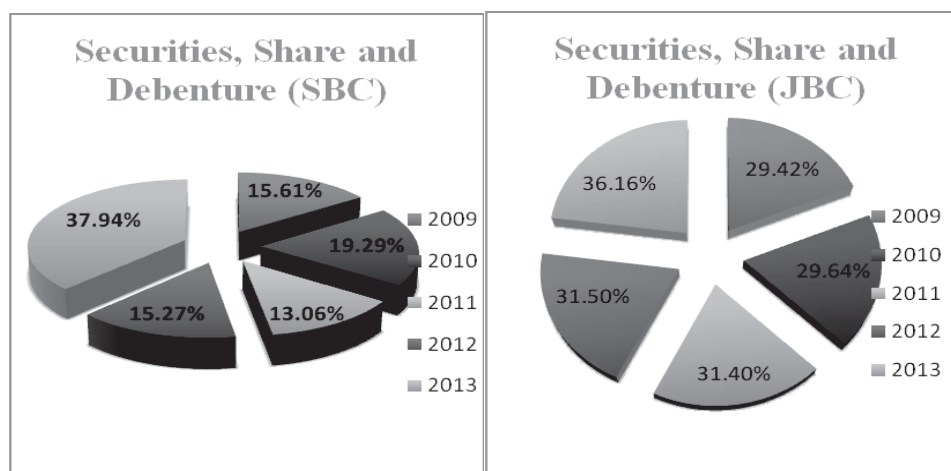
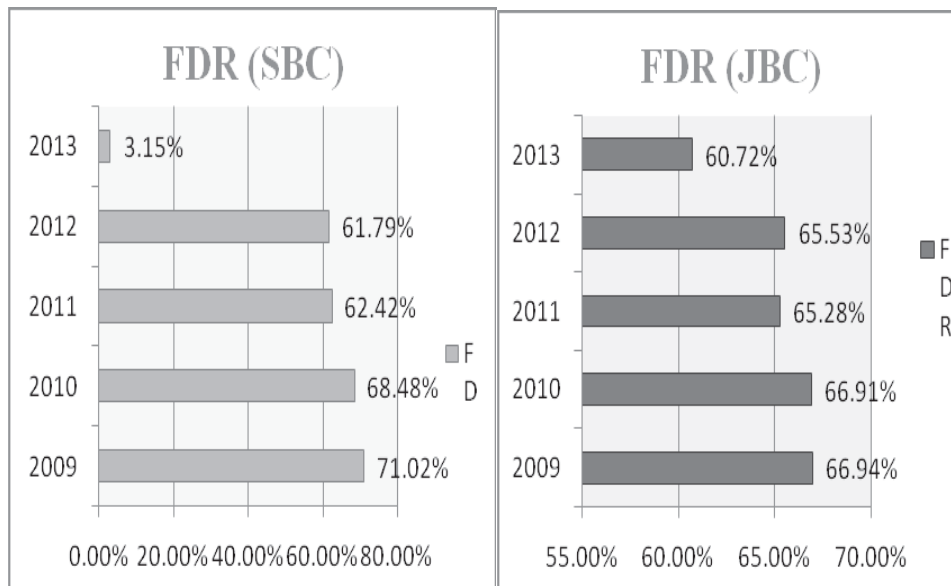


Chart-11 Comparing Securities, Shares and Debentures

### Interpretation

Both of the Shadharan Bima and Jiban Bima Corporation make their investment in the securities, share and debenture as a secured investment. Shadharan Bima Corporation invests 1.72 million in government securities each year. But Jiban Bima invests combindly on the securities, share and debenture while the other makes separate investment on these sectors. Shadharan Bima Corporation makes almost 13 to 38 percent in Bangladesh fund in the recent five years. On the other hand Jiban Bima invests almost 28 to 37 percent in the securities, share and debentures.

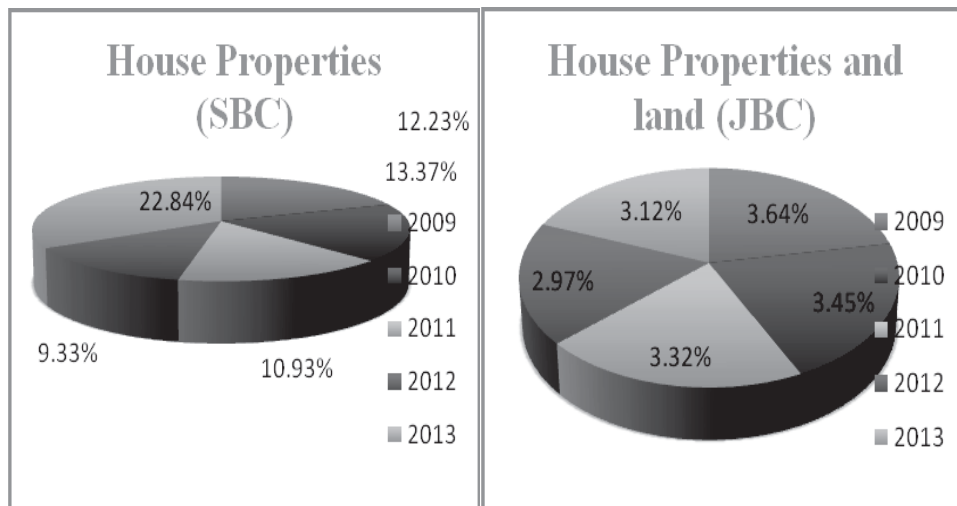
**Chart-12 FDR**



### Interpretation

The recent five years data represent that; both of the public insurance companies invest a lion share of their investment on FDR, which is almost 60 percent to 70 percent. Basically they choose this form of investment because of its being less risky than any other forms of investment.

**Chart-13 House Properties and Land**



**Interpretation**

The recent five years data of Shadharan Bima and Jiban Bima Corporation shows the proportion of the house properties of the total investment. Shadharan Bima Corporation invests almost 9 percent to 23 percent of their total in the house properties and Jiban Bima Corporation invests 2 percent to 4 percent of their total investment in Bangladesh.

**5.5 Regression Analysis**

In this paper, the author has conducted two specific regression analyses of Shadharan Bima Corporation and Jiban Bima Corporation. These regression analyses will show the relationship among the investment and the other related variables selected from their authorized sources of information and also the effect of changing of one variable on another.

**Regression -1**

This regression analysis will demonstrate the relationship among the Investment, Total Assets and Net Profit, which will show how the amount of investment of Shadharan Bima Corporation responds with the changing of total assets and net profit.

$$\hat{Y} = a + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

$$\text{Investment} = \text{Constant} + \beta_1 \times \text{Total Assets} + \beta_2 \times \text{Net Profit} + \text{Error}$$

We know the actual multiple regression equation is ( $\hat{Y} = a + \beta_1 X_1 + \beta_2 X_2 + \epsilon$ ) where,  $a$  denotes the constant,  $\beta_1$  is the slope or coefficient of  $X_1$  (Total Assets),  $\beta_2$  is the slope or coefficient of  $X_2$  (Net Profit) and  $\epsilon$  is the error which accounts for the variability in  $\hat{Y}$  that cannot be explained by the linear effect of the 2 independent variables.

Coefficient of Multiple Correlation measures the strength of the linear relationship between variables. In this model the value of  $R=0.31$  expresses that there is a low degree of positive relationship between the dependent variable  $\hat{Y}$  (Investment) and the independent variables expressed as  $X_1, X_2$  respectively for Total Assets and Net Profit.

**Coefficient of Determination ( $R^2$ ) = 0.095**

Coefficient of Determination measures the percent of variation in the dependent variable, explained by the set of independent variables. Here in the two independent variables ( $X_1$  &  $X_2$ ), the R square = 0.095, which is very low. It means that independent variables (Total Assets and Net Profit) can influence the dependent variable (Investment) by 9.5% only.

**Adjusted Coefficient of Determination ( $R^2_{adj}$ ) = -0.810**

The adjusted R Square compensates for the number of independent variables in this model.

**Multiple standard Error of estimate ( $s_y$ ):**

Standard Error of estimate expresses the total amount of error or variability in the dependent variable that can't be explained by the linear effect of the two independent variables in the multiple regression model expressed by multiple regression equation.

We expect 68% of the residuals will be within  $\pm$  TK 2242.003 million and about 95% of the residuals will be within  $\pm 2(2242.003) = \pm$  TK 4484.006 million and last of all 99% of the residuals will be within  $\pm 3(2242.003) = \pm$  TK 6726.009 million.

**F Test:**

The F-test is used to determine whether a significant relationship exists between dependent variable and set of all independent variables such as  $\beta_1$  and  $\beta_2$  expressed as the total assets and net profit respectively; we will refer to the F-test as the test

for overall significance. In this ANOVA model, the hypothesis for the F-Test involves the parameters of the multiple regression models.

**Step1:**

$$H_0 = \beta_1 = \beta_2 = 0$$

$H_1$  = Not all the  $\beta_i$ 's are 0

**Step2:** Level of significance is 0.05

**Step 3:** Degrees of freedom for numerator,  $k = 2$

Degrees of freedom for denominator,  $n - (k + 1) = 5 - (2 + 1) = 5 - 3 = 2$

From appendix table we get the critical value of F is 19

**Decision Rule:** Reject  $H_0$  if ( $F_c > 19$ ), calculated value of F is greater than 19.

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1052378.111	2	526189.056	.105	.905 <sup>a</sup>
	Residual	1.005E7	2	5026578.271		
	Total	1.111E7	4			
a. Predictors: (Constant), NETPROFIT, TOTALASSETS						
b. Dependent Variable: INVESTMENT						

**Step 5:**

Don't reject  $H_0$  because the calculated value of F is 0.105, which are less than the table value of 19. So, we can conclude that there is no significant relationship between dependent investment and independent variables total assets and net profit of JBC.

**Regression 2 (JBC)**

$$\hat{Y} = a + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

$$\text{Investment} = \text{Constant} + \beta_1 \times \text{Total Assets} + \beta_2 \times \text{Net Profit} + \text{Error}$$

We know the actual multiple regression equation is ( $\hat{Y} = a + \beta_1 X_1 + \beta_2 X_2 + \epsilon$ ) where, a denotes the constant,  $\beta_1$  is the slope or coefficient of  $X_1$  (Total Assets),  $\beta_2$  is the slope or coefficient of  $X_2$  (Net Profit) and  $\epsilon$  is the error which accounts for the variability in  $\hat{Y}$  that cannot be explained by the linear effect of the 2 independent variables.

**Coefficient of Multiple Correlation(R) = 0.764**

Coefficient of Multiple Correlation measures the strength of the linear relationship between variables. In this model the value of  $R=0.764$  expresses that there is a positive relationship between the dependent variable  $\hat{Y}$  (Investment) and the independent variables expressed as  $X_1, X_2$  respectively for Total Assets and Net Profit.

**Coefficient of Determination ( $R^2$ ) = 0.584**

Coefficient of Determination measures the percent of variation in the dependent variable, explained by the set of independent variables. Here in the two independent variables ( $X_1$  &  $X_2$ ), the R square = 0.584, which indicate a low influence of independents variables.

**Adjusted Coefficient of Determination ( $R^2_{adj}$ ) = 0.168**

The adjusted R Square compensates for the number of independent variables in this model.

**Multiple standard Error of estimate ( $s_y$ ):**

We expect 68% of the residuals will be within  $\pm$  TK 661.444million and about 95% of the residuals will be within  $\pm 2(661.444)= \pm$  TK 1322.88 million and last of all 99% of the residuals will be within  $\pm 3(661.444)= \pm$  TK 1984.33 million.

**F Test****Step1:**

$$H_0 = \beta_1 = \beta_2 = 0$$

$$H_1 = \text{Not all the } \beta_i \text{'s are 0}$$

**Step2:** Level of significance is 0.05

**Step 3:** Degrees of freedom for numerator,  $k=2$

$$\text{Degrees of freedom for denominator, } n-(k+1) = 5-(2+1) = 5-3 = 2$$

From appendix table we get the critical value of F is 19

**Decision Rule:** Reject  $H_0$  if ( $F_c > 19$ ), calculated value of F is greater than 19.

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1227885.123	2	613942.562	1.403	.416 <sup>a</sup>
	Residual	875016.077	2	437508.038		
	Total	2102901.200	4			
a. Predictors: (Constant), NETPROFIT, TOTALASSETS						
b. Dependent Variable: INVESTMENT						

#### Step 5:

Don't reject  $H_0$  because the calculated value of F is 1.403, which are less than the table value of 19. So, we can conclude that there is no significant relationship between dependent investment and independent variables total assets and net profit of JBC.

### 5.6 Time Series Analysis

In this paper, the author has conducted Time series analysis of the investment and of Shadharan Bima Corporation as well as the investment of Jiban Bima Corporation to forecast the positive or negative trends in future.

#### Time Series Analysis of Investment of SBC

Year	X (deviation)	Y (Investment)	XY	X <sup>2</sup>	$\hat{Y}$	$\frac{Y}{\hat{Y}} \times 100$
2009	-2	5038.70	-10077.40	4	6043.39	83.38
2010	-1	5819.29	-5819.29	1	5776.21	100.75
2011	0	6400.74	0	0	5509.03	116.19
2012	1	7347.91	7347.91	1	5241.85	140.18
2013	2	2938.50	5877.00	4	4974.67	59.07
$\Sigma X = 5$	$\Sigma x = 0$	$\Sigma Y = 27545.14$	$\Sigma XY = 2671.78$	$\Sigma x^2 = 10$		

The equation of straight line trend is  $\hat{Y} = a + bx$

Where  $a = \frac{\sum Y}{N} = 5509.03$ ;  $b = \frac{\sum XY}{\sum X^2} = -267.18$

Time series of Investment of SBC is  $\hat{Y} = 5509.03 + (-267.18)(X)$

So, Where  $x = -2$ , there

$$= 5509.03 + (-267.18)(-2) = 6043.39 \text{ million}$$

### Result

Time series analysis helps us to find the approximate figure of Investment of Shadharan Bima Corporation in future. In 2016, the approximate amount of Investment of SBC would be,

$$5509.03 + (-267.18) * 4 = 4440.31 \text{ million.}$$

In 2019, the approximate amount of Investment of SBC would be,

$$5509.03 + (-267.18) * 7 = 3638.77 \text{ million.}$$

**Interpretation** From the time series analysis we can see that Shadharan Bima Corporation is expected to have negative investment amount in future which indicates a worse position of investment for unfavorable market situation. This prediction is being negative due to a huge fall in the investment amount in the year 2013, which was only 2938.50 million decreased from 7347.91 million in 2012.

### Time Series Analysis of Investment of JBC

Year	X (deviation)	Y (Investment)	XY	X <sup>2</sup>	$\hat{Y}$	$\frac{Y}{\hat{Y}} \times 100$
2009	-2	10109.26	-20218.52	4	10422.28	97.00
2010	-1	10961.25	-10961.25	1	10774.50	101.73
2011	0	11145.02	0	0	11126.71	100.16
2012	1	12134.14	12134.14	1	11478.92	105.71
2013	2	11283.88	22567.76	4	11831.13	95.37
$\Sigma X = 5$	$\Sigma x = 0$	$\Sigma Y = 55633.55$	$\Sigma XY = 3522.13$	$\Sigma x^2 = 10$		

The equation of straight line trend is  $= a + bx$

Where  $a = \sum Y / N = 11126.71$ ;  $b = \sum XY / 352.21$

Time series of investment  $= 11126.71 + 352.21 (X)$

So, Where  $x = -2$ , there

$$= 11126.71 + 352.21 (-2) = 10422.28$$

### **Result**

Time series analysis helps us to find the approximate amount of investment of Jiban Bima Corporation in future. In 2016, approximate investment would be,

$$11126.71 + 352.21 * 4 = 12535.55$$

In 2019, approximate investment would be,

$$11126.71 + 352.21 * 7 = 13592.18$$

### **Interpretation**

From the time series analysis we can see that Jiban Bima Corporation is expected to have positive investment trend in future which indicates a better position.

**Conclusion** Investment portfolio is the pool of different investment by which an investor bets to make a profit while aiming to preserve the invested amount. Here in this paper, the author has analyzed the investment portfolio of two state owned insurance companies: Shadharan Bima Corporation and Jiban Bima Corporation. Portfolio consisting of securities, share and debentures, FDR, household properties and Bangladesh fund for the companies. The analysis showed that, the overall growth and performance of these corporations are not properly satisfactory. Comparative study between these two corporations showed that Shadharan Bima Corporation's performance is better than that of Jiban Bima Corporation. This sector can be making more profitable if the regulatory authority take some immediate measures to improve the service quality and other relevant activities to create an investment friendly environment. This potential field of financial institutions should be making more profitable and efficient. Proper initiatives should be taken to remove the existing barriers and boosting up this potential industry.

## References

David Cummins J. and David J. Nye, 1981, Portfolio Optimization Models for Property-Liability Insurance Companies: An Analysis and Some Extensions, *Management Science*, 1981, vol. 27, issue 4, pages 414-430

E. Philip Davis (2000), Portfolio Regulation of Life Insurance Companies and Pension, paper presented at the XI ASSAL Conference on Insurance Regulation and Supervision in Latin America.

Janowicz- Lomott (2011), "Investment activity of non-life insurance companies in Poland", *MIBES 2011 – Poster*, p: 467-678

Henebry, Kathleen L., and Jeanette M. Diamond, 1998, "Life Insurance Company Investment Portfolio Composition," *Journal of Insurance Issues*, 21(2): 183-203.

KamrulHasan, FirojaAkterKhanam, 2013, Performance Evaluation of Public Sector General Insurance Company in Bangladesh- A Case Study on SBC, vol-5, no-25(2013)

QuaziSagotaSamina, (2012), Investment Portfolio of Insurance Companies in Bangladesh: A Study on Selected Insurance Companies of Bangladesh, *World Journal of Social Sciences* Vol. 2. No. 7. November 2012 Issue. Pp. 37 - 47

HaqNurul, 2008, *Globalization and its impact on insurance industry of Bangladesh*, Financial express, <<http://www.thefinancialexpress-bd.com/>>

Oyatoye Emmanuel Olateju & Arilesere Waheed Oladimeji , 2012, 'A non-linear programming model for insurance company investment portfolio management in Nigeria', *International Journal of Data Analysis Techniques and Strategies* 2012, Vol. 4, No.1 pp.83-100

Seema Sharma, Dr. SujitSikidar, 2014, Performance Measurement of Public Sector Insurance Units After De-Tariffication, Vol. 3, No. 3

Tamzid, Masud&Rownak, 2007, 'Perceptions of The Customers Towards Insurance Companies In Bangladesh-A Study Based On The Survqual Model', *BRAC University Journal*, Vol. IV, No. 2, 2007, pp. 55-66

## **Money Laundering Risk Assessment in Insurance Sector of Bangladesh.**

S.M Ibrahim Hossain, ACII

---

### **Prelude**

The word “laundry” literally means “cleaning”. Metaphorically, money laundering refers to “cleaning money”. Money laundering is the process by which illegal funds and assets are converted into legitimate funds & assets. **Money laundering** is the process of transforming the proceeds of crime into ostensibly legitimate money of other assets. Most countries subscribe to the definition adopted by the United Nations convention against illicit traffic in Narcotic Drugs and Psychotropic Substances (1988 Vienna Convention).

The conversion or transfer of property, knowing that such property is derived from any (drug trafficking) offence or offences for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such offence or offences to evade the legal consequences of his actions .

### **According to the United States Treasury Department:**

Money laundering is the process of making illegally-gained proceeds (i.e. “dirty money”) appear legal (i.e. “clear”). Typically, it involves three steps: placement, layering and integration. First, the illegitimate funds are furtively introduced into the legitimate financial system. Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. Finally, it is integrated into the financial system through additional transactions until the “dirty money” appears “clean”.

Money obtained from certain crimes, such as extortion, insider trading, drug trafficking, human trafficking, dowry, piracy and illegal gambling etc is “dirty”. It needs to be cleaned to appear to have been derived from legal activities so that banks and other financial institutions will deal with it without suspicion. Money can be laundered by many methods which vary in complexity and sophistication.

---

**S.M. Ibrahim Hossain, ACII**

Faculty Member (Grade-1)

Bangladesh Insurance Academy

In Bangladesh, this issue has been dealt with by the Prevention of Money Laundering Act, 2002 (Act No. VII of 2002). In terms of section 2, ``Money Laundering means (a) Properties acquired or earned directly or indirectly through illegal means; (b) Illegal transfer, conversion, concealment of location or assistance in the above act of the properties acquired or earned directly or indirectly through legal or illegal means``. In this Act, ``properties`` means movable or immovable properties of any nature and description.

To prevent Illegal uses of money, the Bangladesh government has introduced the Money Laundering Prevention Act. The Act was last amended in the year 2012 and all the financial institutes including insurance sector are to follow this act. Insurance companies should keep eyes on such symptoms which indicate that there may have money laundering issues. To monitor suspicious transaction/premium from another country it should be notified and accordingly the Suspicious Transaction Report (STR) must be filled out & should inform the Financial intelligence unit of Bangladesh Bank.

#### **Prevailing situation of Money Laundering in Bangladesh :**

As per the report of illegal financial flows from developing countries 2004-2013 conducted by Global Financial Integrity, total 966 crore and sixty lakh US dollar have been transferred from Bangladesh to abroad in 2013. During last ten year a total of 5587.7 crore US dollar have been transferred abroad. So, it stands, on an average 558.7 crore US dollar have been transferred every year from this country. Mainly this money was transferred by trade mis invoicing/ over invoicing & this money has not been taken back in the country which is very alarming. Bangladesh stands 26<sup>th</sup> in the list of 149 developing nations in terms of flight of capital including money laundering. The illegal component of flight capital is quite different; illicit financial flows consist of money earned illegally and then transferred for utilizing elsewhere. The money is usually generated from criminal activities like corruption, tax evasion, bribes and smuggling etc. When people feel insecure because of political unrest and social situation they shift their money out of the country and invest somewhere else. So, the problem is very substantial and needs to address this issue of financial sector of our country. With regard to money laundering only, the IMF has estimated that the aggregate amount of funds laundered in the world could range between two to five percent of the world's GDP.

### **Why do we need to resist Money Laundering ?**

We need to resist money laundering because of the following reasons:

- It helps to reduce government tax.
- It helps to increase the inflation.
- It helps to transfer money to abroad.
- It helps to legalize the illegal money.
- It hinders calculating the real GDP.
- It encourages national institutions to be corrupted.

### **Basic Money laundering risk associated with insurance companies:**

**Legal risk :** If it is found that any insurance company is involved with money laundering activities, then as per M/L Act that company will be caught liable & will be penalize or even may shut down/suspend the activities of the company by the regulator.

**Goodwill / reputational risk:-** When people will come to know about M/L activities of any insurance company, there will be an image crisis of the company and customer will feel reluctant to take policy of that company .

**Operational risk:-** When insurance company will be found liable for M/L activities, there will be complexity in the financial side of the company which may cause insolvency of that company.

### **Initiative taken so far to resist Money Laundering in Bangladesh.**

Among the South Asian countries, Bangladesh has first enacted Money Laundering rules which are as follows:

- Enacted Money Laundering laws in 2002 incorporating Terrorist Financing.
- Amended Money Laundering laws in 2009.
- Enacted Money Laundering & Money Laundering resist laws in 2012.

### **How can we identify Money Laundering in Insurance sector :**

**Following are the symptoms of Money Laundering in life Insurance sector:**

- Inconsistent Insurance policies that do not match with the insured age,

employment, business and income etc. When someone take insurance policy and get the money receipt, it means the money has become white. So if we see insured is interested to take overvalue policy or try to hide occupation, income etc, there may be intention of money laundering. This may be termed as suspicious transaction and as per Money Laundering act, Suspicious Transaction Report (STR) needs to be reported to Financial Intelligence Unit of Bangladesh Bank, otherwise, insurer may be liable for such transaction.

- Insured shows little interest about the benefits of the policy, but is very eager regarding cancelation provision of the policy, which means that the money which is invested as premium is illegal and the main intention of taking insurance policy is to make the money white; and the ultimate intention is to take back the money in own hand even after deduction of some money from the premium through cancelation of the policy.
- Insured is concern to surrender policies despite high surrender charges.
- Insured requests for policy loans to be processed in favor of beneficiary or third party. In such case there may be Money laundering Issues.
- High Sum Insured policy with an evil intention to make inflated claim to legalize illegal money.
- Underwriting without proper KYC (Know Your Customer). Such as, client may be disinterested to provide address, description of occupation, age etc. In such cases, there may be moral hazards like money laundering.
- Insurance policies with several companies to make inflated claim to legalize illegal money and to make profit out of insurance.
- Funds coming from another country. Sometimes some people send money from abroad through hundi which is illegal and to make this illegal money customer may take insurance policy.
- As there are many insurance companies, there is tough competition and insurers somehow just want business, that's all. So, sometimes it is immaterial for insurer to see the sources of money whether it is legal or illegal.

**Following are the symptoms of Money Laundering in nonlife Insurance sector:**

- To take high value policy and cancel the same to get refund premium within short period. Sometimes someone may intend to take high value property insurance to legalize black money and ultimately intend to cancel the policy within short period to get the money back in own hand.
- To take high value policy with an evil intention to make inflated claim. In case of property insurance, it is not very difficult to make intentional claim wherein money laundering issue may be involved.
- Underwriting without proper KYC/KYE (Know your customer/Know your Establishment). Some property insurance like motor, fire are like personal insurance which means if the insured is dishonest, there may have been inflated/fraudulent claim and there may be intention of money laundering.
- Insurance policies with several companies. Insured with moral hazards may insure same property with few insurer, with an evil intention to make illegal money, legal and there may have money laundering issues.
- Money laundering issue may be seen in over invoicing in case of marine cargo. Insured may show overvalue to take insurance benefit through inflated claim.
- By establishing unethical relationship with fraudulent brokers/intermediaries, insured may transfer money abroad through reinsurance.
- As there are many insurance companies, there is tough competition and insurers somehow just want business, that's all. So it may become immaterial for insurer, to see the sources of money whether it is legal or illegal.

**To prevent money laundering, following recommendations can be followed by the insurer:**

- While issuing insurance proposal form, should be duly filled up providing all the information of the customer related to material facts of the insured. Necessary papers should be properly collected along with the National ID card.
- Full information to be taken to satisfy the requirement of KYC\KYE and to find out the proper risk associated with the person and establishment/property.

- In case of high value risks Inspection Report can be submitted by proper survey firm/ insurance company to find out deviation between premium and real risk of the property.
- Appropriate information to be Identified in order to conduct a sound risk analysis. Such as in case of high Sum Assured life policy, separate financial questionnaire is required.
- There should be competent internal control for making sound judgment & Insurance Companies should identify appropriate information to conduct a sound risk analysis.
- Insurance Companies should verify documents submitted by the insured to find out inflated/fraudulent claim and should also verify documents submitted by customers in case of underwriting & claims.
- In case of over invoicing in marine cargo, insurer should take respective bank's confirmation regarding the value declared by the insured. On the other hand, insurer should also check whether there are fabricating documents, information/papers for claim.
- To show customer due diligence. If it is not possible in some cases, such policy should be canceled or informed to the higher authority as per money laundering act. In some cases it is required to submit Suspicious Transaction Report(STR) to financial intelligence unit of Bangladesh Bank. In special cases, insurer should show enhanced due diligence.
- To monitor insured's KYC, premium transaction, STR, record keeping etc.
- Insurer should not open any policy of any person/entity enlisted in suspected list of Terrorist finance by UN or government.
- In case of insurance policy of politically exposed person, insurer should be very careful to look into the source money and to monitor transaction carefully.
- To comply with identical code of conduct among insurance companies to combat unhealthy competition which encourage money laundering.
- There should be a compliance officer regarding anti money laundering who's responsibility is to monitor & comply with the policies.

- There should be written program regarding money laundering which need to be signed by the Board of Director's of the insurance companies to ensure good governance.
- To impart training on money laundering so that all concerned can identify the symptom of money laundering.

-Insurance Development and Regulatory Authority should monitor insurer to comply with regulations to resist money laundering .

**Conclusion:** Finally it can be asserted that we should not allow the image of our insurance industry to be stained due to money laundering issues . We need to be very careful about the integrity of financial system of insurance industry and thus ,we should be vigilant regarding Money laundering issues in insurance sector. All concern in the insurance industry should keep vigilases on the symptoms of Money laundering described in this article so that insurance industry may remain free from the adverse impact of Money laundering. As there are international rating agencies to monitor Money laundering and if we fail to combat this issues, our insurance sector ratings will go down. Moreover there will be an image crisis of the insurance industry if both government & private sectors donot work together.

**Reference:**

- Money laundering & terrorist financing: definitions and explanations-World Bank.
- Global Financial Integrity Report.
- Money laundering in insurance industry. by Ms Sanda (Asia insurance review).
- Money laundering prevention Act-2012
- Circular no 16, Bangladesh bank financial intelligence unit.

## **Legal Aspects and Regulatory Frame work Of Insurance Industry in Banglades**

**Md. Ibrahim**

Ph.D Student, ASU, India.

### **Abstract**

This study will present the overall legal aspects and regulatory frame work of Insurance Industry including Bangladesh period. The analysis is based on various books, journal and acts that was published in different times in Bangladesh. The main subject matter of this article is related to the origin of insurance laws and an upgraded position of Insurance laws and also different amendment in different time in Bangladesh. By following a persistent demand for insurance legislation, Insurance Act – 1938 was promulgated. India, Pakistan, Sri Lanka and subsequently Bangladesh inherited Insurance Act – 1938. It has long been felt in Bangladesh that few provisions of the Insurance Act – 1938 require amendments to suit the modern development in the insurance sector worldwide. There was a committee formed in 2005 headed by the chief controller of insurance for appropriate amendment of this Act – 1938. After liberation of Bangladesh on the 16<sup>th</sup> December, 1971. The Insurance Act, 1938 was promulgated. In order to form nationalized Insurance Corporation, the Insurance Corporation Act – 1973 was promulgated. Due to the allowance permission to private insurance companies, the Insurance corporation (Amendment) Act-1984, was promulgated. Another Amendment of insurance corporation Act – 1990 was promulgated due to the clear underwriting conception of the public property related business and subsequently an agreement made between SBC and BIA name as – MOA (Memorandum of Agreement) – in 1990. As a regulator of Insurance Industry, the department of insurance under the Ministry of Finance (previously Ministry of Commerce) regulates through enforcement of the Insurance Act -1938, Insurance Rules 1958. Insurance corporation Act, 1973, various order and circulars issued by the Government from time, to time headed by the chief controller of Insurance. The latest news of legal aspects of Insurance Industry is that, Insurance Act – 2010 and Insurance Development and Regulatory Authority Act – 2010 passed on 18 march, 2010, IDRA already has passed five years by controlling the rules & regulations of this industries. It is expected that these two recent Acts will fulfill the desire of insurance industry in Bangladesh.

**Key words:** Legal aspect, Regulatory Framework, BIA = Bangladesh Insurance Association, IDRA = Insurance Development and Regulatory authority, Controller of Insurance, MOA (Memorandum of Agreement).

---

*Ph. D Student, ASU India, Manager of SBC and Ex-Lecturer of Central University College, Marketing Department, Mohammadpur, Dhaka, Cell- 01911324589, E-mail-ibrahim.sbc123@gmail.com, mohammad.ibrahim@asu.apeejay.edu*

### **Introduction:**

In any country insurance is a highly regulated sector. This is because of the fact that insurance deals with public money and the government is to see that this money is adequately protected against misuse, claim is duly paid and good return is ensured of investment of policyholders fund. Besides, in a free-market economy, there should be adequate legal framework to safeguard the interest of stakeholders.

The legal framework refers to the enactment of principal legislation (Acts), sub-ordinate legislation which include 'Rules' framed by the governed and Regulations frame by the supervisory authority. 'Supervision' refers to the process of ensuring compliance with the legislative provisions and intervention as necessary, in accordance with the legislative provisions and intervention as necessary, in accordance with the powers and functions embodied in the legislations. The body responsible for supervision is referred to as the 'Supervisory Authority'.

### **Development of Insurance law:**

As we already know that insurance in its modern form was developed in England through gradual modifications. It will be evident from the fact that in 1601, the preamble to an Act of parliament explained the operation and purpose of insurance in such a manner which could have be better defined till date. In the early days of insurance, there was seemingly no difference between insurance and gambling. Like gambling, some men used to insure the lives of public figures like Prime minister or princess etc. and paid insured sums on their deaths. But subsequently it was realized that while entering into insurance contract, there should be insurable interest 'which means. "the insured must have an interest in the preservations of

the thing insured, so that he will suffer financially on the happening of the peril insured against” subsequently in order to give legal coverage for insurance transactions, the life Assurance Act, 1774 was passed which stipulate the insurance without insurable interest is a mere wager and as such, illegal. This Act did not include insurances on ships, goods or merchandise but without insurable interest these are also wagering contract and hence unenforceable at law. The Gaming Act, 1845 made such wagering contracts illegal.

The Marine Insurance Act, 1906 defines clearly the insurable interest as: “Every contract of marine insurance by way of gaming or wagering is void” [Section4(1)]. It is made more stringent leading to criminal offence for persons to effect marine insurance without interest of anticipation of interest by Marine Insurance (Gambling policies) Act, 1909. In British India, in 1923 the workmen’s Compensation Act was passed and the companies transacted this type of business on tariff basis. With the spread of insurance market, Indian Insurance companies Association was formed in 1928. Following a persistent demand for insurance legislation, the Insurance Act, 1938 was promulgated. The immediate result of the promulgation of the act was the discontinuance of life business by a number of non-Indian companies while general departments were opened by a number of Indian offices.

The law was based on the American and Canadian law which followed the principle of minimum intervention and maximum publicity. The Act created the office of the controller of insurance having wide executive power. The controller and the Department of Insurance operated under the Ministry of Finance. India, Pakistan and subsequently Bangladesh inherited Insurance Act, 1938. India and Pakistan and even Sri Lanka have replaced and modernized this Act long before. It has long been felt in Bangladesh that many provisions of the Insurance Act, 1938 require amendments to suit the modern development in the insurance sector worldwide. Sporadic attempts were made and voices were raised on different occasions but no tangible result were achieved until a committee was formed in 2005 headed by the chief controller of insurance consisting of experts on insurance related fields and the committee after several deliberations has recommended appropriate amendments in the present Insurance Act, 1938.

## **Bangladesh Period**

After liberation of Bangladesh on the 16<sup>th</sup> December, 1971 the Insurance Act, 1938 was adapted by promulgation of Bangladesh (Adaptation of Insurance Act) order, 1972 (President's order No. 19 of 1972) 1<sup>st</sup> March, 1972 with retrospective effect from 16<sup>th</sup> December, 1971. The Bangladesh Insurance Company (Emergency provision) order 1972 (President's order No. 30 of 1972) was promulgated by which the management of certain life and non-life insurance companies were taken over pending nationalization therefore. However, prior to that the Bangladesh (Taking over control and management of industrial and commercial concern) order, 1972 was passed on 3<sup>rd</sup> January, 1972 whereby West Pakistan and foreign concerns had come under government control. On 8<sup>th</sup> August, 1972, the Bangladesh Insurance (nationalization) order, 1972 (President's order No. 95 of 1972) was passed whereby the Insurance business was fully nationalized transferring the undertakings of the insurers then operating in Bangladesh to four corporations, two life corporations viz-(i) Surma Jiban Bima corporation and (ii) Rupsha Jibn Bima Corporation and two Non-live Corporation viz-(i) Testa Bima Corporation and Karnaphuli Bima corporation. The undertakings of 33 life companies were vested in two non-life insurance corporations. Another Corporation viz- Jatiya Bima corporation was created at the controlling corporation over the above four subsidiary corporation. On 14<sup>th</sup> May, 1973 the Insurance corporation Act (Act vi of 1973) was promulgated by which two corporations were created viz Jiban Bima corporation by amalgamating surma and Rupsa Jiban Bima corporation & Shdharan Bima corporation by amalgamating Teesta and Karnophuli Bima corporation while Jatiya Bima corporation was abolished.

Insurance Corporation (Amendment) Act, 1984, was promulgated by which private companies were allowed. Accordingly Private insurance companies have started functioning since 1985. In the phese Next another amendment come, which was insurance corporation (Amendment) Act, 1990. As per Amendment of Insurance Corporation Act 1990, Fifty percept of all Insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the Sadharan Bima corporation and the remaining fifty percent of such business may be placed either with that corporation or with any other insurer in Bangladesh. (Sec-23/1) Any policy if insurance taken or issued in contravention of sub section(1) shall be void. Every insurer registered and carrying

on insurance business in Bangladesh shall re-insure, on generally acceptable terms and conditions, such portion of his insurance business as he cannot retain on his own account. Fifty percent of the re-insurable general insurance business shall be re-insured with the Sadharan Bima corporation and the remaining fifty percent of such business may be re-insured either with the corporation or with any other insurer whether in or outside Bangladesh. (Sec-23, A) The whole or any portion of the re-insurable life insurable business may be re-insured with any insurer outside Bangladesh. Whoever contravenes the provision of this section shall be punishable with fine which may extend to ten thousand taka. Due to the avoid are of the anomalies of underwriting of public insurance business, an agreement (MOA= Memorandum of Agreement) was signed between the Sadharan Bima corporation and Bangladesh Insurance Association (BIA). According to this agreement – All (100%) public related insurance business will be under-written by Sadharan Bima corporation (SBC), keeping 50% of that business, rest of 50% will be distributed on equal basis among 45 private insurance companies after deducting 7.5% service charge (including re-insurance expenses)

### **Insurance Regulator**

The Department of insurance under the Ministry of Finance, (Previously Ministry of Commerce) is the regulator of insurance industry in Bangladesh. The Department was set up in 1972 in order to fulfill the legal requirement of law after the adoption of insurance Act 1938 (Act IV of 1938) for its application in Bangladesh as per Presidents order no 19 of 1972 and was given effect form 16<sup>th</sup> day of December, 1971. The Department conducts its functions through enforcement of the Insurance Act, 1938, Insurance Rules 1958, Insurance Corporations Act 1973, various and order the circulars issued by the Government from time to time. The Department was headed by the chief controller of Insurance.

During the caretaker Government, the caretaker government headed by the former chief Advisor Dr. Fakruddin Ahmed promulgated two ordinances, one relating to amendment of insurance act, 1938 for regulating the insurance business and the other concerning the power and functions of the new Regulatory Authority. The government has not approved the ordinance, 2008 for regulating the Islamic insurance business in the country. However, the ordinances could no be placed before the first session of the 9<sup>th</sup> parliament within 30 days for enactment and as

a result these are lapsed. Subsequently, the cabinet in its meeting held on the 30<sup>th</sup> March, 2009 passed insurance Act, 2009 and insurance Regularity Authority Act, 2009 but next these were passed as Insurance Act, 2010 and Insurance Development & Regulatory Authority Act, 2010 on March 2010.

### **Objectives of this Study**

The main objective of this study is to get an overall idea regarding the legal aspect and regulatory framework of Insurance Industry in Bangladesh. Besides the followings are the objectives of this study.

- i) To know the origin of the Insurance law.
- ii) To know the origin of the Insurance Regulator.
- iii) To know the main theme/subject matter of various Insurance Acts.
- iv) To know the different amendments of the Insurance Act-1938
- v) To know the different amendments of Insurance corporation Act – 1973
- vi) To know regarding the Memorandum of agreement (MOA) between Sadharan Bima Corporation and Bangladesh Insurance Association (BIA)
- vii) Finally to know the upgraded position of Insurance Act and Regulatory Authority.

### **Methodology:**

This study is mainly based on the secondary data. Data has been collected from various Journal, Books, Acts. Published by law and justice Ministry, circular from ministry of commerce.

### **Main subject-matter of various Insurance Law/ Act.**

#### **Basic principles treated as Law.**

There are so many laws, that were introduced for governing the insurance business. Insurance business mainly operates based on few principles so called as six principles. These principles are treated as legal aspect or fundamental pillar of the insurance business.

The followings are the basic principles.

- 1) Utmost Good faith.
- 2) Insurable interest
- 3) Principle of Indemnity
- 4) Proximate Cause
- 5) Subrogation
- 6) Contribution

### **Insurance Act-1938**

The Insurance Act – 1938 consisted of two part (part –I and part II) and 123 (one hundred twenty three) sections. Part – 1 contracts short title, extent and commencement and definition of different subject ( sections-1 to 2) Part II contents all provisions relating and applicable to insurance, (section, 2–26) Investment, loans and management (section, 27-32), Investigation Directors etc (section, 33–44), special provision of law (section, 45-52) Management by Administration (section – 52A to 52H), Winding up (Section, 53-61), special provision relating to external companies (Section, 62–94), Mutual Insurance Companies and co-operative Insurance Societies (Section, 95-101), and Miscellaneous (such as – penalty for default in complying with or act in contravention of this Act, Advisory Board etc) (Section- 102–121)

### **The Insurance Corporation Act-1973**

The Insurance Corporation Act–1973 contents 34 (thirty four) sections relating to various definition, Establishment of the corporation, capital formation, General direction, Board of directors, Managing director, Qualifications and disqualifications of the directors, meeting of the board formation of committees, functions, Description of Head office, transfer of undertakings existing Bima corporation, transfer of certain immovable property by a corporation, Appointment of officers and employees, Annual Budget statement, Investment and Borrowing, Accounts and Audit, Actuarial valuation, Returns and Profit, public (govt.) property to be insured with the Sadharan Bima Corporation, Re-insurance, Guarantee of policies, winding up of the corporations, Indemnity, Delegation of power, Act. iv of 1938 to apply, power to make rules (service rules) for running the corporation, power to make regulations, Dissolution of the Jatiya Bima corporation, Exemption from registration (need not registration from joint

stock company and Repeal (The Insurance corporations ordinance 1973 (ordinance no – VII of 1973) is here by repeated)

### **The Insurance Rules-1958**

The Insurance Rules, - 1958 contents 68 (sixty eight) rules relating with short little and commencement and definitions (Section-1-2), Qualification of Actuaries (Section-3), conditions of registration of mutual Insurance companies, paid-up capital and share holders, (Section, 4-4A), Deposit with bank (Section-5-10), Save custody of assets (Section-11-12), Election of Directors by policy – Holders, (Section,13-15), Election of Directors by public subscribers. (Section-15A-15B), Prospectuses, Tables and proposal forms (Section-16-23), Insurance surveyors related informations (Section,24-28), Miscellaneous provisions regarding agents, Employers of Agents and Insurance surveyors (Section,29-33) Fees payable under the Act - (Section-34-38), Limitation of Expenses of Management, (Section, 39-41), special Audit related informaitons (Section, 42-52), Provident societies (Transaction of bond investment business), section (53-59), Miscellaneous (Additional particulars to be given by actuary, Repeal and savings etc) (Section-60-68).

### **The Famine Insurance fund Act-1973**

The famine Insurance fund Act–1973 consisted of only 9 (nine) sections relating to establishment of the Bangladesh famine Insurance fund, Initial contribution to the famine Insurance fund by government, purpose for which the fund may be utilized, Investment and re-investment of amount not required, Accounts of the fund and making up of the deficiency in the fund, Contributions under the Act to be changed upon the revenues of the Government and power of government to make rules.

### **The Insurance Corporation (amendment) Ordinance-1984**

The Insurance Corporation (amendment) ordinance–1984 ordinance No. – LI of 1984. The ordinance made by the president of the People’s Republic of Bangladesh, on the 7th August 1984. The following new section shall be inserted after section 14 of Insurance Corporation Act 1973 (VI of 1973).

14A- “Transfer of certain immovable property by a corporation – Notwithstanding anything confined in this Act, a corporation shall if, the Government so directs, transfer any immovable property transferred to and vested in it under this Act to any Insurance on a price fixed by the Government”.

Substitution of section – 23, Act VI of 1973. In the said Act for section 23, the following shall be substituted – namely: ‘23’ – public (govt.) properly to be insured with the Sadharan Bima corporation only – (1) All insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the Sadharan Bima corporation and with no other insurer.

(2) Any policy of insurance taken or issued in contravention of subsection (i) shall be void, provided that any claim for loss, damage, compensation or refund of the premium arising out of or relating to such policy shall be binding on the insurer.

3) In this section – “public property” means (a) Any property moveable or immovable which belongs to or the protection of which is the legal responsibility of –

(i) The Government or a local authority or (ii) any company, firm, undertaking institution organization or other establishment which is managed or controlled by the Government or a local authority or in which the Government by itself or jointly with a local authority or company managed or controlled by it, holds controlling financial share or interest or which is specified by the Government for the purpose of this section; and

(b) a project financed out of an external loan or with external aid until it reaches –

i) In the case of an industrial project, the stage at which it is capable of commencing normal production and ii) in the case of any other project, the stage at which it is capable of being put to the use for which it is intended.

23A- Re-insurance – Every insurer registered and carrying on insurance business in Bangladesh shall re-insure with the Jiban Bima corporation or the Sadharan Bima Corporation generally acceptable terms and conditions such portion of his insurance business as he cannot retain on his own account and the Jiban Bima Corporation and the Sadharan Bima

Corporation shall also re-insure with others insurers in Bangladesh or generally acceptable terms and conditions such portion of their insurance and re-insurance business as they cannot retain on their own account.

Provided that where in any case, after re-insurance with other insurers in Bangladesh, the Jiban Bima Corporation or Sadharan Bima Corporation finds that the insurance business required to be re-insured could not be fully re-insured, it may re-insure the remaining portion of the insurance business with any insurer outside Bangladesh.

Provided further that nothing in this section shall apply to any insurance business under written by any insurance at any time before the thirty first day of December, 1984.

### **The Insurance Corporation (Amendment) Act-1990**

The Insurance Corporation (Amendment) Act – 1990, 13<sup>th</sup> February – 1990. Act 29. As per this Act, - Act VI of 1973, section-23 and subsection (1) will be inserted by the following subsection. (Section-23 sub section (1) subs by Act No – 29 of 1990.)

(1) Fifty percent of all insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the Sadharan Bima Corporation and remaining fifty percent of such business may be placed with that corporation or with any other insurer in Bangladesh.” (Section–23A subs by Act 29 of 1990).

### **Section 23A Re-insurance**

- (1) Every insurer registered and carrying an insurance business in Bangladesh shall re-insure, a generally acceptable terms and conditions, such portion of his insurance business as he cannot retain his own account.
- (2) Fifty percent of the re-insurable general insurance business shall be re-insured with the Sadaharan Bima Corporation and the remaining fifty percent of such business may be re-insured with the corporation or

with any other insurer whether in or outside Bangladesh.

- (3) The whole or any portion of the re-insurable life insurance business may be re-insured with any insurer outside Bangladesh.
- (4) Whoever contravenes in the provision of this section shall be punishable with fine which may extended to ten thousand taka. (New provision Inserted by Act No – 29 of 1990).

This provision inserted under section 24, of VI of 1973, Insurance Corporation Act. “Provided that this provision shall not apply in the case of any policy issued by a corporation after the commencement of the Insurance corporation (Amendment) Act 1990 (29 of 1990)

### **Memorandum of Agreement (MoA) 1990**

In pursuance of the decision of the Government of the people’s Republic of Bangladesh conveyed to the Sadaharan Bima Corporation vide Ministry of Commerce Letter No- ev:ex:-2/1(16)/89 (Ask)/114, ZvwiL-21-4-1990Bs it was hereby decided and agreed by the Sadaharan Bima Corporation, 33, Dilulsha, C/A, Dhaka, Bangladesh referred to hereinafter as the First Party and all others private non-life Insurance companies (now-45) referred to hereinafter as the second party.

That with effect from 1.4.1990 all insurance business relating to any Public property or to any risk or liability appertaining to any public property be under-written and managed under the leadership of the first party (i.e. SBC), who shall have 50% of those businesses and distribute or an equal share basis, the remaining 50% among all private Non-life insurance companies now operating in Bangladesh on co-insurance basis, subject to the following terms and modalities of operation.

1. That it shall be obligatory on the part of the First party (SBC) to distribute 50% of all insurance business relating to any public property or to any risk or liability appertaining to aforementioned public property under-written by it under section – 23 sub-section (1) of Insurance Corporation (Amendment) Act-1990 to the second party (private non-life Insurance Companies) who have signed this agreement, or equal share basis and it shall be obligatory on the second party to accept such share of such

business. Provided that any new private Insurance Company coming up in future shall have an opportunity of getting equal share of this 50% distributed business or its becoming a party to this agreement and further provided that distribution of business to such entrants shall be made effective from the first day of the next calendar year after commencement of their operation and becoming signatory to this Agreement.

2. That the first party being the leader shall issue such policy showing therein its own share of 50%. The policy shall be signed by the First party on behalf of itself and the second party.
3. That for all liabilities arising out of such policies the First party and all the constituents of the second party shall be individually responsible to the extent of their respective share.
4. That the First party shall retain insurance premium Tax at source and pay the same to the Taxation Authority on behalf of itself and second party.
5. That both the parties shall bear proportionately the cost of insurance stamps which are not recoverable from the insured.
6. That the second party shall be entitled to proportionate premium of such policies from the First party as are stated at paragraph (2) above.
7. That the First party shall be entitled to Management Expense including re-insurance service charge at the rate of 10%(Now it 7.5%) from the second party on letter's portion of the premium indicated in the policies mentioned at paragraph (2) above.
8. That the First party shall hold, on behalf of both itself and the second party all deposit premium made to the First party on or after 1.4. 1990 by the insured. At the end of each year the First party shall prepare and supply to the second party accounts statement showing the deposit premium to gather with the interest occurred thereon and such interest be created to the second party in the 1<sup>st</sup> quarter of the following year.
9. That there should be a management committee for this business consisting of 9 (nine) members to be constituted as follows.

(i) Chairman - (1) Chairman of the Board of

- Directors of the First party
- (2) 4 (four) Representatives of  
the First Party  
4 (four) Representatives of Second Party to be  
nominated by the Bangladesh  
Insurance Association (BIA)  
5 (five) will constitute quorum of which  
2 (two) shall be from the second party.

10. That all claims including other related matters shall be processed by the First party in the with its existing procedures and guidelines. The managing director of the first party shall approve and settle all claims including ex-gratia, compromised settlement and on A/C payment which are within his approving authority. He shall also reject claim irrespective of any amount claims beyond his approving authority shall be considered and approved by the management committee mentioned at paragraph (9) above.

General Manager (claims) or In-charge Head office claims of the First party shall act as secretary to the committee. Payment of the claim to the insured shall be made forthwith by the First party offer approval of the claim by the Managing Director or the Committee. All claims paid in this manner should thereafter be accounted for by debiting the accounts of second party and if there is any balance to be paid by the second party that should be settled within 30 (thirty) days.

11. That the First party shall supply annual outstanding claims statement to the second party at the end of each year.
12. That the Re-insurance (both Treaty and facultative) of the second party for their respective share of the within mentioned business shall automatically be taken care of by the first party at source after taking into consideration the retention portion of the second party which shall be 50% of the basic retention of the first party for each and every risks underwritten by the first party in its public sector business and such re-insurance shall be arranged as such terms and conditions as is enforce in respect of re-insurance of the private sector, provided that all such terms and conditions shall be made

uniformly available at the best terms given to any of the private sector companies. This arrangement shall remain enforce for the current year and shall continue until reviewed before the end of any calendar year.

13. That a statement of Accounts pertaining to the Business (as defined earlier) shall be prepared and submitted by the first party on quarterly basis to the second party and settlement would be made thereon within 30 (thirty) days.
14. That any other matter not covered here shall be resolved by the Management committee mentioned at paragraph 9(nine) above.

Next time, - The following decision taken by the Management Committee in exercise of the powers conferred upon it under article No – 14 of Memorandum of Agreement dated 24.06.1990 between Sadharan Bima Corporation and 16 (Now it 45) private insurance companies in respect of sharing insurance business relating to public property or to any risk or liability appertaining to public property are hereby demand to have been attached and formed part of the said Agreement from inception.

- (a) None other than Sadharan Bima Corporation shall under-write any general insurance business relating to any public property to any risks or liability appertaining to public property.
- (b) All accounts of concerned signatory/signatories of the 2<sup>nd</sup> party who is/are found to have under-written any such business in violation of the terms and modalities of the said Agreement shall be kept suspended until the matter is finally resolved.
- (c) Any dispute as to whether a particular business relating public property or act is to be referred to the Ministry of Commerce for decision (Now, Ministry of Finance)
- (d) In the event of any signatory of the 2<sup>nd</sup> party goes into liquidation or becomes bankrupt or not in a position to meet the liabilities in full or promulgate or associate with any other company or corporation or in a merge with its liabilities, its assets and liabilities shall be determined under the existing law of the country.

- (e) In the event of winding up of the scheme the assets and liabilities of the contracting parties shall be determined under the prevailing law.  
All other terms and modalities of the said Memorandum of the Agreement referred to herein above shall also remain in force.

### **Controller of Insurance**

The Department of Insurance under the Ministry of Finance (Previously Ministry Commerce), Regulates insurance industry in Bangladesh. The Department was set up in 1972 in order to fulfill the legal requirement of law after the adoption of Insurance Act – 1938 (Act IV of 1938) for its application in Bangladesh as per president's order No. 19 of 1972 and was given effect from 16<sup>th</sup> day of December, 1971. The Department conducts its functions through the enforcement of the Insurance Act, 1938, Insurance Rules 1958, Insurance corporation Act-1973, orders and circulars issued by the Government from time to time. The Department is headed by the chief controller of Insurance. This Department has no branch office in Bangladesh. The only office of this Department is located in Dhaka.

### **Functions of the Chief Controller of Insurance**

The Department was responsible for discharging statutory as well as non-statutory functions. The main functions were as follows:

- (1) To register new insurance companies and to renew the registration of the insurance companies annually.
- (2) To examine the annual accounts of insurance companies and corporations in order to evaluate their financial position and take correct measure;
- (3) To determine and assess the level of management expenses of the insurance companies and take necessary action;
- (4) To issue and renew licenses of the insurance agent and employer of agent;
- (5) To issue and renew certificates of the insurance surveyors;
- (6) To verify whether the re-insurance business of insurance companies confirm the re-insurance treaty;

- (7) To conduct inspection and investigation into the activities of insurance companies as and when needed;
- (8) To accept complaint or allegation of the policy holder, insurance agent and employer of agent against insurance corporation/company relating to the insurance claim and other matters;
- (9) To examine and approve the premium rate and insurance schemes for life and general business;
- (10) To examine investment of the assets by insurance company/corporation;
- (11) To approve the appointment and dismissal of the Chief Executive officer of the private insurance company;
- (12) To initiate and formulate laws, rules and regulations concerning insurance business in case of need;
- (13) To collect and preserve information and statistics and supply the same to government, non-government and other bodies as and when needed;
- (14) To advise the government on all matters relating to insurance business.

### **Amendments in Insurance Act, 1938**

India, Pakistan and subsequently Bangladesh inherited Insurance Act, 1938. India and Pakistan and even Sri Lanka have replaced and modernized this Act long before. It has long been felt in Bangladesh that many provisions of the Insurance Act, 1938 require amendments to suit the modern development process in the insurance sector worldwide. Sporadic attempts were made and voices were raised on different occasions but no tangible results were achieved until a committee was formed in 2005 headed by the chief controller of Insurance consisting of experts on insurance related fields and the committee after served deliberations has recommended appropriate amendments in the present Insurance Act-1938 as follows.

- a) Establishment of Insurance Regulatory Authority in place of Department of Insurance.
- b) Draft Insurance Act.
- c) Draft Takaful Act.

After thorough scrutiny, During the caretaker government, the caretaker government headed by the Chief Advisor Dr. Fakruddin Ahmed has promulgated two ordinances, One relating to amendment of Insurance Act, 1938 for regulating insurance business and other concerning the power and functions of the new Regulatory Authority. The government has not approved the Draft Takaful Act but instead in corporate a provision in the Insurance ordinance 2008 for regulating the Islamic insurance business in the country. However, the ordinances could not be placed before the first session of the 9<sup>th</sup> parliament with 30 days for enactment and as a result these were lapsed. Subsequently, the cabinet in its meeting held on the 30<sup>th</sup> March, 09 passed Insurance Act, 2009 and Insurance Regulatory Authority Act-2009, that were awaiting enactment by the parliament. At last, these were passed by the parliament as Insurance Act- 2010 and Insurance Development and Regulatory Authority Act – 2010 on 18<sup>th</sup> March, 2010.

### **Insurance Act – 2010**

This Act enacted for reconstruction and consolidating the Insurance Act, 1938 by repealing the existing one. The Insurance Act – 2010, passed by the parliament on 18<sup>th</sup> March, 2010. It consisted of 160 (one hundred and sixty) sections such as, short title, commencement and definition (section,1-2), provision Applicable to insurers (Section, 3-7), Registration of Insurance (Section, 8-15).

Premium, Insurance and re-insurance (sections,16-25), Account, audit, actuary report and statement (section, 26-42), solvency margin, loan and Management. (section, 43-47), Investigation, Instructions etc (section, 48-51), Amalgamation and Transfer of Insurance Business (sections, 52-55), Alienations of Title of policy or conveyance and nomination section, (56-57) commission, Rebate and Management cost (section, 58-73) Directorship and Management of Insurance company (section, 74-81), Life Insurance divided, bonus, profit, distribution, etc (section, 82-86). Restoration, limitation, attachment of some life insurance policy (section, 87-94), Management by Administrator (section, 95-112), special rules in relation to foreign companies (section, 113-115), Mutual Insurance company and co-operation Insurance society (section, 116-123), Mediator (section, 124-129), offence and penalty (sections-130-142), Miscellaneous (section, 143-159), and Annulment and custody (section- 160).

## **The Insurance Development & Regulating Authority Act – 2010**

IDRA passed by Parliament on 18<sup>th</sup> March, 2010 and it was the Act No-12. This Act is consisted of 34 (thirty four) sections. Out of 34 sections, section 15 (fifteen) has provided the informations relating to the functions and responsibilities of the authority. These are given below.

- a) Control of the institutions relating to insurance and re-insurance business;
- b) Encouragement in the development of Insurance industry in Bangladesh and provide advice to the government regarding the development affairs of this Industry;
- c) Encouragement in the development of training centers concerning with the Insurance Industry for the enhancement of the service of insurance and re-insurance in Bangladesh.
- d) Organizing of seminars, workshops, meetings etc, aiming for the public awareness of insurance;
- e) Delegation of registration and certificate of insurance, re-insurer, mediator and renewal, amendment, removal, withheld or cancellation of such registration.
- f) Making rules and instruction related to the code of conduct of the mediation, insurance and re-insurance mediation and the agent;
- g) Delegation of license to the surveyors and renewal, amendment, refusal injured or cancellation of such z;
- h) Defending the interest of the insurance policy holder and its beneficiary and insurance and re-insurer and the nomination by the insurance policy holder, insurance interest and return value of the insurance policy and other terms and conditions of issuance;
- i) For the purpose of this act, collection fee, other payment and compensation with the previous approval of the government;
- j) Inspection, inquiry and investigation and collection of the information from the insurer, re-insurer, mediator, insurance mediator, organization associated with the insurance and re-insurance business and other agencies concerning with insurance and re-insurance business;

- k) Fixing-up the table of statement of the account and specimen of the account book and procedure of keeping account and statement of account used by the assurer and insurance mediator;
- l) Specifying the table and procedure for preparing actuarial report and abstract;
- m) Maintenance and restraining the solvency margin for the payment of credit of insurer and re-insurance companies;
- n) Raising and controlling the fund in order to restore the interest of the insurance policy holder;
- o) Controlling the fund and investment of insurance and re-insurance company;
- p) Settlement of dispute arisen among the insurer, mediator and insurance mediator;
- q) Takup measure for the establishment of separate branch office for the statement of any complaint about insurance industry;
- r) Establishment of a central Rating Committee in order to determine and control of the proposed rate; advantage and condition for non-life insurance business;
- s) Determination of ratio of life insurance and non-life insurance business by insurer in rural and social sector;
- t) Preparation of an annual report consisted of the particulars of overall activities and presenting it before the government;
- u) For the purpose of this act, execution of all supplementary and relevant other proceedings; and
- v) For the purpose of the authority, purchasing of any property and investment in the appropriate head by the prior consent of the government.

## **Conclusion and Recommendations**

An effective supervisory body can protect the interests of the insured while promoting the growth of the insurance industry. Regulators and supervisors can create an enabling environment for the insurance companies/corporation, lend dynamism to the market and build up trust among the consumers.

Insurance institutions are shaped by the nature of the economic and social environment in which they and nature. A free enterprise system and a well organized honest administrative machinery are among the pre-requisites to a flourishing insurance institution. In Bangladesh Insurance services are being offered both by public and private enterprises.

To perform duties properly, the supervisory authority should have autonomy of action. The authority should have the power to rapid re-medical action against any insurers who fail to comply with the rules Act of financial security and Insurance Act. In failed, the supervisory authority should be the focal point within the Government for all matters concerning insurance and should have a dynamic influence on the evaluation of the insurance industry. The authority should play its due role in the development and growth of the insurance industry and therefore, may propose new laws and regulations affecting insurance. The supervisory authority should also obtain as much information as possible concerning the true situation of all insurers and indeed whole insurance sector's officers. This can be achieved through continuous formal and informal consultations with individual insurers and with associations of insurers, agent, brokers, surveyors etc.

The development of the industry is very much dependent on awareness building among the public. The supervisory body may, therefore, issue brochures or campaign on the role of insurance' the rights and remedies of policy holders" and description of products and services. Besides, promotional tools, such as Advertisement, personal selling, publicity and sale promotion may be implemented.

The solvency margin calculation represents a powerful tool to regulate growth of premium volume. If the company maintains its solvency margin, it is deemed financially sound. If the company's solvency margin is insufficient but above one third of the premium, the supervisory authority may ask for submitting a plan for

restoration to sound financial position. If the companies margin is lower than one third of net premium, the supervisory authority may ask the company to submit a short-term financing scheme and may also restrict or prohibit free disposal of the assets of the company.

Monitoring of investments is crucial to assessing the financial situation of an insurer. The basic investment principle for insurance funds (security, profitability, liquidity) must always be borne in mind. Besides monitoring financial solvency of insurance companies, monitoring of rates and tariffs, marketing of insurance products, public complaints, consumer education etc are the other responsibilities of the supervisory body.

It is mandatory by Insurance Act for private companies to re-insure 50% of their business with state own organization i.e. Sadharan Bima Corporation, but sometimes they do not comply with this Act. The supervisory authority can control it.

In the eyes of law, private companies can provide to the insured 15% Commission as per Insurance Act. But, in practices commission rate is more than 15%. The authority should protect this situation.

As per Insurance Act – All business relating to public property must be underwritten 100% with SBC, But., sometimes, few private companies directly underwritten public business, which is totally illegal. The authority should protect this unethical practices.

As per circular of IDRA- There is no scope to do credit insurance business. But, many companies are doing credit business. The authority should take care of this matter strongly.

Finally, the Authority should have a dynamic approach and need to go beyond merely checking compliance with the act/Law. It should extend its role in identifying the problems faced by the industry and assist in finding solutions. This would help the industry and the actions would be perceived as beneficial and positive.

A special recommendation for public related business which is underwritten 100% by SBC and keeping 50%, rest of 50% is distributing among 45 private insurance companies as per corporation (amendment) act-1984 and Act- 1990. This

amendment was due to the financial support to the newly operating insurance business in Bangladesh. But, now, the insurance industry has passed two decades. Few institutions are financially very strong. So, It is not wise to take financial benefits from public sector business. As a result, public money is transferring to private sector.

Private insurance companies are taking financial benefits without any activities. If we see our neighbouring countries, India, Pakistan and Nepal. There is no such practice in nationalized insurance sector. They are keeping 100% govt. insurance business under nationalized insurance sector. As a result, public money is rolling within public organization. In our country, due to the Corporation (amendment) Act – 1990, public money is transferring to the private/ individual pocket. So, It should be stopped. The Corporation Act- and related sections should be amendment again.

In view of the above, it has been strongly felt that with a view to salvaging the insurance industry from present anomalies and also to prevent insecurity of policy holder's and share holder's fund to enforce rules and regulators meticulously to ensure transparency and accountability and independent regulatory authority which already has established in Bangladesh named as IDRA. It is expected that with the promulgation of insurance Development & Regulatory Authority Act-2010 & Insurance Act- 2010, these two will fulfill the desire of insurance industry in Bangladesh.

## References

- (1) A.B.M. Nurul Haq, “Thoughts on Insurance” Bangladesh perspective.
- (2) M.A.Ali, The Insurance Act. 1938 and Rules – 1958.
- (3) Bangladesh Gazet, Extra Ordinary, date,- 11 August, 1984, Ministry of Law and Justice Notification- 11 August- 1984.
- (4) The Insurance Corporation (amendment) ordinance – 1984, Ordinance No- LI of 1984. 7<sup>th</sup> August- 1984.
- (5) The Insurance Corporation (amendment) Act – 1990, 13<sup>th</sup> February 1990.
- (6) Ministry of Commerce, letter no.- ev:ex:-2/1(16)/89(Ask)/114 ZvwiL-21-5-19990Bs|
- (7) Insurance Journal, Vol-48. March – 1997, PP-27-32  
Mr. Kazi Md. Mortuza Ali
- (8) Insurance Act- 2010, 18<sup>th</sup> March – 2010
- (9) Insurance Development & Regulatory Authority Act- 2010, 18<sup>th</sup> March - 2010

## **Exploring Job Stress Symptoms and Sources of the Financial Associates of Life Insurance Companies: A Study on Bangladesh**

---

**Kazi Nazmul Huda**

### ***Abstract***

*To meet the sales target, financial associates (FA) suffer from extreme level of job stress. The key objective of this study is to identify major sources of job stress of the FAs and to measure the degree of influence of the explored sources in this occupation. The study is based on quantitative data collected through personal interview with 50 FAs of life insurance companies operating in Chittagong, Bangladesh. It is revealed from the study that, the FAs feel headaches, sleep disruption, tension, and aggressive behavior as the most frequent outcomes of job stress. Lack of competency is found, as the top ranked source of stress followed by friction among the colleagues, inadequate management support, and pressure to do fast work. This study, recommended some quality of work life, performance management, and employee empowerment interventions to develop an effective stress management practice in this sector.*

**Keywords:** Life insurance, Financial Associates, Job stress, Stress management, Symptoms of stress and Sources of stress.

---

**Kazi Nazmul Huda**

Associate Professor, Department of Business Administration  
Southern University Bangladesh

## **Introduction**

Job is an essential part of human life and job stress related to tasks and responsibilities is unavoidable. A strong correlation exists between work stress and employee performance and research found that, job stress influences overall productivity of the employee (Bradley & Sutherland, 1994). Job stress has become a priority for the organizations and the practice of high performing corporate culture have made it obvious in the 21<sup>st</sup> century. Stress is of many kinds, but the unique nature of job stress may lead to a killing syndrome if overlooked (Tarkovsky, 2007). Job stress causes different kinds of physiological, psychological, and behavioral symptoms (Annexure 1) that may lead to physical and mental breakdown even at work without any symptoms. It is the responsibility of the management and jobholders to combat the stress and wisely deal with it to stay productive. Sufficient training need to be provided on the stress management techniques and policies to prevent it effectively. Most often job stress occurs where disparity between job and work environment are found and employees feel work pressure that is generated by different types of psychological anxieties (Nawe, 1995; Maslach, 2003). Constant stress at work may lead to sudden burnout situation and develops different symptoms of stress (Caputo, 1991). Sign of stress can be cognitive stress symptoms, mind or physical stress symptoms, emotional stress symptoms, and behavioral stress symptoms. Collective measures need to be taken by the organizations and individuals to detect and eliminate the sources of stress.

Insurance business is a benchmark of a nation's level of civilization (Reza & Iqbal, 2007) and most prominently, the developing countries are not only consumers but also growing as suppliers of insurance services (Outerville, 1996). Insurance industry adds a certain value to the financial sector of an economy and provides an important social security net in developing countries (Srivastava *et al.*, 2012). The insurance industry in Bangladesh had its roots in the British Colonial time (Mamun, 2013) and the first and only public owned life insurance company Jiban Bima Corporation established the seedbed of Life Insurance in Bangladesh after the reconstitution of Insurance Corporations Act 1973. At present, there are 30 private and one state owned life insurance companies operating throughout Bangladesh. These companies have earned approximately BDT 70,562 million with an annual growth of 4.53% in 2013, which is around 0.70% of the country's GDP (BIA, 2014). The total assets of private sector life insurance companies stood at BDT 259,827 million in 2013. The insurance business is lagging behind in comparison to other service sectors as their human management practices is poor

(Reza, & Iqbal, 2007; Mamun, 2013; Choudhury *et al.*, 2015). The insurance executives who are constantly work in the field for long hours and get pressure to achieve sales targets need to deal with stress at all time (Jeter, 2005). The current study tried to unearth the facts of job stress of the life insurance financial associates through identifying the symptoms of stress and by exploring the influence of the sources of stress in this profession.

### **Significance of the Study**

When job stress takes a massive shape, it affects the performance of the employee, turn down the quality of individual productivity, deteriorates physical condition, weaken social relations, and ruins family life. Stress at work is inevitable in today's high performing and competitive corporate culture. However, active interventions may minimize the level of stress to bring a balance between work life and life outside work (Baker, 1985). It is the responsibility of both the employers and employees to identify the sources of job stress and measure its impact on job performance to maintain a healthy and productive work life. An insurance financial associates should be a balanced living person to lead his career with positive attitude (Hossain, 2011) and should be free from all types of physical and mental stress. It is also noticed by Hossain (2011) that, an insurance executive should be healthy, sociable, family oriented, free from financial anxiety, and should maintain rest and recreation to sustain a healthy life. Therefore, it is obvious that, conflicting to these conditions will definitely cause stress. This study tried to identify the symptoms and sources of job stress of FAs of life insurance companies operating in Chittagong based on their opinions about stress.

### **Objectives of the Study**

1. To identify most frequent symptoms of job stress among the FAs.
2. To identify and rank the sources of job stress according to their impacts to the lives of FAs.
3. To suggest stress management guideline in order to minimize job stress of FAs.

### **Literature Review**

Job stress could be a chronic life-threatening syndrome raised from the work conditions that may negatively influence employees' productivity and personal well-being. According to The World Health Organization (1948) stress are states of comprehensive physical, mental, and social illness in a person. Though, no profession is stress-free; and has some degree of strain, and anxiety that could result in productivity and satisfaction at work or may lead to negative results like

mental and physical illness if the stress is excessive (Teasdale, 2006). Work-related stress is considered as the foremost cause of a wide range health problems (Kivimaki *et al.*, 2006), and is strongly connected to staff turnover, absenteeism, poor morality and declining productivity (Noblet & Lamontagne, 2006). Increasing level of workplace stress can lead to serious legal allegation such as compensation claims, disciplinary issues, and workplace violence Brady, (cited in Babcock, 2009) against any employer. According to Canadian Underwriter (2004), sources of job stress, include conflict/friction among the co-worker (University of Cambridge, 2014 and Friedman *et al.*, 2000), bullying by the supervisors, job insecurity, and the absence of freedom in decision-making (University of Cambridge, 2014), and some personal issues i.e. family pressure, financial constrain, abuse, etc. It could also be generated out of fear of uncertainty, unrealistic deadlines and interpersonal conflict (Babcock, 2009). Professional stress mostly occurs by long working hours that may cause cardiovascular attack (Uehata, 1991). It also interferes family life and psychological distress (Major, et al. 2002). In many times, bullying and organizational incivility are most upsetting issues for the employees (Gholipour *et al.*, 2011), that might be caused by allegation, rudeness, frightening, malevolence, insult which directs to aggravation, threat, disrespect, and deterioration of self-confidence (Lee, 2000). However, the more common psychological job stress is anxiety, and depression that negatively impacts work environment (Teasdale, 2006). As stated in the U.S Department of Health, Professional stress is harmful physical and emotional responses when the job description of a job does not match the capabilities, resources, or needs of the employees. The fight to stabilize the work and family life is purely one of the many stresses that an employee faces at work (Tyler, 2006). In many times, professional stress is created by pressure of ethical conduct (Ulrich *et al.*, 2007 and Glickin, 2013). To combat the stress, the managers must audit and acknowledge the presence of stress at workplace should undertake stress management interventions to reduce the levels of stress of their employees (Sidle, 2008). According to Jones *et al.*, (2003), it is found that stress management interventions improve physical and mental health, reduces costs of the employers, and facilitates the reintegration of effected employees into workplace and it is an integral component of health promotion program of an organization (Kobayashi, 1997).

There are three broad categories of stress management interventions exposed by Ivanevich *et al.*, (1990) i.e. reducing the current stressors, identifying the employees under stress and aiding the employees to fight with the situations

causing stress. DeFrank and Cooper, (1987) recommended, stress management as individual interventions like relaxation and autonomy at work. Stress management techniques could be divided into two types environmental management (Murphy, 1999) which is an endeavor to organize work environments to reduce the cause of stress; and the approach that aids the employees to deal efficiently with various types of stressful condition (Hardy & Barkham, 1999). Physical and mental health is a potential source of work related injury or disease and both the employer and employee have the lawful right, responsibility and accountability to help each other to identify, acknowledge and mitigate stress and stressors to ensure sustainable productivity and workplace harmony.

According to Hossain (2011), Insurance business needs competent sales force as they are assigned to do a very tough job that is selling invisible product with zero tangible value. Therefore, it deserves an efficient management practice to utilize its frontline human resources. However, Bangladeshi life insurance companies lack efficient stress management practice, clear work structure, and clear employment manual (Choudhury *et al.*, 2015). There is plenty of stress attached to the insurance job and that is generated by increasing number of competition in this sector. To meet the sales target FAs need to work on stressful tasks like lead generation, customer service, etc (Pojeta, 2013). Therefore, there should be sufficient study on the issue of job stress in this sector for utilizing its human resources productively. Existing studies like Huda & Azad, (2015), Mimura & Griffiths, (2003), Farler & Broady-Preston, (2012) and Baasanjargal, *et al.*, (2010) have succeeded to discover the job stress of different professionals like, journalists, Nurses, librarians, health personnel, policemen and lawyers, IT professionals etc. not specifically on financial associates of life insurance companies. The study had endeavored to fill the gap of previous researches.

#### **Methodology and Scope of the Study:**

The methodology of this study was designed to address objectives of the research. The study is descriptive in nature, followed inductive research approach and a survey based research strategy. The methodological choice of the research is both qualitative and quantitative. The survey intervenes to collect required quantitative information and data through structured questionnaire. An extensive literature review was conducted to identify the most common symptoms (Annex 1), sources of job stress (Table 1), and the questionnaire was developed based on the identified variables. Total 50- financial associates (FAs) of different life insurance

companies located in Chittagong were interviewed. FAs are the front line employees who are mostly assigned for direct selling of insurance policy. They mostly take the hardship to work outdoor for prospecting, qualifying, objection handling, and closing sales. With a view to making the study informative and representative, a close-ended questionnaire was designed. For identifying the most frequent symptoms of stress, multiple-choice question was asked and the respondents were allowed to select the most frequent symptoms of stress from the list of physical, psychological, and behavioral symptoms (Annex 1).

To measure the influencing sources of job stress (Table 1), questionnaire contained 15 questions with 5-point likert rating scale (*5 = Strongly agree ...1 = Strongly disagree*) to capture the opinion of the respondents. The respondents were all male and involved in direct sales of life insurance products for last five years or more. Data analysis of the study was conducted in two faces. At the first phase, descriptive statistical tools are used to identify the frequency of most frequent stress symptoms among FAs. The higher percentage of response to the symptoms of stress indicates the importance of each symptom. At the second phase, multivariate analysis technique, specifically Exploratory Factor Analysis (EFA) with the support of SPSS has been used to find and rank the relevant sources of job stress (Table 1) by considering the loading value (greater than 0.50) of each item. Higher loading value is considered as high importance of the sources of job stress and vice versa. Respondents were asked about their feelings of stress in terms of the variables i.e. are they clear about their job objectives? Do they feel time pressure? Are they overloaded with responsibilities? Is there any friction among the colleagues? What about their feelings on job security? Negative comments of the clients and policyholders? Do they Lack competency? and so on. The survey was carried out during 1<sup>st</sup> December 2015 to 20<sup>th</sup> January 2016.

**Table# 1: Sources of Job Stress**

	Sources of Job Stress	Code	Reference
1	Unclear Objective	X1	Semmer, (2007)
2	Excessive Time Pressure	X2	Semmer, (2007)
3	Unachievable Deadline	X3	(Turnage & Spielberger, 1991). University of Cambridge (2014).
4	Long Work Hour	X4	Sethi <i>et al.</i> , (2004), Uehata, (1991) and University of Cambridge (2014)
5	Work Overload	X5	Sethi <i>et al.</i> , (2004), Semmer, (2007), and University of Cambridge (2014)
6	Fast Work	X6	Sethi <i>et al.</i> , (2004). Major <i>et al.</i> , (2002)
7	Less Freedom at work	X7	University of Cambridge (2014), and Canadian underwriter (2004)
8	Inadequate Support from Management	X8	Semmer, (2007)
9	Workplace Harassment	X9	Semmer, (2007)
10	Friction among colleagues	X10	University of Cambridge (2014), Friedman <i>et al.</i> , (2000)
11	Negative Attitude by the Clients	X11	Hossain, (2011), Expert Opinion
12	Inadequate Compensation package	X12	Canadian underwriter (2004)
13	Pressure at Family life	X13	Major <i>et al.</i> , (2002), and Canadian underwriter (2004)
14	Insecure Job Climate	X14	Semmer, (2007), and University of Cambridge (2014)
15	Lack of competency	X15	Choudhury, et al. (2015)

**Analysis and findings**

The objectives of the study were to identify the most frequent and relevant symptoms of job stress and rank them according to their importance as opined by the FAs. At the very outset, descriptive statistical analysis was conducted to identify the most frequent symptoms of job stress. From the analysis, it is found that, most frequent symptoms of physical stress are headaches (as mentioned by 48% of the respondents) and Sleep Disruption (44% mentioned about this). Only 8% feels they have blood pressure. It is very alarming to find 82% of the respondents feeling tension out of their job, which is a severe mental stress. 80% of the respondents also mentioned that they noticed aggressiveness in their behavior, which is another harmful behavioral stress.

**Table 2: Frequency Table of Stress Symptoms of FAs**

SL	Physical Stress		Mental Stress		Behavioral Stress	
1	Headaches	48%	Tension	82%	Aggressive	80%
2	Migraines	0%	Anxiety	6%	Social isolation	0%
3	Sleep Disruption	44%	Bad Temper	6%	Addiction to drugs	0%
4	Stomach disorders	0%	Low self-esteem	0%	Non co-operative	12%
5	Blood pressure	8%	Forgetfulness	6%	Negligence in personal appearance	8%
6	Back/shoulder/neck pain	0%	Feeling powerless	0%	Less sociable	0%

Source: Field Survey

In the second phase, factor analysis was conducted, as it is an effective statistical tool used to describe variability among observed and correlated variables in terms of a potentially lower number of unobserved variables. Principal Component Analysis was used primarily on fifteen (15) explored variables (Table 1). KMO value, which shows the level of data adequacy, was found to be 0.627 and thus the data can be used for EFA. Result shows that Total Variance Explained (TVE) value is 69.17, which is satisfactory too. The result showed that, these 15 variables in combined can explain more than 69% of the total variation of job stress of FAs. Strict decision was taken to drop those items having loading less than 0.50 or cross loaded in more than one factor/dimension (as suggested by Hair et al., 2010). In the first stage of EFA, three variables namely “X<sub>1</sub> - Unclear Objective,” “X<sub>2</sub> - Excessive Time Pressure” and “X<sub>3</sub> - Unachievable Deadline” were found to be cross-loaded (higher loading in two dimensions). The above-mentioned variables have been dropped from the study. These variables are cross-loaded, as the respondents might have understood them synonymous as all these variables are directly related to time issue of the job.

After dropping X<sub>1</sub>, X<sub>2</sub>, and X<sub>3</sub> variables and re-running the EFA, KMO value has increased to 0.629 which is a significant change. This means the problem initially was might be due to less important variables. Principal Component Analysis have clustered remaining 12 variables under three (3) broad factors and these factors covered around 64.75% of the total variance of the job stress. Factor loading of the variables determining the degree of significance of each factor and the Eigenvalue and percentage of variation explained by the factor are shown in Table 3. Given results provide statistical evidences to support the newly identified three factors of job stress as coded F<sub>1</sub>, F<sub>2</sub>, and F<sub>3</sub> (Table 3). This shows that these variables cause

job stress as these variables covered 64.751% of total variance. Variables under Factor 1 are Work Overload, Fast Work, Workplace Harassment, Negative attitudes by the Clients, Pressure of Family life, and Insecure Job Climate. Percentage of variation explained by these variables is 30.238 that show significant influence in job stress. Factor 1 may cause both mental and physical stress in work life. Factor 2 contains four variables namely Long Work Hours, Friction among colleagues, Inadequate Compensation package, and Lack of Competency with the eigenvalue of 1.856 and the percentage of variation explained is 15.540%. This factor may create physical, mental, and behavioral stress. Factor 3 contains only two variables, namely Less Freedom at work and Inadequate Support from Management. The eigenvalue of this factor is found to be 1.229 and the percentage of variation explained at 10.246%. This factor may be responsible for causing behavioral and mental stress in the job.

**Table # 3: Factor Summary: Sources of Stress items with their loading values and Ranks**

Factor	Variables	Loading Value (rank)	Eigenvalue	Percentage of Variation Explained
F <sub>1</sub> Lack of Quality of work life(QWL) Factor	Work Overload Fast Work Workplace Harassment Negative Attitude by the Clients Pressure at Family life Insecure Job Climate	.788 (5 <sup>th</sup> ) .806 (4 <sup>th</sup> ) .635 (10 <sup>th</sup> ) .724 (7 <sup>th</sup> ) .687 (8 <sup>th</sup> ) .523 (12 <sup>th</sup> )	3.629	30.238
F <sub>2</sub> Lack of Performance Management Factor	Long Work Hours Friction among colleagues Inadequate Compensation package Lack of Competency	.617 (11 <sup>th</sup> ) .845 (2 <sup>nd</sup> ) .750 (6 <sup>th</sup> ) .922 (1 <sup>st</sup> )	1.856	15.540
F <sub>3</sub> Lack of Empowerment Factor	Less Freedom at work Inadequate Support from Management	.674 (9 <sup>th</sup> ) .814 (3 <sup>rd</sup> )	1.229	10.246

*Source: Compiled from SPSS Version 20*

## Discussion

The study shows a clear picture of the sources of job stress among the FAs in the insurance companies in Bangladesh. The main findings of the study are:

1. The FAs have headaches and sleep disruption as most frequent physical stresses, tension as most frequent mental stress and aggressiveness as most severe behavioral stress.
2. Three stress causing factors and 12 relevant reasons are revealed

3. Loading values of all the explored variables are greater than 0.50 (cut-off value) and found to have positive relation to stress creation.
4. Some variables such as lack of competency, friction among the colleagues, Inadequate Support from Management and Fast Work have higher influence on stress, as their loading value more than 0.80.

The study reveals three factors and 12 variables relevant to job stress of FAs in the insurance sector and the factor loadings of the variables are positive. The Factor 1, which is named Quality of work life includes the variables i.e.  $X_5$ ,  $X_6$ ,  $X_9$ ,  $X_{11}$ ,  $X_{13}$ , and  $X_{14}$  is having eigenvalue 3.629 and the percentage of variation explained 30.238. As the factor contains the highest eigenvalue, the percentage of variation explained amongst the three factors, and none of the other factors is nearer to it. Therefore, it is proved that factor 1 is the highly considerable factor in causing job stress. In this factor, variable  $X_6$ ,  $X_5$ , and  $X_{11}$  (Fast Work, Work Overload, and Negative Attitude by the Clients) contains the higher loading values with the ranking of 4<sup>th</sup>, 5<sup>th</sup> and 7<sup>th</sup> respectively (Table 3). This factor also contains variable  $X_{14}$  (Insecure Job Climate) which is holding the lowest loading value (.523) and ranked as least influencing variable. Looking at the character of these variables it could be stated that, the FAs are in need of a quality of work life that may offer a work environment that provides fair workload, manageable work speed, and mostly the self-esteem and social recognition of the position that may change the attitude of the potential clients towards them. It is important to note that in Bangladesh, a sales agent job has historically been viewed as an inferior job category. If the FAs are given with too much targets, that will obviously lead to creation of work overload and may compel them to speed-up their work. For this reason, the FAs may have to visit the clients repeatedly to convince them and this may irritate the clients and compels as ill behavior. On the other hand, the FAs may not be concerned about the insecure job climate issue as most of them work on part time basis. It is required to mention that the culture of the industry is such that the financial associates can only serve as part timers with commission per sale structure. Family pressure and workplace harassment are also important variables creating job stress with higher loading values, i.e. .687 and .635 respectively. As most of job stressors of factor 1 are caused due to the lack of proper quality of working life, the factor is named QWL factor.

Factor 2, which is named as lack of Performance Management Factor includes, the variables  $X_4$ ,  $X_{10}$ ,  $X_{12}$ , and  $X_{15}$ . The eigenvalue of this factor is 1.856 and the percentage of variation explained 15.540%. The Performance Management factor

contains four important variables and one of it (lack of competency) with the highest loading value among the 12 variables of job stress. Variable  $X_{12}$ ,  $X_{10}$ , and  $X_{15}$  (In Adequate Compensation Package, Friction among the Colleagues, and Lack of competency) contain high loading values with the ranking of 6<sup>th</sup>, 2<sup>nd</sup> and 1<sup>st</sup> respectively (Table 3). Item named Inadequate Compensation Package contains loading of 0.750 followed by 0.845 for the item friction among the colleagues. It is a fact that none of the local life insurance companies have fixed compensation package for the FAs and pays on sales commission or no work no pay basis. Friction arises when a level of competitive tension is created among the peers and they remain in a rival mood to achieve targets. It may also be caused by the ill behavior of the supervisors as most of the time they create pressure to achieve sales targets. It is obvious in the insurance sector that the FAs lack right competency to sell insurance as most of the insurance companies do not have training facilities and the companies do not like to invest in this important human skill development area. In this factor, the companies cause most of job stressors due to the absence of Performance Management, which is why the factor is named Lack of Performance Management factor.

Factor 3 which is named as empowerment factor contains only two variables  $X_7$  Less Freedom at Work, and  $X_8$  Inadequate Support from Management with the factor rankings of 9<sup>th</sup> and 3<sup>rd</sup> respectively. FAs stated inadequate support from management as important reason of stress as they do not receive the information about very basics of doing sales job. FAs do not have permanent job, pay scale, and necessary job and skill development training which are very crucial as well as common job requirements provided by the management of the company. Sometimes FAs are in identity crisis as management of some of the companies has bad reputation on claim settlement. Therefore, the FAs lack financial, managerial, and social empowerment in their job.

### **Recommendations**

Job stress is not only determined by work related stress as there are existence of non work related stressors like, family pressure and negative attitude of the clients which indirectly creates stress. A holistic initiative could be taken by the top management of the life insurance companies in association with the regulatory bodies while designing stress management policies. As lack of quality of work life is identified in the job, a customized stress management programs like organizational stress survey to identify the presence of stress, job redesigning to optimize workload and work speed, introducing employee assistance program to

combat harassment and family pressure and specific stress management interventions like relaxation training program could be arranged for the FAs. Sidle, (2008) and Bradley & Sutherland, (1994) suggested these policies in their research. The Association of the Insurance Companies in Bangladesh may take some measures to help the FAs by taking common programs such as job counseling, advocacy program, and policy formulation to reduce stress. A unified service rules for the FAs to promote better human resource management practices in this profession can also be introduced.

Absences of performance management are also causing severe stress in this job. Proper training and development program should be designed by the companies and must build internal capacity to facilitate skill and attitude development. In-house family programs, sports events could be organized by the companies to promote healthy relationship among the employees with their families and minimize friction among the colleagues. Companies may also promote team and job sharing culture in this regard as also been suggested by Bradley, & Sutherland (1994). Life insurance is a much-matured industry in Bangladesh. Therefore, the management should look for hiring fulltime staff with competitive salary package. The part-time nature of the workforce is reducing the esteem of the job and the sector as well. The FAs should be empowered with freedom of work and necessary support to maximize their efficiency and self-confidence.

### **Conclusion**

Insurance sales job has become a critical occupation in Bangladesh day by day. In search for new clients, and to provide services to the existing clients is a stressful and unpleasant job. Financial Associates of the life insurance companies are shouldering the pivotal role in promoting the business of the life insurance products and acting as a frontline warrior in this highly competitive industry. Thus, the job stress issue of these people should be assessed and dealt with due sincerity and commitment. This study finds the presence of job stress among the life insurance FAs with significant values. However, the job stress of the respondents is largely dependent on the lack of QWL, Performance Management, and Empowerment factors. Job Security was found to be the least important sources of stress in this profession as most of the FAs are temporarily employed. Adequate job training, management support, better salary, and social/family events may lower the stress level and thus higher performance in this job. However, the FAs with the assistance of the employers should be trained to take personal initiatives in managing stress.

## Reference

Ali, K. M. Mortuza (2011).“ Prospects and problems of life insurance in Bangladesh: Challenges ahead.” *Insurance Journal*, 58, 5-20.

Bradley, J. and Sutherland, V. (1994), Stress Management in the Workplace Taking Employees' Views into Account, *Employee Counseling Today*, 6 (1), 4-9.

Brady, J. Cited from Babcock, P. (2009) Workplace Stress? Deal with It, *HR Magazine*, May 2009, 67.

Baker, D. B. (1985).The study of stress at work. Annual review of public health, 6(1), 367-381.

Bradley, J. R., & Sutherland, V. (1994). Stress management in the workplace: taking employees' views into account. *Employee Counseling Today*, 6(1), 4-9.

Baasanjargal, B., Otgon, G., & Lkhagvasyren, T. S. (2010). Stress in a workplace in Mongolia. Injury prevention, 16(Suppl. 1), A42-A42. Bangladesh Insurance Association, (BIA, 2014). <http://www.bia-bd.org/>

Caputo, J. (1991), Stress and Burnout in Library Service, Oryx Press, Phoenix, AZ. Canadian underwriter (2004), Stress from workplace conflict, 40. [www.canadianunderwriter.ca](http://www.canadianunderwriter.ca) Choudhury, T. A., Ahmed, Q .N., & Jahan, M. S. (2015). Life Insurance Industry; a Comprehensive Outlook, *Market Pulse*, 101.

DeFrank, R. and Cooper, C. (1987), “Worksite Stress Management Interventions: Their Effectiveness and Conceptualization”, *Journal of Managerial Psychology*, 2 (1), 4-10.

Firth-Cozens J, Payne RL, eds. (1999), Stress in health professionals: psychological and organizational causes and interventions. Chichester: John Wiley & Sons.

Friedman, R. A., Tidd, S. T., Currall, S. C., & Tsai, J. C. (2000). What goes around comes around: The impact of personal conflict style on work conflict and stress. *International Journal of Conflict Management*, 11(1), 32-55.

Farler, L., & Broady-Preston, J. (2012, May). Workplace stress in libraries: a case study. In J. Broady-Preston, & L. Tedd (Eds.), *Aslib Proceedings* (Vol. 64, No. 3, pp. 225-240). Emerald Group Publishing Limited.

Kobayashi, (1997) Japanese perspective of future work life, *Scand Journal of Work Environment Health*, 23, 66-72.

Gholipour, A., Sanjari, S., Bod, M. and Kozekanan, S. (2011), Organizational Bullying and Women Stress in Workplace, *International Journal of Business and Management*, 6(6), 234.

Glicken, M. D.(2013)Treating Worker Dissatisfaction in a Time of Economic Change, Elsevier

Hardy, G. &Barkham, M. (1999) Psychotherapeutic interventions for work stress. In: Firth- Cozens J, Payne RL, eds. Stress in health professionals: psychological and organizational causes and interventions. Chichester: John Wiley &Sons,:247–59.

Huda, K. N., & Azad, A. K. (2015). Professional Stress in Journalism: A Study on Electronic Media Journalists of Bangladesh. *Advances in Journalism and Communication*, 3(04), 79.

Hossain, I. (2011). Essence of Positive Attitude in Insurance Salesmanship, *Insurance Journal* 58.

Ivanevich, J., Matteson, M., Freedman, S. and Philips, J. (1990), “Worksite Stress Management Interventions,” *American Psychologist*, 45 (2), 252-261.

Jeter, L. W. (2005). Insurance professionals battle stress in Katrina’s aftermath, *Mississippi Business Journal*, September 19. <http://msbusiness.com/2005/09/insurance-professionals-battle-stress-in-katrina8217s-aftermath/>

Kivimaki, M., Virtanen, M., Elovainio, M. (2006), Work stress in the etiology of coronary heart disease-a meta analysis, *Scand J Work Environ Health*, 32, 431-42.

Lee, D. (2000). An analysis of workplace bullying in the UK. *Personnel Review*, 20(5).593 – 610.

Murphy, L. (1999) Organizational interventions to reduce stress in health care professionals. In:

Firth-Cozens J, Payne RL, eds. Stress in health professionals: psychological and organizational causes and interventions. Chichester: John Wiley & Sons, 149–162.

Maslach, C. (2003), “Job burnout: new directions in research and intervention”, *Current Directions in Psychological Science*, 12 (5), 189-92.

Major, V. S., Klein, K. J., &Ehrhart, M. G. (2002). Work time, work interference with family, and psychological distress. *Journal of applied psychology*, 87(3), 427.

- Mamun, M. (2013). Problems and Prospects of Insurance Business in Bangladesh: The Companies' Perspective, paper presented at Fifteenth Annual Conference of Asia-Pacific.
- Mimura, C., & Griffiths, P. (2003). The effectiveness of current approaches to workplace stress management in the nursing profession: an evidence based literature review. *Occupational and environmental medicine*, 60 (1), 10-15.
- Nawe, J. (1995), "Work-related stress among the library and information workforce," *Library Review*, 44 (6), 30-7.
- Newstrom, J. and Davis, K. (2007), *Organizational Behavior: Human behavior at work*, New Delhi.
- Noblet, A., and Lamontagne, AD. (2006), The role of workplace health promotion in addressing job stress, *Health Promotion International*, 21, 346-53.
- Outerville, J. F. (1996), Life Insurance Markets in Developing Countries, *Journal of Risk and Insurance*, 63(2), 263-278.
- Pojeta , J. (2013). Tips for Keeping Stress at Bay as an Insurance Sales Professional, The PT Services Group, February 10. <https://www.theptservicesgroup.com/blog/1110/>
- Reza, S. and Iqbal, M. (2007). Life Insurance Marketing in Bangladesh, *Daffodil International University Journal of Business and Economics*, 2(2), 1.
- Sidle, S. (2008), Workplace Stress Management Interventions: What Works Best? *Academy of Management Perspectives* – 111.
- Sang-young, P.& Cho, S.(2014).Effects of journalists' job stress factors on physical conditions, *Advanced Science and Technology Letters*, 72, 11-15
- Semmer, N. K. (2007). Recognition and Respect (or lack thereof) as predictors of occupational health and well-being. Paper presentation at World Health Organization, Geneva.
- Sethi, V., King, R. C., & Quick, J. C. (2004). What causes stress in information system professionals?. *Communications of the ACM*, 47(3), 99-102.
- Srivastava, A., Tripathi, S. & Kumar, A.(2012), Indian life insurance industry -The changing trends, *Journal of Arts, Science & Commerce*, 3 (2), 93-98.
- Teasdale, E. (2006), Workplace stress-Post-traumatic disorders: a sociopolitical perspective, *Psychiatry* 5:7

Tyler, K. (2006), Restructuring policies and workloads, along with providing training and support services, can help reduce employee stress. *HR Magazines* -80

Thurstone, L. L. (1935). *The Vectors of Mind*. Chicago: University of Chicago Press, 226-231.

Tarkovsky, S. (2007). Professional Stress - All You Need to Know to Beat It, *eZinearticles.com*, January 28. <http://EzineArticles.com/434206>

Turnage, J. J., & Spielberger, C. D. (1991). Job stress in managers, professionals, and clerical workers. *Work & Stress*, 5(3), 165-176.

Teasdale, E. L. (2006). Workplace stress. *Psychiatry*, 5(7), 251-254.

Uehata, T. (1991). Long working hours and occupational stress-related cardiovascular attacks among middle-aged workers in Japan. *Journal of human ergology*, 20(2), 147-153.

University of Cambridge (2014), *The Old Schools*, Trinity Lane, Cambridge CB2 1TN, 29 November, <http://www.admin.cam.ac.uk/offices/hr/policy/stress/causes.html>

Ulrich, C., O'Donnell, P., Taylor, C., Farrar, A., Danis, M., & Grady, C. (2007). Ethical climate, ethics stress, and the job satisfaction of nurses and social workers in the United States. *Social Science & Medicine*, 65(8), 1708-1719.

World Health Organization. Preamble to the Constitution of the World Health Organization as

adopted by the International Health Conference, New York, 19–22 June 1946; signed on 22 July 1946 by the representatives of 61 states (Official Records of the World Health Organization no. 2, p. 100) and entered into force on 7 April 1948.

Zakaria, M. & Azad, A. K. (2009), Journalism as a profession in Bangladesh: An Overview, *The Chittagong University Journal of Arts and Humanities*, Vol XXII.

Choudhury, T. A., Ahmed, Q .N., & Jahan, M. S. (2015). Life Insurance Industry; a Comprehensive Outlook, *Market Pulse*, 101.

## Annexure

### Annex #1 Symptoms of Professional Stress

#### Annex #1 Symptoms of Professional Stress

SI	PHYSICAL STRESS	MENTAL STRESS	BEHAVIORAL STRESS
1	Headaches	Tension	Aggressive
2	Migraines	Anxiety	Social isolation
3	Sleep Disruption	Bad Temper	Addiction to drugs
4	Stomach disorders	Low self-esteem	Non co-operative
5	Blood pressure	Forgetfulness	Negligence in personal appearance
6	Back/shoulder/neck pain	Feeling powerless	Less sociable

*Source: Newstrom and Davis (2007) and Author*

---

---

## **OPPORTUNITY OF HIGHER EDUCATION ON INSURANCE**

---

### **A) Associate of Bangladesh Insurance Academy (ABIA)**

Educated Persons who are eager to take insurance as profession may build up their career in insurance by studying ABIA course. This is the highest degree on Insurance in Bangladesh introduced in 1980.

The Course is held in two sessions viz “May” and “October” every year.

#### **Eligibility for admission**

- a) Minimum HSC(Higher Secondary Certificate) with 5 years experience in any insurance organization or in the Insurance department of any commercial or industrial organisation.
- b) Candidates not engaged in Insurance profession must be a graduate of any recognized University.

### **B) Diploma & Advanced Diploma in Insurance of Chartered Insurance Institute (London)**

The Diploma & Advanced Diploma of the CII are recognized all over the world as of highest professional standard. BIA works as overseas centre for CII Diploma/Advanced Diploma examinations. Necessary coaching facilities are offered by BIA for the Diploma/Advanced Diploma candidates. Upon completion of these qualifications one can apply to use designation of Dip. CII/ACII.

The examinations are held in “April” and “October” every year.

#### **Eligibility for admission:**

Must pass GCSE or have proficiency in English or those who are at least graduates from any recognised University.

### **C) Associate of Institute of Actuaries of India(AIAD)**

Actuarial Institute of India offers certificate and degrees in Actuarial Science and BIA acts as nodal point of communication with AII in Bangladesh. BIA also works as overseas examination centre for AII (India). This means that the students can sit at exam in Bangladesh and don't need to travel to India for this purpose.

Among other things, BIA helps students to :

Process their admission as student member of AII, Register them as examinee, Prepare them for exams by offering counseling classes free of charge, Procure reading materials, Overcome financial constraints by offering stipend.

The examination is held in “May” and “November” every year.

#### **Eligibility for admission :**

Those who have passed 10+2 (H.S.C) or equivalent with at least 85% in Mathematics/Statistics (with recommendations from two Fellow members of the society) and the medium of instruction is English in +2 or equivalent level. Graduate or Post Graduate with subjects like Mathematics, Statistics, Econometrics, Computer Science, Engineering, MBA (Finance), and alike besides Actuarial Science would be eligible provided he/she has secured at least 55% marks in Mathematics and the medium of instruction at the Graduate/Post Graduate level was in English.

### **For further details please contact :**

**BANGLADESH INSURANCE ACADEMY**

**53 MOHAKHALI C/A, DHAKA-1212**

**PHONE: 9899136, 9899527, 8820900, 9899292-3**

**E-mail: bangladeshinsuranceacademy@gmail.com**

**FAX: 00880-2-9882071, Website : [www.bia.gov.bd](http://www.bia.gov.bd)**

---

---