

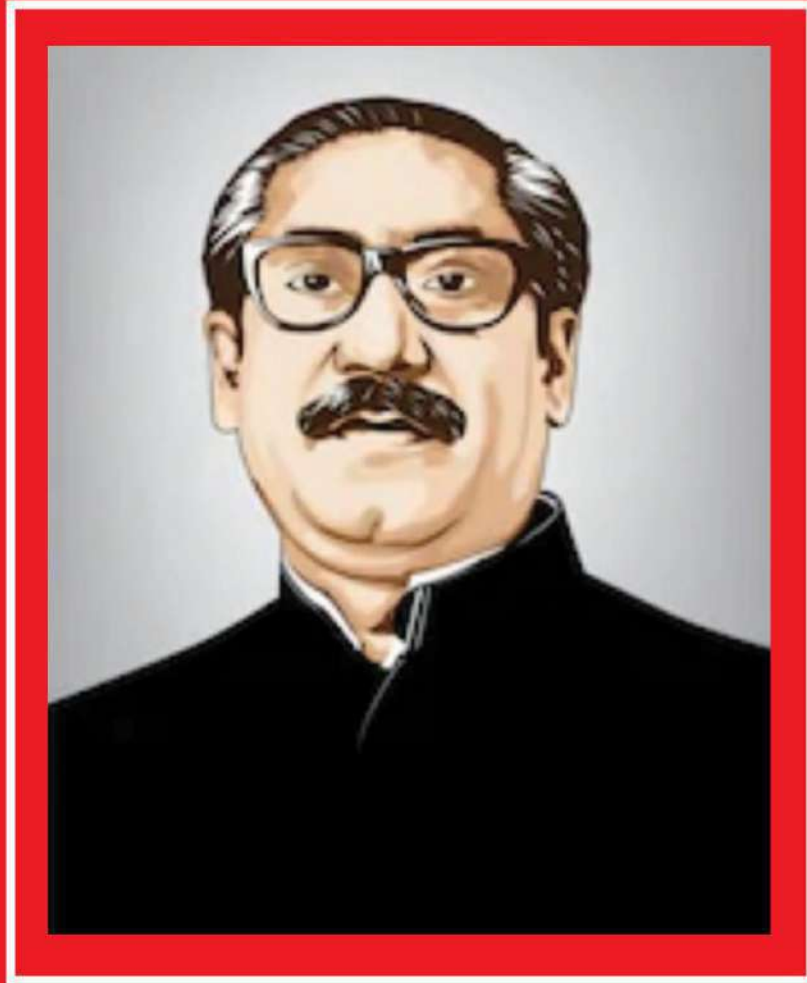


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‘Special issue dedicated to the celebration of 100 birth anniversary of the Father of the Nation Bangabandhu Sheikh Mujibur Rahman’



Bangladesh Insurance Academy

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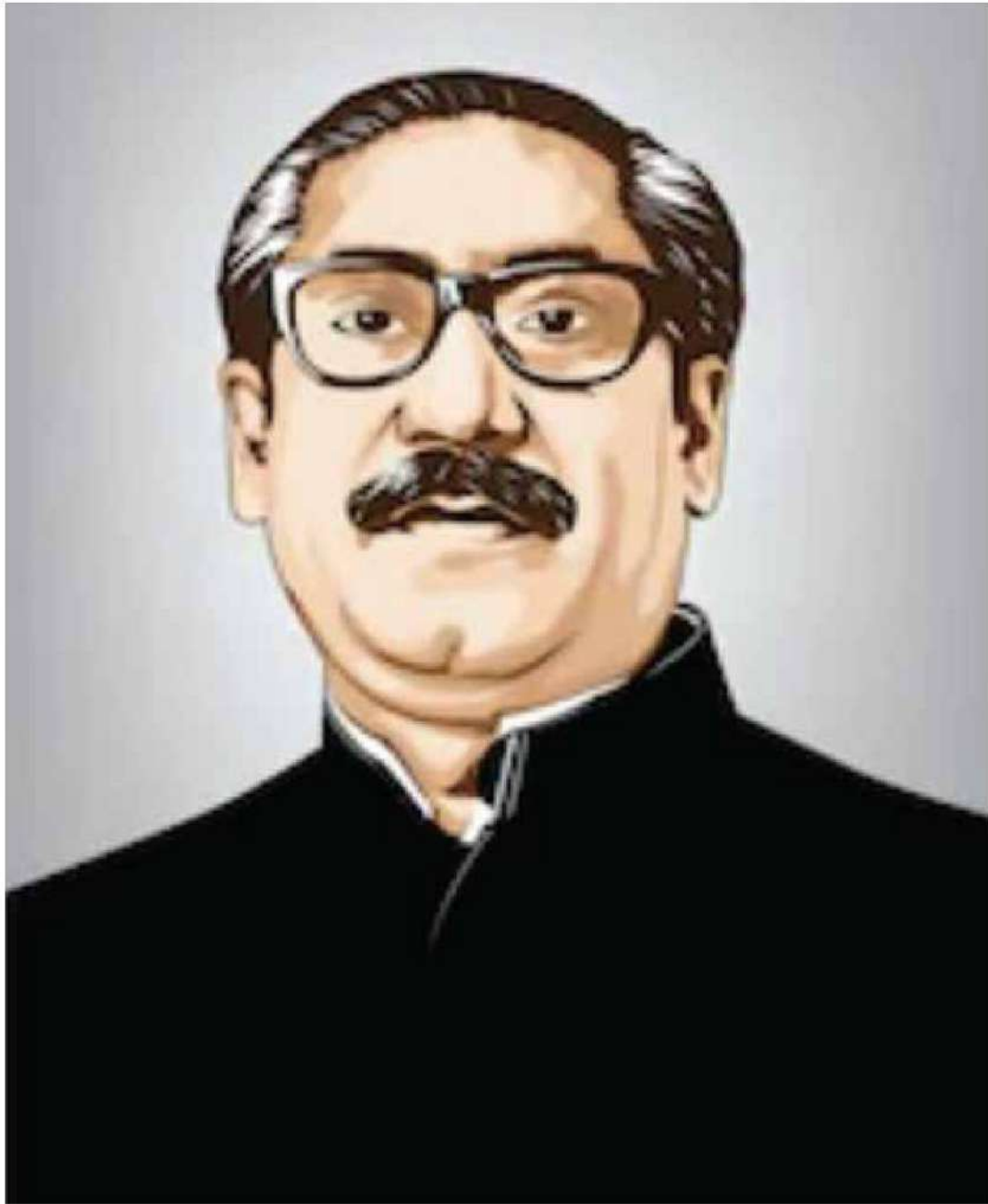
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Contents

	Page No.
● Emergence of Family Takaful in the Post-COVID How Does Shari'ah Matter? Mr. Mohd Ma'Sum Billah	07
● Social Value of Insurance in the Bangladesh Context Dr. George E. Thomas	33
● Impact of Covid-19 Pandemic on the Insurance Industry and need for Strategic Management Mr. Kazi Md. Mortuza Ali	43
● Borrower's Perspective of Micro Finance Institutions and Traditional Money Lending In Bangladesh: A Comparative Analysis Dr. Muhammad Zaulhaq Mamun & Neaz Ahmed	73
● Role of Insurance of Achieving Sustainable Development Goals (SDGs) Mr. S.M Ibrahim Hossain	94
● Integrating Climate Insurance With Social Protection Programs in Line With UN Sustainable Development Goals: Policy Options for Bangladesh Mr. Sifullah Khaled and Dr. Madhu Acharyya	103
● The Future of Insurance in Developing Countries Mr. Deepak Godbole	123
● Dissatisfaction in Claim Settlement of Life Insurance Companies In Bangladesh: Causes and Remedies Dr. Md. Nazmul Ahsan Murad	129

Emergence of Family Takaful in the Post-COVID How does Shari'ah Matter? *

Mohd Ma'Sum Billah ¹

ABSTRACT

Shari'ah model of Family Takaful does not mean to insure one's life, but it is a financial transaction undertaking to protect widows, orphans and other dependents of the deceased (assured) against future unexpected financial risk. The conventional system, however, offers a Family Takaful policy which may not be free from ribā (interest), or some other elements, which are not recognized by Islamic teaching. Based on the observation of the practices of Family Takaful policies under the conventional system many Muslims, and even some Islamic scholars, diametrically oppose the idea of life policies, but have not come up with an Islamic alternative model to the conventional one which would meet the expectations of contemporary Muslims and would protect widows, orphans and other dependents in society from unpredicted future financial risk. Hence, the central idea of the model of a Family Takaful is that, it is not a policy to insure one's own life, but is a financial transaction relying on the principles of mutual cooperation to undertake a responsibility towards safeguarding widows, orphans and other dependents of the deceased (assured), from future financial risk, which does not involve the elements of 'Ribā' but is operated along the lines of the following principles of the 'al-Mudhārabah' financial technique, while neither clashing with the principles of 'Mīrath' nor with the principles of 'Wasiyah'. In an Islamic model of Family Takaful policy the nominee(s)

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* Revised Version of eassy published earlier.

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² 'Fatwa', issued by The National Council for Muslims Religious Affairs in Malaysia, see in [1974] I MLJ at x.

³ See Billah, M. Masum, "Family Takaful? An Islamic View", in ALQ, 8 : 4, 1993 at 319.

is not an absolute beneficiary(s) but a mere trustee who is under a duty to obtain benefits over the policy and distribute them among the heirs of the deceased (assured), according to the principles of ‘Mīrath’ and ‘Wasiyyah’.

This article attempts to come up with a solution to the operation of an Islamic model of Family Takaful policy in the post-COVID era.

Keywords: Family Takaful, family takaful, Shari’ah, Islamic, Divine, Protection, Financial security.

JEL Classification Code: B59, D92, I15, Z12.

ADDRESSING THE PROBLEM

The central Idea of Family Takaful under the Islamic discipline is quite different from the one which is practiced under the conventional system. An Islamic model of a Family Takaful policy, however, is a financial transaction based on the principle of the ‘al-Mudhārabah’ financing technique relying on the principle of mutual cooperation, undertaking a responsibility towards safeguarding widows, orphans and other dependents of the deceased (assured/policy holder) from an unexpected future material risk. The nominee(s) in the Family Takaful policy who is appointed by the assured, is not an absolute beneficiary(s) over the policy but a mere trustee who receives the benefits and distribute them among the heirs of the deceased (assured) according to the principles of ‘Mīrath’ (inheritance) and ‘Wasiyyah’ (bequest). Where the assured is still alive upon the maturity of the policy period, he has the right to claim from the insurer the paid-premiums, the share of profits made over the paid premiums, plus bonus and dividends according to the company policy. But if the assured dies at any time before the maturity of the policy, the claim of the nominee(s) includes the paid-premiums, the share of profits made over the paid-premiums, bonus and dividends according to the company’s policy plus a donation from the company’s charitable fund according to the financial condition of the beneficiary(s) of the assured. As for the claim for benefits over a Family Takaful policy, the death of the assured does not necessarily have to be natural or accidental but any cause of the death (even an unlawful death like suicide or being killed in the act of a crime etc.), counts so long as the death of the assured is proved.

This is because the death of the is determined by Allāh (SWT) as is stated in the holy Qur’an:

“No soul can die except by the permission of Allah (SWT), the term being fixed (by Allah SWT)....⁴”

Moreover, as regards the act of suicide or any other crimes, the doer himself/herself is solely accountable to Allah (SWT) for his/her own act. As Allah (SWT) ruled in the holy Qur’an:

“...They shall reap the fruit of what they did, and you what you do...⁵”

Thus, it does not mean that a criminal will simultaneously be accountable for his/her own wrongful act and also be deprived from other rights. It is a fundamental right of everyone in society to enjoy in business and other matters that they may require lawfully. Such personal rights should be exercised by every one equally regardless of whether one is innocent or a criminal as long as the rights fall within the lawful sphere. Hence, Family Takaful policy is a transaction whereby the assured’s beneficiary(s) should not be deprived due to the assured’s criminal act (i.e. act of suicide, or being killed for a wrongful act etc.). The agent in a Family Takaful policy is not supposed to be paid his salary out of the assured’s premiums because they work for “The Company” and thus should be paid by “The Company”. For example since a Family Takaful policy is based on the principle of ‘al-Mudhārah’, whereby the involved parties i.e. insurer, assured, agents share the profit over the business which is partly run by the assured’s paid-premiums, therefore, the interest for the agent in a Family Takaful policy is a share of profits made over the assured’s paid premiums plus dividend and bonus according to the company’s policy. As regards the insurable interest in a life policy under the Islamic model, the policyholder himself has an insurable interest if he is alive upon the expiry of the policy period. If the assured dies at any time within the policy period, the insurable interest is to be vested only in the heirs of the assured according to the principles of ‘Mīrath’ and ‘Wasiyyah.’ Hence, a refined Family Takaful Scheme may significantly contribute to post-COVID era as to a better socio-economic security

⁴ *Al-Qur’an, at ch. 3:145*

⁵ *Id., at 2:134*

RATIONAL OUTLOOK

Having a Family Takaful policy does not mean that one has insured one's own life, but it is a fair financial transaction catering for the benefits of certain helpless people in the society. The rationale behind having a Sharī'ah justified Family Takaful policy could be summed up as follows:

It is one of the means of providing a material safeguard for offspring and is thus in line with the saying of the holy prophet SAW. He (SAW) spoke to this effect:

*"... it is better for you to leave your offspring wealthy than to leave them poor, asking others for help..." [Narrated by Saad b. Abi Waqqas (r.a)]*⁶

Having a Family Takaful policy is a future material security for widows and other dependents of the deceased (assured). The Holy Prophet (SAW) in fact encouraged the providing of security for the widows and poor persons as he highlighted in one of his traditions:

*"The one who looks after and works for a widow and for a poor person (dependent), is like a warrior fighting for The Cause of Allah (SWT), or like a person who fasts during the day and prays throughout the night." [Narrated by Safwan bin Salim (r.a)].*⁷

A Family Takaful policy guarantees future material protection for, inter alia, orphans, and it is again justified by the saying of the holy Prophet (SAW):

*"I and the person who looks after an orphan and provides for him, will be in paradise like this, putting his index and middle finger together...." [Narrated by Sahl bin Saad (r.a)].*⁸

Having a Family Takaful policy provides certain persons (as widows, orphans and so on) with a protection from unexpected future material difficulties, which may result in hardship in the life of these people.

⁶ *Sahih al-Bukhari (trans. Eng.) Dr. Mohd. Muhsin Khan, Vol. 8, Kazi Publications, Lahore, Pakistan, 1979, no. 725, at p. 477*

⁷ *Id.*, at no. 35

⁸ *Id.*, at No. 34

The Holy Prophet advised the ummah to protect one from any form of hardship and difficulties when he said to the effect:

*Whosoever removes a worldly grief from a believer Allah (SWT) will remove from him one of the grieves of the day of Judgement. Whosoever alleviates a needy person, Allah (SWT) will alleviate from him in this world and the next... [Narrated by Abu Huraira (r.a)].*⁹

Having a Family Takaful policy is like taking an initiative towards reducing the poverty rates and contributing towards a reasonable comfortable life without such difficulties. It is thus justified by the Qur'anic principle whereby Allah (SWT) advised the creatures to seek from Him for The comfortable life. He (SWT) says to the effect:

*"...our Lord! Give us comfortable life in this world and comfortable in the hereafter..."*¹⁰

A Family Takaful policy ensures mutual cooperation, a brotherly feeling towards others, which provides a positive status, which can provide a feeling of brotherhood in society. For example, an assured pays the premium, which enables the insurer to invest and make a profit while the insurer ensures a financial protection for the assured's beneficiary(s). Such financial cooperation leads to a sense of brotherhood and economic progress. Moreover, having a Family Takaful policy is a positive initiative by the assured towards a positive material status of the widow and offspring. Such mutual cooperation towards a positive goal is in fact ruled on by Allah (SWT) where He (SWT) says to the effect

*"...Sustain in mutual cooperation among yourselves in righteousness and piety..."*¹¹

Finally having a Family Takaful policy is like taking an initiative towards ensuring a self-reliant society, without facing hardship and difficulties, and, of course, an economic growth in society which may result in the elimina

⁹ *Sahih Muslim as compiled in al-Nawawi, Forty Hadith (trans. Eng) Ezzeddin Ibrahim, et. al. I.I.F.S.O., 1985 at no. 36.*

¹⁰ *Al-Qur'an, at ch. 2:201*

¹¹ *Al-Qur'an, at ch. 5:2.*

tion of hardship and bring about a comfortable standard of living in the society. It is thus in line with the Qur'anic principle where Allah (SWT) Himself prefers an easy life for the creatures rather than them having difficulties. He (SWT) says to the effect:

"..Allah (SWT) intends easy life for all of you while He does not want you to be in difficulties." 12

A Family Takaful scheme is concerned with a sustainable socio-economic results for all thus, it may be one of the socio-economic solutions to the post-COVID environment.

LIFE INSURANCE Vs. FAMILY TAKĀFUL

The purpose of scrutinizing is to discover the basic contrast between the conventional system of Life Insurance and the Islamic alternative. This is because some 'Ulamā and many Muslims are of the impression that a Life Insurance is totally prohibited in Islam. The argument has been raised from the scenario of Life Insurance policy practiced under the conventional system. It is to be acknowledged here that even though in both the conventional system as well as in Islam a notion of Life Insurance policy is being designed, there are several aspects whereby both systems are in conflict in both principles and practices. I would therefore, like to sum up the basic contrast between them which may enable us to grasp the nature of the Islamic model of a Family Takaful policy as an alternative to the one which is practiced under the conventional system. The basic contrasts are as follows:

- 1) A Life Insurance policy under the conventional system evolves around the element of 'Ribā' whereas an Islamic model of Family Takaful policy is totally free from the elements of 'Ribā' for it is operated based on the principle of 'al-Mudhārabah financing technique. 13
- 2) In a conventional system of Life Insurance policy, the nominee(s) is an absolute beneficiary(s).

¹² *Id.*, at ch. 2:185

¹³ *Mufti Mawlana Mohd. Shafi, Bima Zindegi, (trans. Eng) Anwar Ahmed Meenai, Family Takaful, Darul Ishaat, Karachi, 1995, at 36.*

Suffian J. in *Re Man bin Mihat*,¹⁴ gave a verdict that, the nominee(s) inter alia in a Family Takaful policy takes absolutely and exclusively the benefits of the policy.¹⁵ In contrast, the nominee(s) in a Family takaful under the Islamic model is not an absolute beneficiary(s) but a mere trustee who is in a position to receive the benefit over the policy on behalf of the assured's heirs and distribute it among them according to the principles of 'Mīrath (inheritance) and 'Wasiyyah' (bequest)¹⁶. In *Karim v. Hanifa*¹⁷ the High Court of Karachi ruled that the nominee(s) in a

Family Takaful policy is nothing more than a mere agent.¹⁸ The National Council of Muslim Religious Affairs in Malaysia, also issued a fatwa to the same effect in 1979, that the nominee(s) in a Family Takaful is a mere trustee who is supposed to receive the benefit over the policy and distribute it among the heirs of the assured according to the principles of 'Mīrath' and 'Wasiyyah'.¹⁹

3) Idea of a conventional designed Life Insurance policy is that, if the assured dies at any time before the maturity of the policy, The nominee(s) is entitled to maturity of the policy the nominee(s) is entitled to recover from the insurer the whole amount agreed in the policy, while if the assured is still alive life upon the expiry of the policy period he is also entitled for the whole amount agreed in the policy plus the interest, dividends and bonus subject to the company's policy. On the contrary, the paradigm of an Islamic Model of Family Takaful policy is that if the assured dies at any time before the policy matured, the beneficiary(s) is entitled from the insurance company to the whole amount of paid premiums, the bonus and dividends according to the company's policy, a share of profits made over the paid-premiums plus a donation from the company's charitable fund according to the financial status of the beneficiary(s) (i.e. if the beneficiary(s) is financially in good condition the amount will be small but if the beneficiary(s) is financially weak or unstable the amount could be bigger).²⁰

¹⁴ (1965) 2, MLJ at 1

¹⁵ See also in *Billah, M. Masum, op. cit., at 319.*

¹⁶ *Ibid.*

¹⁷ [1970] PLD 783

¹⁸ *Billah, M. Masum, op. cit., at 319*

¹⁹ *The 'fatwa' was on succession and wills, (1974) IMLJ at X*

²⁰ *Billah, M. Masum, op. cit., at 324*

Such transaction is considered as a mutual cooperation towards the welfare of the helpless people in society, and is thus in line with the Qur'anic principle. Allah (SWT) says to the effect:

“...Cooperate among yourselves in righteousness and piety...”²¹

However, in the case where the assured's is still alive upon the expiry of the maturity period, he is entitled from the company the whole amount of paid-premiums, a share of profit made over the paid-premiums according to the principle of 'al-Mudhārah', bonus and dividends according to the company's policy.

4) In the operation of a Life Insurance policy under the conventional system, the payments for the agents are to be paid out of the assured's paid-premiums, whereas under the Islamic model of a Family Takaful policy, the agents work for the company and thus the company itself should pay them. This means that the payment for the agents could include a share of profits made over the paid premiums, plus dividends and bonus according to the company's policy.

5) With regard to the insurable interest under the conventional system, it is usually vested to the policyholder himself²² should he be alive upon the expiry of the policy period. But, in the case of the death of the assured within the period, the insurable interest is to be vested to husband and wife, parents or children, the benefactor or beneficiary or servant, company and director, trustee and employee, partners, mortgagor and mortgagee.²³

In contrast, under the Islamic model, the insurable interest is to be vested to the assured himself or to his heirs according to the principles of 'Mīrath' and 'Wasiyyah'.²⁴

PRINCIPLES AFFECTING FAMILY TAKAFUL

It has obviously been established from the earlier discussion that a Family Takaful policy under the Islamic model is different from the one practiced

²¹ *Al-Qur'an*, 5:2.

²² See in Khuan, Lee Kam, *Family Takaful in Malaysia, Family Takaful association of Malaysia, Kuala Lumpur, 1986 at 63*

²³ *Id.*, at 69f

²⁴ *Billah, op. cit.*, at 319, and (1970) PLD 683

under the conventional system. Here I wish to propose the following basic governing principles for the Islamic model of Family Takaful.

Prior to entering into a Family Takaful agreement, the assured must have a sincere intention that the policy will not lead to gain but should look towards protection of off-springs, wife, and the other dependants from unexpected future financial risk. Simultaneously, he also has to put his trust in Allah (SWT) for the betterment of those dependents' future lives. Such initiatives are thus in line with the advice of the Holy Prophet (SAW):

"The Holy Prophet (SAW) told a bedouin Arab who left his camel untied trusting to the Will of Allah (SWT): Tie the camel first then leave it to Allah (SWT)." ²⁵

The Family Takaful policy should not be involved with 'ribā' but based on the principles of the 'al-Mudhārabah' financing technique, whereby the insurer as well as the assured or his beneficiaries share the profits, bonus and dividends accordingly.

In the case of the assured's death at any time during the policy period, the beneficiary(s) of the assured should not fight for the whole amount but only for the paid-premiums, a share of profits made over the paid-premiums, bonus and dividends accordingly, plus a donation from the company's charitable fund according to the beneficiary's financial condition.

In case the assured is alive life upon the expiry of the policy period, the assured can only claim from the company the paid-premiums, a share of profits ²⁶ made over the paid premiums, plus bonus and dividends according to the company's policy.

The nominee(s) in a Family Takaful policy does not necessarily have to be an absolute beneficiary(s) but a mere trustee who is under a duty to receive the benefits from the insurer and distribute them among the heirs of the assured according to the principles of 'Mīrath' and 'Wasiyyah'. Hence, should the nominee(s) fall into the category of heirs of the assured he/she is also entitled to a share accordingly.

²⁵ Sunan Al-Tirmidi, Cagri Yayianlari, Istanbul Vol. 4, 1981, in Kitabu Sifatul Qiyamat Wal-Raqaiq Al-Wara, Bab 60, NO. 2517 at 668

²⁶ See Adil Salahi, 'Is Family Takaful Haram?' in New Horizon, Islamic Banking and Insurance, Nov. 1995 no. 45 at 12

The agents in a Family Takaful policy should not be paid out of the paid premiums by the assured but be paid out of the share of the profit made over the paid premiums by the company itself. This is because the agents are not working for the assured but for the company. Therefore, the agents should enjoy a share (a salary) of the profits according to the company's policy.

As regards the investment of the paid premiums, Adil Salahi suggested that the company (insurer) is under an obligation to invest the paid premiums in a lawful business which is free from the elements of 'Ribā',²⁷ 'gambling' and other forms of unlawful transactions, contrary to divine principles.

The insurable interest in a life policy should be presented either to the assured himself (should he be alive upon the expiry of the policy period) or to the heirs of the assured (should the assured die at any time within the policy period) according to the principles of 'Mīrath and 'Wasiyyah'.²⁸

DEBATES

Some Islamic scholars oppose the idea of contract of Family Takaful generally. They argue that, a Family Takaful contract is contrary to the Divine principles and thus, is not permissible in Islam. There is another group of 'Ulamā who agreed to the general insurance with certain conditions but they opposed the application of Family Takaful policy.²⁹ In this section, an attempt is made to highlight the opposing views of the 'Ulamā against the validity of Family Takaful in today's society and possible refutation to it.

Opposing Views among the 'Ulama

Among the opponents against the validity of Family Takaful are Mufti Mohd. Bakhit, Mohd. Abu Zuhra, Mohd. Musa, Ahmad Ibrahim, Al- Hanafi, Ibd Abdeen, Sheikh Shaukat, Khan Mohd. Yusuf Musa, Shaukat Alyan, Ahmad Fahmi, Ahmad Taha Sanusi, Abdur Rahman Isa, Ali Khaleef and a few others including Al-Sheikh Jad Al-Haq Ali Jad Al-Haq who vehemently oppose the idea as well as the operating of Family Takaful policy in the light of the divine sanctions. In their judgement Family Takaful

²⁷ *Ibid.*

²⁸ See Billah, *op. cit.*, at 319; and (1970) PLD 683

²⁹ See in Billah, *M. Masum, loc. cit.*, at 315

is absolutely opposed to the Shari'ah discipline and thus shall not be permissible in Islamic teachings.³⁰

Grounds for the Opposing Views

The grounds for opposing the validity of Family Takaful are in fact based on many reasons. Here, I would like to sum up some of the principal grounds upon which the 'Ulamā and many Muslims are reluctant to accept a Family Takaful policy under the shield of Islamic teachings. Their arguments rely on the following grounds:

It is a policy of insuring one's life. Sheikh Jad al-Haq issued a 'Fatwa' against the validity of Family Takaful because it is a transaction, which ensures one's life, and insuring one's life by a creature is not permissible in the Shari'ah.³¹

A Family Takaful contract involves unlawful elements. A contract, which involves unlawful elements, can never be binding as the Holy Prophet (SAW) says to the effect:

*"..the Muslims are bound by the conditions except the condition which prohibits the permitted one or the one which permits the prohibited one."*³²

It contains the element of 'Riba'. Many 'Ulama oppose the validity of Family Takaful because it involves the elements of both kinds of 'ribā' i.e. 'riba al-Fadhl' and 'ribā al-Nasih'. For example, if the insurer pays the insured or his beneficiary(s) in return of paid premiums more than what he paid, it becomes 'ribā al-fadhl', while the payments by the insurer to the assured after a particular period of time becomes 'ribā al-Nasih'. Thus both situations make a Family Takaful policy unlawful. This is because any transaction involving 'riba' does not have shelter in the Islamic Shari'a as Allah (SWT) declared to the effect:

³⁰ See in Siddiqi, M.N., "Muslim Economic Thinking: A Survey of Contemporary Literature", (Ed.) Ahmad, Khurshid, in *Studies in Islamic Economics, The Islamic Foundation, U.K. 1980* at 2116. Also see "Al-Tameen Alal Hayat Gaire jaizin Shar'an" in *Al-Iqtisadul Islami*, July 1995 at 60, and also see Hadagha, Refat Mohd., 'Insurance Contract and Its Provision in the Islamic Shari'ah', IIU Malaysia, (U.P.), 1995, at 17.

³¹ *Al-Iqtisadul Islami*, loc. cit

³² *Al-Tarmidi*, as quoted by Al-Sheikh Jad al-Haq in *Al-Iqtisadul Islami*, loc. cit

“... Allāh (SWT) permitted trade while prohibited ribā...”³²

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“... Allāh (SWT) permitted trade while prohibited ribā...”³⁵

It supersedes the Will of Allah (SWT). In a Family Takaful policy, from the commencement of the contract between the insurer and the assured, the assured always aims that upon his death, his beneficiary(s) would gain a large amount of money. In such a situation the assured predetermines his own death as well as confirming the material gain for his beneficiary(s) whereas, Allah (SWT) is the one who determines one’s death as well as future earnings. Allah (SWT) reminds us to the effect:

“.. Nor does anyone know what it is that he will earn on the morrow, nor does anyone know in what land he is to die, verily Allāh (SWT) has full knowledge and He is acquainted (with all things).”³⁶

It contains an element of betting. In betting, the gambler always hopes for a chance to gain. Similarly, in a Family Takaful policy the assured upon the payment of premiums to the insurer always hopes for a change of gaining a large amount of money. Hoping for such a chance is similar to gambling and thus ‘Sharī’ah’ never recognizes it as a valid transaction.³⁷

It has element of ‘al-Gharar’ (uncertainty). Any contract whose subject matter or the object involves ‘al-Gharar’ (uncertainty) that contract is deemed

³³ *Al-Shaikh Jad-al-Haq, loc. cit*

³⁴ *Hadagha, op.cit., at 39f*

³⁵ *Al-Qur’an at ch. 2:275*

³⁶ *Al-Qur’an at ch. 31:34*

³⁷ *It was held in a Juridical Conference held in Mecca in Saban, 1398H.*

to be null and void ab initio. In a Family Takaful contract the subject matter is a death and it is not certain whether the assured's death will occur during the policy period or not. Thus, such uncertainty in the Family Takaful policy leads the policy to be invalid. Moreover, a transaction involves 'al-Gharar' is prohibited in the Islamic discipline as the Hadīth to this effect:

*"The Holy Prophet (SAW) forbade the transaction through fraudulent means or the Gharar Sale."*³⁸

It contains the element of Maisir (gambling). In gambling the gambler pays a certain amount of money and subsequently hopes for a chance to gain an additional large amount of money.³⁹ Any transaction involving such element of gambling is prohibited in the Shari'ah, as Allah (SWT) says to the effect:

*"...They ask thee concerning wine and gambling say in the them is great sin..."*⁴⁰

Similarly, in a Family Takaful policy the assured always hope for a chance to gain which is in the same nature as gambling and thus is prohibited in the Islamic 'Sharī'ah.

There is no direct authority, which justifies Family Takaful. There are some who do not accept the Family Takaful policy as a valid transaction. They claim that a Family Takaful policy is a transaction, which cannot be, justified by the injunctions from either the 'Qur'an' or the 'Sunnah'.

It is contrary to the principles of 'Tawakkul' (placing the trust in Allah (SWT)). It is a fundamental obligation on believers, in conformity with their faith, to place their trust always on the Al-Mighty Allāh (SWT). As Allah (SWT) commanded to the effect:

*"....but on Allāh (SWT) 'Tawakkul' (put your trust) if you have faith'.*⁴¹

³⁸ As quoted in Idoi, A.Rahman, *Shariah: The Islamic Law*, A.S. Noordeen, Kuala Lumpur, 1984 at 359.

³⁹ Musleh Uddin, M. *Insurance and Islamic Law*, 3rd ed. Islamic Publications Ltd., Lahore, 1979 at 143.

⁴⁰ *Al-Qur'an* at ch. 2:219

⁴¹ *Id.*, at ch. 14:12

In a Family Takaful policy once the assured enters into an agreement and pays regular premiums with the hope that one day he will die and the insurer will protect his beneficiary(s) financially. In this case, the assured puts his trust not in Allah (SWT) but on the insurer which is contrary to the Qur'anic principles of 'Tawakkul' and therefore a Family Takaful policy should be deemed to be unlawful.

It is contrary to the principles of 'al- Mīrath' and 'al-Wasiyyah'. It is a divine principle both Mīrath and Wasiyah that one's property and wealth upon death are, inter alia, to be distributed according to the principles of 'Mīrath' and 'Wasiyyah'. In the light of these principles the deceased has no jurisdiction to determine the beneficiary(s) upon his death. In a Family Takaful policy however, the assured nominates the beneficiary(s) who are expected to enjoy the benefits of the policy. It seems that the assured determines the beneficiary(s). Thus it is contrary to the principles of 'mīrath' (inheritance) and 'Wasiyyah' (bequest).⁴²

Fatwa by Shaikh Al-Azhar

Sheikh al-Azhar, Al-Shaikh Jad-al-Haq Ali Jad al-Haq, responded in a fatwa' session on the position of Family Takaful in Islamic Shari'ah which has appeared in 'al-Iqtisadul Islami' July 1995, in the Fatwa column, at: 60. In his Fatwa he established that a Family Takaful policy is prohibited in Islamic Shari'ah.⁴³ His claim was based on the following grounds:

In the light of the principles of Islamic Shari'ah no one could ensure others' wealth or property unless there is a fear of unjust enrichment, losses or destruction. In a Family Takaful policy these three circumstances are not available; moreover, a Family Takaful policy involves the element of Ribā and therefore it is not allowed in Islam.⁴⁴

Family Takaful is a policy which insures one's life and thus it is not permissible in Islam.⁴⁵

⁴² See generally in Billah, M. Masum, *op. cit.*, at 316

⁴³ *Al-Iqtisadl-Islami.*, *supra*

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

A Family Takaful policy involves the element of al-Gharar (uncertainty). A transaction, which involves Gharar, is not valid in the eyes of the Islamic Sharī'ah and therefore a Family Takaful is unlawful. ⁴⁶

Moreover, he went on to prolong his discussion by arguing that, a Family Takaful contract evolves not around mutual cooperation but unlawful elements and thus if a contract evolves around such elements it is null and void ⁴⁷ relating on the following Hadīth:

"..Muslims are bound by the conditions except those conditions which prohibit the permitted one or the one which permits the prohibited one." ⁴⁸

Finally, he advised Muslims that Muslims should not get involved in a Family Takaful policy because anyone who obtains money from such a policy is Haram. ⁴⁹

REFUTATION

There are differences of grounds relying on the divine authorities, authenticities and analytical approaches, put forward by distinguished Islamic scholars in opposing the operation of Family Takaful policy in the light of Sharī'ah discipline. I sincerely believe that if those scholars could spend some time deeply concentrating on the issue of Family Takaful policies without looking at the nature of how the conventional system operates but consider the material risk of unfortunate orphans, widows and other dependents who may unexpectedly lose their bread winner, then surely they could come up with an alternative Islamic model of Family Takaful justified by the divine sanctions, which may protect these vulnerable persons from unexpected future material risks and ensure the elimination of poverty in society while guaranteeing an economic growth in the Muslim Ummah. In this part of the article, I would like to respond to the views put forward by the opponents against the validity of Family Takaful policies, which will enable us to understand the actual scenario of a Family Takaful policy under Islamic teaching, and be able to distinguish a Family Takaful policy under Islamic teaching from one which is operated under the conventional system.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

⁴⁸ *As quoted in Ibid.*

⁴⁹ *Al-Iqtisadul Islami, supra*

Response to Opponents in General

Getting involved with a Family Takaful policy does not mean that one is insuring one's own life, but it is mere financial transaction based on the principles of al-Mudhārabah relying on the Qur'anic doctrine of mutual cooperation, in taking an initiative towards rescuing orphans, widows, and other dependents of the deceased from an unpredicted future material risk. In a life policy the insurer and the assured equally believe prior to entering into the agreement that every creature is subject to his own death, and thus the assured will surely meet his death. In other words, a Family Takaful policy means an initiative to provide financial security for the orphans, which has nothing to do with insuring one's own life as claimed by some. Moreover, an initiative is like ensuring the future welfare of the off-springs (orphans), widows, and dependents, and it is highly justified by the Islamic doctrine of the following Ahādith as the Holy Prophet (SAW) stated to the effect:

“Narrated by Saad bin Abi Waqqas (r.a)... the Holy Prophet (SAW) said... it is better for you to leave your off-spring wealthy than to leave them poor, asking others for help..”

“Narrated by Saffwan bin Salim (r.a) the Holy Prophet (SAW) said the one who looks after and works for a widow and for a poor person is like a warrior fighting for Allah's cause or.... Fasts during the day and pray through out the night”

Relying on the above justifications, it could be stated here that a Family Takaful policy does not mean to insure one's own life, but it is a great contribution towards the future welfare of orphans, widows and other dependents.

A Family Takaful contract does not involve unlawful elements like al-Gharar, ribā, or gambling as claimed by some. It is a lawful financial transaction whose subject matter is the assured's death which is not uncertain (al-Gharar) or the assured does not hope for a chance (like gambling) but he is taking an initiative for the future welfare of the orphans, widows and so on, or it is a

⁵⁰ The principle is at 5:2 of the Holy Qur'an

⁵¹ See in *al-Iqtisadul Islami*, supra

⁵² *Sahih al-Bukhari*, op. cit., Vol. III at no. 275

⁵³ *Id.*, at no. 35

⁵⁴ See in *Al-Iqtisadul Islami*, supra

financial dealing based on the principles of al-Mudhārabah financing technique whereby the parties involved share the profits over the paid-premiums and do not get the interest which is different from the one under the conventional system on interest (which is Ribā-based). However, since the Family Takaful contract does not involve these unlawful elements, it is thus lawful and binding because the Holy Prophet (SAW) said:

*“Muslims are bound by their contract except the one which prohibits the permitted one and vice versa.”*⁵⁵

A Family Takaful policy does not involve an element of Ribā as claimed by some ‘Ulamā⁵⁶ but it is a financial transaction which is in line with the principles of mutual cooperation, which is based on the principle of the al-Mudhārabah financing technique whereby both the insurer and the assured enjoy the share of profits made over the paid-premiums plus dividend bonus as well as an amount of donation which is subject to the financial condition of the assured’s beneficiary(s). Thus, such transaction of mutual cooperation is in line with the Qur’anic principle, where Allah (SWT) commanded to the effect:

*“..Cooperate ye one another in righteousness and piety..”*⁵⁷

A Family Takaful policy does not supersede the Will of Allah (SWT) nor is it contrary to the principles of Taqdir (fate), as some argue that the assured in a Family Takaful policy determines his own death, whilst ensuring a future financial gain for his beneficiary(s), and meanwhile places his trust in the insurer for the financial protection of his beneficiary(s). These situations overrule the power of Allah (SWT). In responding to three arguments, in a Family Takaful policy the assured believes that he will surely die, which does not mean that he determines his own death, and such a belief is in line with the Qur’anic injunction:

*“Every soul shall have a taste of death..”*⁵⁸

The assured in a life policy does not determine the future financial condition of his beneficiary(s), but he takes an initiative towards rescuing his off-spring from future material risk, it is also in line with the tradition of the Holy Prophet (SAW) who said:

⁵⁵ Sunan al-Tirmidi, supra

⁵⁶ See in Al-Iqtisadul Islami, supra

⁵⁷ al-Qur’an, at ch. 5:2

⁵⁸ Id., at ch. 3:185

"Whosoever takes an initiative to alleviate one's (inter alia material) difficulties, Allah (SWT) will lighten his difficulties in the world and the next..." ⁵⁹

Moreover, the assured does not place his trust in the insurer to protect his beneficiary(s) materially but he is in financial agreement with the insurer for a mutual cooperation to look after the future welfare of his beneficiary(s), and it is no doubt justified by the Qur'anic principle of mutual cooperation:

"...Cooperate ye one another in righteousness and piety..." ⁶⁰

A Family Takaful policy does not involve elements of betting. *Mustafa Al-Zarqa* opined that in a bet the person always hopes for a chance and there is no element of cooperation in it, ⁶¹ rather it is some sort of competition. In contrast, a Family Takaful policy is based on the principle of cooperation ⁶² in which the assured never hopes for a chance but works for the welfare of orphans, widows and other dependents which is in line with the saying of the *Holy Prophet (SAW)*.

A Family Takaful policy does not evolve around the element of gambling because a Family Takaful policy is for the purpose of the material welfare of orphans, widows and other dependents, whereas gambling is a game of chance whereby the gambler always hopes to gain. Therefore, a Family Takaful policy is contrary to gambling. *Al-Dareer* acknowledged that in the insurance policy there is safety against danger whereas gambling creates danger, so how could an insurance policy be equal to gambling? ⁶³

There is no element of uncertainty (Gharar) in a Family Takaful policy because in a Family Takaful policy, the subject matter is the death of the assured; the assured believes that he will die one day as ordained in the Holy Qur'an, and thus it is not uncertain (Gharar). Moreover, sharing profits over the paid-premiums are also not uncertain (Gharar) because a Family

Takaful policy is based on the principles of al-Mudhārabah, whereby if the

⁵⁹ *Sahih al-Muslim, as compiled in An Nawari, Riyadus Saleheen, Vol. No. 245*

⁶⁰ *al-Qur'an, at ch. 5:2*

⁶¹ *Al-Zarqa, Mustafa, Nizam Al-Tameen, Beirut, 1984*

⁶² *The principle is at 5:2 of The Holy Qur'an*

⁶³ *Al-Dareer Sideeq, Al-Gharar Wa al-atharohu fi al-Oqud, Beirut, 1990 at 649*

assured dies within the policy period, the beneficiary(s) will get the benefits according to the principles of al-Mudhārabah. But, if the assured is still alive upon the expiry of the policy period, he is also entitled to the claim according to the principles of al-Mudhārabah. In all these situations, the subject matter, the object and consideration (premiums) of the transaction are clear and not uncertain (Gharar).

Even though there is no express authorities from the Qur'an or Sunnah highlighting the Family Takaful policy there are a number of authorities from the Qur'an and Sunnah which impliedly justify a model of Family Takaful policy for the Muslim Ummah which is quite different from the one operated under the conventional system. For example, a Family Takaful policy is based on the principle of mutual cooperation, is justified by the Qur'anic injunction at 5:2, it is operated based on the principle al-Mudhārabah financing technique which is justified by the Sunnah of the Holy Prophet (SAW) and there are many other authorities and authenticities which justify different aspects of Family Takaful policies, as mentioned earlier.

Some argue that a Family Takaful policy is contrary to the principles of Tawakkul (placing trust in Allah (SWT)) because in a Family Takaful policy, the assured puts his trust not in Allah (SWT) but in the insurer who is expected to protect the beneficiary(s) financially. Responding to this argument, I would like to point out here that a Family Takaful policy is not contrary to the principle of Tawakkul, but it is a policy whereby the insured takes an initiative for the welfare of his off-springs and so on, in which he mutually agrees with the insurer that the insurer will undertake to provide a material assistance in consideration of the paid-premiums. The assured simultaneously places his trust in Allah (SWT) for the betterment of his beneficiaries' future life. Thus the assured does not Tawakkul on the insurer but on Allāh (SWT). It is in line with the saying of the Holy Prophet (SAW):

The Holy Prophet (SAW) told a bedouin Arab who left his camel untied trusting to the will of Allah (SWT): Tie the camel first then leave it to (put your trust on) Allah (SWT) ”
64

A Family Takaful policy is not contrary to the principles of Mīrath (inheritance) and Wasiyah (bequest).⁶⁵ In a Family Takaful policy the assured nominates

64 *Sunan At-Tirmidi, supra*

65 *See in Billah, M. Masum, op. cit., at 319*

a particular person(s) as a nominee(s) who is nothing more than a trustee,⁶⁶ who is under a responsibility to receive the benefits over the policy on behalf of the heirs of the assured⁶⁷ and distribute them amongst them according to the principles of al-Mīrath and Wasiyyah. Hence, the nominee(s) is entitled only to a portion of the benefits over the policy if he/she falls under the category of heirs of the assured.

*Analyzing the Fatwa of Sheikh Al-Azhar*⁶⁸

Sheikh Al-Azhar al-Sheikh Jad al-Haq Ali Jad al-Haq has submitted in a *Fatwa* session that a Family Takaful policy is in the light of Shari'ah unlawful (haram). His claim for such a decision was based on a few grounds (as mentioned earlier). In this part of the article, I would like to respond to the grounds that the honorable *Sheikh* has put forward as a basis for opposing the validity of Family Takaful policies as follows:

In the *Shari'ah* discipline no one has the right to insure the others' property unless there is a fear of unjust enrichment, losses or destruction. In a Family Takaful policy the insurer insures a benefit over the paid-premiums (by the assured), for the welfare of the beneficiary(s) of the assured, for an unexpected event, the assured's death (loss of life) and also for the fear of the loss of the beneficiary's(s) material stability upon the death of the assured. In all situations the Family Takaful policy contains an element of loss. *Abu Jaib* has pointed out that an insurance policy is a compensation for any loss incurred by the insured and it is neither a profit nor a gain like in betting.⁶⁹ Hence a Family Takaful policy is not contrary to the *Shari'ah* discipline.

A Family Takaful policy does not involve elements of *Ribā* but it is a financial transaction based on the principle of *al-Mudhārabah* financial technique relying on the principles of mutual cooperation which is justified by the Qur'anic sanction. Allāh (SWT) says to the effect:

⁶⁶ See the Judgement of the Supreme Court of Pakistan in *Amtul Habeeb v Musarrat Parveen*, [1974] PLD 185

⁶⁷ This principle has been laid down in a fatwa issued by the National Council of Muslim Religious Affairs, Malaysia. See in [1974] IMLJ at X.

⁶⁸ See in *al-Iqtisadul Islami*, supra 319

⁶⁹ *Abu Jaib, Saeed, Al-Tameen binal Hazeer Wal Ebaha*, Syria Darul Fikir, Syria 1983 at 36

“...Cooperate ye one another in righteousness and piety...” ⁷⁰

A Family Takaful policy does not involve insuring one’s own life but it is a mutual financial transaction towards the welfare of orphans, widows and other dependents. Such an initiative is in fact well justified by the sayings of the Holy Prophet (SAW). He (SAW) however said to the effect in the following Ahādith:

“Narrated by Sahal bin Sa’ad (R) the Holy Prophet (SAW) said: I and the person who looks after an orphan and provides for him will be in paradise..” ⁷¹

“Narby Abu Huraira (r.a) the Holy Prophet (SAW) said... whosoever takes an initiative (towards the welfare of) one’s inter alia financial difficulties, Allah (SWT) will lighten his difficulties in this world and in the hereafter.” ⁷²

“Narrated by Safwan bin Salim (r.a) the Holy Prophet (SAW) said : the one who looks after and works for a widow and for a poor person is like a warrior fighting for the cause of Allah (SWT) of like a person who fasts during the day and pray through out the night” ⁷³

“Narrated by Saad bin Abi Waqqas (r.a)... the Holy Prophet (SAW) said... it is better for you to leave your off-spring wealthy than to leave them poor, asking others for help..” ⁷⁴

A Family Takaful policy does not contain any element of al-Gharar (uncertainty). The assured believes that the subject matter of Family Takaful is his death which is certain and not Gharar, moreover, the benefit over the policy in consideration of paid-premiums is also available which is certain according to the principle of al-Mudhārabah and thus there is no element of Gharar in it. Hence, the misconception that a Family Takaful policy involves an element of gharar is very dobtul.

A Family Takaful contract is sent to involves unlawful elements like Gharar, gambling, Ribā, etc. which make the contract unlawful as claimed by Shaikh al-Azhar ⁷⁵

⁷⁰ *Al-Qur’an at ch. 5:2*

⁷¹ *Sahih al-Bukhari, op. cit., at no. 34.*

⁷² *Sahih al-Muslim, supra*

⁷³ *Sahih al-Bukhari, op. cit. At no. 35*

⁷⁴ *Id., at 725*

⁷⁵ *Al-Iqtisadul Islami, supra*

But it is a mutual financial contract which is free from the above unlawful elements (as proved in the earlier discussion) and therefore, it is binding as justified by the saying of the Holy Prophet (SAW):

“Muslims are bound by their contract except the one which prohibits the permitted one or permits the prohibited one.....” ⁷⁶

Based on these responses, I would like to humbly comment that the idea that Shaikh al-Azhar put forward in conclusion of his Fatwa, advising Muslim Ummah not to engage in a Family Takaful policy because it is Haram (unlawful) should be refutable. I sincerely expect that Muslim Ummah should not be confused but would clearly understand the concept that Family Takaful is valid if applied accordingly and benefits can be rightly gained from it.

A FURTHER JUSTIFICATION

From the earlier debates and justifications based on various authorities and authenticities, it has quite clear that a Family Takaful policy designed under the Islamic model is an alternative solution to a conventional Family Takaful policy for the contemporary Muslim Ummah. Nevertheless, I would also like to present a few other grounds here to justify the idea that a Family Takaful policy is not permissible for the purpose of luxury but it is permissible and encouraged by Muslim Ummah for necessity, in order to ensure economic growth and stability among Muslim Ummah of today. Further grounds for the justification of a Family Takaful policy are as follows:

A Family Takaful policy is similar to a contract of al-Wadiah (deposit) whereby two parties in a financial transaction engage in an agreement that one party deposits money as an Amānah (trust) to the other party to be kept for the purpose of safety. ⁷⁷ A Wadiah is justified by the Qur’anic injunction where Allah (SWT) commanded people to fulfill the trust (of, inter alia, Wadiah). Allāh (SWT) ordains to the effect:

“Allah (SWT) commands you to render back your trusts to those to whom they are due..” ⁷⁸

⁷⁶ Sunan al-Tirmidi, as quoted in Ibid.

⁷⁷ Al-Zobydi, Mohammad, *Tajul Aroos*, Vol. 2, Kuwait, 1967 at 591

⁷⁸ Al-Qur’an, ch. 4:58

A life policy is a financial transaction which had been dealt with by the people before Islam under the doctrine of ‘al-Aqilah as a ‘Urf (custom) which had been accepted by the Holy Prophet (SAW) whereby the people of every tribe used to deposit money for a certain amount in order to pay blood money as a compensation on behalf of the killer of their own tribe to the heirs of the victim of other tribe. Such ‘Urf (custom) was deemed to bring benefit to society. A custom, which is beneficial to society, is permissible in Islam as justified by the saying of the Holy Prophet (SAW):

“Whatever Muslims see good, it is good in the eyes of Allah (SWT)” ⁷⁹

A Family Takaful policy is based on the sanction of mutual cooperation so as the doctrine of al-‘Aqila practice was also based on mutual cooperation, therefore, Zarqa and Alwan accepted the idea that there is enormous similarity between insurance and al-‘Aqila in the sense of cooperation. ⁸⁰

Every transaction is originally acceptable, unless it involves unlawful elements. Relying on this principle, it is admitted here that in a Family Takaful policy the elements contained are in line with the Sharī’ah principles (the Family Takaful policy which is based on the Islamic model), and therefore it is undoubtedly lawful.

A Family Takaful policy is for the purpose of sustaining public interest. For example, the purpose of a Family Takaful policy is to protect the orphans, widows, and other dependents of the assured from future material risk and thus, it is a transaction to be justified by the doctrine of Masaleh al-Mursalah (public interest). A transaction which is in the public interest is lawful, because it eliminates hardship and assists a comfortable life for human beings which is in line with the Qur’anic injunction:

“...Allāh (SWT) intends every facilities (inter alia comfortable life) for you; He does not want to put you to difficulties...” ⁸¹

A Family Takaful is not a gain or hope of for a chance, but it is a policy for providing compensation for damage or loss. This is because the policy is an agreement between the insurer and the assured that, once the assured dies within the policy period, the insurer will pay an amount of money in consideration

⁷⁹ *Ibn Qudama, Rawdatul Nazir (nd.) at 85*

⁸⁰ *Al-Zarqa, Mustafā, op. cit., at 60 also Alwan, Abdullah, Akhamal Islam fi al-Tameen, Egypt, 1987 at 12.*

⁸¹ *Al-Qur’an ch. 2:185*

A Family Takaful is not a gain or hoping for a chance, but it is a policy for providing compensation for damage or loss. This is because the policy is an agreement between the insurer and the assured that, once the assured dies within the policy period, the insurer will pay an amount of money in consideration of paid-premiums to the beneficiary(s) of the assured. Such a payment is like a compensation for the loss of opportunity of future earning by the breadwinner (assured) due to his death. To provide such compensation is like a mutual cooperation, which is commanded by Allah (SWT).

"... Cooperate one another in righteousness and piety..." ⁸²

6) A Family Takaful policy is similar to a retirement pension scheme. Al-Zarqa and al-Alwan apparently discovered that all contemporary scholars agreed on the validity of retirement pension scheme. ⁸³ Adil Salahi similarly acknowledged that

"All scholars and seats of Islamic learning approved of the concept of pension because it gives the subscriber security for himself and his Family in the difficult circumstances of his leaving work or in case of death." ⁸⁴

Salahi relying on his acknowledgement poses the question:

"Why should Family security be lawful in one system and not in the other when the method of operation is practically the same?" ⁸⁵

Relying on the above justifications it is admitted here that Family Takaful is like a retirement pension scheme (which had been widely introduced during the period of Sayiidana Omar (r.a) therefore, it is not unlawful transaction.

A Family Takaful policy is also justified based on the principle of necessity (Darurah). For example, it is an important task for the guardian to work for the welfare of his own dependents. It is in line with the tradition of the Holy Prophet (SAW) where he said to the effect:

"...It is better for you to leave your offs-spring wealthy than to leave them poor, asking others for help..."

⁸² *Al-Qur'an ch. 5:2*

⁸³ *Al-Zarqa, op. cit., at 62. See also al-Alwan, op. cit. at 13*

⁸⁴ *Salahi, Adil, supra*

⁸⁵ *Ibid.*

⁸⁶ *Sahih al-Bukhari, op. cit., at no 725*

It is also to be noted here that in the case of necessity that which is prohibited is also to be permitted in the Islamic discipline as Ibn Nawjeem stated in his book *al-Ashbah Wa al-Nazaira*,

“Necessity permits an unlawful act.” ⁸⁷

A Family Takaful policy of course does not allow for an unlawful transaction, rather, the principle of necessity allows it to be permissible.

A Family Takaful contract is a binding promise. In the light of Islamic jurisprudence, a promise either unilateral or bilateral, is in both situations binding as ordained in the Holy Qur’an:

“O ye who believe? Fulfill all agreements” ⁸⁸

According to Imam Malik (r.a), the founder of the Maliki School of law, every binding promise is lawful, therefore, every insurance contract contains a binding promise and thus it is lawful. In other words, in a Family Takaful contract, there is an agreement between the assured and the insurer which is a binding promise towards the protection of widows and orphans, from future material risk, and therefore such a binding promise makes a insurance contract valid.

A Family Takaful contract evolves elements of donation. This is because the assured pays regular premiums for the protection of his (beneficiary(s)); such payments of premium is like a donation for helpless people. Moreover, once the insurer pays an amount of money together with an additional amount from the charitable fund to the beneficiary(s) of the assured in consideration of the paid premiums it also involves element of donation. A donation is lawful in the Islamic jurisprudence as justified by the practices of the Prophet (SAW):

“The Prophet (SAW) used to accept presents (donation)” ⁸⁹

Relying on the above authority, it is analytically admitted here that a Family Takaful policy does involve elements of donation and therefore, such a policy is to be held lawful in the eyes of the Islamic discipline.

⁸⁷ *Ibn Najeem, op. cit., at 84*

⁸⁸ *Al-Qur’an, Ch. 5:1*

⁸⁹ *Al-Sanany, Mohammad, Subul Al-Salam, Vol. 1-3, 1987 at 90*

CONCLUSION

It is indeed submitted that, convention and Islam design different models of Family Takaful policies. There are many similarities in both systems, but both also diversify. In conclusion, I would like to summarize where the conventional and Islamic model are in contrast. Finally, I wish to express a hope for the future application of the Family Takaful policy. To summarize the results of the research: a Family Takaful policy under the Islamic model is a different one from life insurance, which is operated under the conventional system. A Life Insurance policy under the conventional system involves, inter alia, Ribā opposed to the principles of Mīrath and Wasīyah, payments of agents to be out of the paid premiums, etc. In contrast, a Family Takaful policy under the Islamic model is like a pension scheme, which is operated based on the principles of the al Mudhārabah financing techniques, does not clash with the principles of Mīrath and Wasīyah, as highlighted earlier, and also the payments for the agents to be paid by the insurer out of the profit made over the paid premiums. The insurable interest in life under the conventional system is to be vested to those who are not necessarily to be the heirs of the assured. In contrast, an insurable interest in life under the Islamic model should be vested to only those who are entitled to the property of the assured according to the principles of Mīrath and Wasīyah. The nominee(s) under the conventional system is an absolute beneficiary over the policy, whereas the nominee(s) under the Islamic model of a Family Takaful policy is nothing more than a trustee(s) who is responsible for receiving the benefits over the policy and distributing them among the heirs of the assured according to the principles of Mīrath and Wasīyah. analysis Research and the Commentary show that a Family Takaful policy under the Islamic model is different from the one which is operated under the conventional system. Hence, I would like to extend my humble request to the respectable Ulamā, who oppose a Family Takaful policy generally, that they may oppose the conventional Life Insurance, but not the one, which is designed under the Islamic model. It is my sincere hope that this article might enable the market to have no further doubt on the application of a Family Takaful policy. Islamic scholars could come up with a better model as an alternative to the existing Life Insurance operated under the conventional system for the noble purpose of ensuring further economic growth in contemporary Muslim society and particularly in this post-COVID era.

Social Value of Insurance in the Bangladesh Context

Dr. George E. Thomas

“Build an inclusive Social Security System (SSS) for all deserving Bangladeshis that effectively tackles and prevents poverty and inequality and contributes to broader human development, employment and economic growth”-Vision -National Social Security Strategy (NSSS) of Bangladesh.

Insurance contributes to society and economic growth in multiple ways. At the conceptual level, as a mechanism that shares risk and mitigates the economic impact of misfortunes from a common pool, insurance is of immense importance to everyone across the world. However, the value of the insurance mechanism can be contextual as well. To drive home the point with a mundane example, the value of a pair of shoes is known to everyone. However, the person who actually buys the pair of shoes might have a specific reason that may not be one of the common reasons. The reason for a worker in a paddy field to spend on a shoe would be different from that of a post man who has to traverse long distances in the sun. The shoe would be a status symbol for the executive in the boardroom, a fashion statement for the model on the ramp, a physical support for the crippled person and a life saver for the soldier.

Knowing that a utility can satiate different types of desires and serve different purposes in different contexts, it would be interesting to examine what the insurance mechanism means to the people of Bangladesh, who have a unique cultural heritage, an emerging economy, and a progressive society fighting valiantly to shake off the burden of repeated onslaughts of nature, an unfriendly terrain, and social inequalities.

Social Value of Insurance

The insurance mechanism allows risks to be managed efficiently. At an individual level, insurance provides protection to persons who are incapacitated by the loss of limb or faculty and unable to

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College of Insurance, Insurance Institute of India.

¹ The Social and Economic Value of Insurance, Eric Grant, The Geneva Association - https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/ga2012-the_social_and_economic_value_of_insurance.pdf

earn their livelihoods. It provides treatment costs in the context of accident or sickness. Certain policies take care of people's incapacity to pay off their loans due to death, disability and unemployment. Insurance provides sustenance to those who lose their livelihood due to the death of a provider as well as to crop and cattle death. Insurance indemnifies loss or destruction of assets, well are legal liabilities that can accrue against a person. It prevents people from avoiding the poverty trap, protecting domestic savings and providing old-age benefits. For a corporate worker a trader or a manufacturer, insurance takes care of loss or damage to movable and immovable property, vehicles, loss of profits, liabilities and more. At the sovereign level, it helps in relieving various burden scarried by the governments - for providing social protection via social security systems; rebuilding houses, structures and public utilities after natural or man-made calamities. Insurance facilitates trade and commerce, supports businesses and economic growth; it fosters an environment of loss mitigation, encourages efficient allocation of capital and promotes financial stability, and above all, enhances peace of mind. From an angle of societal protection, insurance pays when a catastrophe occurs. By way of nation building, insurance allows individuals and corporates to go forward, take business risks and contribute to the economy without being fettered by fears of the economic impact of accidents, misfortunes and such acts of God. At a personal level, insurance means financial security and peace of mind.

The Bangladesh Context

Any discussion on Bangladesh as a country should be cognizant of Article 15 of the Constitution of the People's Republic of Bangladesh, which states that it "shall be a fundamental responsibility of the State to attain, through planned economic growth, a constant increase of productive forces and a steady improvement in the material and cultural standard of living of the people, with a view to securing to its citizens" the basic necessities of life, including food, clothing, shelter, education and medical care; the right to work, that is the right to guaranteed employment at a reasonable wage having regard to the quantity and quality of work; the right to reasonable rest, recreation and leisure². In the context of this discussion, Article 15 provides the right to social security, including public assistance in cases of "want arising from unemployment, illness or disablement, or suffered by widows or orphans or in old age, or in other such cases".

Documents like Vision 2021, the Perspective Plan of Bangladesh 2010-2021, the National Social Security Strategy (NSSS) of Bangladesh,

² *Article 15 of the Constitution of the People's Republic of Bangladesh*

and the recent Five Year Plans indicate the strong resolve of the Government of Bangladesh to reduce poverty, improve human development and reduce inequality. Efforts are built on the firm foundations of the impressive past progress with poverty reduction. The Government is cognizant that a substantial part of the population that remains under the poverty line and those that are just above the poverty line, remain exposed to the poverty trap due to various vulnerabilities. The Government is also clear that this poor and vulnerable group that cannot cope with all the downside risks and shocks with their own resources, need to be substantially reinforced by addressing the root causes of poverty and by lowering the impact of risks faced by the poor and vulnerable population. Research studies ³ point out that the growth pattern in Bangladesh generates inequality, limiting the full impact of economic growth on poverty reduction. The relative strength of the inequality component over the growth component also reveals the extent of trade-offs between them. The Government of Bangladesh is aware of this challenge and is cognizant of the power of insurance to reduce social inequality ⁴. The Government is also aware of the inequality in social and economic outcomes exists among the geographic regions, and that “children in these areas are unable to undergo continuous education, mainly owing to economic deprivation and social inequalities arising from their geographical isolation”, and also that Information and Communication Technology (ICT) can be used to overcome barriers of social, economic and geographical isolation, increase access to information and education, and enable poor people to participate in more of the decisions that affect their lives ⁵.

Demographic Progress

Bangladesh has seen considerable Demographic progress as indicated below ⁶ :

³ *Regional variation in maternal and childhood undernutrition in Bangladesh: evidence from demographic and health surveys (2015)* Masuda Mohsena, RieGoto, CG Nicholas Mascie-Taylor, *WHO South-East Asia Journal of Public Health*, July-December 2015, <http://origin.searo.who.int/publications/journals/seajph/issues/seajphv4n2p139.pdf>

⁴ *Ibid.*

⁵ *Bangladesh: Poverty Reduction Strategy Paper, IMF Country Report No. 05/410 November 2005* International Monetary Fund

⁶ *Australian Aid - Social Security Policy Support (SSPS) Programme Cabinet Division and General Economics Division Government of Bangladesh - <http://socialprotection.gov.bd/wp-content/uploads/2018/11/Social-Insurance-and-Its-Prospects-in-Bangladesh-Draft.pdf>*

- Life expectancy at birth as well as the old age population have increased well above Middle Income Countries (MIC)
- Mortality Rates - Maternal, infant and child mortality; fertility rate; and population growth rate have reduced better than MIC levels. Universal child immunization and sanitation are regarded as at par with some developed countries.
- Gender parity in primary and secondary education has been achieved. Participation of women in labour, industry, agriculture, remittance, service sector, power structure, administration, defense, law and order, and legislative bodies have increased.
- Socio-economic indicators have improved - Per capita annual income level (crossed the US\$ 1,751 mark) has increased; the size of the economy has nearly doubled in the last 6 years (US\$ 173 bn. in 2014 to 348 bn. est. in 2020); the GDP growth is stable at above 6%, the proportion of GDP increased from 2.1% in 2014 to 2.6% in 2019; Poverty was reduced from 40% in 2014 to 21.8% in 2018; and Hardcore Poverty was reduced from 25.1% in 2014 to 11.3% in 2018.
- Social Security benefits are availed by around 40.0 million people, translating to 28% of the whole population and 34.5% of the rural population, as per 2018 data; while 'Universal Pension for All' is a declared goal of the nation;
- Other Positive Indicators: As the schemes and programme started yielding results, on the one hand, some programs could be withdrawn. Donor dependency was reduced over the years and the total aid flow to Bangladesh stand at approximately 1.8 percent of its GDP. On the other hands, Governmental investment in the total social security budget is increasing. The Australian Government has provided an estimated \$70.1 million in total Official Development Assistance (ODA) to Bangladesh ⁷ in 2019-20. Bangladesh is modernizing quickly, and the annual economic growth is averaging 6 percent over the last 10 years. A range of investments is improving Bangladesh's social protection systems, increasing the productive capacity of the poor and assisting extremely poor women to find pathways out of poverty. These programs, providing people with cash transfers, productive assets, training and access to free health services has increased the income-earning capacity of poor communities. The Bangladesh Rural Advancement Committee (BRAC) works with various donors for helping women,

⁷ Overview of Australia's aid program to Bangladesh – Australian Government -<https://www.dfat.gov.au/geo/bangladesh/development-assistance/Pages/development-assistance-in-bangladesh>

young people and people with disability, and improves their skills to get them employed in alignment with Bangladesh labour market demands.

Social Value for Bangladesh

In the Bangladesh context, the social value of Insurance has been built upon multiple pillars. From the time of its visionary Prime Minister Bangabandhu Sheikh Mujibur Rahman, the country has been aware of the power of the insurance mechanism. During the last four and a half decades, the Bangladesh government has received the technological knowhow of social development and social welfare from the world's best entities and been able to translate many ideas into tangible realities through consistent action plans. Some areas where the social value of Insurance is significant are discussed below.

Circular relationship

In developing countries, as their economies expand, individuals and business seek to manage their new risk exposures and the insurance industry grows. An increase in the presence and availability of insurance is actively encouraged in order to stimulate economic growth. This relationship of the insurance sector, the insurance market size and the economic growth,⁸ is more pronounced in life insurance. A study⁹ that drew data from 56 countries from 1976 to 2004 found strong evidence of a causal relationship between insurance market activity and economic growth. This indicates that Bangladesh market would be witnessing an upsurge in insurance sales, especially life products.

Positive impact of Growth

The insurance mechanism, being an integral component of global asset management and investment, increases long-term investments in developing countries. These investments usually are channeled into the more productive sectors of the economy - creating more jobs, alleviating poverty, creating new asset classes causing more insurance purchases.¹⁰ In the emerging Bangladesh market, life insurance assets can provide the basis for investments in long-term projects. Infrastructure investment, for instance, is regarded as potentially important new asset class that can generate reliable, long-term income

⁸ Life insurance and economic growth: Theoretical and empirical investigation, Soo, H.H. (1996), ETD collection for University of Nebraska – Lincoln - Paper AAI9712527

⁹ Does Insurance Market Activity Promote Economic Growth? A Cross-Country Study for Industrialized and Developing Countries, Working Paper– Marco Arena (2006), World Bank.

¹⁰ Addressing the Challenge of Global Ageing - Funding Issues and Insurance Solutions, Editorial and Executive Summary, P.M. Liedtke and K.-U. Schanz (eds.) The Geneva Reports N°6, Geneva: The Geneva Association.

and serve to pay the pensions of rapidly ageing populations.¹¹ These contribute to developing clean energy and eco-friendly projects, in some markets.

Community Based Organizations (CBO) and Mutuals morphing into Insurance

Traditional communities, seek to manage the possible financial consequences of risk by grouping themselves as affinity based communities (e.g. families, villages, craft or trade organizations), and pay into a common fund, from which any suffering member would be paid. Such mutual assistance systems exist in many developing countries, where the formal insurance mechanism does not reach those beyond the mainstream. Unless scientifically managed and well governed, such organizations tend to fail when the society regroups and societal values change when the economy grows. Instances of multiple family members and factory workers falling sick together or within short time frames; the common fund not being enough to cover the losses and unable to protect the community, demolishing the very basis of the CBOs have been observed. In countries like India, these traditional mechanisms got ignored by the rule makers. Opinions differ on the reasons for this allegedly to ignore them so that they wither away in the absence of enabling legislations, or as an act of benign negligence, allowing CBOs to prosper unfettered by laws based on the strengths of their respective affinity groups. Mutual assistance schemes and trade organizations that are unable to withstand risk exposures, and incapable of putting aside money to protect against the vagaries of life, and potential catastrophes have sometimes evolved into commercial insurance companies¹². In fast growing Bangladesh, with new jobs and new migration practices, family members get regrouped, factory workers get regrouped and the management of traditional CBOs can be under strain. In such situations, commercial insurers need to realize that the failure of CBOs cannot accrue to their benefit and that they will not be able to reach out and capture the market served by them. In Bangladesh, the CBO model variants dealing with micro-insurance, founded on Takaful/ Sharia principles exist as part of the socio-religious fabric. Insurers should rather, try to create enabling legislations and market models so that they can co-exist with CBOs for mutual benefit and preserve them for mutual benefit.

¹¹ Committee on the Global Financial System (2011) Fixed income strategies of insurance companies and pension funds, CGFS Papers N° 44, BIS; and The Social and Economic Value of Insurance, Eric Grant, https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public//ga2012-the_social_and_economic_value_of_insurance.pdf

¹² The Social and Economic Value of Insurance: A Primer. Zurich Government and Industry Affairs, Zurich(2011)

Long-Term Care (LTC)

Like their developed country counterparts worldwide, populations in developing countries tend to live longer lives. This trend and the higher disposable income has created a higher need for Long-Term Care (LTC). Here, the Government needs to strike a delicate balance and make LTC products attractive to both parties – premiums should be low enough to make it acceptable to consumers but not too low as to be detrimental to the insurer¹³. With the increased longevity and higher income trends in Bangladesh, conscious efforts are required to design products that are of use to the ageing, physically vulnerable and socially isolated population.

Rising Healthcare Costs

Governments have the responsibility of protecting citizens from several kinds of misfortunes. One of the foremost causes of poverty is the treatment cost one has to bear for accidents and sicknesses. Costs for healthcare for oneself or a family member can often ruin people's lives and fortunes. Governments try to create free or low-cost healthcare infrastructure so that citizens can access and afford healthcare with their limited means. As economies develop, creating and maintaining healthcare infrastructure to suit the growing needs and tastes of the new middle class become challenging for governments. Governments often subsidize healthcare costs heavily to keep them affordable and accessible to the population. While providing hospitals, primary care centers, midwifery and child-health centers can never go off a Government's list of actionables, it also needs to provide for those who can afford better facilities at higher costs. While the rich may not have a worry about this expenditure, the middle-class loses its sleep over healthcare costs. The upwardly mobile Bangladeshi needs better healthcare than what the Government can provide; he needs the money to take care of his medical expenses, if and when they come up. Health insurance giving diverse kinds of benefits appears the only solution.

Migrant Population

While migrant workers within the country pose a set of problems for the civic administration, the Government of Bangladesh has the unique responsibility of protecting its citizens who have migrated to practically every nook and corner of the world. The migrant workers in other countries are special for Bangladesh; they bring in precious foreign exchange and prosperity to the country-side, change livelihoods and lifestyles, widen the country's outlook, create hopes in the younger generation and makes the population feel equal to those in the rich and developed parts of the world. They are precious for the young country and their growing aspirations have been

¹³ Insurance as a solution to cover long-term care needs, Courbage, C. (2012), Addressing the Challenge of Global Ageing-Funding Issues and Insurance Solutions, The Geneva Reports N°6, The Geneva Association.

addressed. The Covid-19 pandemic situation has caused migrants to flee back to their countries and Bangladesh has been at the receiving end of the exodus from different countries. Bangladesh, like many other emerging economies facing returning migrants, has seen the fragile under-belly of its forex earners exposed during the pandemic situation. New challenges in the form of treatment expenses in multiple countries, loss of jobs, missing flights, lost baggage, conducting funeral rites, getting death certificates, transporting mortal remains, lost livelihoods of the families, unpaid debts and mortgages, business losses in foreign lands – the Country has braved it all. It is for the insurers to address these challenges optimally.

Disasters

When natural or man-made disasters occur, governments are expected to provide financial assistance to restore livelihoods and help people return to normalcy. In situations like industrial explosions, capsizing of boats, or houses being ravaged by cyclones; governments in developing countries bear the costs for treating injuries, extend financial support to families of the dead and provide assistance for rebuilding assets. Providing such protection comes at huge direct costs for the government and the tax-payers. The case for the government to bear such costs emanate from the absence of ex-ante risk management measures, both at the individual and sovereign levels. In scenarios where risks are transferred from the individual or to any collective risk-sharing mechanism, the financial responsibility of the government gets reduced. Statistics teach us that the cost of risk gets reduced when more people share the risk, which in turn acts as an incentive for more people to share the risk. In the Bangladesh context¹⁴, where substantial government funds get utilized for repairing, building and rebuilding after natural calamities, it is important to foster insurance mechanisms to prevent unplanned expenditure of the exchequer and preserve Government money for addressing the development needs of the country.

Bancassurance

Bancassurance is essentially a partnership between an insurance company and a bank, by which the insurance company is able to sell its products to the bank's customers through the banking network. This arrangement helps the bank in providing better customer satisfaction by providing its customers access to additional financial services. It also helps the bank gather additional revenues by selling insurance products. Bancassurance is the simplest way of distribution of insurance products through a bank distribution channel. As described above, extending the benefits of insurance to more and more people provides substantial benefits for governments as well. Many financial institutions including insurance companies in multiple geographies have used the Bancassurance

¹⁴ Challenges, Prospects and Role of Insurance on Economic Growth in Bangladesh - Mohammad Ali, Department of Business Administration in Management Studies, Bangladesh University of Professionals. IIUM Journal of Case Studies in Management: Vol.11, No.1: 20-27, 2020

mechanism as part of their marketing strategies. Bancassurance, tries to exploit synergies between both the insurers and banks, by increasing revenue diversification for the bank, and bringing greater volume and profit for both players. For customers, the bank becomes a one-stop-shop for all financial needs and provides convenience, contributing to the growth of bancassurance across the world. Though Bancassurance is not practiced in some countries, the global trend is toward the liberalization of banking laws and allowing financial institutions to market across traditional jurisdictions.

Bangladesh has a thriving banking sector and a vibrant and upcoming insurance sector. It would be beneficial to insurers, banks, customers of both institutions, the government and the public at large if banks and insurers can collaborate to spread the benefits of insurance to many more people of the country.

The Future

In a span of 4 decades, ¹⁵ “Bangladesh has proved that with commitment and determination of the government and the people, a country can come out of poverty and emerge as a low middle-income country”. Bangladesh is one of the largest beneficiaries of the World Bank’s International Development Association (IDA) that provides concessional credit to poor countries. (The World Bank’s portfolio in Bangladesh stands at \$11.6 billion.) The World Bank support is continuing in the forms of ¹⁶ (a) Unconditional Cash Transfers as old age allowances, allowances for the widows, destitute and deserted women and allowances for the financially insolvent disabled, (b) Public Works – under the employment generation program for the poorest, food for work, work for money and test relief schemes, (c) Humanitarian Relief - vulnerable group feeding and (d) Conditional Cash Transfers such as Towards a Child Benefit Scheme and the Income Support Program for the Poorest (Jawtno Cash Card) as well as through various capacity development programs. The World Bank and the Bangladesh Government recognize that ¹⁷ a “robust private sector, conducive business climate, skilled labor force, efficient infrastructure along with the right policies and quick actions” are critical for its growth.

15 Globally Bangladesh is a Model for Poverty Reduction: World Bank - Hartwig Schaffer, Vice President for South Asia, World Bank - <https://www.worldbank.org/en/news/press-release/2020/01/29/globally-bangladesh-is-a-model-for-poverty-reduction-world-bank>

16 Social Safety Nets in Bangladesh Help Reduce Poverty and Improve Human Capital, Feature Story, 29 April 2019, World Bank - <https://www.worldbank.org/en/news/feature/2019/04/29/social-safety-nets-in-bangladesh-help-reduce-poverty-and-improve-human-capital>

17 Ibid.

In the Financial Year 2019, the Government has allocated a budget of around BDT 642 billion, equal to 2.5 percent of the Gross Domestic Product (GDP), for a wide spectrum of social programs, of which around BDT 372 billion is for implementing safety net programs. These are in the form of cash allowances, public works, and education and health incentives for poor and vulnerable households, for the purpose of fighting against poverty and improving human capital as per globally recognized classifications and parameters.

In the new normal after the Covid-19 situation, the Hon'ble Prime Minister of Bangladesh, Sheikh Hasina announced a special insurance and stimulus package for doctors and nurses of government hospitals, health officials, field administration officers, law enforcers and relief workers for their frontline roles in the fight against coronavirus, Minister's words , the "aim of our programmes is to provide support to more than half of the country's population who are in need of aid and thus facilitate their transformation towards middle income status."The fact that the Government is aware of its social commitment and that it believes in the social value of Insurance in Bangladesh is easily visible in these statement.

Impact of Covid-19 Pandemic on the Insurance Industry and need for Strategic Management

Kazi Md. Mortuza Ali, ACII

Introduction

The Director General of World Health Organization (WHO) in his foreword of 14-04-2020 in the “Strategy Update” said that pandemic was much more than a health crisis. It required a whole-of-government and whole-of-society response. Sacrifice of frontline workers and many others must be matched by every individual in the society and every political leader to put in place the measures to end the pandemic as soon as possible. The coronavirus disease 2019 (COVID 19) pandemic is exacting a huge toll on individuals, families, communities, and societies across the world. Daily lives have been profoundly changed, economies have fallen into recession, and many of the traditional social, economic, and public health safety nets that many people rely on in times of hardship have been put under unprecedented strain.

In many countries where community transmission has led to outbreaks with near exponential growth, countries have introduced widespread population -level physical or social distancing measures and movement restrictions in order to slow spread the and set in place other control measures. Physical distancing measures and movement restrictions, often referred to as “shut downs” and “lock downs,” can slow COVID-19 transmission by limiting contact between people. However, these measures can have a profound negative impact on individuals, communities, and societies by bringing social and economic life to a near stop. Therefore, countries must do everything they can to stop cases from becoming clusters and clusters from becoming explosive outbreaks. They must put in place the capacities for testing and diagnosis, isolation, contact tracing and quarantine; effect they must engage everyone in the response.

Each country must continue to implement National Action Plans based on a whole-of-society approach and a realistic appraisal of what is feasible to achieve first in terms of slowing down transmission and reducing mortality,

Director General, Bangladesh Institute for Professional Development.

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and subsequently in terms of sustaining low level transmission while society and economic activity resumes. Plans must be flexible enough to react to rapidly changing epidemiological situations in different parts of the country, and take into account the local contexts and capacities to respond. Every country must put in place comprehensive public health measures to maintain a sustainable steady state of low-level or no transmission and have the surge capacity to rapidly control sporadic cases and clusters of cases to prevent community transmission from occurring. If community transmission occurs, exceptional measures will need to be taken to suppress transmission as quickly as possible and transition back to a steady state of low-level or no transmission. This approach needs to be applied at the lowest administrative level possible in each country to ensure a tailored and appropriate response depending on the situation and capacities to respond.

The unique scale of the COVID-19 crisis requires the international community to reach out beyond its own capacity. The private sector has been actively engaged in the response, with high-level regular participation on the pandemic organized by industry bodies such as the World Economic Forum and the International Chamber of Commerce.

The global response to the COVID-19 pandemic requires the capacity to conduct ongoing risk assessment at the global, regional, national, and sectoral levels. Coordination and the combination of efforts will be critical to collective success. Individual and isolated action, however dedicated and determined, will not be sufficient to meet the current challenge of COVID-19. In order to be successful we will need to pool, build, and pass innovation from strength to strength. (1)

This will require proactive and well intentioned coordination rather than more passive monitoring and reporting of activities. It is important to keep in mind the breadth and depth of consequences already being felt across the globe. We must learn the lessons of this pandemic now and, in so doing, ensure that insurance sector's response, what ever possible will have a lasting positive legacy, and help the world of the future as a safer place to live and means of financial protection in every sphere of citizen the every sphere of their livelihood.

1. *WHO-Covid-19 Strategy Update (April-2020)*

Bangladesh Scenario

In response to the COVID-19 pandemic, the Government of Bangladesh (GoB), declared special general leave from 26 March to 5 May 2020 at four different times creating confusion among the most socioeconomically vulnerable groups in the country. However, the lockdown and the social distancing strategy in a densely populated country are not working in Bangladesh. For instance, in a funeral of a religious leader on 18 April 2020, more than 100000 people gathered violating the lockdown order, and the administration failed to address the situation. This is just one example. There are many other incidents where a situation like this has occurred.

During a pandemic, a humanitarian crisis may arise in a developing country like Bangladesh. In most incidents, it will be the combined effects of a variety of shortages that will very likely to culminate in the worst outcomes. This can lead to a shortage of basic needs including foods, goods and services such as job loss, economic and financial loss, food insecurity, famine, social conflicts and deaths. Besides, an impact on the psychosocial and socio-economic and health and wellbeing of the citizens may be affected. Whilst predicting all the subsequent impact of the COVID-19 pandemic is challenging, early strategic planning and groundwork for the evolving and established challenges will be crucial to assemble resources and react in an appropriate timely manner. We will, therefore, focus on the public perception of comparative lockdown scenario analysis and the strategic management regime of COVID-19 pandemic in Bangladesh socioeconomically.

Who-Covid -19 Strategy Update (April-2020)

As there is no prediction on how long the situation prevails, the absence/ lack of management strategy for epidemiological and socio-economical emergency response, it might be useful to assess the forthcoming situation under a set of specific scenarios. According to a survey result, it has been revealed that “Lockdown” is an unfamiliar word or term to the people of Bangladesh. People recommended to use a more familiar term “curfew” to maintain strictly for 50-60 days and there is no alternative to reduce COVID-19 transmission. In total, 78.6% of the respondents agreed that community transmission of COVID- 19 will increase due to the people’s movement and mass gathering. Whereas, approximately 73% of respondents agreed that deep analysis of the situation is required and go for full lockdown up to 60 days with the relief support to the poor and the most vulnerable. Overall, the respondents had a positive view about lockdown. Many people expressed their disappointment towards the extreme corruption of the healthcare sector and that it has collapsed before the COVID-19 pandemic. Respondents also suggested the government to consider biomedical waste management for reducing further environmental transmission.

Long-Term Care (LTC)

Like their developed country counterparts worldwide, populations in developing countries tend to live longer lives. This trend and the higher disposable income has created a higher need for Long-Term Care (LTC). Here, the Government needs to strike a delicate balance and make LTC products attractive to both parties – premiums should be low enough to make it acceptable to consumers but not too low as to be detrimental to the insurer¹³. With the increased longevity and higher income trends in Bangladesh, conscious efforts are required to design products that are of use to the ageing, physically vulnerable and socially isolated population.

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While migrant workers within the country pose a set of problems for the civic administration, the Government of Bangladesh has the unique responsibility of protecting its citizens who have migrated to practically every nook and corner of the world. The migrant workers in other countries are special for Bangladesh; they bring in precious foreign exchange and prosperity to the country-side, change livelihoods and lifestyles,

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widen the country's outlook, create hopes in the younger generation and makes the population feel equal to those in the rich and developed parts of the world. They are precious for the young country and their growing aspirations have been addressed. The Covid-19 pandemic situation has caused migrants to flee back to their countries and Bangladesh has been at the receiving end of the exodus from different countries. Bangladesh, like many other emerging economies facing returning migrants, has seen the fragile under-belly of its forex earners exposed during the pandemic situation. New challenges in the form of treatment expenses in multiple countries, loss of jobs, missing flights, lost baggage, conducting funeral rites, getting death certificates, transporting mortal remains, lost livelihoods of the families, unpaid debts and mortgages, business losses in foreign lands – the Country has braved it all. It is for the insurers to address these challenges optimally.

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¹⁶ Social Safety Nets in Bangladesh Help Reduce Poverty and Improve Human Capital, Feature Story, 29 April 2019, World Bank - <https://www.worldbank.org/en/news/feature/2019/04/29/social-safety-nets-in-bangladesh-help-reduce-poverty-and-improve-human-capital>

stands at \$11.6 billion.) The World Bank support is continuing in the forms of ¹⁶ (a) Unconditional Cash Transfers as old age allowances, allowances for the widows, destitute and deserted women and allowances for the financially insolvent disabled, (b) Public Works – under the employment generation program for the poorest, food for work, work for money and test relief schemes, (c) Humanitarian Relief - vulnerable group feeding and (d) Conditional Cash Transfers such as Towards a Child Benefit Scheme and the Income Support Program for the Poorest (Jawtno Cash Card) as well as through various capacity development programs. The World Bank and the Bangladesh Government recognize that ¹⁷ a “robust private sector, conducive business climate, skilled labor force, efficient infrastructure along with the right policies and quick actions” are critical for its growth.

In the Financial Year 2019, the Government has allocated a budget of around BDT 642 billion, equal to 2.5 percent of the Gross Domestic Product (GDP), for a wide spectrum of social programs, of which around BDT 372 billion is for implementing safety net programs. These are in the form of cash allowances, public works, and education and health incentives for poor and vulnerable households, for the purpose of fighting against poverty and improving human capital as per globally recognized classifications and parameters.

In the new normal after the Covid-19 situation, the Hon’ble Prime Minister of Bangladesh, Sheikh Hasina announced a special insurance and stimulus package for doctors and nurses of government hospitals, health officials, field administration officers, law enforcers and relief workers for their frontline roles in the fight against coronavirus, underscoring the importance of the insurance mechanism in social security.¹⁸ In the Prime Minister’s words ¹⁹, the “aim of our programmes is to provide support to more than half of the country's population who are in need of aid and thus facilitate their

¹⁷ Ibid.

¹⁸ PM unrolls package for informal sector workers – The Business Standard - <https://tbsnews.net/bangladesh/pm-announces-tk750cr-insurance-tk100cr-incentives-covid-19-frontline-fighters-68722>

¹⁹ Prime Minister’s message on the occasion of releasing the National Social Security Strategy (2015) - <https://www.undp.org/content/dam/bangladeshdocs/Projects/NS-SS/National-Social-Security-Strategy-English.pdf>

transformation towards middle income status.”The fact that the Government is aware of its social commitment and that it believes in the social value of Insurance in Bangladesh is easily visible in these statement.

Note: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the organization(s) being represented by the author.

and that efficient incinerator to be built for the hospital waste management. The respondents also suggested the government to maintain the retail and wholesale kitchen market/ bazaar of any area with maintaining the guideline of social distancing.

As there is no prediction on how long the situation prevails, the absence/ lack of management strategy for epidemiological and socio-economical emergency response, it might be a tool to assess the forthcoming situation under a set of specific scenarios. According to a survey result, it has been revealed that “Lockdown” is an unfamiliar word or term to the people of Bangladesh. People recommended to use a more familiar term “curfew” to maintain strictly for 50-60 days and there is no alternative to reduce COVID-19 transmission. In total, 78.6% of the respondents agreed that community transmission of COVID- 19 will increase due to the people’s movement and mass gathering. Whereas, approximately 73% of respondents agreed that deep analysis of the situation is required and go for full lockdown up to 60 days with the relief support to the poor and the most vulnerable. Overall, the respondents had a positive view about lockdown. Many people expressed their disappointment towards the extreme corruption of the healthcare sector and that it has collapsed before the COVID-19 pandemic. Respondents also suggested the government to consider biomedical waste management for reducing further environmental transmission and that efficient incinerator to be built for the hospital waste management. The respondents also suggested the government to maintain the retail and wholesale kitchen market/ bazaar of any area with maintaining the guideline of social distancing.

The poor community in Bangladesh, as in elsewhere always lacks food and nutrition due to the injustice and corruption by the local or regional level of social/political leaders. Therefore, the vulnerable groups such as disabled and disadvantaged persons, young children and orphans, and aged citizens should be taken under protection for their wellbeing. Doctors, bankers, insurers, grocers, police, armed forces are the most vulnerable

profession to the COVID-19 infection. Therefore, it is necessary to bring those groups under insurance schemes. The COVID-19 pandemic has the most effects on vulnerable populations, ranging from good health and well-being to quality education worldwide. The crises in achieving clean water and sanitation targets, weak economic development and the absence of insurance cover will increase overall inequality. Consequences of the education, human rights, and, in the most extreme cases, fundamental food security and socio-economic security will worsen further.

Micro financing the poor will bring little good as it will empower the rich organizations. According to the World Bank report (2020) prolonged and broad national lockdowns will bring a negative growth rate of the economy in Bangladesh and other South Asian countries in 2020 due to the COVID-19 pandemic. This negative growth rate will continue in 2021. Along with the pandemic disease, the seasons of natural disasters from cyclones, tidal floods, flash floods, and landslides of monsoon seasons should be considered to prepare for the emergencies. All these will further aggravate the humanitarian needs of the most vulnerable groups in the country. As the health sector is the most strained at present, it will affect the targets of sustainable development goals of 2030. (2)

The government of Bangladesh has already mobilized a noteworthy stimulus package to support the affected industries and community which needs to be well coordinated. However, this package should also include research and innovation in the most needed risk management, catastrophe management and development of Insurance sector. There is no alternative to strengthen the health care facilities and preparedness for the potential humanitarian crisis. Moreover, humanitarian support should reach the most vulnerable communities which need to be targeted, outlined, and delivered. Finally, economic implications should be subjected to the spatial and geographical locations based on the vulnerabilities.

Overall Impact on the insurance industry

In common with many sectors, the immediate impact of the COVID-19 epidemic is forcing the insurance industry to rapidly pivot entire organizational structures in a very short time. Insurers around the globe are having to retool to allow their employees to work from home while at the same time manage a massive influx of claims across some product lines, such as business continuity and travel, while others such as automobiles are seeing a sharp slowdown as many vehicles remain parked. As an immediate impact,

many insurers are trying to conserve capital to meet higher levels of claim outlays and mitigate any near-term fall in premium income. This will inevitably mean some ICT spend will be affected. It is the longer-term effects on the insurance industry that are likely to be the most profound impact of COVID-19, particularly highlighting the need for the sector to accelerate its drive toward far greater digitization. The failure of most of the insurance industry to keep pace and offer a digital customer experience comparable with that of many other sectors exposes them to a renewed threat from new entrants when the world eventually returns to some normality. (3)

While many insurers have invested significant time and money in transforming themselves into digital organizations, the sector has tended to remain stubbornly self-referencing with insurers continuing to compare themselves to their immediate peers rather than looking at what other industries are delivering in terms of a comprehensive digital customer experience. While not underestimating the challenge of the task, insurers have tended to see delivering a seamless and valued customer experience across multiple channels as a relatively low priority. The insurance industry's digital shortcomings will become more apparent to their customers as they try to make claims requiring documentation, assessments, or other forms of proof that are simply not feasible for a periodworld in lockdown and prolonged pandemic situation. As a consequence, insurers will be forced to reassess and, in many cases, accelerate the digital transformations of their operations, especially the claims process. This is because, if for more policyholders will have become accustomed to managing their lives online and will expect insurance to be no different. While these are valid concerns, ICT developments, particularly machine learning is making automation of much of the claims process possible. There are many examples of this, such as accurate repair estimation from images or video, and recent developments in fraud detection platforms offer protection from even the most sophisticated professional fraud schemes.

A related long-term impact of COVID-19 is that of the insurance industry's reputation with consumers and governments. Therefore, insurers need to take a broader view and cover some business losses. This is a difficult balance for insurers as the huge claim values would have a potentially massive impact on the profitability of the insurance and reinsurance industries. However, there is a real danger that the insurance industry will be seen as the villain for not acting with a sense of social responsibility in this time of crisis. This could be the perfect storm for the industry and a poor reputation that lingers

3 *Omida-Evaluating the impact of Covid-19 on Insurance Sector Technology*

in the mind of consumers. A potential regulatory backlash coupled with a poor customer experience could have reverberations long after the immediate crisis has passed. This growing distrust about insurers and their failure to offer a convenient and simple experience to their consumers could provide enough impetus for the overall development of insurance industry throughout the world.

It is apprehended the financial effect of coronavirus upon insurance to be specific to the circumstances of each enterprises the classes and mix of business they underwrite their pricing and reserving policy wordings and reinsurance overages. There will be some time lag for insurance claims to be notified to insurers, assessed and paid. Insurers need to commence the process of evaluating their claims reserves in light of the current circumstance and it is expected that this will be on-going as fact patterns emerges. Insurers with well diversified risk portfolios will be the most insulated from losses arising from coronavirus. (4)

Social distancing systems put in place by governments to help slow the spread of COVID-19 may lead to increased losses by impeding preparation before a storm or recovery after a storm. For example, social distancing requirements may make it difficult for property owners to purchase window coverings or sandbags to mitigate damage before a storm. Further, homeowners or builders may not be able to access properties to commence reconstruction after the storm, thereby leading to increased losses. COVID-19 has increased the likelihood of catastrophe losses occurring. Therefore, reinsurers expect to pay a higher volume of claims in 2020 than they would have paid if the same tropical cyclone had occurred in 2019. Homeowners and business owners, however, are still covered within the context of their insurance policies—that is, their policies will still pay to cover the actual costs to repair their property. Within the context of COVID-19, the indemnity insured are still able to cover all their costs, and the insurer or reinsurer must bear the additional burden.

The impact of COVID-19 is a systemic form of basis risk for the parametric insured—the difference between the payouts and the needs of the insured—and it may lead to protection gaps for relatively high-frequency events. Many countries have reallocated their budgets to cover other losses caused by COVID-19, and similarly they may have exhausted existing lines of contingent credit to support their economies—thereby further widening the funding gap. Countries in disaster-prone regions like

4 *Deloitte- Understanding the Sector impact of Covid-19 (Insurance), March-2020*

Bangladesh now have less capacity to absorb shocks, which leads to an increased risk of people falling into poverty should they be affected by a tropical cyclone as flood.

Challenges and opportunities of insurance industry

The COVID 19 crisis continues to have a significant impact on individuals, society, business, and the wider economy across the globe. The insurance industry has not escaped its impact but insurers have responded to the crisis. As the economy recovers and responds to the pandemic, Insurers will face a number of challenges but also see many new opportunities in the to long term. The impact on general insurers will vary depending on the products and types of coverage offered by the insurers. The pandemic has taken a toll on new premiums on certain lines of business, such as travel, events, and trade credit insurance, and losses from these lines of business may become significant. Other lines of business such as motor and home will remain relatively stable with COVID-19's significant impact on economic activity and employment levels at a local, regional and global level, consumer spending power has reduced significantly over a short period. Insurers are responding with payment breaks in an effort to stem a potential large level of lapses. Coupled with the reduction in consumer spending power is the impact of market volatility and general uncertainty on consumer confidence and, therefore, on willingness to spend. Life insurers expect this to translate into significantly lower new business volumes for a period of uncertain duration. Broadly, health insurers operationally have experienced some of the resilience challenges that non-life and life insurers have faced. Expectations are that digital capabilities to support remote medical consultations will gain further investment in light of self-isolation rules. Medium-term governmental spending on health is expected to greatly increase in light of the crisis, and the fears experienced across society may drive higher penetration of private health insurance in the long run.

Reinsurers will be affected in much the same way as insurers, although their impacts will be more pronounced on the demographic side for those business lines more heavily reinsured. On the Life and Pensions business, reinsurers' expectations of loss will depend on the evolution of mortality rates and how this will impact their respective overall books of business, given annuities potentially a natural hedge against term life covers. (5)

5. *Deloitte- Impact of Covid-19 on the Insurance Sector (april-2020)*

Customers will be under financial pressure arising from job losses or income reduction. The economic and broader societal activity downturn will impact insurers' financial performance. Investment income and interest rates and overall market volatility will impact profitability and growth prospects. Insurers will be experiencing liquidity and solvency challenges and considerations. Larger volume of claims in certain areas is expected and will need to be processed efficiently and securely amid crisis circumstances. The impact of COVID-19 on insurers' profitability will focus on expenses and the wider cost agenda. There may be medium-to-long term implications of customers' perception of and 'use' of insurance. Insurers will have to consider impacts on their brand asset with customers, intermediaries and other key stakeholders. This is a challenge for both individual insurers and the industry as a whole. Insurers will have to assess their long-term strategy as the society and economy emerge from the pandemic. Insurers have had to pay close attention to promoting the right behaviours and culture to deliver good customer outcomes and minimizing any potential regulatory exposure.

The COVID-19 crisis could accelerate some paradigm shifts and new insurance opportunities. Despite pandemics being known as a peak risk, the crisis is raising awareness for the value of insurance across lines of business and client groups globally. Pandemics will not be fully insurable, but the COVID-19 crisis will raise awareness of the associated financial risks and spark innovation for new covers. Lockdowns and the implementation of social distancing rules has highlighted the importance and value of digitalisation through all steps of the insurance value chain. Distribution models need to be digitised to continue selling. Usage-based insurance products are likely to become more attractive as they adjust quickly to changes in behaviour or turnover. Furthermore, approaches to digital claims handling and loss adjustment will become more important in order to continue to settle claims efficiently in the environment of restrictions on mobility. The pandemic has highlighted the risk of non-diversified supply chains. While supply chain redundancy, near and back-shoring will make them more costly, these changes will also provide insurance growth opportunities in countries where new productions are located, including in property, engineering and surety lines of business.

Against this background, and with Asian countries expected to recover more quickly, it is believed that the ongoing shift in global insurance market opportunity to emerging Asia and China in particular, will continue. It is expected that China's share of global premiums will continue to rise rapidly to an estimated 18% in 2030, still only half the share of the US.

However, excluding medical insurance premiums, China remains on track to become the largest insurance market globally by the mid-2030s. By then India, another emerging giant, will also be among the 10 largest insurance markets of the world. The emerging economies, led by China, will underpin the insurance market comeback. It has been forecasted that.

- Global insurance premium volumes will recover to pre COVID-19 crisis levels in 2021
- Insurance demand will slow sharply in 2020 due to the pandemic; global life premiums will contract by 6% and non-life by 0.1%
- In life, saving products will be hardest hit; in non-life, travel and trade related lines will suffer most.
- Led by China, emerging markets will underpin global market strength with total premiums up 1% this year and 7% in 2021.
- Rate hardening in commercial lines will support profitability in non-life; rising risk awareness due to COVID-19 will support premium growth across many lines of business over the longer term.

According to the Sigma 4/2020,⁽⁶⁾ world insurance: riding out the 2020 pandemic storm report, this year's recession will be the deepest since the great depression of the 1930s, but it will also be short-lived. The recession will lead to a steep fall in demand for insurance. After growing by 2.2% in 2019, global life premiums are forecast to contract by 6% in 2020. Due to prevailing and lower interest rates, savings products will be more affected, while mortality related covers will be more stable. The non-life sector will fare better, with global premiums forecast to be broadly flat (-0.1%) after growing by 3.5% in 2019. A main reason for the better showing in non-life is that COVID-19 crisis has hit at a time of rate hardening in the sector, which has supported premium growth. Premiums in trade and travel-related insurance business such as marine, aviation and credit will be hit the hardest. Property and medical business will be more stable, the report says. Swiss Re Institute estimates that total premium volumes in advanced markets (life and non-life) will shrink by 4% this year and return to positive growth of more than 2% in 2021. In the emerging markets, premium growth will remain in positive territory in both years, up 1% in 2020 and 7% in 2021. There is exceptional uncertainty about what the ultimate claims burden from the pandemic will be.

6. *Swiss Re Institute- World Insurance riding out the 2020 pandemic storm-Sigma4/2020.*

However, the sigma report finds, Covid-19 has hit at a time of rate hardening in non-life, a trend that is likely to continue amid potentially high losses and contracting insurance supply, particularly in commercial lines. This, and the expected bounce-back of insurance demand, will support earnings over the longer term. The experience of this year's health and economic crisis will raise awareness and demand for risk protection across many lines of business. The Covid-19 shock will likely accelerate other paradigm shifts too, such as a restructuring of global supply chains to mitigate future business disruption risks, giving rise to new premium pools in property, engineering and surety insurance. Insurance will need to change how they support agents to help them become more resilient in the face of the pandemic and prepare to thrive in the post-Covid-19 world. This is one of the conclusions is a newly -released report by McKinsey, which surveyed more than 200 agents in China across all lines of business in late April to understand how Covid-19 has affected their sentiment and performance, their interactions with customers via distribution, their view of insurance and their outlook for the future. (7)

Some of the main findings from the survey include

Two-thirds of agents experience a decline in business performance during the Covid-19 pandemic, while around 20% of agents reported an improvement. Survey data show the decline is more pronounced for agents with one to two years tenure-about 13% of those agents experienced a decline in business of 60% or more. In contrast, none of the agents with five years tenure or more experienced a 60% decline or more. More than 40% of agents saw an increase in policy cancellation around 25% of those agents attributed the increase to customers allowing coverage to lapse. In addition, more than 60% of agents think that customers insurance budgets are lower than they were before the crisis. Many agents view the current situation as unsustainable nearby 50% believe that they would not be able to sustain their business for more than six months if new business and renewals remain at current levels. Given the increase in cancellations and the overall decline in business, agents are spending more time on activities such as trying to make sales and contacting customers. More than two-thirds of agents reported spending more time on sales, and 61% said they are devoting more time to contacting customers and to learning and training. In light of this, it is no surprise that agents said their biggest challenges was achieving their KPIs (such as acquiring new business). In fact 70% said they need adjusted KPIs and performance management that reflect the current situation. Agents increasingly find digital platforms an effective medium for communicating and doing business agents. As such McKinsey anticipates permanent change in this direction. Three areas of support have been identified as follows:

7 *Redwan Abbas- Agents need new support tools to compete, Asia Insurance Review (August 2020)*

- a) This new distribution model means agents could work with a full set of digital capabilities that enable seamless interactions with customers across channels.
- b) This Covid-19 crisis has accelerated insurers' investments in digital capabilities at an unprecedented scale. These investments will help agents prepare for a possible second wave of infections and potentially reduce business disruption. Further, these tools result in large efficiency gains for insurers (that is a reduction in overall costs for the organization) by allowing agents to spend more time with customers and less time completing administrative tasks.
- c) Consumers are proactively asking for help to bridge their protection gaps. Insurers need to embrace agile product development and ensure they are addressing the broadest range of consumer needs while arming their agents with tools to provide those products via digital channels. Value-added and non-policy services, such as remote health advisory and diagnosis, could be powerful new offerings for agents to have in their arsenal.
- d) The Covid-19 crisis has taken its toll on the insurance industry, but how did it particularly impact microinsurance clients, who were forced to choose between paying their premiums or paying for food? The Microinsurance Network's (MiN) latest Export Forum asked whether the pandemic has strengthened or undermined the business case for microinsurance.
- e) Covid-19 has been a wake-up call that has forced insurers into long-overdue changes. He explained how the insurance industry has been dodging digitization for the longest time. Yet, many companies have been able to go digital in a matter of weeks.
- f) Telemedicine for instance, has been widely spoken about, but how much of it is really being used is a big question. Not only does telemedicine push behavior change at scale by offering a value-added service, but it is also safer than visiting hospitals in person. AXA has seen a response rate of about eight percent in the use of telemedicine services, which is an increase on pre-pandemic levels, but is still short of the 12-15 percent they aim for.
- g) However, we have seen greater awareness of insurance in general. For example government have been providing insurance for healthcare workers since the crisis; and thus, microinsurance has benefitted. Microinsurance business has bounced back, with a 70 percent rise from May to June. (8)

How to face the Challenges?

Trust is a result of relationships with customers and all stakeholders. It also depends on experience in times of growing uncertainty. Trust is increasingly built by demonstrating an ability to address unanticipated situations and a

8. *Microinsurance Network- Covid-19: a moment of truth for Microinsurance (July 2020).*

steady commitment to address the needs of all stakeholders in the best way possible. It's also important to recognize and address the emotions of all stakeholders. This is not just about charts and numbers. Narratives can be powerful ways to acknowledge the fears that naturally surface in times of crisis, while at the same time framing the opportunity that can be achieved if stakeholders come together and commit to overcoming the challenges that stand in the way.

In the midst of crisis, Marshall McLuhan's famous observation that "the medium is the message" rings even more true. Many psychologists assert that the majority of communication is nonverbal. Emails, texts, and tweets miss the voice intonation, eye contact, and body language essential to trust building communications. Therefore, insurers need to encourage the use of video especially to connect emotionally with teams instead of emails and other forms of communication. It is obvious that navigating the crisis will require resilient leadership qualities. The most important of these are to turn COVID-19 crisis into an opportunity to emerge stronger. Next is how the leaders are empowering their teams to take courageous decisions and actions in a volatile all time and respond quickly to new business models likely to emerge in post COVID-19 under the new normal.

The insurance industry stands on the precipice of profound change. And this disruption is not just digital. Demanding customers, new competitors and a changing set of challenges are transforming the industry. Consumer expectations are shifting as they apply their experience of other sectors – particularly online retail – to insurance. The arrival of more nimble competitors, either in the form of Insur Tech platforms or technology giants, is increasing the pressure on incumbent insurers. Meanwhile, moving towards a more service-driven business model may prove challenging for traditional firms. For those able to move quickly and smartly, change will bring significant opportunity. While it is not yet clear what form the shake-out will take four interlocking trends that could separate the winners from the losers.

- New world, new customers, new solutions.

Customers' needs, knowledge and expectations have expanded exponentially in the past decade. How can insurers adapt to their demands?

- A different roadmap for growth.

It is expected that insurer growth will come from preventative as well as protective approaches, with a range of new services and products. How will service-based strategies and innovative products change the insurance industry?

- The negotiating table beckons.

In a highly competitive environment, executive sack knowledge that organic growth will not be enough. How will the industry use M&A, equity partnership and alliances to advance growth?

- Digital disruption – practical not theoretical.

Technological change is a given. But knowing about it and acting on it are very different propositions. How can insurers use technologies such as analytics, block chain and cloud to their advantage?

In general, insurers are responding to the widening COVID-19 outbreak on multiple fronts—as claims payers, employers, and capital managers. Each has its own distinct challenges, not just for the insurance industry, but for the economy and society at large. However, the most immediate concern for insurers is protecting the health and safety of employees and their distribution partners in the agent/broker community as they strive to maintain business continuity. Like the commercial policyholders they serve, insurers are being challenged to review and update their crisis management plans and take steps to continue operations with a minimum of disruption to clients. One of the biggest challenges could be enabling alternative work arrangements for insurance company employees if needed to protect staff and adapt to possible office access restrictions, all while assuring business continuity. (9)

Insurers may have additional circumstances to consider to accommodate surveyors and loss adjusters, who often need to travel to perform their jobs—both locally and to more distant locations. That could be problematic with the COVID-19 outbreak. What if an adjuster needs to go onsite to examine a claim for commercial or personal property damage, and one of the policyholder’s family members or an employee who interacts with the adjuster is infected with COVID-19? COVID-19 could also disrupt an insurer’s client service, starting with its distributors.

Agents, brokers, and financial associates will likely face many of the same risk management and logistical challenges. Meanwhile, face-to-face meetings with prospects and clients may have to be avoided until the risk of exposure passes. Under these circumstances, insurers that have invested in advancing their digital capabilities will likely be better positioned in the short term to maintain a connection to their distribution partners, who, in turn, should be able to offer faster and more comprehensive services to their clients.

Insurers could also enhance planning and training in anticipation of a potentially longer-term period of social distancing that could shift how intermediaries stay in contact with their clients, how they prospect for referrals, and how they serve clients who may be experiencing financial strain. With good digital tools, this can be a period of productive planning, training, and outreach across company, intermediary, and client stakeholder groups. In times of

9. Gray Show, *Deloitte & Touch LLP-Potential Implications of Covid-19 for the insurance sector. Deloitte Insights (July 2020)*

uncertainty and financial stress, it seems increasingly important for the insurance sector and broader financial services industry to maintain connections and be well-positioned to serve.

Need for self-realization

Insurers need to consider potential impact of COVID-19 on their short-term and long-term financial outlooks. Claims costs will likely be specific to the classes of business an insurer writes and their policy wordings. However, the bigger-picture concern is how the outbreak might affect the economic environment—specifically, prospects for growth and profitability in insurers’ underwriting and investment portfolios. As this situation evolves, insurers are expected to continue to serve as shock absorbers for the economy and society. Financially, the industry prepares for large loss events such as COVID-19 and should be well-capitalized for any onrush of claims. Insurers are also helped, in large part, by reinsuring large parts of their books of business, which is one of the ways the industry is able to spread risk.

Insurance companies need to pay attention to their customers, especially in times such as now, Customers are concerned, and a key role of insurance companies will be to reassure and support them. Customers are anxious over several aspects such as policy coverage. Insurers should be pro-active in distributing FAQ’s and other collateral to their customers. They should look closely at their distribution channels and use situation as an opportunity to re-enforce capabilities via sales networks and direct channels using mail, mobile, social media This would be an ideal opportunity to consider and plan for increased use of virtual assistants to increase availability and agility in responding to customer inquiries (e.g. around policy coverage, renewals, premiums, claims). This is also the time for increased focus on optimization and efficiency programs, the key objectives being to reduce cost, increase capacity as well as improved quality leading to enhanced customer experience.

The COVID-19 pandemic is affecting all aspects of life; it is a dynamic and evolving situation where the future is unpredictable. Insurers will need to consider and prepare for increased claims ratio impacting profitability, budgets, cash flows, capital requirements etc. They should also look at new business opportunities such as products providing pandemic coverage, cash flow coverage, and force majeure exposure coverage. Also, they need to recognize that current situation may not be a one-off event and should determine if remote working may be part of the new operational norm. As such they should relook at their long-term strategy that supports remote working. This should include security and connectivity, also increased use of “cloud” and “SaaS” based platforms instead of the current legacy on-premise solutions.

Insurers should review the impact of remote working has on the effectiveness of their business to deliver services, to determine whether the adoption of new working practices and collaboration tools can enable this operating model to be the new norm. If the answer is yes, then insurers should embrace as it provides opportunity, which helps to improve the quality of life of their employees and reduce fixed costs such as offices and related infrastructure. Although the impact on the Insurance sector is less, it will still be significant and highly disruptive; ranging from employee and business continuity issues, client service considerations to operating profit. The immediate concern for insurers is the protection of employees, its distribution partners, agents, health and safety measures along with business continuity. It is obvious that insurance companies will be adversely impacted on the revenue side and the expense side resulting in lower earnings during 2020-21. Life business will see a short term hit on premium income, but this will recover in the long term. However, in non-life insurance more seismic impact, with short term reductions in new business premiums will continue over a long period of time (i.e. future premiums reduced due to reduced economic activity).

Insurance companies need to be pro-active, that they should look to model the impact of COVID-19 and then determine the best strategy to mitigate. However, today, priority must be given to business continuity. They need to determine their critical business functions, priorities to ensure that the level of service is maintained or even increased. Other business functions should be reduced or stopped to enable focus on the priority activities. A priority concern for insurance companies is to serve their customers and fulfill their promise while ensuring safety and well-being of their employees. Insurers are in the process of activating or have already activated their business continuity plans. These should include the enablement of remote working, review of operational readiness of service providers and workforce planning to ensure staff availability.

It is necessary that insurers ask themselves:

- a. What safeguards do they need to put in place and support for the safety of policyholders and distribution partners in the agent/ broker community?
- a) How do they enable and sustain effective alternative work arrangements for employees?
- b) How do they ensure that they continuously improve virtual work-place productivity?
- c) Insurers need to identify the classes of business which are most exposed to the impact of coronavirus and rigorously model claims exposure and profitability impact.
- d) They need to evaluate potential areas of brand risk exposure due to customer expectation vs. policy terms.

- d) They need to evaluate potential areas of brand risk exposure due to customer expectation vs. policy terms.
- e) Insurers need to develop a proactive strategy to respond the demand of all the stakeholders.
- f) Insurers should be ready to respond effectively and efficiently to surges in customer queries, claims review, business continuity and contingency plans.
- g) Insurers ought to be proactive to maintain regulators and stakeholders confidence and actively engage with regulators and the markets. (10)

Concerns of Insurance Leaders

International Insurance Society (IIS) and Global Insurance Forum, recently conducted a Global Concerns Survey, an evaluation of the issues that keep insurance CEOs awake at night. This survey derives its results from senior life and nonlife executives, brokers, consultants, law firms and other industry leaders from every geographic sector of the insurance world. The survey's outcomes are a valuable measure of industry concerns and priorities. This survey was conducted before Covid-19 pandemic situation and was published in March 2020. The survey aggregates industry leaders' views on five areas of concern: Economic, Political & Legal, Social & Environmental, Technology and Operational.

Respondents cited "Economic Development" as their #1 Economic concern. Certainly, the growth potential and volatility of emerging markets, as well as the continuity and robustness of growth in developed markets, looms large in every insurer's planning process. Economic Development was cited as the top Economic concern by 52% of survey respondents. The second ranking concern was "Low Investment Yields", which 41% of respondents flagged as a serious issue. "Fear of Recession" ranked third among insurers' Economic concerns, having been cited by 25% of respondents, since the length of the current strong economy in most developed markets has reached historic, and ultimately unsustainable, levels. A small percentage of survey responders mentioned "Inflation" as a concern (17%). Right now, however, all of these concerns have been far eclipsed by a true Black Swan event. For all of us, the coronavirus, or COVID-19, was such a totally unexpected event, and it is surely having a major effect. (11)

Another survey was conducted on social and environmental (S&E) issues shortly before the global coronavirus changed business and personal lives.

10. Neal Baumann, *Understanding the sector impact of Covid-19 (Insurance)* Deloitte (March-2020).

The ranking of respondents' concerns was as follows. Healthcare was the #1 concern cited, ranked first by a whopping 65% of votes. Access to healthcare in both developed and emerging economies was the principal issue cited, although there was great concern expressed about the mounting cost of healthcare. The "changing demographics of aging" was also prominently mentioned, ranking second in the survey, and also the surge of younger age cohorts in poor countries with limited job prospects. Bunched together in third place among the Social & Environmental concerns were "Natural Disasters, Climate Change and Environmental Degradation". These issues, all broadly related to climate change, exemplify the insurance industry's concern about the rising frequency and severity of losses arising either directly or indirectly from the global warming.

Politicians may debate the magnitude or the ultimate causes of these changes, but insurers have to pay for them, and thus have more a practical perspective. "Insurance fraud and mass migrations/refugee crises" were also mentioned as serious S&E concerns by the respondents, but at a much lower level of apprehension. (12)

However, the pandemic has affected insurance industry leaders concerns significantly. At the highest level a deep anxiety about the implications of a rapid shift to remote work for their organizations, with related concerns about employee safety and health, child care, social isolation and stress, productivity, the ability to maintain and build relationships and such issues are the main concerns of insurers.

This makes the issue of what the insurance workforce of the future should look like even more important. With respect to the environment in which they market their products and services, insurance executives now ponder both the risk management and portfolio investment aspects of the implosion of mass events like conferences, concerts, sports events, etc. Event cancellation insurance may result in big claims in 2020, but what is the future of such events and the marketing of event protection? The travel, entertainment and hospitality industries are major revenue sources for the industry in the developed world.

11. *Mike Morrissey-Global Concern Survey: The Economic "Black Swan"- International Insurance Society- (March-2020)*

12. *Mike Morrissey- Global Concerns Survey: Social and Environmental- International Insurance society (May-2020)*

While environmental pollution is currently improving as industrial activity declines, (the air in Beijing and the water in Venice are almost miraculously clear) the crucial longer term the transition to renewable energy will very likely slow as public health expenditures by governments soar, and extreme weather events may continue to rise. Globalization is under attack, as concern about supply chain dependence on other, sometimes adversarial.. Nationalism, as a consequence, is on the rise. Fear of disease brought from other countries has resulted in more border closings, affecting the international flow of skilled labor on which many industries depend.

Concerns of Insurers in Asia and Africa

Recently, Federation of Insurers & Reinsurers (FAIR) conducted a survey to comprehend the impact of COVID-19 on the insurance markets of Asia & Africa and the expectations of the insurers CEO in the near future. To assess the current and expected impact of the pandemic on insurance business in Africa & Asia, FAIR analyzed 82 respondents from 35 countries by a special survey. (13)

The survey was conducted with insurance business leaders in the two continents. According to the survey results, the most common efforts made to protect everyone in their companies from the spread of COVID-19 are (on priority basis) as follows:

Africa

- a) Arranging for greater flexibility to work from home.
- b) Providing hand sanitizer and masks in the work place.
- c) Postponing non-essential travel to countries where there are confirmed cases of COVID-19.

Asia

- a) Arranging for greater flexibility to work from home.
- b) Postponing non-essential travel to countries where there are confirmed cases of COVID-19.
- c) Providing hand sanitizer and masks in the work place.

The three most common efforts made to maintain or increase insurance business are (on priority basis) as follows:

Africa

- a) More investments on InsurTech to perform from distance.
- b) Allow for a grace period for policy holders to pay the due premiums.
- c) Allow or promote cover COVID-19 losses.

13. *FAIR Survey- Covid-19 in Africa & Asia: Risk implications & Expectation (June-2020)*

Asia

- a) Allow for a grace period for policy holders to pay the due premiums.
- b) More investments on InsurTech to perform from distance.
- c) Allow or promote cover COVID-19 losses.

The survey indicated to the three most common effects of COVID-19 on insurance business are as follows:(both in Africa & Asia)

- a. Decrease of growth rate of insurance premiums.
- b. Decrease of investment incomes.
- c. Increase of insurance premiums dues.

The survey indicated that, the three most common CEOs expectations (within one year period) on the effects of COVID-19 on their insurance business are as follows:(both in Africa & Asia)

- a. High dependency on digitization of insurance business.
- b. More utilization of insuretech.
- c. High increase in insurance volume for specific lines as: health, life, accidents etc.

Strategic Planning & Effective Management

When things are changing rapidly, strategic planning is a must for the insurers and re-insurers. Strategies and strategic management have to be changed frequently and continuously. Good strategic planning help organizations move intentionally from where it is to where it would like to be. The hitch is that the context in which we operate never stands still. Client and customer needs change; sometimes dramatically. Policy shifts to new priorities, leaving old ones behind. Technology changes forces insurers not only how we do back-office work but also how we deliver products and services. New uncertainties loom as you go forward. All these dynamic forces affect insurers thinking, aspirations, and plans. With a good understanding of the changing context, insurance companies need to move on to mapping its implication. They need to ask themselves:

- a) What previous strengths might be weakened by the pandemic?
- b) What opportunity does the COVID-19 offer?
- c) What weaknesses must we shore up to be successful in the context thats shaping up?
- d) What threats does the context pose?
- e) What values are most important to organization?
- f) Where does company want to go and what it does not to be in the next stage?

These are the issues on which the organization's future may depend by addressing those priorities. These are the issues on which the insurance

company's future will be determined. Peter Drucker observed that "Strategy is interesting, but implementation is everything!" Planning without action is a waste of time, energy, and money. Action plans must follow strategies, along with routines for monitoring their completion. Monitoring is more than checking items off the "to do" list. It also includes learning from what is occurring; adjusting plans that aren't getting desired results, and assuring that plans are complementary, not contradictory. The degree to which leaders effectively manage the implementation phase of the strategic planning process is often the key to positive outcomes.

Problems facing the organizations don't exist independently. They feed one another in a dynamic, integrated way called "the mess." All organizations have a mess, but many don't have leaders courageous or informed enough to challenge it. Incremental, piecemeal solutions produce a steady stream of frustrations for such leaders, for a "mess" is entrenched in the culture of the present and the successes of the past. Left to itself, a "mess" may continue to strengthen and eventually lead to an organization's downfall. It is some times said that understanding the problems we face is more important to the change process than the solutions we design. Therefore the question arises what insurers need to do? Some of the tips are given bellow:

- a) Design from what people want, not what they want to get rid of.
- b) Ignore constraints for the moment, and design the future you want.
- c) Collect information from stakeholders, benchmark innovators, and generate a number of integrated solutions to the entire messy set of problems.
- d) Design simultaneously the functions the organization needs to perform.

A good organization design will represent a 3-way stretch: a stretch in aspiration about what the organization can accomplish (functions); a stretch in form (organization structures); and a stretch in operations (processes for getting the work done.) Implementing a design is no turnkey task. Instead, it requires leadership--the ability to influence those over whom one has no control. A strong leader find that an organization design is co-created with stakeholders gives them a license to lead that they have not enjoyed in the past. They can say with confidence, "We are headed there and here's a way to move us in that direction." They can frame decisions in the context of the organization design, and they can do small-scale experiments to test new ways of operating that the old culture might have rejected without the collective vision represented in the design.

COVID-19 is likely to accelerate fundamental and structural changes that were inevitable in any case but are now likely to occur far faster than they

would otherwise. Today, all around the world, businesses and their talent are learning to communicate, collaborate, and coordinate on virtual platforms, and understanding the increased efficacy and efficiency such modalities of work can provide. Virtual work and collaboration tools are likely to create a booming new market space.

Shaping strategies can become a significant source of new value creation emerging from unanticipated crises. The market shapers those that shape the future of their industry rather than adapt to it will emerge stronger. Companies emerging from this crisis and shifting into the “thrive” time frame will the heart of resilient leadership take part in this reinvention, either by identifying and solving for new opportunities, aligning themselves with the future-shapers of their industry, or actually becoming the nexus of the next ecosystem while their competitors focus on the crisis.

Clarity of thinking, communications, and decision-making will be at a premium. Those CEOs who can best exhibit this clarity and lead from the heart and the head will inspire their organizations to persevere through this crisis, positioning their brand to emerge in a better place, prepared for whatever may come. Crises like these, with deep challenges to be navigated, will also lead to opportunities for learning and deepening trust with all stakeholders, while equipping organizations for a step change that creates more value not just for shareholders, but for society as a whole. (14)

In order take the opportunities arising out of Covid-19 insurers, vis-à-vis their leaders need to evaluate the actual work of their company and how it might be changed. Resilient leaders rapidly assess what work is mission-critical and what can be deferred or deprioritized, and then help teams understand where their focus needs to be (including what work is not strategically critical). Insurers should allow their people to focus on the most important tasks and empower teams to be creative in how they deliver nonessential work in ways that minimize unnecessary risk or exposure to the employees and their customers. Where work has to be onsite, it is necessary to evaluate what safeguards can be put in place.

The next focus is the workforce. The most effective plans encompass employees as well as vendors, partners, agents and brokers who need to be included to keep the entire workforce safe.

14. *Bill Marquard- Resilient Leadership responding to Covid-19- Deloitte insights (July 2020)*

The workplace and its culture are also critical. Companies need to prepare worksites for containment and contamination, and ensure the safety of working environments by thoroughly cleaning and disinfecting workplaces. In the event that an employee is suspected of being infected with COVID-19, a clear process must be in place for adhering to local health care requirements for isolating and/or treating the employee at the facility.

COVID-19 may fundamentally change the culture of the workplace, how you distribute work and deploy your workforce, and how you engage your people. In the longer term, this situation may present an opportunity to think about how you elevate communications, create a more resilient workforce, and build more focus on health and well-being.

This is a critical situation that matters in the relationship with the customers, and it is a time for the company's brand to lead. Customer needs can shift dramatically during crises such as this one, often from the rational to the emotional, and it is important for companies to intercept that shift. A study of consumer behavior found that a business's traditional customer segments are at risk during a downturn, as their purchasing behavior is driven more by their emotional response to the economic volatility than by the characteristics businesses typically consider when defining their customer segments.

The sudden increase in online activity can have big implications on system stability, network robustness, and data security, especially in parts of the world where telecom and systems infrastructure are not as well developed. Companies will need to act quickly to ensure that they have the systems, and support staff, in place.

Insurers have to figure out how to offer customers products and services that are relevant to them at a time when they need them. These might be unrelated to the day to day but are about creating a more desirable experience that drives up but are about creating interaction. The technology clearly exists to help them do this given the many non-insurance examples. Unlike new technology-based beginning, incumbent insurers already have customers to work with to build engaging propositions that create stickiness.

Customers make a business and insurers clearly understand that their customer proposition needs to change and adapt to new demands in a digital era. Consumers are increasingly searching for ways to make their lives easier through streamlined applications and claims processes. They are seeking out cover and related services that suit their lifestyles or are tailored to their businesses. The emergence of pay-per-mile car insurance models; the rise of robo-advisers that allow customers to choose the make-up of

their life and pension investment portfolio. There are two example developments of blockchain-enabled smart contracts; and the provision of services around products such as cyber insurance, are just the start of wholesale changes across the value chain.

Customers are increasingly looking for frictionless services across the board. Insurance is some way behind, but those that are investing more in technology and offering the market an easy and complete experience that offers clear solutions to customer problems are in a good position. It starts with, for example, home protection and maintenance, but there's a whole blue ocean of opportunities for add-ons that insurers could provide themselves or through partnerships. We will see a significant shift towards services among insurers as they seek to engage customers with offerings that add value. Insurance will be embedded in a range of valuable services that will help customers live their lives or run their businesses it will no longer be the grudge purchase it sometimes is." Additional services are appealing to customers. (15)

InsurTechs have the upper hand when it comes to providing personalized policies and present more advanced aspects which are intriguing to customers, hence the challenge to their core business. Over the next three years, insurers need to step up and work on strategies to work with and, in some cases, combat the new players in the market, and move forward. Insurers will need to adopt an ecosystem approach that involves partnerships and outsourcing, as well as in-house teams. It will take a lot of effort to transition from a legacy position to flexible, open architecture. Insurers will need to move far more quickly to create truly digital organizations if they are to compete in a market that is set for rapid transformation. And they will need to use the right technology in the right way or risk being left in the dirt by digital natives. New technologies and faster adoption of these by insurance companies is the key driving factor towards success and growth. There was doubt as to how it would merge with existing services, but the enhancements have been phenomenal. Customers are served more quickly by way of applications and multiple platforms.

Concluding Remarks

In the face of certain challenges and a still uncertain set of risks, insurers are rightly concerned about how their companies will be affected and what they have to do next. There are a number of lessons

15. *Andry Masters- a demanding future/ The four trends that define insurance in 2020- Deloitte LLP (2019)*

from history that can be applied now. An essential focus in a crisis is to recognize the impact the uncertainty is having on the people that drive the organization. At such times, emotional intelligence is critical. In everything insurers do during a crisis, resilient leaders express empathy and compassion for the human side of the upheaval for example, acknowledging how radically their employees' personal priorities have shifted away from work to being concerned about family health, accommodating extended school closures, and absorbing the of life-threatening uncertainty. Resilient leaders also encourage their people to adopt calm and methodical approach to whatever happens next.

Amid the crisis, a company's purpose should remain steadfast. It's never negotiable strength of Purpose is where the head and the heart unite. Many organizations today have articulated a purpose beyond profit. As insurers confront situations that were never anticipated, this is also a time to encourage more initiative and decision rights at all levels of the organization, trusting that the teams and individuals who are deeply embedded in a specific context may be in the best position to come up with creative approaches to addressing unanticipated needs. It is necessary to make the objective clear. The key, of course, is to ensure that all employees are clear on the objectives that matter and the guardrails that cannot be crossed. This approach may have value beyond the current crisis as organizations learn to conduct business in more and more uncertain times.

BORROWER'S PERSPECTIVE OF MICRO FINANCING INSTITUTIONS AND TRADITIONAL MONEY LENDING IN BANGLADESH: A COMPARATIVE ANALYSIS

————— **Dr. Muhammad Ziaulhaq Mamun & Neaz Ahmed**

Abstract

The comparative analysis between services of TML and MFIs in Bangladesh noted that the MFIs are positively contributing to employment generation, living standard, household income and education. The limited collateral free MFI loans are not as easily available as TML. Mortgage of wealth and its forfeiting is more common in TML. The MFI loan taking has started under the influence of its mass promotion, but still the clients follow the suit of their ancestors' TML loan taking. The initial screening procedures for MFI loans are strict, objective and stringent. Clients take TML loans for the sake of continuity and procedural lenience even if those are linked with stern collaterals. In terms of repayment policies MFI and TML are not much different; but regarding alternative repayment and loan security TML is more apathetic, harsh, inconsiderate and on occasion cruel on default clients. Regarding sustainability it is found that MFI clients are comparatively doing better in business.

1.0 ISSUE

Money lending is an age-old business in rural Bangladesh. The traditional money lending (TML) is a specific type of asset-based loan financing through which a borrower informally receives funds secured by real property. The money loans are typically issued by local investors. Interest rates are typically higher than conventional commercial or residential property loans because of the higher risk taken by the lender. Most loans are used for projects lasting from a few months to a few years. The qualifying criteria for a hard money loan vary widely by lender and loan purpose. However, most hard money lenders primarily qualify a loan amount based on the value of the real estate being collateralized. A number of households become victim of this system by losing mortgaged property.

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Opposing this current microcredit concept can be traced back to action research in the late 1970s, carried out by academics as well as practitioners in organizations that were created to deal with the relief and rehabilitation needs of post-independent Bangladesh. The 1980s witnessed a growing number of non-governmental organizations (NGOs) experimenting with different modalities of delivering credit to the poor (Amin and Becker 1998). The various models converged around the beginning of the 1990s toward a fairly uniform model of delivering microcredit. This last decade, especially, saw a sharp increase in access to microcredit. And in recent years, the standard model has undergone greater refinement in order to cater to different niche markets as well as to different life-cycle circumstances (Matin and Halder 2004).

Since its inception, microfinance has evolved as an economic development approach to benefit low-income marginal people in Bangladesh (Rahman 1997, Hashem et al. 1996). It is truly remarkable that the microfinance institutions (MFIs) in Bangladesh have been able to provide access to credit to around 13 million poor households (Carret et al. 1996). There are hundreds of organizations offering microcredit, although the mentionable few large organizations are Grameen Bank, BRAC, ASA, and Proshika. Simultaneously, many smaller MFIs have started operations throughout Bangladesh. As of now few hundred (500) MFIs possess a license from the Microcredit Regulatory Authority (MRA), but over 5000 MFIs have applied for a license. Considering how many MFIs operate in Bangladesh, the microfinance market seems to have become saturated.

Even as late as the early 1990s, scaling up the success of a handful of microfinance institutions in Bangladesh to serve the vast majority of the poor in Bangladesh was one of the big challenges (Matin and Halder 2004). The rest of the 1990s, saw a massive expansion of microfinance all over the country with the scaling up of existing providers, entry of new players and emergence of supra level institutions, such as Palli Karma Sahayak Foundation (PKSF), and Credit and Development Forum (CDF). Today, impact assessment researchers have great difficulty in finding control villages - villages with no microfinance providers. The worry over scaling up is now a concern of the past - today the concerns are more about managing the negative effects of competition and potential systemic risk to the sector (Kabeer 1996).

As the microfinance market has matured in recent years, competition has increased among major MFIs and TMLs. Against this backdrop of intense competition, overlapping loan problems among major MFIs and borrowers has emerged as a problem in Bangladesh (Zeller 1997). While poor people

have more choices from which institutions to borrow money, the number of people who use multiple loans from various institutions has been increasing. As a result, there are ever more heavily indebted people in Bangladesh, and this is beginning to pose a threat to MFIs and the microfinance industry (Rahman 1997).

Microfinance in Bangladesh is probably the most poverty focused in its operations and discourses. This is a crucial strength of the sector as it engages with some of the second-generation challenges, such as professionalization, commercialization, regulation, supervision, etc (MacIsaac 1997). Thanks to high population density, relatively easily accessible terrain, and solid institution builders, the debate over trade-off between financial sustainability and serving poor people is less polarized and more consensual. Increasing depth of poverty outreach and enhancing poverty impact are the two fundamental challenges that dominate the microfinance discourses in Bangladesh.

2.0 OBJECTIVES

The broad objective of the study is to compare services perceived by borrowers of micro finance institutions (MFIs) and traditional money lenders (TMLs) in Bangladesh. Specifically this study looked into the i) accessibility & convenience, ii) features and repayment issues, iii) loan security, and iv) sustainability and socio-economic contribution of these two institutions.

3.0 METHODOLOGY

The study made use of both primary and secondary data and pertinent literature review. An extensive secondary research was conducted in order to formulate the problem statement along with broad and specific research objectives and the coordination schema (Appendix 1). A primary survey was conducted by means of a close-ended questionnaire. It focused on the service quality parameters that exist in both traditional money lending system and micro finance. The questionnaire was prepared in both English and Bengali keeping in mind the lingual ability of the respondents. The questionnaire was pre-tested with 10 clients before the main survey. The responses were found reliable (Cronbach's alpha = 0.69).

In order to carry out the study, a non-probability convenience sampling of 200 Respondents was carried out. Samples have been taken from all over the country with the help of selected MFI client database. A 5-point Likert scale [+2 (strongly agree) to -2 (strongly disagree)] was used for the survey to see the respondents' agreement with constructed variables. Statistical tools like frequency analysis, indexing, t-test, etc., were conducted for data analysis.

4.0 ANALYSIS AND FINDINGS

The comparative analysis between services provided by micro finance institutions and traditional money lenders in Bangladesh are made in light of four parameters i) accessibility & convenience, ii) features and repayment issues, iii) loan security, and iv) sustainability and socio-economic contribution. Against each of these parameters a number of complex (9) and simple variables (26) were developed. Through a structured questionnaire using a five-point likertscale (+2: Strongly agree&-2: Strongly disagree) client responses are observed regarding each of the 26 variables. The detailed analysis is given below.

4.1 Accessibility & Convenience

The first parameter for this study, accessibility & convenience of the sources, intended to find out the ease of loan procedure of the two groups. This parameter consists of 2 complex variables (money lending procedure and recognition/reputation) which are further divided into 7 simple variables (Table 1). All of these variables, has positive moderate mean rating (0-1). Regarding money lending procedure the study noted that the MFIlloans are not as easily available(0.51) as TML. It is also noted that MFI loan amount offered is lower than TML (0.51). The respondents moderately agreed that the collateral issues are rare in MFI (0.31) and the MFI terms and conditions are to some extent rigid than TML (0.19).

Recognition/reputation is explained by prior experience, word of mouth and promotional activities. It appeared that MFIs have considerable positive promotional impact (0.55). It is also observed that the respondents go for TML loans mainly to maintain the continuity of their ancestors (0.48) and also of their own (0.41). All these findings lead to the fact that initial screening procedures for collateral free MFI loans are strict, objective and stringent. Clients take TML loans for the sake of continuity and procedural lenience even if those are linked with stern collaterals.

Table 1: Accessibility & Convenience of Sources

Complex Variable	Statements	Mean	St. Dev.
1) Money lending procedure	1) MFI terms and conditions are more rigid than TML	0.19	0.96
	2) MFI loans are not as easily available as TML	0.51	0.98
	3) MFI loan amount offered is lower than TML	0.51	1.13
	4) The collateral issues are rare in MFI	0.31	1.04
2) Recognition/ Reputation	1) TML loans are preferred over MFI due to loans taken from them in the past	0.41	1.13
	2) TML loans are preferred over MFI due to loans taken from them by ancestors	0.48	1.23
	3) MFI loan taking has started under the influence of its mass promotion	0.55	1.08

4.2 Product Feature and Repayment Issues

The parameter product feature and repayment policies consists of two complex variables (Repayment policies, and Alternative repayment) broken down into 6 simple variables (Table 2). Regarding repayment policies the respondents do not agree that MFI loan repayment period is shorter than TML (-0.27). However, the respondents are quite indifferent regarding MFIs' charging higher interest rate (0.06) and TMLs' having more aggregate loan issues (0.05). The complex variable alternative repayment has three simple variables having positive mean values. It is noted that respondents are more inclined to agreeing that mortgage of wealth (0.47), contingency measures (0.37) and selling of property (0.32) for repayment is more common in case of TML loans. It can be concluded that in terms of repayment policies MFI and TML are not much different; but regarding alternative repayment TML is very down to earth (apathetic).

Table 2: Product feature and Repayment Issues

Complex Variable	Statements	Mean	St. Dev.
1) Repayment policies	1) MFI charges higher interest rate than TML*	0.06	1.08
	2) MFI loan repayment period is shorter than TML	-0.27	1.08
	3) TMLs have more aggregate loan issues than MFIs*	0.05	0.83
2) Alternative repayment	1) Mortgage of wealth/treasury is more of a common phenomenon in TML than in MFI	0.47	0.92
	2) Contingency is more prominent in TML than in MFI	0.37	0.89
	3) Selling of property for repayment is more common in TML than in MFI	0.32	1.07
*not significant at 5% level of significance			

4.3 Security of Loan

The parameter loan security consists of two complex (legal and illegal control) and five simple variables (Table 3). Regarding legal security measures it is noted that TML goes for mortgage/collateral takeover (0.44) or higher interest enforcement (0.30) in case of non-repayment which is non-observant for MFI loans (-0.05). Interestingly it is noted that both TML and MFIs take illegal measures for non-repayment. TML are found to give physical punishment (0.36) whereas the MFIs make the children of the debtor work (0.25) as a penalty. Overall it can be said that the TML are harsh, inconsiderate and on occasion cruel on default clients.

Table 3: Security of Loan

Complex Variable	Statements	Mean	St. Dev.
1) Legal Control	1) In case of non-repayment mortgage/collateral issues takes place in TML	0.44	0.93
	2) In case of non-repayment, defaulters are fined at high rates in TML	0.30	0.89
	3) In case of non-repayment, MFI charges high interest rate than required as a penalty*	-0.05	0.99
2) Illegal Control	1) As a penalty for non-repayment MFI makes the children of the debtor work (child labor)	0.25	1.19
	2) In case of non-repayment, as a penalty, physical punishment is used in TML	0.36	1.07
*not significant at 5% level of significance			

4.4 Sustainability and Socio-Economic Contribution

The parameter sustainability has three complex variables broken down to eight simple variables (Table 4). The growth related issues perceived by the respondents identified that MFI financed businesses expand early (0.39), break-even earlier (0.37) and tend to operate for longer period (0.30) than by TML. Regarding employment MFIs perceived to have reduced unemployment due to new job opportunities (0.83) and led to more cases of job shifting (0.49) than TML. For improved lifestyle MFI has more contribution in household improvement and standard of living (0.64), as well as, increasing the income level of the poor/ultra poor (0.60) and has more contribution in education sector (0.56). Overall it can be concluded that MFI clients are comparatively doing better in business than TML clients. In addition MFIs are contributing more in employment generation and lifestyle improvement.

Table 4: Sustainability and Socio-Economic Contribution

Complex Variable	Statements	Mean	St. Dev.
1) Growth	1) MFI financed businesses tend to operate for more years than by TML	0.30	1.12
	2) MFI financed businesses break-even earlier than by TML	0.37	1.03
	3) MFI financed businesses expand early (out sourcing, branches) than by TML	0.39	1.03
2) Employment	1) MFIs have reduced unemployment due to new job opportunities than by TML	0.83	0.98
	2) MFI has led to more cases of job shifting than TML	0.49	0.96
3) Improved lifestyle	1) MFI has more contribution in education sector than TML	0.56	0.92
	2) MFI has succeeded in increasing the income level of the poor/ultra poor	0.60	1.08
	3) MFI has more contribution in household Improvement/standard of living	0.64	0.99

4.5 Overall Comparison

The mean indices of the 26 variables (-0.27 ~ +0.87) show that the respondents are not very strongly agreeable to any of the variable (Appendix 2). Moderately high standard deviations indicate wide spread of frequency distribution of responses. All the indices except three is found different from 0 (Indifferent) at 5% level of significance. The index analysis very clearly indicated that the MFIs very positively contributing to employment generation (0.83), standard of living (0.64), household income (0.60) and education (0.56). Even if they agree that MFI loan taking has started under the influence of its mass promotion (0.55), but still they follow the suit of their ancestors' TML loan taking (0.48). The study also noted that MFI loans are not as easily available as TML (0.51) and their loan amount is lower (0.51). Mortgage of wealth is more common in TML (0.47) and their forfeiting takes place (0.44) in case of non-repayment.

On the lower side the clients are found indifferent with MFIs' charging higher interest rate for non-repayment (-0.05), TMLs' having more loan aggregate issues (0.05), MFIs' charging higher interest rate (0.06), MFIs' more rigid terms and conditions than TML (0.19). Overall it can be conclude that MFIs are contributing more in our socio-economic growth in comparison to TMLs. Also the product features of MFI are better than the TMLs.

5.0 COMPARISON WITH REFERENCE TO DEMOGRAPHIC FEATURES

5.1 Gender

In the study of the 200 respondents 167 (83.5%) were male and 33 (16.5%) were female. Here the study tried to see if there is any perceptual difference between the views of male and female clients in terms of the four parameters. The analysis is described below.

5.1.1 Accessibility & convenience of sources

The analysis of the perceptual difference regarding accessibility & convenience of sources shows that there is not much difference of views between the groups at 5% level of significance except three cases (Table 5). In terms of money lending procedure both male & female members poses more or less same behavior toward difficulty in availability of MFI loans (0.50 vs. 0.58) & their lesser amount (0.52 vs. 0.42), but in terms of MFI rigidity (0.15 vs. 0.36) and collateral issues (0.20 vs. 0.85) female members seems more positive than the female members. In case of recognition male members are more influenced by continuity of loans by ancestors (0.57 vs. 0.00) and themselves (0.47 vs. 0.12) while female members are influenced more by promotional activity of the MFIs (1.00 vs. 0.46).

Table 5: Gender-wise Comparison of Accessibility & Convenience of Sources

Complex Variables	Statements	Gender	Mean	α
1) Money lending procedure	1) MFI terms and conditions are more rigid than TML	Male (167)	0.15	0.244
		Female (33)	0.36	
	2) MFI loans are not as easily available as TML	Male (167)	0.50	0.675
		Female (33)	0.58	
	3) MFI loan amount offered is lower than TML	Male (167)	0.52	0.656
		Female (33)	0.42	
	4) The collateral issues are rare in MFI*	Male (167)	0.20	0.001
		Female (33)	0.85	
2) Recognition/ Reputation	1) TML loans are preferred over MFI due to loans taken from them in the past	Male (167)	0.47	0.109
		Female (33)	0.12	
	2) TML loans are preferred over MFI due to loans taken from them by ancestors*	Male (167)	0.57	0.014
		Female (33)	0.00	
	3) MFI loan taking has started under the influence of its mass promotion*	Male (167)	0.46	0.008
		Female (33)	1.00	

* different at 5% level of significance

5.1.2 Product feature and repayment issues

The analysis of the perceptual difference regarding product feature and repayment issues between the two groups shows that there is not much difference of views between the groups ($\alpha=0.5$) except two cases (Table 6). It appears that the female members are more of a disagreement with their male counterparts that MFI charges higher interest(-0.33 vs. 0.13) and MFI loan repayment period is shorter (-0.48 vs. -0.22). But the female members are more of an agreement with their male counterparts that contingency (0.73 vs. 0.29), aggregate loan issues 0.27 vs. 0.01), selling of property for repayment (0.42 vs. 0.29) and mortgage of wealth/treasury(0.63 vs. 0.43) are more prominent in TML.

Table6: Gender-wise Comparison of Product feature and Repayment Issues

Complex Variables	Statements	Gender	Mean	α
1) Repayment Policies	1) MFI charges higher interest rate than TML*	Male (167)	0.13	0.025
		Female (33)	-0.33	
	2) MFI loan repayment period is shorter than TML	Male (167)	-0.22	0.192
		Female (33)	-0.48	
	3) TMLs have more aggregate loan issues than MFIs	Male (167)	0.01	0.092
		Female (33)	0.27	
2) Alternative Repayment	1) Mortgage of wealth/treasury is more of a common phenomenon in TML than in MFI	Male (167)	0.43	0.231
		Female (33)	0.63	
	2) Contingency is more prominent in TML than MFI*	Male (167)	0.29	0.010
		Female (33)	0.73	
	3) Selling of property for repayment is more common in TML than in MFI	Male (167)	0.29	0.502
		Female (33)	0.42	

* different at 5% level of significance

5.1.3 Security of Loan

Regarding loan security issues the male and female members possess quite different views (Table 7). Female group perceive more penalty events, both for legal and illegal cases, for TMLs compared to MFI. The study noted that the female members believe more than their male counterparts that TML goes for strict mortgage/collateral issues (0.79 vs. 0.37), penalty (0.52 vs. 0.26) and physical punishment (0.85 vs. 0.26). On the other hand the females perceive that the MFI makes the children of the debtor work more (0.64 vs. 0.17) in case of default. None of the groups strongly agree or disagree that MFIs charge high interest rate (0.03 vs. -0.07).

5.1.2 Product feature and repayment issues

The analysis of the perceptual difference regarding product feature and repayment issues between the two groups shows that there is not much difference of views between the groups ($\alpha=0.5$) except two cases (Table 6). It appears that the female members are more of a disagreement with their male counterparts that MFI charges higher interest(-0.33 vs. 0.13) and MFI loan repayment period is shorter (-0.48 vs. -0.22). But the female members are more of an agreement with their male counterparts that contingency (0.73 vs. 0.29), aggregate loan issues (0.27 vs. 0.01), selling of property for repayment (0.42 vs. 0.29) and mortgage of wealth/treasury(0.63 vs. 0.43) are more prominent in TML.

Table7: Gender-wise Comparison of Security of Loan

Complex Variables	Statements	Gender	Mean	α
1) Legal control	1) In case of non-repayment mortgage/collateral issues takes place in TML*	Male (167)	0.37	0.016
		Female (33)	0.79	
	2) In case of non-repayment, defaulters are fined at high rates in TML	Male (167)	0.26	0.129
		Female (33)	0.52	
	3) In case of non-repayment, MFI charges high interest rate than required as a penalty	Male (167)	-0.07	0.612
		Female (33)	0.03	
2) Illegal control	1) As a penalty for non-repayment MFI makes the children of the debtor work (child labor)*	Male (167)	0.17	0.039
		Female (33)	0.64	
	2) In case of non-repayment, as a penalty, physical punishment is used in TML*	Male (167)	0.26	0.003
		Female (33)	0.85	

* different at 5% level of significance

5.1.4 Sustainability and Socio-Economic Contribution

In terms of sustainability and socio-economic contribution gender wise perception of the clients are found to be mostly different (Table 8). In all the issues regarding growth, employment, and improved life style except one (time frame) the female members are more agreeable than their male counterparts regarding MFIs performance. Female members think the MFI financed businesses break-even earlier (0.61 vs. 0.32), expand early (0.79 vs. 0.31), reduced unemployment (1.27 vs. 0.74), more cases of job shifting (0.85 vs. 0.42), increasing the income level of the poor/ultra poor (1.09 vs. 0.50) and contribution in household Improvement (1.15 vs. 0.53). Only regarding time frame the male members think that MFI financed businesses operate for more years than TML (0.31 vs. 0.24).

Table8: Gender-wise Comparison of Sustainability and Socio-Economic Contribution

Complex Variables	Statements	Gender	Mean	α
1) Growth	1) MFI financed businesses tend to operate for more years than by TML	Male (167)	0.31	0.768
		Female (33)	0.24	
	2) MFI financed businesses break-even earlier than by TML	Male (167)	0.32	0.141
		Female (33)	0.61	
	3) MFI financed businesses expand early (out sourcing, branches) than by TML*	Male (167)	0.31	0.015
		Female (33)	0.79	
2) Employment	1) MFIs have reduced unemployment due to new job opportunities than by TML*	Male (167)	0.74	0.004
		Female (33)	1.27	
	2) MFI has led to more cases of job shifting than TML*	Male (167)	0.42	0.018
		Female (33)	0.85	
3) Improved Lifestyle	1) MFI has more contribution in education sector than TML	Male (167)	0.42	0.000
		Female (33)	1.24	
	2) MFI has succeeded in increasing the income level of the poor/ultra poor*	Male (167)	0.50	0.004
		Female (33)	1.09	
	3) MFI has more contribution in household Improvement/standard of living *	Male (167)	0.53	0.001
		Female (33)	1.15	

*different at 5% level of significance

5.2 Occupation

The study divided the occupation of the clients into two groups: 1) Respondents who are small entrepreneurs (own business) and 2) Respondents who are paid employees. In the study of 200 respondents 145 (72.5%) have their own business and the rest 55 (27.5%) were farmers, teachers, government employees and sales persons. The study tried to see if there is any difference in opinion of the two groups in terms of the four parameters.

5.2.1 Accessibility & convenience of sources

The job-wise analysis of the perceptual difference regarding accessibility & convenience of sources between the two groups shows that there is not much difference of views between the groups at 5% level of significance (Table 9). In case of rigidity the business entrepreneurs are more of disagreement from employed clients that MFI terms and conditions are more rigid. But they are more agreeable than their non-business counterparts that MFI loan amount is lower, and collateral issues are rare.

Table9: Job-wise Comparison of Accessibility & Convenience of Sources

Complex Variables	Statements	Job Type	Mean	α
1) Money lending procedure	1) MFI terms and conditions are more rigid than TML	Business (145)	0.26	0.068
		Others (55)	-0.02	
	2) MFI loans are not as easily available as TML	Business (145)	0.51	0.948
		Others (55)	0.50	
	3) MFI loan amount offered is lower than TML	Business (145)	0.42	0.060
		Others (55)	0.76	
	4) The collateral issues are rare in MFI	Business (145)	0.23	0.079
		Others (55)	0.52	
2) Recognition/ Reputation	1) TML loans are preferred over MFI due to loans taken from them in the past	Business (145)	0.34	0.159
		Others (55)	0.59	
	2) TML loans are preferred over MFI due to loans taken from them by ancestors	Business (145)	0.54	0.219
		Others (55)	0.30	
	3) MFI loan taking has started under the influence of its mass promotion	Business (145)	0.54	0.866
		Others (55)	0.57	

5.2.2 Product feature and repayment issues

The job-wise analysis of the perceptual difference regarding product feature and repayment issues shows that there is not much difference of views between the groups (except one) at 5% level of significance (Table 10). Non-entrepreneurs believe that MFI charges higher interest rate. The business entrepreneurs are more of disagreement that MFI loan repayment period is shorter.

Table10: Job-wise Comparison of Product feature and Repayment Issues

Complex Variables	Statements	Job Type	Mean	α
1) Repayment Policies	1) MFI charges higher interest rate than TML	Business (145)	-0.01	0.245
		Others (55)	0.19	
	2) MFI loan repayment period is shorter than TML*	Business (145)	-0.36	0.048
		Others (55)	-0.02	
	3) TMLs have more aggregate loan issues than MFIs	Business (145)	0.10	0.308
		Others (55)	-0.04	
2) Alternative Repayment	1) Mortgage of wealth/treasury is more of a common phenomenon in TML than in MFI	Business (145)	0.40	0.120
		Others (55)	0.63	
	2) Contingency is more prominent in TML than in MFI	Business (145)	0.33	0.286
		Others (55)	0.48	
	3) Selling of property for repayment is more common in TML than in MFI	Business (145)	0.35	0.330
		Others (55)	0.19	

*different at 5% level of significance

5.2.3 Security of Loan

The job-wise analysis of the perceptual difference regarding loan security has not seen much of a difference of views at 5% level of significance (Table 11). In most of the issues the business and non-business person's views are quite close.

Table11: Job-wise Comparison of Security of Loan

Complex Variables	Statements	Job Type	Mean	α
1) Legal Penalty	1) In case of non-repayment mortgage/collateral issues takes place in TML	Business (145)	0.41	0.562
		Others (55)	0.50	
	2) In case of non-repayment, defaulters are fined at high rates in TML	Business (145)	0.37	0.125
		Others (55)	0.15	
	3) In case of non-repayment, MFI charges high interest rate than required as a penalty	Business (145)	-0.06	0.909
		Others (55)	-0.04	
2) Illegal Penalty	1) As a penalty for non-repayment MFI makes the children of the debtor work (child labor)	Business (145)	0.19	0.353
		Others (55)	0.37	
	2) In case of non-repayment, as a penalty, physical punishment is used in TML	Business (145)	0.32	0.414
		Others (55)	0.56	

5.2.4 Sustainability and Socio-Economic Contribution

Like loan security the job-wise analysis of the perceptual difference regarding sustainability and socio-economic contribution has not seen much of a difference (Table 12). In most of the issues the business and non-business person's views are quite close.

Table12: Job-wise Comparison of Sustain ability and Socio-Economic Contribution

Complex Variables	Statements	Job Type	Mean	α
1) Growth	1) MFI financed businesses tend to operate for more years than by TML	Business (145)	0.32	0.595
		Others (55)	0.22	
	2) MFI financed businesses break-even earlier than by TML	Business (145)	0.34	0.593
		Others (55)	0.43	
	3) MFI financed businesses expand early (outsourcing, branches) than by TML	Business (145)	0.41	0.626
		Others (55)	0.33	
2) Employment	1) MFIs have reduced unemployment due to new job opportunities than by TML	Business (145)	0.83	0.912
		Others (55)	0.85	
	2) MFI has led to more cases of job shifting than TML	Business (145)	0.50	0.827
		Others (55)	0.46	
3) Improved Lifestyle	1) MFI has more contribution in education sector than TML	Business (145)	0.52	0.252
		Others (55)	0.69	
	2) MFI has succeeded in increasing the income level of the poor/ultra poor	Business (145)	0.65	0.282
		Others (55)	0.46	
	3) MFI has more contribution in household Improvement/standard of living	Business (145)	0.66	0.78
		Others (55)	0.61	

5.3 Age

The age distribution of the respondents is more or less normal. Majority of the respondents (42%) belong to age group of 31-40 years. On the other hand equal number of respondents (28%) belongs to age groups of 21-30 and 41-50 years. Only 2% belong to age group of 11-20 years. No strong correlation is observed between age of the respondents and the 26 variables of the study (Appendix 3). Only in 3 cases (TMLs have more loan aggregate issues, collateral takes place in TML for non repayment, MFI makes the children of the debtor work for non-repayment) the responses of the age group of 21-30 and 31-40 years is found different ($\alpha=0.05$). Also in one case (MFIs tend to operate for more years than TML) the responses of the age group of 21-30 and 41-50 years is found different ($\alpha=0.05$).

5.4 Education

The respondents of the study have mostly primary (25%), secondary (35%) and higher secondary (35.5%) level of education. Only 4.5% of the respondents have graduate level of education. To see the perceptual difference in terms of education the study divided the clients into two groups: 1) Respondents below SSC level of education, 2) Respondents above SSC level of education. The results are shown below.

5.4.1 Accessibility & convenience of sources

The education-wise analysis of the perceptual difference regarding accessibility & convenience of sources between the two groups shows that there is not much difference of views between the groups at 5% level of significance except two cases (Table 9). In terms of rigidity the above SSC clients are more of agreement than below SSC clients that MFI terms and conditions are more rigid (0.27 vs. -0.06). But they are more agreeable than their non-SSC counterparts that TML loans are preferred over MFI due to loans taken from them by ancestors (0.68 vs. -0.10).

Table 9: Education-wise Comparison of Accessibility & Convenience of Sources

Complex Variables	Statements	Education	Mean	α
1) Money lending procedure	1) MFI terms and conditions are more rigid than TML	<SSC (52)	-0.06	0.034
		>SSC (148)	0.27	
	2) MFI loans are not as easily available as TML	<SSC (52)	0.73	0.059
		>SSC (148)	0.43	
	3) MFI loan amount offered is lower than TML	<SSC (52)	0.56	0.698
		>SSC (148)	0.49	
	4) The collateral issues are rare in MFI	<SSC (52)	0.27	0.773
		>SSC (148)	0.31	
2) Recognition/ Reputation	1) TML loans are preferred over MFI due to loans taken from them in the past	<SSC (52)	0.31	0.450
		>SSC (148)	0.45	
	2) TML loans are preferred over MFI due to loans taken from them by ancestors	<SSC (52)	-0.10	0.000
		>SSC (148)	0.68	
	3) MFI loan taking has started under the influence of its mass promotion	<SSC (52)	0.67	0.323
		>SSC (148)	0.50	

5.4.2 Product Feature and Repayment Issues

The education-wise analysis of the perceptual difference regarding product feature and repayment issues shows that in three cases ($\alpha=0.5$) the views between the groups are different (Table 10). Above SSC clients believe that TMLs have more aggregate loan issues than MFIs, contingency is more prominent in TML than in MFI and selling of property for repayment is more common in TML than in MFI.

Table 10: Education-wise Comparison of Product feature and Repayment Issues

Complex Variables	Statements	Job Type	Mean	α
1) Repayment Policies	1) MFI charges higher interest rate than TML	<SSC (52)	0.10	0.721
		>SSC (148)	0.03	
	2) MFI loan repayment period is shorter than TML	<SSC (52)	-0.17	0.502
		>SSC (148)	-0.29	
	3) TMLs have more aggregate loan issues than MFIs*	<SSC (52)	-0.23	0.004
		>SSC (148)	0.15	
2) Alternative Repayment	1) Mortgage of wealth/treasury is more of a common phenomenon in TML than in MFI	<SSC (52)	0.40	0.611
		>SSC (148)	0.48	
	2) Contingency is more prominent in TML than in MFI	<SSC (52)	0.15	0.046
		>SSC (148)	0.44	
	3) Selling of property for repayment is more common in TML than in MFI*	<SSC (52)	-0.10	0.001
		>SSC (148)	0.45	

*different at 5% level of significance

5.4.3 Security of Loan

The education-wise analysis of the loan security identified one case ($\alpha=0.5$) where the views between the groups are different (Table 11). In terms of legal penalty above SSC group more positively believes that for non-repayment MFI makes the children of the debtor work (0.35 vs. -0.06). In terms of other variables there is not much significant difference.

Table 11: Education-wise Comparison of Security of Loan

Complex Variables	Statements	Job Type	Mean	α
1) Legal Penalty	1) In case of non-repayment mortgage/collateral issues takes place in TML	<SSC (52)	0.31	0.251
		>SSC (148)	0.48	
	2) In case of non-repayment, defaulters are fined at high rates in TML	<SSC (52)	0.19	0.312
		>SSC (148)	0.34	
	3) In case of non-repayment, MFI charges high interest rate than required as a penalty	<SSC (52)	-0.13	0.476
		>SSC (148)	-0.02	
2) Illegal Penalty	1) As a penalty for non-repayment MFI makes the children of the debtor work (child labor)*	<SSC (52)	-0.06	0.033
		>SSC (148)	0.35	
	2) In case of non-repayment, as a penalty, physical punishment is used in TML	<SSC (52)	0.35	0.945
		>SSC (148)	0.36	

Like loan security the education-wise analysis of the perceptual difference regarding sustainability and socio-economic contribution has not seen much of a difference (Table 12). In most of the issues the two groups view are quite close. Only regarding early expansion of MFI financed businesses the above SSC group perceived this to be more agreeable and different than non-SSC clients (0.50 vs. 0.08) at $\alpha=0.05$.

Table 12: Education-wise Comparison of Sustain ability and Socio-Economic Contribution

Complex Variables	Statements	Job Type	Mean	α
1) Growth	1) MFI financed businesses tend to operate for more years than by TML	<SSC (52)	0.12	0.178
		>SSC (148)	0.36	
	2) MFI financed businesses break-even earlier than by TML	<SSC (52)	0.31	0.641
		>SSC (148)	0.39	
	3) MFI financed businesses expand early (out sourcing, branches) than by TML*	<SSC (52)	0.08	0.011
		>SSC (148)	0.50	
2) Employment	1) MFIs have reduced unemployment due to new job opportunities than by TML	<SSC (52)	0.69	0.241
		>SSC (148)	0.88	
	2) MFI has led to more cases of job shifting than TML	<SSC (52)	0.65	0.151
		>SSC (148)	0.43	
3) Improved Lifestyle	1) MFI has more contribution in education sector than TML	<SSC (52)	0.73	0.110
		>SSC (148)	0.49	
	2) MFI has succeeded in increasing the income level of the poor/ultra poor	<SSC (52)	0.40	0.137
		>SSC (148)	0.66	
	3) MFI has more contribution in household Improvement/standard of living	<SSC (52)	0.52	0.327
		>SSC (148)	0.68	

6.0 SUMMARY, CONCLUSION AND RECOMMENDATION

The comparative analysis between services provided by micro finance institutions and traditional money lenders in Bangladesh are made in light of four parameters i) accessibility & convenience, ii) features and repayment issues, iii) loan security, and iv) sustain ability and socio-economic contribution. Against each of these parameters a number of complex (9) and simple variables (26) were developed. Through a structured questionnaire using a five-point likertscale 200 client responses are observed regarding each of the 26 variables.

The first parameter for this study, accessibility & convenience focused on money lending procedure and recognition/reputation of the sources. Regarding money lending procedure the study noted that the limited MFI loans are not as easily available as TML. The respondents moderately agreed that the collateral issues are rare in MFI and their terms and conditions are to some extent rigid than TML. Regarding recognition/reputation it appeared that MFIs have considerable positive promotional impact. It is also observed that the respondents go for TML loans mainly to maintain the continuity of their ancestors and also of their own.

The parameter product feature and repayment policies consist of two complex variables (Repayment policies, and Alternative repayment) and 6 simple variables. Regarding repayment policies the respondents do not agree that MFI loan repayment period is shorter than TML. However, the respondents are quite indifferent regarding MFIs' charging higher interest rate and TMLs' having more aggregate loan issues. Regarding alternative repayment it is noted that respondents are agreeing that mortgage of wealth, contingency measures and selling of property for repayment is more common in case of TML loans.

The parameter loan security focuses both legal and illegal control actions. Regarding legal security measures it is noted that TML goes for mortgage/collateral takeover or higher interest enforcement in case of non-repayment which is non-observant for MFI loans. Interestingly it is noted that both TML and MFIs take illegal measures for non-repayment. TML are found to give physical punishment whereas the MFIs make the children of the debtor work as a penalty.

The parameter sustainability has three complex variables broken down to eight simple variables. The growth related issues perceived by the respondents identified that MFI financed businesses expand early, break-even earlier and tend to operate for longer period than by TML. Regarding employment MFIs perceived to have reduced unemployment due to new job opportunities and led to more cases of job shifting than TML. For improved lifestyle MFI has more contribution in household improvement and standard of living, as well as, increasing the income level of the poor/ultra poor and has more contribution in education sector.

Gender-wise perceptual difference of views of clients in terms of four parameters is found quite varied. Regarding accessibility & convenience there is not much difference of views between the groups. In terms of money lending procedure both male & female members pose more or less same behavior toward difficulty in availability of MFI loans & their limited amount, but in terms of MFI rigidity and collateral issues female members seem more positive than the male members. In case of recognition male members are more influenced by continuity of loans by ancestors and themselves while female members are influenced more by promotional activity of the MFIs.

The perceptual difference regarding product feature and repayment issues between the two groups shows that there is not much difference of views. It appears that the female members are more of a disagreement with their male counterparts that MFI charges higher interest and MFI loan repayment period is shorter. But the female members are more of an agreement with their male counterparts that contingency, aggregate loan issues, selling of property for repayment and mortgage of wealth/treasury are more prominent in TML.

Regarding loan security issues the male and female members possess quite different views. Female group perceive more penalty events for TMLs compared to MFI. The study noted that the female members believe more than their male counterparts that TML goes for strict mortgage/collateral issues, penalty and physical punishment. On the other hand the females perceive that the MFI makes the children of the debtor work more in case of default. None of the groups strongly agree or disagree that MFIs charge high interest rate. In terms of sustainability and socio-economic contribution gender wise perception of the clients are found to be mostly different. In all the issues regarding

growth, employment, and improved life style the female members are more agreeable than their male counterparts regarding MFIs performance. Female members think the MFI financed businesses break-even earlier, expand early, reduced unemployment, more cases of job shifting, increasing the income level of the poor/ultra poor and contribution in household Improvement. Only regarding time frame the male members think that MFI financed businesses operate for more years than TML.

The study divided the occupation of the clients into two groups: small entrepreneurs (own business) and paid employees. The perceptual difference regarding accessibility & convenience of sources between the two groups does not show much difference of views. In case of rigidity the business entrepreneurs are more of disagreement from employed clients that MFI terms and conditions are more rigid. But they are more agreeable than their non-business counterparts that MFI loan amount is lower, and collateral issues are rare. The perceptual difference regarding product feature and repayment issues shows that there is not much difference of views between the groups. Non-entrepreneurs believe that MFI charges higher interest rate. The business entrepreneurs are more of disagreement that MFI loan repayment period is shorter. The job-wise analysis of the perceptual difference regarding loan security and sustain ability and socio-economic contribution has not seen much of a difference of views. In most of the issues the business and non-business person's views are quite close.

No strong correlation is observed between age of the respondents and the variables of the study. Only in cases of TMLs having more loan aggregate issues, TMLs' collateral for non repayment, MFIs' making the children of the debtor work for non-repayment the responses of the age group of 21-30 and 31-40 years is found different. Also in one case of MFIs operating for more years than TML the responses of the age group of 21-30 and 41-50 years is found different.

To see the perceptual difference in terms of education the study divided the clients into two groups: Respondents below SSC level of education, Respondents above SSC level of education. The perceptual difference regarding accessibility & convenience between the two groups does not show much difference of views. In terms of rigidity the above SSC clients are more of agreement than below SSC clients that MFI terms and conditions are more rigid. But they are more agreeable than their non-SSC counterparts that TML loans are preferred over MFI due to loans taken from them by ancestors.

The perceptual difference regarding product feature and repayment issues above SSC clients believe that TMLs have more aggregate loan issues than MFIs, contingency is more prominent in TML than in MFI and selling of property for repayment is more common in TML than in MFI. The education-wise analysis of the loan security identified that in terms of legal penalty above SSC group more positively believes that for

non-repayment MFI makes the children of the debtor work. In terms of other variables there is not much significant difference. Like loan security the education-wise analysis of the perceptual difference regarding sustainability and socio-economic contribution has not seen much of a difference. Only regarding early expansion of MFI financed businesses the above SSC group perceived this to be more agreeable and different than non-SSC clients.

Overall the study very clearly indicated that the MFIs very positively contributed to employment generation, standard of living, household income and education. Even if they agree that MFI loan taking has started under the influence of its mass promotion, but still they follow the suit of their ancestors' TML loan taking. The study also noted that MFI loans are not as easily available as TML and their loan amount is lower. Mortgage of wealth is more common in TML and their forfeiting takes place in case of non-repayment. On the lower side the clients are found indifferent with MFIs' charging higher interest rate, TMLs' having more loan aggregate issues, MFIs' more rigid terms and conditions than TML. Overall it can be concluded that MFIs are contributing more in our socio-economic growth in comparison to TMLs.

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Appendix 1: Coordination Schema

Parameters	Complex Variables	Simple Variables
1) Accessibility & convenience	1) Money lending procedure	1) MFI terms and conditions are more rigid than TML
		2) MFI loans are not as easily available as TML
		3) MFI loan amount offered is lower than TML
		4) The collateral issues are rare in MFI
	2) Recognition/ Reputation	5) TML loans are preferred over MFI due to loans taken from them in the past
		6) TML loans are preferred over MFI due to loans taken from them by ancestors
		7) MFI loan taking has started under the influence of its mass promotion
2) Product feature and repayment issues	1) Repayment policies	8) MFI charges higher interest rate
		9) Repayment period shorter in MFI
		10) TMLs have more loan aggregate issues
	2) Alternative repayment	11) Mortgage of wealth more common in TML
		12) Contingency is more prominent in TML
		13) Selling of property more common in TML
3) Loan Security	1) Legal control	14) In case of non-repayment mortgage/collateral issues takes place in TML
		15) In case of non-repayment, defaulters are fined at high rates in TML
		16) In case of non-repayment, MFI charges high interest rate than required as a penalty
	2) Illegal control	17) As a penalty for non-repayment MFI makes the children of the debtor work (child labor)
		18) In case of non-repayment, as a penalty, physical punishment is used in TML
		19) MFI financed businesses tend to operate for more years than by TML
4) Sustainability & socio-economic contributions	1) Growth	20) MFI financed businesses break-even earlier than by TML
		21) MFI financed businesses expand early (out sourcing, branches) than by TML
		22) MFIs have reduced unemployment due to new job opportunities than by TML
	2) Employment	23) MFI has led to more cases of job shifting than TML
		24) MFI has more contribution in education sector than TML
	3) Improved lifestyle	25) MFI has succeeded in increasing the income level of the poor/ultra poor
		26) MFI has more contribution in household Improvement/standard of living

Appendix 2: Mean Indices and Variability of the Simple Variables

Variables	Mean	Std. Deviation	Level of significance (α)
1) MFI terms and conditions are more rigid than TML	0.19	0.96	.007
2) MFI loans are not as easily available as TML	0.51	0.98	.000
3) MFI loan amount offered is lower than TML	0.51	1.13	.000
4) The collateral issues are rare in MFI	0.31	1.04	.000
5) TML loans are preferred over MFI due to loans taken from them in the past	0.41	1.13	.000
6) TML loans are preferred over MFI due to loans taken from them by ancestors	0.48	1.23	.000
7) MFI loan taking has started under the influence of its mass promotion	0.55	1.08	.000
8) MFI charges higher interest rate*	0.06	1.08	.513
9) Repayment period shorter in MFI	-0.27	1.08	.001
10) TMLs have more loan aggregate issues*	0.05	0.83	.396
11) Mortgage of wealth more common in TML	0.47	0.92	.000
12) Contingency is more prominent in TML	0.37	0.89	.000
13) selling of property more common in TML	0.32	1.07	.000
14) In case of non-repayment mortgage/collateral issues takes place in TML	0.44	0.93	.000
15) In case of non-repayment, defaulters are fined at high rates in TML	0.30	0.89	.000
16) In case of non-repayment, MFI charges high interest rate than required as a penalty*	-0.05	0.99	.476
17) As a penalty for non-repayment MFI makes the children of the debtor work (child labor)	0.25	1.19	.004
18) In case of non-repayment, as a penalty, physical punishment is used in TML	0.36	1.07	.000
19) MFI financed businesses tend to operate for more years than by TML	0.30	1.12	.000
20) MFI financed businesses break-even earlier than by TML	0.37	1.03	.000
21) MFI financed businesses expand early (out sourcing, branches) than by TML	0.39	1.03	.000
22) MFIs have reduced unemployment due to new job opportunities than by TML	0.83	0.98	.000
23) MFI has led to more cases of job shifting than TML	0.49	0.96	.000
24) MFI has more contribution in education sector than TML	0.56	0.92	.000
25) MFI has succeeded in increasing the income level of the poor/ultra poor	0.60	1.08	.000
26) MFI has more contribution in household Improvement/standard of living	0.64	0.99	.000
*not different from "0" (indifference) at 5% level of significance			

Appendix 3: Age Group-wise Mean Index Distribution of the Variables

Variables ↓	Age group (years) →					
	21-30		31-40		41-50	
	μ	σ	μ	σ	μ	σ
1) Terms and condition are more rigid in MFI	0.04	0.91	0.30	1.02	0.20	0.94
2) Loans are not easily available in MFI	0.39	0.93	0.62	0.96	0.46	1.09
3) Loan amount in MFI is lower	0.45	1.19	0.42	1.11	0.64	1.14
4) Collateral issues are rare in MFI	0.39	1.15	0.37	1.02	0.09	0.94
5) Preferring TML due to past experience	0.48	1.16	0.33	1.15	0.52	1.01
6) Preferring TML due to ancestors' preference	0.45	1.22	0.37	1.33	0.75	1.07
7) Preferring MFI due to mass promotion	0.54	1.06	0.48	1.16	0.61	1.00
8) MFI charges higher interest rate	-0.02	1.17	0.08	1.12	0.09	0.94
9) Repayment period shorter in MFI	-0.34	1.13	-0.15	1.10	-0.32	1.01
10) TMLs have more loan aggregate issues*	0.21	0.78	-0.11	0.91	0.11	0.76
11) Mortgage of wealth more common in TML	0.59	0.91	0.42	0.91	0.36	0.98
12) Contingency is more prominent in TML	0.46	0.95	0.35	0.84	0.27	0.88
13) selling of property more common in TML	0.27	1.02	0.27	1.14	0.36	1.02
14) Collateral takesplace in TML for non repayment*	0.68	0.81	0.36	0.99	0.29	0.93
15) Defaulters are fined in high rates in TML	0.11	0.82	0.38	0.96	0.38	0.86
16) For non-repayment, MFI charges higher than required interest rates	0.02	1.10	-0.11	.98	-0.02	0.90
17) For non-repayment, MFI makes the children of the debtor work*	0.64	1.33	0.10	1.19	0.05	0.92
18) Physical punishment in TML	0.54	1.11	0.33	1.11	0.21	0.89
19) Tend to operate for more years than TML*	0.11	1.12	0.25	1.09	0.59	1.12
20) MFI institutions reach breakeven earlier than TML	0.25	1.07	0.43	1.01	0.39	1.00
21) business expands early in MFI	0.55	0.93	0.25	1.03	0.41	1.09
22) MFI has reduced unemployment	0.91	0.84	0.70	1.11	0.91	0.92
23) Job Shifting	0.52	0.93	0.50	1.09	0.41	0.76
24) MFI has more contribution in education sector	0.63	0.84	0.57	0.95	0.41	0.97
25) MFI has increased income level of poor	0.36	1.02	0.70	1.12	0.63	1.07
26) MFI has more contribution in increasing standard of leaving	0.59	0.97	0.64	1.00	0.66	1.03
Sample size	56		84		56	

Role of Insurance in Achieving Sustainable Development Goals (SDGs)

S.M Ibrahim Hossain, ACII

Introduction

The SDGs, also known as Global Goals, were adopted by all the United Nations member states in 2015 as a universal call for action to end poverty, protect the planet called earth, and ensure that all people enjoy peace and prosperity by 2030. The 2030 Agenda for Sustainable Development replaces the MDGs which were the overarching development framework from 2000 to 2015.

The Sustainable Development Goals (SDGs) are a collection of 17 Global Goals and 169 objectives designed to be a “blueprint to achieve a better and more sustainable future for all”. The SDGs, set in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030, are part of the UN Resolution 70/1, the 2030 Agenda. . The 17 SDGs are connected, in such a way that action in one area will affect the outcomes in others and that development must balance the socio- economic and environmental sustainability.

The Sustainable Development Goals are

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation, and Infrastructure
10. Reducing Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice, and Strong Institutions
17. Partnerships for the Goals

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Insurance is only once bluntly mentioned in the SDGs, but it is indirectly relevant in the achievement of multiple goals.

- 'Insurance' once its reference to the promotion of financial inclusion (TG 8.10)
- Additionally, risk management is only mentioned once in relation to disaster risk management (TG 11.b)

Insurance as a risk protection mechanism can arguably support many of the SDG's both directly and indirectly. Insurance is critical to achieve six of the 17 SDG's and important to the completion of five other.

Insurance as a primary level contributor to 6 SDG's like:

1. No Poverty - SDG-1
2. Zero Hunger - SDG-2
3. Good Health and Well- being - SDG-3
4. Gender Equality - SDG-5
5. Decent Work and Economic Growth - SDG-8
6. Climate Action - SDG-13

Insurance as a secondary level contributor of to 5 SDG's like:

1. Quality Education - SDG 4
2. Industry, Innovation and Infrastructure - SDG-9
3. Reduced Inequality - SDG-10
4. Sustainable Cities and Communities - SDG-11
5. Partnership - SDG-17

Father of the Nation Bangabandhu Sheikh Mujibur Rahman dreamt of a hunger and poverty free Sonar Bangla wherein insurance could play a vital role for alleviation of poverty. The Government has declared March 01 as the National Insurance Day, commemorating the date of Bangabandhu's joining in the Alpha Insurance Company. The present Government has taken various steps to increase the contributions of insurance to the national economy. Now let's see how insurance can play a vital role in this regard and help achieve the SDG's.

SDG-1: Eliminating poverty is the first and most important SDG among all the goals of the Resolution. As low-income people do not have access to risk-management tools, they are vulnerable to falling back into poverty in times of hardship, for example, when the bread winner of the family dies, or when loan instalment forces them in to hardship or when high hospital bills forces them to take out loans with high interest rates. In such cases, micro-insurance can protect the loanees from loan and also protect them from high hospital bills. We need to make a provision for such risks like death, disability and

illness, But in our country micro- insurance means the insurance with sum insured less than one lakh taka and a premium payment system in a manner of weekly, monthly instead of yearly or half-yearly one which is used for endowment insurance. The existing micro-insurance in our country does not cover the risks like disability illness debt, and So, we need micro-insurance to cover risks like death, illness, injury, property loss or damage, for the interest of the poor and poorest community of our country, especially the poor people of the coastal belt, fisher folk, landless rural and marginal poor who need it the most.

Tasks Ahead

Due to the insurance company and the customer's interests, it is necessary to introduce a corporate agent system and a bancassurance system like other countries. As the major NGOs / MFIs are working in Bangladesh, with offices across the country, if they are licensed to corporate agents, the insurance company's management costs will be reduced considerably. Banks and MFIs / NGOs will be able to earn additional commission in their present management, just as ordinary people can easily purchase insurance from the banks operating in the country. For this, banks and insurance regulators can make legal provisions.

Achievements

According to the Economic Survey of Bangladesh, 73.34% of the insurance business in Bangladesh is coming from the life insurance sector. As per 2015 data, 43.46% of life insurance policies issued by life insurance companies is micro insurance. About 10,951,920 insured have life insurance policy at present.

SDG-2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Hunger is one of the largest constraints to development. It is assumed that around 800 million people globally do not have enough food to live healthy lives. Crop risk poses a very serious threat to low-income farming households. Severe floods occur in Bangladesh after every 4-5 years and 60% of the people suffer significant loss. The Bangladesh Government has spent more than 10 billion taka in the last 40 years to protect people from natural disasters?. Without proper insurance products to mitigate the mentioned risks, it is unlikely that SDG-2 can be achieved. So agricultural insurance can be a good risk management tool to meet the crop failure due to natural calamities such as flood, cyclone or drought.

Achievements

In 2015, the Insurance Development and Regulatory Authority approved a new insurance

policy called Weather Index Crop Insurance for Sadharan Bima Corporation . So far, 8,876 bighas of land in 3 districts was taken under the project with 15,803 farmers and total of 53 lakh 46,154 taka had been paid as claim to the insured farmers. Another crop insurance project is being implemented by Green Delta Insurance Company with the financial help of the World Bank group, IFC. So far Green Delta Insurance Co. has paid about 40 lakh taka to 6,000 farmers. If crop insurance can be spread throughout the country, SDG-2 will be achieved more.

SDG-3: Health and well-being are essential for the economic development of people of all ages. Otherwise, development will be hampered. In developing countries and in the emerging economies, low-income people struggle for their healthcare expenditure due to the lack of effective universal health coverage schemes. Of the five basic rights, 'healthcare' is the most important and the most expensive. A person may survive a few days without food. For shelter there can be general arrangement without building, but without wellness, surviving an hour and a half can be very difficult. According to data from the WHO, expenditure from the pockets of people for medical purpose is increasing in Bangladesh. Every year, 7% of people are falling below the poverty line, due to medical expenditures. Only 3.4% of GDP is spent by the government in the health sector. Of the cost of medical care, 72% goes from the pockets of the individuals, while the remaining 28% is spent by the government, NGOs and donor agencies.

People lack sufficient awareness about health insurance. If we look at the developed countries, we see that they are so aware about health insurance that they are encouraged to accept health insurance in order to stay mentally secure during distress. Even the government gives huge subsidy to the sector so that people can remain free from financial worries. Besides, various companies provide health insurance to their employees, including families, which increases the production of the company.

- Private insurance companies cover various types of health risks. Such as hospital charges (bed charge), various health checkups, medical expenses, etc. If we want to add all types of benefits, premiums are higher, so ordinary people are not encouraged to take such insurance. Apart from this, illness and medical services may be needed several times on certain occasions.
- Bangladesh has a huge potential for expansion of health insurance. Despite the introduction of health insurance by some Insurance companies, the coverage of health insurance in the country is still very low due to lack of necessary awareness and more premium, services and expansion programmes.

Achievements

About 5.5 lakh people have health insurance at present and about 11 lakh government employees will be provided with health insurance in the near future.

Case Study

The Ministry of Health and Family Welfare (MOHFW) under the Health Protection Programme, with the assistance of the German government, is providing health services to 5.5 lakh people of 80,000 families in 3 thanas of Tangail district since 2015. So far, in the last 3 years, 2,500 insurance claims have been settled by the insurance companies, and about 1.5 crore taka has been paid as insurance claims.

SDG -5: There are gender-based differences in risks faced by women and men.

These differences are driven by both biological and socio-cultural factors. Women may face different types of risks other than men due to pregnancy and childbirth, as well as associated biological health risks during different stages of their life cycle.

As per the National Insurance Policy 2014, invention of low premium based insurance products like health insurance for women, savings insurance for women, accident insurance, group insurance, etc. and the discriminatory conditions for women (pregnancy clause) have been guided to abolish. However, in our country, life insurance companies do not pay claims when a woman dies in childbirth due to complications of childbirth during the 1st and 2nd pregnancy. It is desirable to change.

Female involvement in insurance selling to women customers can empower women and thus help achieve the SDG.

SDG-8: Insurance protect assets, unlock loans and other funds for investment in small and medium enterprises. It puts the risk of a business organisation on the shoulders of the insurance company through the risk transfer process and the insurance company has a role to play from the start of the production process of the business enterprise. Traders can be relaxed as there is a risk transfer mechanism in place, and it is possible to conduct business activities in risk-free way. Manufacturing is going on in the industry as insurance companies carry the risk of bringing in the raw materials from abroad. A factory might be destroyed suddenly due to an accidental fire. In such cases national production or GDP might be reduced, the owner might go bankrupt, and the employees may become unemployed. But the insurance company compensates the affected factory in all these cases, so that the factory can resume production and the workers get their job back or do not lose it at all. The owner is protected from such disasters. In addition, the insurance industry creates financial resources for other businesses. It is playing a vital role in the formation of capital of the country by depositing earned income to the banks.

By creating employment, it contributes to the production of the country's overall demand by increasing the production, thereby increasing GDP. In case of import or export for foreign trade, the bank has to open a bond or a Letter of Credit or L / C and for this, the insurance cover has to be taken as it makes exchange of goods between two countries possible, But if the goods are damaged, then it is the responsibility of the insurance company to compensate. So, the role of insurance is of utmost importance. Moreover, in case of export, Export Credit insurance provides guarantee and provides business capital for business operations. Insurance companies deposit the income earned from the premium to the banks and the banks invests the money in the industrial factory.

Achievements

During the last 11 years, the insurers have compensated Tk 50,560 crore for property insurance like motor, fire, aviation, and miscellaneous insurance. There are a total of 4,65,473 employees in the insurance industry at present.

Recommendations for Increasing the Contributions of insurance to SDGs

- Campaigns are required to increase the prevalence of people's personal accident (PPA), personal accident (PA) policies. By this, accident insurance can be issued at a lower premium for the low-income people like workers, rickshaw pullers, etc.
- Insurance of Government assets can be made compulsory as stated in the National Insurance Policy 2014. For example, insurance for all districts, and upazila administration offices, court- buildings, and large structures can be taken under insurance by the Government.
- Most of the inland ships/launches/steamers do not have insurance. These can be checked at the time of registration.
- Health insurance can be introduced through a third party administrator (TPA) system.
- New insurance products will have to be created. For example, fire and earthquake risk insurance can be introduced at low premium for the flat housing of all the divisional and district cities.
- Railway passengers insurance can be introduced.
- Female involvement in insurance selling to women customers can empower women & thus help achieve the SDG.
- Insurance product innovation to meet the demand of the SDGs like micro-health, micro- insurance pension, bancassurance, crop insurance etc. Effective laws and regulations should be introduced for bancassurance, corporate agents etc.

- Easing the claim process for quick claim settlement.
- Insurance awareness/customer education programme should be given emphasis.
- Although car liability insurance is mandatory, only 1.5 million out of 3.5 million vehicles have insurance (IDRA). This may be monitored by the Insurance Development Regulatory Authority (IDRA) in association with Bangladesh Road Transport Authority (BRTA).

Conclusion

If micro- insurance and crop insurance can be introduced for the middle and lower income people in our country, it will be possible to provide the financial support to the family in case of sudden death of the insured, provide financial assistance to the insured due to the sudden accidental disability of the insured, provide indemnity to farmers in case of crop loss due to flood, cyclone, drought etc. and these insurance policies can play a role in poverty alleviation. Besides, if corporate agents and, bancassurances can be launched for insurance, the NGO / MFI, Bank will be able to bring the larger population under insurance and insurance companies, including NGO / MFI, Bank will also be benefited.

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Integrating Climate Insurance with Social Protection Programs in line with UN Sustainable Development Goals: Policy Options for Bangladesh

————— Sifullah Khaled and Dr. Madhu Acharyya

Abstract

With the rise of ever increasing climate risk and its associated costs, there is a growing need by both governments and development agencies to explore the synergies between risk mitigation and risk financing initiatives. Essentially, insurance and social protection schemes are parts of the same toolbox. The climate insurance policies are effective when they are designed to complement and build upon efficient and well-targeted social protection schemes. This study proposes a conceptual decision model to integrate social protection schemes with climate insurance. We review the implementation of this decision model in context of Bangladesh. The decision makers may find this conceptual study useful to integrate the national insurance schemes with climate strategy and social protection reforms. The future areas of research on this topic are proposed.

Keywords:

climate risk; insurance; social protection; decision model; Bangladesh

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1. Introduction

Currently, climate risk prominently threatensthe achievements of the sustainable development transformations of many developing countries. It is striking harder and more rapidly than expected and now dominating all of the top five global long-term risks¹ (World Economic Forum, 2020). The costs of response to climate related events are also increasing, stressing greater pressure on limited public finance and resources. In the mean-time remarkable progress has been achieved in mitigating the risk of natural disasters in the form of ex-ante risk management, adaptation and resilience, the financing of losses ex-post remains inadequate. Importantly, the research indicates that neither initiative is effective alone.Hence, there is a growing need by governments and development agencies to explore the synergies between risk mitigation and risk financing initiatives within the scope of socialprotectionto address the challenge of climate change.

Historically, social protection and security² have been usedas an important strategic objective of all governments to shield the human vulnerability from natural catastrophes e.g., floods, droughts, storms and other climate related hazards. Traditionally, it includes a range of welfare tools such as, cash transfer assistance, public work program, fee waivers, subsidies, social care, social insurance, active labor market policies etc. (O'Brien et al., 2018). All of these are of key relevance for mitigating vulnerability and buffering the effects of future climatic hazards.This is how well-designed social protection systems contribute in reducing poverty and inequality, while enhancing social cohesion and political stability. Considering its importance, social protection has been kept at the core of the UN Sustainable Development Goals (SDG) agenda. However, the right to social security is not yet a reality for some 71 per cent of the world's population that has no or has only partial access to comprehensive social protection systems (ILO, 2017). Towards this, extending social protection coverage to those excluded and adapting social protection systems to emerging climatic shocks, vulnerability and insecurity are parts of upcoming challenge.

¹ The World Risk Report (2020) listed extreme weather, climate action failure, natural disasters, bio-diversity loss and human made environmental disasters as the top five long-term risks in terms of likelihood.

² In this article we used the term “social security” a government’s policy initiative to protect its citizens from either man-made (e.g., terrorism, cybercrime, etc.) or natural catastrophes (e.g., hurricanes, earthquakes, tornados, flood, wildfires, pandemics, etc.). However, the social protection is more about the mechanisms coupled with the necessary tools and techniques designed to protect its citizens or the society from the adverse effect of such catastrophes.

On the other hand, insurance instruments provide security, regular cash transfers and asset protections. This might further increase adaptive capacity of the poor households during climate related shocks. Theoretically, social protection schemes are embedded in insurance mechanism with an aim to enhance the ability of the households to cope with climate shocks (Väänänen et al., 2019). If properly designed, the integration of social protection schemes and climate insurance policies can provide optimal security to the vulnerable citizens. Solórzano and Cárdenes (2019) proposed that the climate insurance markets are more effective when they are designed to complement and build upon well-functioning and well-targeted social protection schemes. Consequently, such integration is essential to build the capacity of developing countries in order to protect vulnerable populations from the adverse impacts of climate change (Aleksandrova, 2020).

However, the scope for this integration has not yet been explored in depth. This study aims to explore the policy options for integrating these instruments for Bangladesh. The outcomes of this conceptual study may help the policymakers to overcome the challenges to link the social protection schemes with the sustainable climate insurance agenda while optimizing the available financial resources in line with SDG goals.

The paper has been organized as follows. Section 2 presents a critical review of the existing literature, a conceptual decision model is proposed in Section 3, the issues related to the scope of implementation are added in Section 4, and Section 5 concludes the study.

2. Literature review

2.1 Preparedness and budgetary allocation for climate risks – the case of Bangladesh

In its geographical location, Bangladesh is a low-lying deltaic country and highly exposed to topography and tropical climate. This causes both rapid- and slow-onset climatic events including floods, storms, cyclones, droughts, sea-level rise, salinity, shifting pattern in rainfall, and extreme heat (Haque et al., 2019). The Global Climate Risk Index 2020 ranks Bangladesh as 7th in the list of 10 most long-term climate risk affected countries (Eckstein et al., 2019). It is evident from the International Disasters Database (EM-DAT) for the period of 1980-2020 that floods and storms collectively accounts for 83% of the country's disasters. At the time of writing this article, a third of Bangladesh is submerged due to the monsoon flood, and the people affected in the coastal belt had been hit as a share just after the deadly tropical cyclone Amphan that hit the country in May, 2020.

Bangladesh is historically at the forefront of fighting climate risk exposures with strong and pragmatic policy lead and leadership. The change of climate change and protection from natural disasters have always been a significant priority within national planning and budgeting exercise. As a part of such policy initiatives the Bangladesh Climate

Change Strategic Action Plan (BCCSAP)(first version in 2009 and now in revision stage) and the Delta Plan 2100 play significant roles. The country has been appreciated globally for its demonstrated efforts in climate adaptation and resilience. In order to exchange country's field-level knowledge and experience with international practitioners, a south Asian regional center of the Global Centre on Adaptation (GCA) has recently been established in Dhaka. Additionally, Bangladesh took over the leadership role of the group of nearly 50 countries in the Climate Vulnerable Forum (CVF) for the next two years from 2020 (GoB, 2020a).

As part of government's efforts, climate change initiatives are progressively getting priority in country's national budget. For example, this allocation is USD 3 billion in FY 2020-21, which is 7.5 percent of the national budget. Further, the largest share of this budget (41.25 percent) is allocated under the theme of food security, social protection and health (MoF, 2020a). The adequacy and efficacy of this budget and other national provisions to reach out the vulnerable people has been stressed in a recent study of the International Institute for Environment and Development (IIED). The study found that the climate vulnerable people are bearing higher cost than the government and donors jointly spending for them. Further, the rural Bangladesh households are spending USD 2 billion on disaster preparedness and response, which is more than double the government spending, and 12 times higher than international donor financing to the rural population on climate risk reduction (Eskander and Steele, 2019).

2.2 Overview of climate [risk] insurance

Climate insurance is essentially a formal risk transfer solution. It aims to reduce and compensate the economic losses from extreme (low-frequency and high-severity) weather related disasters (Väänänen et al., 2019). This type of insurance protection is rapidly becoming a recognized tool for the management of climate risk. It is evident that the multi-stakeholders i.e., governments, businesses, donors, and civil society are getting more interested in this tool (Surminski, Panda, and Lambert, 2019).

Essentially, a well-designed climate risk insurance can be the route for “triple dividend of resilience” by (i) reducing loss and damage, (ii) managing potential future risk, and (iii) generating development co-benefits (Tanner et al., 2016). Further, risk transfer and insurance mechanisms are also featured in the Paris Agreement and the Sendai Framework for Disaster Risk Reduction.

These alternative risk transfer and financing tools are essential for sustainable development of emerging economies. Analyzing the data from disaster risk transfer schemes, Surminski, Panda, and Lambert (2019) showed that during the period of 2012-2018, active risk transfer instruments have expanded most in countries e.g., China, the Philippines, and Bangladesh in compared to other Asian counterparts. However, such schemes are

predominantly concentrated in agriculture (e.g. index-based) insurance and there are lack of insurance for natural disasters such as landslides, earthquakes, and volcanic eruptions in many Asian countries. The ADB pilot project on ‘Weather Index-Based Crop Insurance’ (WIBCI) and IFC-GIIF project on ‘Weather-index based agri-insurance’ are few examples that are recently experimented in Bangladesh (ADB, 2018a; World Bank, 2016a). It is recognized that private insurance penetration along with stable public institutional infrastructure can help countries to mitigate the negative economic effects of natural disasters (Breckner et al. 2016). Climate risk insurance can support governments to manage their funds by providing rapid liquidity during post disaster period (Schaefer and Waters, 2016). Further, for the affected households, timely and reliable insurance payouts can act as a safety net and incentives to investment. It can also help households to protect their livelihoods by avoiding negative coping strategies on the event of climatic shocks (Golnarghi, Surminski, and Schanz 2016; Schaefer and Waters, 2016).

There are however limits to insurance as a tool to manage climate risks. It is evident that in addition to capacity shortage, insurance offerings for weather-related events by private insurers may lead to disproportionately high insurance premiums. The vulnerable people are often financially incapable to purchase such insurance unless premiums are subsidized or other supporting measures e.g., offerings by public and private partnerships are provided (Väänänen et al., 2019).

2.3 Social protection interventions and UN SDG

In general, social protection refers to a wide set of policies and programs that aims to reduce poverty, inequality and vulnerability throughout the human life cycle. They are implemented by programs like social assistance, social care, social insurance, and labor market interventions (ILO, 2017). Social protection has been overly stressed in the 2030 Agenda for Sustainable Development (SDG) and is a crucial instrument to achieve 11 out of 17 SDGs (SDG: 1-8, 10, 11, and 13) (ADB, 2018b).

A comprehensive and effective social protection system is a driver to achieve SDG goals and targets on poverty, health, education, employment, access to water-housing-energy, socio-economic inclusion, equality and sustainability of growth among others. Along with these development targets, social protection system is enabler of specific climate related targets of SDG agenda (target: 1.5 reduce vulnerability to climate change events, 11.5 reduce disaster related deaths and losses, and 13.1 strengthen resilience to climate hazards)³ (ADB, 2018b).⁴

³ A comprehensive impact matrix of sustainable development goals with social protection and climate related targets can be found in ADB (2018b) page 41-44.

⁴ Although highly relevant, a detailed discussion on the in-depth link between social protection and SDG fall outside the scope of this study.

It is evident that provision of reliable national social protection systems has been contributing to people's resilience to climate risks (Ulrichs, Slater, and Costella, 2019; Aleksandrova, 2020). They are found effective to support households to deal with chronic vulnerability and poverty by providing direct support, preventing negative consequences, as well as increasing adaptive capacity to deal with future climate risks (Ulrichs and Slater, 2016; Costella et al., 2017). A range of efforts are rapidly emerging to align 'social protection', 'disaster risk reduction', and 'climate change adaptation' into an integrated fashion. Essentially, they all share same fundamental concern for reducing vulnerability and building resilience (Bene et al., 2018). Together, it is coined as 'Adaptive Social Protection' by Davies et al. (2009) as an exercise of developing climate-resilient social protection programs. To align climate and social protection agendas, there exists another strand of practice namely 'Shock-Responsive Social Protection'. It proposes to design social protection programs in a way to respond and scale up rapidly in the event of an emergency and covariate shocks like floods or droughts (O'Brien et al., 2018). The difference between these two strands of practices is that shock-responsive social protection typically focuses emergency or humanitarian response in reducing short term vulnerability. In contrast, the adaptive social protection focuses on transformative capacity addresses structural causes of vulnerability (Cornelius, Béné, and Howland, 2018).

Traditionally, Bangladesh takes a more expansive view of social protection in a fragmented structure of different schemes which are now in a process of consolidation (Hebbar and Shehab, 2020). Currently, the country implements 125 different types of target-based social protection programs and public expenditures on such programs for FY 2020-21 are 16.83% of national budget and 3.01% of GDP (MoF, 2020b). Nearly 70% of these programs have been found too small to have scalable impact with overlapping objectives (Winstanley, 2019; Osmani, 2014). Since 2015, a series of reforms are currently underway that have been initiated under National Social Security Strategy (NSSS) (GoB, 2015). Voluntary national review 2020 updates that efforts have been placed to reduce both the inclusion and exclusion errors of social protection programs, so the value for money can be enhanced (GoB, 2020a).

2.4 Gaps of climate risk insurance and social protection interventions

There is no doubt of the severe economic and social impact of climate disasters in vulnerable and developing economies. Unfortunately, the losses from such disasters are yet not adequately insured. Consequently, the protection gaps are highest in those economies (Swiss Re, 2020a). In low-income countries, typically more than 95% of all losses from weather, climate, and natural hazards remain uninsured (Golnarghi, Surminski, and Schanz, 2016). For example, insurance penetration rate for Bangladesh is only 0.49% of GDP. To have a comparative picture, this rate is 3.89% of GDP for emerging Asia-Pacific regions and the global average is 7.23% of GDP (Swiss Re, 2020b). Though, in its

national insurance policy (GoB, 2014), Bangladesh has projected to increase this penetration rate up to 4% of GDP by 2021, it seems to be a distant reality to achieve that by next year.

Additionally, in the implementation of the climate risk insurance the majority of developing countries face the mismatching demand-and-supply-side barriers. In common, the demand-side constraints include unaffordability, lack of willingness to pay, lack of trust, existence of alternative measures, lack of financial literacy, lack of enforcement of customer rights and transparency. The supply-side constraints include lack of data, weak institutional frameworks, lack of technical capacity, problems of asymmetric information, high operational cost, and unsuitable insurance risks such as slow onset disasters (Surminski, Panda, and Lambert, 2019).

It is claimed that the traditional form of climate insurance is not suitable for all stakeholders as well as for all risks. Therefore, in designing climate insurance instruments, it is important to consider aims and objectives of the insurance, its operational modalities, and requirements of this specific type of customers (Linnerooth-Bayer et al. 2019). However, it is evident that as a result of ever increasing number of climatic events the population of vulnerable people are growing. Consequently, the developing countries are struggling to adequately support their vulnerable citizens by their limited social protection systems (Hallegatte et al., 2016).

The social protection indicators for Bangladesh in the year 2019 show that the coverage of social protection is only 16.6% as percentage of intended beneficiaries whereas 25-country average in Asia is 55.1% (ADB, 2019). Again, among this small coverage the expenditure on non-poor is around 80% and the expenditure for the poor is only 20% (ADB, 2019). The government's voluntary national review report 2020 pointed out that the selection error in social protection services and the proportion of non-poor beneficiaries are two common caveats in social safety net program (GoB, 2020a). In addition to these two caveats, the literature identified several other issues. For example, Khatun and Saadat (2018) pointed that social protection programs of Bangladesh do not yield desired outcomes because of mis-targeting of beneficiaries, ad hoc design without concrete targets, regional disparities in implementation, and leakages in program fund flows. In order to address the impact of climate change, the objectives, targeting, distributions, and transfer value of these programs are the areas of concern that need further improvements (Coirolo et al., 2013; PRI, 2019; Karim and Noy, 2020). In cases where addressed, it is also found, when social protection interventions facilitate short-term coping against climate impacts, it can be at the expense of building longer term adaptive and transformative capacity (Tenzing, 2020).

Moreover, the huge influx of climate vulnerable people migrating to urban areas still remains excluded from the coverage. This is mainly due to the fact that the low-income

countries social protection programs are predominantly rural focus (World Bank, 2015; Wilkinson et al., 2016; Schwan and Yu, 2018; GoB, 2020b). Consequently, the facilitation of long-term resilience was not prioritized in the national policies and frameworks (Choudhury et al., 2019).

In short, from the review of the literature, as presented in the above, it is learnt that in the developing countries, insurance alone cannot finance extreme climate events, nor does social protection. This makes a strong case to integrate both insurance and social protection in a single framework to mitigate and finance the exposure to climate risk.

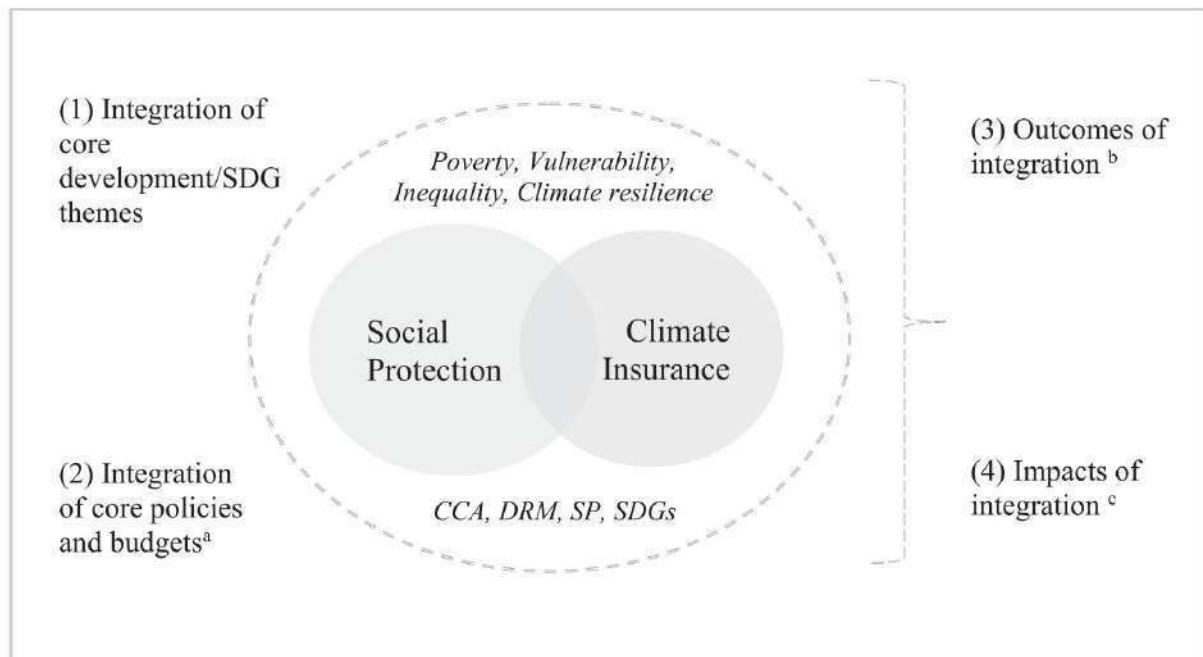
2.5 Benefits of integrating climate insurance and social protection interventions

Undoubtedly, the economic resources are crucial in allowing societies to recover from devastating disasters. In the absence of adequate insurance, the burden of paying for losses falls largely on citizens, governments or aid organizations. They adversely impact government budgets, and in turn affect the economic and social hardship (Patankar and Patwardhan, 2016). This is the place where insurance-augmented social protection can play a role (Carter and Janzen, 2018). Essentially, climate risk insurance and social protection are complementary instruments. Responding jointly to different types of shocks they can provide protection for regularly occurring events as well as for less frequent and more intense shocks (Väänänen et al., 2019). By adopting a risk-layered approach in designing phase, both basic security and protection from major climatic shocks can be ensured (Väänänen et al., 2019). Carter and Janzen (2015) also found that social protection mechanisms with an insurance component for vulnerable people have a greater impact on poverty reduction and economic growth.

Along with the literature this paper has summarized the prospective benefits of integrating social protection and climate insurance in the figure 1 below. Together, (1) this integration addresses core development mandates and SDG themes, which are poverty, vulnerability, inequality and climate resilience. (2) This exercise also helps to reduce overlaps in policy discourse by integrating climate change, disaster risk management, humanitarian responses, social protection, and SDG related plans, programs and budgets.

It is expected (3) outcome of this integration, will reduce financial losses from climate risk, increase insurance penetration/ coverage, increase speed and certainty of pay-outs, increase predictability and cost-efficiency, increase transparency and value for tax payers' money. Finally, (4) the yielded impacts are expected to reduce poverty and vulnerability, increase long term climate resilience, ensure sustainable growth, increase risk informed planning, increase efficiency in public expenditure, reduce policy overlaps and enhanced governance

Figure1: Benefits of integrated framework



Note: ^aCCA- Climate Change Adaptation, DRM- Disaster Risk Management, SP- Social Protection, SDG-Sustainable Development Goals

^b Financial resilience; Insurance penetration; Speed and Certainty of payouts; Predictability; Cost-efficiency; Transparency; Value for money

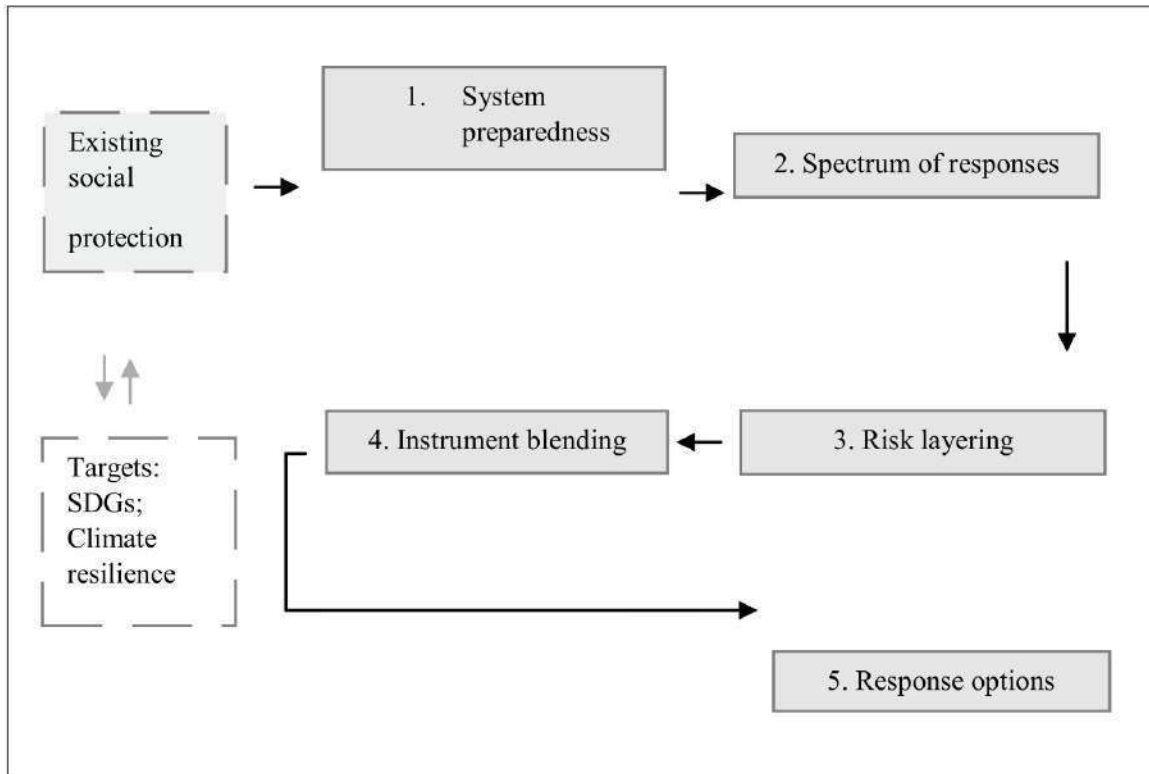
^c Poverty, vulnerability and policy overlaps reduction; Long-term resilience; Sustainable growth; Risk planning; Public expenditure efficiency; Governance

Source: Authors.

3. Decision model

This model (in **figure 2.1** summarized version, and **figure 2.2** extended version) proposes to start the integration exercise with existing social protection program architecture as an entry point. The model is structured into five parts: (1) System preparedness, (2) Spectrum of responses, (3) Risk layering, (4) Instrument blending, and (5) Response options. The following paragraphs briefly describe each part separately.

Figure 2.1: Decision model to integrate social protection and climate insurance (Shorter version, full version in Figure 2.2)



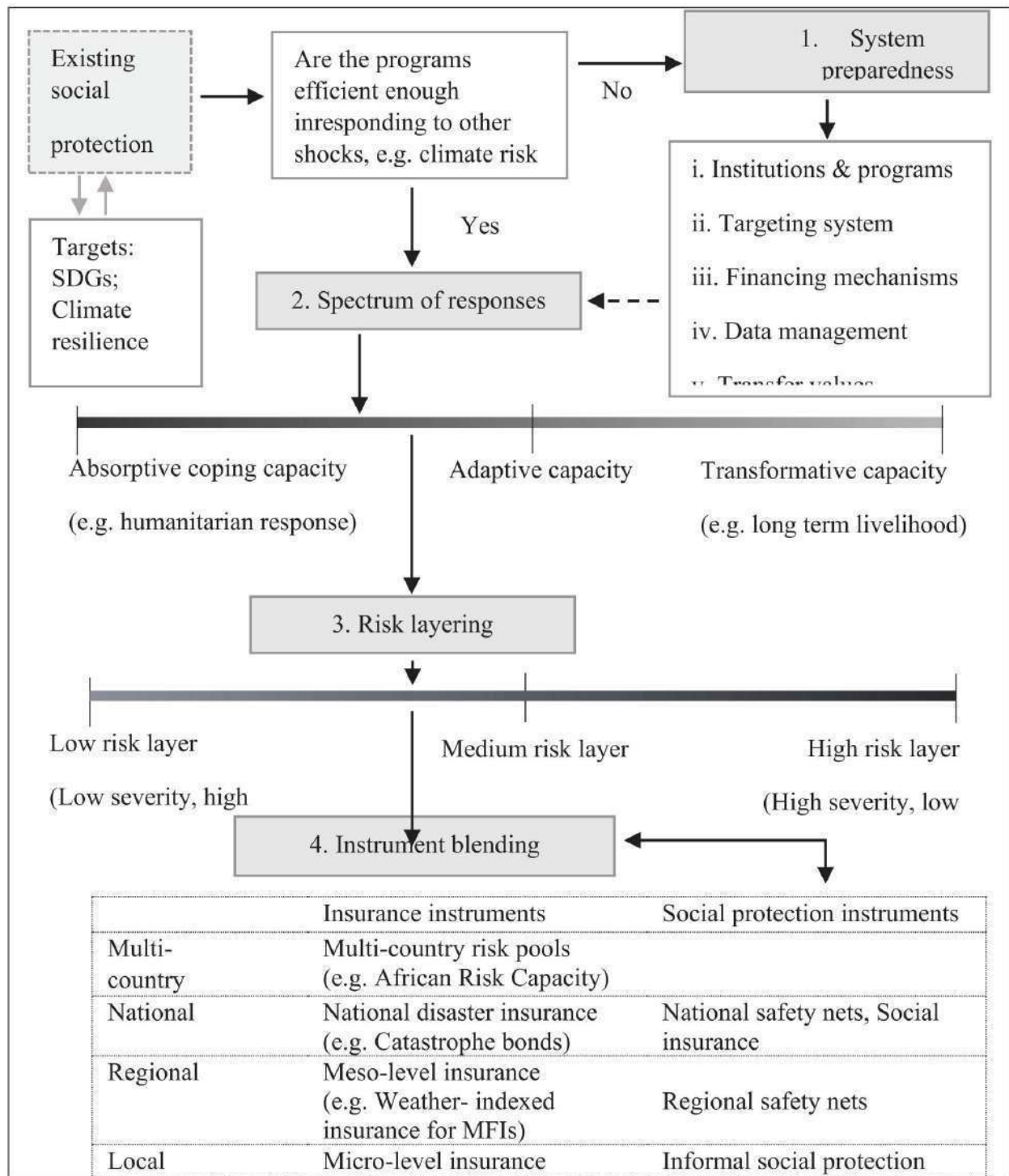
Source: Authors

Part 1: System preparedness

The integration can be started with the existing social protection program, provided that it is ready to embed other agendas and instruments e.g. climate risk. If not, then the system’s readiness need to be ensured first.

O’Brien et al. (2018) have provided a toolkit with exhaustive list of factors and indicative questions to assess the system preparedness. They have proposed at the onset policymakers and program implementers have to diagnose some crucial aspects of preparedness: the nature of shocks and crises; state of poverty and vulnerability; institutional environment; contribution of specific programs; contribution of specific delivery systems; and the budgetary context. This stage will lead to the assessment of: (ii) targeting system (criteria, protocols, and processes for identifying people); (iii) financing mechanisms (funding, subsidy); (iv) data management (accessibility, relevance, completeness, updating, and accuracy of household/ social registry database); (v) transfer values; (vi) delivery mechanism (modalities: cash/ phone/ bank-ATM); and (vii) Coordination, Communication and M&E (linking actors, community discussion, measuring impact).

Figure 2.2: Decision model to integrate social protection and climate insurance (Extended version)



Source: Authors. (Adapted from O’Brien et al., 2018; Cornelius et al., 2018; Surminski et al., 2019; Väänänen et al., 2019; Hebbar and Shehab, 2020)

Part 2: Spectrum of responses

Next part is positioning the program in the continuum of relief to development (absorptive capacity, e.g. humanitarian/ emergency response to transformative capacity, e.g. long term livelihood). Cornelius, Béné, and Howland (2018) position the former programs as the scope of shock-responsive and the later as the focus of adaptive social protection program.

Part 3: Risk layering

After this positioning, assessment of fiscal risks (effective for high-, medium-, and low-probability events) under risk-layering approach will guide to select financing instruments that is tailored to different risk-bearing capacities of the governments, donors, and agencies (World Bank, 2016b; Surminski, Panda, and Lambert, 2019).

Part 4: Instrument blending

As per the risks, this stage will give options to blend required climate risk insurance instruments with the social protection instruments available at different levels from multi-country to regional, or national to local level. Each instrument has its comparative benefits based on the addressed risks, target population or local context, and better integration of these can enhance effective and flexible assistance to vulnerable people (Väänänen et al., 2019). There are few experimentations available, where insurance has been blended or layered as complementary risk management product with national social protection program.

At micro level, for example, Kenya Hunger Safety Net Programme (HSNP) and Kenya Livestock Insurance Programme (KLIP), cover the most vulnerable group who can't pay premium under the safety net, and relatively well-off vulnerable group who can pay premium are covered under livestock insurance. This approach ensures that non-beneficiaries of social protection programs are also ensured with support during a shock, to prevent them from falling into poverty (Weingärtner et al., 2019). Similarly, microinsurance can also be used to top up social protection benefits for participating households in times of crisis. A rural resilience initiative in Africa, R4, integrates microinsurance product for the poor into social protection scheme. Under the program farmers who were unable to afford insurance premium can access crop insurance by participating in a cash-for-work program and risk reduction activities (Väänänen et al., 2019).

At macro level there are instances of financing social protection through payouts from sovereign insurance pool. African Risk Capacity (ARC) is an example where most of the member states adopted institutional architecture of existing social protection system for distributing payouts during climate related hazards (Väänänen et al., 2019).

In a more innovative way, micro and meso solutions can expand the integration of social safety net and insurance. ARC Replica is an example where the insurance policy is purchased by NGOs that mirrors the policy purchase of the government and the payout injects liquidity to the NGOs to collaborate with the government and to keep supporting the most vulnerable (ARC, 2017).

Part 5: Response options

The final part is the response option designing stage. There are number of strategies that can be considered by the policymakers to scale up existing system. Oxford Policy Management (OPM) (2015) and O'Brien et al. (2018) have documented extensive literature by outlining five main types of response options that can be employed standalone or in combination. They are:

Option 1. Horizontal expansion- to increase the number of beneficiaries in an existing social protection program temporarily (by e.g. extending geographic coverage or modifying inclusion criteria).

Case: Temporary inclusion of new beneficiaries in the Hunger Safety Net Program (HSNP) in Kenya by creating second group of beneficiaries, whose payment triggers only during any emergency (O'Brien et al., 2018).

Option 2. Vertical expansion- to increase the duration or transfer value of an existing social protection program, to the existing beneficiaries temporarily (scaling up by top-ups keeping everything same).

Case: Top-ups to government-led national conditional cash transfer (CCT) program of the Philippines, Pantawid, following Typhoon Haiyan (Smith et al., 2017).

Option 3. Alignment- to create a parallel infrastructure (replicating characteristics from actual or future program)- to respond in emergency.

Case: The Kore Lavi program in Haiti to strengthen country's capacity during natural disasters, and to establish a program to be replicated by the government (Beazley, 2017).

Option 4. Piggybacking- to utilize or borrow some elements of an existing social protection program (e.g. delivery system or beneficiary list) for delivering an emergency response.

Case: In Lesotho, piggybacking on existing child grant program's beneficiary list during El Niño-induced drought in 2016 (Kardan et al., 2017).

Option 5. Design tweaks- to make small adjustments to the routine social protection programs to respond (e.g. waiving conditions, or providing cash if online service is disrupted, or flexibility to adopt any changes to scale up).

Case: Waivers in conditions for cash transfers program in the Philippines following Typhoon Haiyan (Smith et al., 2017).

4. Scope of implementing the model in Bangladesh

It is learnt that Bangladesh is currently in the stage of integrating and reforming its Social Safety Net Programme (SSNP) architecture. Consequently, it may now be the appropriate time for the policymakers to adopt integration exercise in the policy design. In implementing the proposed decision model (in section 3), most of the prevailing constraints of social protection programs regarding system preparedness and scaling up of emergency responses could be outlined during this SSNP reform exercise.

As part of institutional capacity of the decision model, it requires necessary changes in the policies that are underway. National Social Security Strategy (NSSS) document highlights the need of aligning disaster management and social security programs to strengthen the public expenditure and risk mitigation programs for managing covariate risks like, climate change (GoB, 2015, p.64).

In line with the reforms, framework to introduce the National Social Insurance Scheme (NSIS) in Bangladesh was proposed very recently (GoB, 2020c). The policymakers may think to establish this national social insurance scheme as a provision of the Insurance Act 2010. This may be governed by Insurance Development and Regulatory Authority of Bangladesh (IDRA) under the Bank and Financial Institutions Division of Ministry of Finance. Under the scope of this scheme, climate risk insurance can be consulted in mitigating covariate risks as part of social security needs of the citizen into various life cycle phases. Among other ongoing reforms, beneficiary selection process and Government to person (G2P) payment process are aimed to be strengthened. Also, ministry level cluster approach, single management information system (MIS), and result based monitoring and evaluation (M&E) system are also in plan to be introduced (Hebbar and Scott, 2020). These reforms will significantly contribute to the implementation phase of the proposed model.

Relevant to the implementation of the response options of the model (1-5), recent study by Hebbar and Shehab (2020) comprehensively outlined the challenges from Bangladesh perspective. The study found that due to the absence of a core set of social protection programs with nation-wide coverage including urban areas (currently most of the programs have 1-3% of population coverage), 'vertical expansion' may not result high coverage. Moreover, digitizing social protection information and payment delivery

methods of the country are still in very initial stage. Further, the system does not store information of non-beneficiaries. These issues are limiting 'piggybacking' on social registry for 'horizontal expansions', and 'design tweaks' to reach out new households during the climate related shocks.

As 'alignment', experiences from different experimentations and pilots can be considered. For example, World Food Program in coordination with the Government of Bangladesh is implementing a forecast-based financing (FbF) program. This is to assist flood vulnerable communities in north-western part of the country since 2017. This scheme is designed to reach the target people as soon as the flood triggers and days before the event strikes with the cash payment modalities through mobile. WFP has also successfully distributed assistance (amounting US\$ 53 to 6,000 vulnerable households, approximately 30,000 people, through mobile financial service, bKash) before the current monsoon flood hit in northern part of the country during July 2020 (WFP, 2020). Utilizing this experience, now the government may initiate an index-based flood insurance scheme while integrating it with social protection program by 'alignment'. Further, this scheme may 'piggyback' on existing social protection registry or distribution channel for both current beneficiaries and new ones through 'horizontal expansion' in building resilience against climate-related risks (WFP, 2019).

Lessons from this kind of experimentation can be a good starting point to the integration exercise of climate insurance and social protection schemes.

5. Conclusion

In Bangladesh the existing large protection gap and insufficient social protection supports cause climate vulnerable people to shoulder the burden of climate risks disproportionately. The increased impacts of both rapid- and slow-onset climatic events are straining public budgets, and the government are increasingly turning to market solutions. A well- designed social protection program integrated with climate risk insurance can be a solution to this problem. This paper has delved into the issues, explored some policy options and suggested a decision model to implement the same.

The country is now in a process of revising its Climate Change Strategic Action Plan (BCCSAP), consolidating its Social Safety Net Programs (SSNPs) and establishing National Social Insurance Scheme (NSIS). The paper considers this as scoping opportunity for the policymakers to shift into to integrated approach for climate change risk management.

The paper has also documented the challenges of implementing the proposed decision model in the country context. Coverage, benefit value, targeting, data and delivery methods are some of the infrastructural issues of existing social protection programs

that need to be addressed along with the supply-and demand- side constraints of the insurance market. Finally, policy options for implementing the model have been deliberated for integrating climate insurance instruments with the social protection program architecture of the country.

In continuation of this study, it is important to explore practical limitations and challenges of implementation of the proposed decision model (Figures 2.1 and 2.2), preferably from a risk and return perspective. A comprehensive survey with the relevant stakeholders may be initiated to capture their opinions and recommendations on this conceptual decision model. Thereafter, a resource based empirical optimization model can be produced after quantifying the relevant constraints with parameters to select most efficient policy options.

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The Future of Insurance in Developing Countries

Mr. Deepak Godbole

1. Growth and economic development

1.1 Growth, an important macro-economic objective, is the increase in the production of goods and services in an economy over a specific period. Economic growth is caused by rising demand and an increase in productive capacity. Economic growth creates a positive feedback loop. Higher growth encourages firms to invest. The increased investment enables higher growth in the future. It helps reduce unemployment and poverty.

1.2 Economic development is broader than economic growth. Social, cultural, political and such other non-economic fields mark the different stages of economic development. It is measured via Gross Domestic Product. It is a multidimensional process that is an indicator of relations of macroeconomic aggregates such as national income, wealth accumulation, investment, consumption, employment and other economic and non-economic factors. The economic role of insurance is to facilitate risk taking. It allows individuals and businesses to engage in activities that otherwise could expose them to undesired and unexpected losses.

1.3 Insurance sector has an important role in our society and other countries in transition, as it encouraging better risk management in the economy by protecting the insured's life and property if and when a calamity strikes, and, thereby, provides individuals and businesses the confidence to engage in gainful economic activity. In other words, insurance provides a mechanism for pooling and absorbing the financial consequences of different risks.

1.4 In support of economic growth, it is important that insurance business is effectively regulated not only to protect the insured, but also direct their funds into investments that further boost the economic activity. Insurance companies offer protection to their customers on payment of premiums that are subsequently invested to cover future claims or benefits and administrative expenses. Insurance companies are required to hold sufficient assets to back liabilities. There is a need to hold reserves that would suffice to pay the claims. Thus, insurers are not supposed to rely on new premiums to pay for claims.

2. The indicators of development of insurance

2.1 There is a share of participation of insurance premiums in the GDP by way of insurance premiums. The ratio of total gross insurance premiums as a component of gross domestic product (GDP), expressed in percentages is expressed as "Insurance

Secretary General, Insurance Institute of India

Penetration”. The per capita spend on insurance is termed as “Insurance Density”. On both the counts, developing countries are seen showcasing a very poor performance when compared with the developed countries.

1.2 Insurance Penetration which is the ratio between the amount of direct gross premiums and GDP, and Insurance Density, the ratio between the total direct gross premiums collected and the total number of the residents of that country, demonstrate the efficiency of the insurance in general and are the concepts being used as benchmarks for comparison of insurance among different countries. While, use of these indicators is being questioned and possibilities of developing other indicators are being explored, the fact still remains that degree differing, the developing and developed countries will be clearly placed in two easily separable groups based on the levels of activity in their respective countries.

3. Insurance sector is in transition stage in developing countries

3.1 In the earlier periods of development, developing countries concentrated on establishment of domestic insurance industry, often with State ownership. The next stage would be to pay attention to the structural characteristics of the insurance market for its satisfactory functioning without much involvement of the State. In a liberalised set up, with public and private sector operators actively playing their role, authorities have to pay attention to creating a conducive insurance ecosystem with players, intermediaries, industry associations, regulator and grievance redressal machineries working well in achieving market efficiency and improved performance.

4. Challenges faced by insurance sector in developing countries and the way forward:

4.1 Non existing regulation/ lax laws for risk management, lack of awareness of insurance, support offered during and after a calamity by the State, poverty/ inadequate disposable income could be some of the reasons for low insurance penetration from the social and economic side. From the operational side issues revolve around insurance being a non-attractive business segment for investment (because of its long gestation period and low rate of return on capital), standardised products not meeting buyer’s expectation, trust deficit, delay in claims payment, inadequate trained manpower required for insurance operations.

<i>Challenge</i>	<i>Addressing the challenge</i>
Creating awareness among risk carriers	<ul style="list-style-type: none"> • Concerted efforts by State/ Regulator/ Insurance Associations/ Insurance Companies/ Insurance Institutes/ Schools and Colleges for increasing awareness • Including risk management and insurance as subject in school, college curriculum • Awareness programmes on TV/ Radio • Seminars/ Conferences/ Workshops • Print material in easy terms and vernacular language • Take steps to publicise economic and social function/ utility/ benefits of insurance
Overcoming the problem of 'Trust Deficit'	<ul style="list-style-type: none"> • Strict regulation of insurance operators • Deciding on Turn Around Time for settlement of Claims • Creating multilevel grievance redressal machinery including establishment of system of ombudsman • Ensuring claims money reaching directly into the bank accounts • Simplify products and ease documentation requirements • Empower agents who have face to face contact with technology and gadgets to enhance their performance
Achieving reach	<ul style="list-style-type: none"> • Creating multi-channel distribution systems • Using internet effectively for online sales • Introducing products based on customer feedback/ requirements • Leveraging further on Bancassurance/ micro insurance set up • Reducing the State support to population after disasters • Introducing new products for new risks and push the borders of insurability
Attracting new capital	<ul style="list-style-type: none"> • Ensuring industry growth with profitability • Strict regulatory oversight on adequacy of reserving • Investing in pricing tools • Pricing discipline by fixing minimum rate based on burning cost • Introducing tariff for compulsory insurance • Cost control and increased efficiency using technological tools • Making underwriting profitable and reduce dependability on investment income • Increase scale and efficiency through Mergers • Make effective use of coinsurance and reinsurance • Making the industry attractive for investors and shareholders by demonstrating profitable growth • Operation of a fairly self-regulated industry free from strict regulatory oversight and compliance (with insurance associations/ councils playing their role effectively) • Improve distribution, maximise efficiency and standardise operational processes.
Capacity building for Regulator and the insurance	<ul style="list-style-type: none"> • Membership of global institutions such as IAIS, following of the Insurance Core Principles (ICPs) • Supervisors to endeavour to implement international best

5. The key transformers of insurance industry in developing economies

5.1 Risk Based Capital, a collaborative approach towards Large/ Catastrophe Risks, Enterprise Wide Risk Management and Technological interventions and Data Analytics would be the main transformers for insurance industry in developing countries.

5.1.1 Risk Based Capital (RBC): Insurance industry is capital intensive and claims sensitive. Being capital intensive, building up market share requires substantial investment. The amount of capital required to compete also pushes the industry toward fewer and larger firms. Insurance industry in advanced economies has moved to the RBC regime. The developing economies have also been taking that path. By providing a consistent economic view of the business, the new solvency regimes will affect not only the quantum of capital required but also how capital is deployed. It will also change how products are developed and priced. The RBC regimes are likely to reward well capitalized and diversified players that operate with sophisticated risk models as the fundamental tenant of Solvency II is that insurers should better understand the relationship between risk and capital in their business. The implication is that both regulatory and economic capital are central to an insurance company's decision making. It pushes the industry for having a well laid down capital management policy.

5.1.2 A collaborative approach towards Large/ Catastrophe Risks :From the insurance industry perspective, it is a strongly held that Governments should abstain from interfering in markets where public/ private insurance is feasible and functional. Certain risks, however, could be intrinsically difficult or impossible to insure through insurance markets, particularly, the catastrophic risks. Governments could encourage creation of pools to take care of such risks.

5.1.3 Enterprise Risk Management (ERM):The term ERM emphasizes shifting of the mind set/ thought process of the management from just only focusing on financial strength to considering risk as a source of return on business strategy. Risk Management is the practice of identifying and analysing loss exposures and taking steps to minimize the impact of the risks they impose on the entity as a whole. ERM is a wide ranging approach of defining, identifying, quantifying and addressing all the risks facing an organization rather than dealing with individual risks in silos. ERM examines whether insurers execute risk management practices in a systematic, consistent, and strategic manner across the enterprise that would go a long way in effectively limiting future losses within a well-defined optimal risk-reward framework. Even the rating agencies now consider level of ERM preparedness for an evaluation based on scores on the company's risk culture, risk exposure management, and risk optimization, as well as the risk exposure management policy.

5.1.4 Technological interventions: In the insurance industry, technology and operations have traditionally been operating independently. Technology facilitated/ helped people involved in operations- underwriting, claims, accounting and marketing. The relationship between the two functions is changing. As technologies evolve, insurance companies may see more than 50 percent of traditional back-office operations automated. Artificial Intelligence, Predictive/ Data Analytics, Machine Learning, Telematics, Chatbots and Drones have already been put to use by some insurance companies even in developing countries. Insurance organizations would need reshaping themselves by forming interdisciplinary teams, formally integrating the technology and operations and assembling the tools that match customers' preferences for these new ways of working by insurers.

6. The future of insurance is in developing economies.

6.1 As the growth in developed insurance markets stagnate, the future of insurance is in developing economies. It is not just insurance companies but, all the elements of the insurance ecosystem (including insurance regulators) of developing countries will have to accept the changes, adopt newer ideas and methods of transacting business and prepare for the future.

Dissatisfaction in Claim Settlement of Life Insurance Companies In Bangladesh: Causes and Remedies

Dr. Md. Nazmul Ahsan Murad

Abstract

Life insurance is one of the rapidly expanding industries of Bangladesh that can contribute a lot to our GDP. Among the functions and services of life insurance companies, claim settlement is the most significant part and it is the ultimate objective for which policy holders/clients have to wait for a long period. By this claim settlement service the clients/PH may be satisfied or dissatisfied. But in fact, for delay is claim settlement process and for the lack of transparency, accountability LIC in Bangladesh has lost its trustworthiness to the clients and policy holders. These anomalies has created much dissatisfaction. As a result LIC has failed to play expected role in the national economy. The researcher has examined and evaluated the claim settlement process of selected five LIC i.e. JBC, MetLife, NLIC, MLIC and PLIC and its branches in Dhaka and Rajshahi Districts. It has study also identified the causes and factors behind the delay and improper claim settlement and has depicted possible remedies by the help of respondent's perceptions. Both qualitative and quantitative data from primary and secondary sources have been used in this research.

It has been found that a large number of PH do not get their claims properly in due time. The data showed that 43.96% of the policy holders did not get claim within 90 days rather in some cases the PH did not get valid claim in 7-8 months of their application. A large number of PH had to face sufferings for getting their claim. In context of the claim payment within 90 days the services of JBC and MetLife is comparatively better than the other three LIC i.e. NLIC, MLIC & PLIC. Among these companies PLIC takes longest time in claim settlement. The researcher has found that the clients are much dissatisfied with this LIC especially for delay claim settlement. Rather false commitment, benefit exaggeration, wrong approach, compulsions of reopen policy, anomalies and illegal practices have been abundantly found in the services and practices of LIC which also create dissatisfaction among the policy holders and clients.

By the respondent's perceptions it can be expected that by proper implementation of the Insurance Act and rules along with strong monitoring of IDRA and strict punishment against any anomalies in claim settlement process will again the trustworthiness and satisfaction of the policy holders and clients.

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1.1 Preamble

Life insurance is a contract whereby Life Insurance Companies (LIC) undertakes to pay to policy holder (PH) a certain sum of money (claim) either on the death of the insured or on the expiry of a fixed period in exchange for a cash compensation known as premium which may be paid in a lump sum or periodically. Among all other functions or services of life insurance claim settlement is the most significant part of the insurance policy. It is the ultimate objective of life insurance as the PH have to wait for a long period. It is one of the focal services by which the clients are satisfied or dissatisfied. But it has been found that a large number of PH do not get their claims properly in due time. According to the Insurance Laws and Regulations Survival Benefit is to be paid within 15 days and Maturity or Death claim is to be paid within 90 days without delay nevertheless these restrictions are not properly followed in the life insurance companies in Bangladesh. “Though 90 days is the maximum time limit, insurer often makes unnecessary delay. Some claim can be settled within one week but insurer takes even three months to settle a claim with lame excuse.”¹

In a country with a small economy the a large number (78) of insurance companies (life 32, non-life 46) has created a situation of unhealthy and unethical business competition in Bangladesh. Various report show that the LIC often violate commitment with the policy holders and the claims along with other benefits are not properly paid in due time.

For these reason as a significant financial sector, attention to be paid to needs examine existing claim settlement process of LIC in Bangladesh.²

In order to do so the researcher has evaluated the claim settlement process of five LIC i.e. JBC, MetLife, NLIC, MLIC and PLIC and its branches in Dhaka and Rajshahi Districts. It has been also identified the causes and factors behind the undue and improper claim settlement and has depicted a possible remedies by the help of respondent’s perceptions. Both qualitative and quantitative data from primary and secondary sources have been used in this study. The perceptions and responses of Employees/Development Officers, Sales Agents, Policy Holders of the selected LIC and Key Informant Interviewers of different institutions i.e. Academicians, Insurance Experts, High Officials

¹ S.M. Ibrahim Hossain, “Quality Customer Services in the Key to Marketing Strategy in Insurance Industry: Bangladesh Perspective and Lesson from Development Countries,” *Insurance Journal*, vol. 60/61, (April 2015) Bangladesh Insurance Academy, 45.

² K.M. Mortuza Ali, *Need for Appropriate Human Capital Development: A Study of Bangladesh Insurance Sector*, *Insurance Journal*, Bangladesh Insurance Academy (April 2015), vol. 60/61, 5.

of LIC, BIA, IDRA and Ministry of Finance, Bank and Insurance Division in this regard have been analyzed. To know the perceptions of the respondents, three sets of structured questionnaires along with checklists have been used and 385 respondents have been selected (128 employees, 128 agents and 129 policy holders) randomly. Secondary data has been collected from Annual Reports of LIC and BIA, Journals of BIA, various books, unpublished thesis papers, Journals, Periodicals, Newspapers, Internet and other published materials.

2.1 Present State of Claim Settlement Process of the LIC

It is found that out of 129 respondents (policy holders) only 91 PH have got experience on claim settlement services of LIC as they have applied for the claims previously. The researcher has asked them about their experience on claim management and their perceptions have been presented in table below:

Table1: Policy holders’ Perceptions on Claim Settlement in 90 Days (N- 91)

Variable	Frequency	Percent	Cumulative Percent
Yes	72	56.04	56.04
No	57	43.96	100.0
Total	129		

Source: Field Survey June-November, 2018

The above table on policy holder’s perception on claim settlement in 90 days shows that 56.04% policy holders replied yes’ where 43.96% replied no’ which indicates that almost half of the respondents have not got their claims in 90 days.

In context of the claim payment within 90 days the services of JBC and MetLife is comparatively better than the other three LIC i.e. NLIC, MLIC & PLIC. Among these companies PLIC takes longest time in claim settlement. The researcher has found that the clients are much dissatisfied with this LIC for delay payment of claims.

Table 2: Result of Unpaid Claim Position after 90 Days (N-40)

Variable	Frequency	Percent	Cumulative Percent
Claim settled in 4-5 months	11	27.50	27.50
Claim settled in 6-7 months	13	32.50	60.0
Claim Not settled in 7 months	16	40.00	100.0
Total	40	100	

Source: Field Survey June- November, 2018 (PH- Policy holder)

The above table on the issue of claim settlement position of those policy holders who did not get claims in 90 days reveals that the highest portion of the respondents 40% did not get claim within 7 months, where 32.50% of the respondents got claims in 6-7 months and 27.50% got claims in 4-5 months. These perceptions of the PH indicates that a large number of PH did not get claim within seven (7) months where the prescribed duration of claim settlement is three (3) months. This undue delay is illegal and unethical as well. Thus the LIC claim settlement services are non-compliance with business ethics and legal frameworks.

3.1 Case Studies of Matured Claim Unpaid

Policy No: ABO-2017002994-6, Duration: 10 Years

Premium 500/- monthly, SIA 60000/-,

Maturity Date: 15/07/2015, Applied for Claim (15/07/2015)

It has been found that already one year has passed yet the claim has not been paid until 31/08/2016; even no notice of delay payment has been sent to the policy holder. The PH along with the agents have visited head office of the LIC several times but the authority has informed them that it would take some days more for claim payment. That agent has become disappointed and worriedly expressed feelings to the researcher in the way “on account of not paying claims in right time no one trusts us and the people become angry when we offer policy”. Thus, available cases claims payment in the prescribe period are found in the LIC and that make the people negative and more irritated with the LI sector.

3.2 Case Studies of Delay Payment and Clients’ Riots

While collecting this data researcher has found that one of the LIC offices at Rajshahi has been kept under lock and key by the agitated clients. On account of not paying claims after 10-11 months of applications the agitated clients have locked the office and the office staffs has been compelled to go outside. The agitated clients have given warning to the staff that the office would be locked until the settlement of claim payment.

It is to be noted that in some cases the officials of LIC pretend to be severe illness to avoid clients’ agitation and pressure. The researcher has found another interesting matter at the LIC office in Rajshahi zone. While visiting that office for data collection the researcher has found hue and cry and loud shouting in the LIC. The clients were shouting and going to hit the DPD (Deputy Project Director) of the office. The DPD was requesting the clients to keep silence but agitated clients were shouting more and more. All of a sudden the DPD fell down on the ground and was trembling and moaning. The researcher has got frightened as his condition was about to die. The researcher along

with the clients was at that time busy to serve him but the staffs were careless about it. The DPD was looking so pale and was sleeping on the floor. The researcher has assumed that there must be something mysterious and was waiting for that situation. After a while the researcher went to a staff and politely asked him what about the matter is? The DPD is about to die but you are indifferent! He simply replied that it is nothing but acting, just wait a bit and see. For the fear of agitated clients the DPD does not come to the office regularly and when he comes he just pretends to die and after departure of the aggressive clients he gets up and goes away.” Really after 30-40 minutes when the clients went away he got up and sat on his chair normally. The researcher discussed with the high officials of that LIC about the matters and they were indifferent to the situation.

4.1 Researchers’ Observation on the Causes of Delay Payment

By the above case studies, it is clear that clients are very much dissatisfied and annoyed with the LIC for its violation of commitments and violation of laws in claim settlements and other services. After an investigation the researcher has found some vital causes for not payment of claims within 90 days which have been presented below:

- a) Lack of good will of the LIC to pay claim within fixed period as it decreased the life fund of the companies;
- b) Bureaucratic mentality and centrally claim settlement authority system with lengthy process of executive Receipt and claim papers forwarding from the rural offices;
- c) Lack of MIS (Management Information System) in settlement process
- d) Shortage of life fund as some of the LIC expense more than the collected premium;
- e) Reinsurance and reinvestment of the fund to more profitable sector for more time instead of paying PH claim and earn more currency;
- f) Lack of consciousness of the policy holders to send the policy document properly with necessary paper without delay
- g) Harassments of the LIC bodies to policy holders to compel for new insurance policies.

5.1 LICs’ Services of Sending Notice for Delay Payment

For compliant with laws and responsibility, LIC are to send notice to the policy holders by explaining the reasons. To know the accountability of sending notice a question (Do the LIC send notice to the PH for delay payment?) has been asked and the respondents’ perceptions have been presented below:

Table 3: Result of LIC's Sending Notice for Delay Payment? (N- 40)

Variable	Frequency	Percent	Cumulative Percent
Yes	4	10.0	10.0
No	36	90.0	100.0
Total	40	100.0	

Source: Field Survey June- November, 2018

The above table shows that that majority of the respondents 90.00% replied that the LIC did not send them any notice or letter about why the claim payment is not paid in due time over and only 10.00% replied yes, the LIC sent notice to submit necessary papers and the causes of delay payment.

The researcher has found that 1 year and 8 months has already past but no letter or notice has been sent to PH from that LIC. It is also found form the PH perception that out of the selected LIC only MetLife sends notice or SMS to mobile on account of any emergency. So, it is clear that most of the LIC do not send notice for delay payment of the claims.

6.1 Payment of Additional Interest in Case of Delay Claim Settlement

According to the Insurance Act, 2010, the regulation is “Interest on late settlement of claim- if the money is paid under the policy issued by the insurer and if all papers are submitted by the claimant for the payment, then if the insurer is suitable to be paid the claim or if fails to pay within 90 (ninety) days after complying with all formalities, which is done later then the interest prescribed in subsection (2) shall be paid, unless the insurer is able to proof that such a failure is out of his control.³

Sub section (2) under section (1) the interest will be paid at the current time for the failure of the payment and it shall be 5% additional with the current rate of bank and it shall be calculated on the basis of months. ⁴

The researcher has asked a question to the respondents whether the LIC pay 5% additional interest to the PH if claims are paid after 90 days and their perceptions have been presented below:

³ Bangladesh National Parliament, Insurance Act 2010, 13th Act, Bangladesh Gazette (March 18, 2010): Section 73 (1).

⁴ Ibid., Section 73 (2).

Table 4: Employees' and Agents' Perceptions on 5% Additional Interest Payment in Case Delay Claim Settlement (N-256)

Variable	Employees			Agents			Total		
	f	%	CP	f	%	CP	f	%	CP
Yes	23	17.97	17.97	7	5.47	5.47	30	11.72	11.72
No	105	82.03	100.0	121	94.53	100.0	226	88.28	100.0
Total	128	100.0		128	100.0		256	100.0	

Source: Field Survey June- November, 2018 (f-frequency, CP- Cumulative Percent)

The above table shows that the majority of the total respondents (88.28%) replied 'no' where only 11.72% replied yes' on the issue of LIC payment of 5% additional interest in case of delay payment.

On the other hand, according to the employee's perceptions it is seen that 82.03% replied no, where only 17.97% replied yes, simultaneously the majority of the agents (88.28%) replied no'. This perception above indicates that the selected LIC do not pay 5% additional interest with the current interest rate of bank which is clear violation of the Insurance Act 2010 mentioned previously.

For these reason LIC services related to delay payment is the legal violation as well as it is non-compliance with business ethics.

Table 5: Policy holders' Perception on Getting 5% Additional Interest in Delay Payment (N-40)

Variable	Frequency	Percent
Yes	-	-
No	40	100.0
Total	40	100.0

Source: Field Survey June- November, 2018

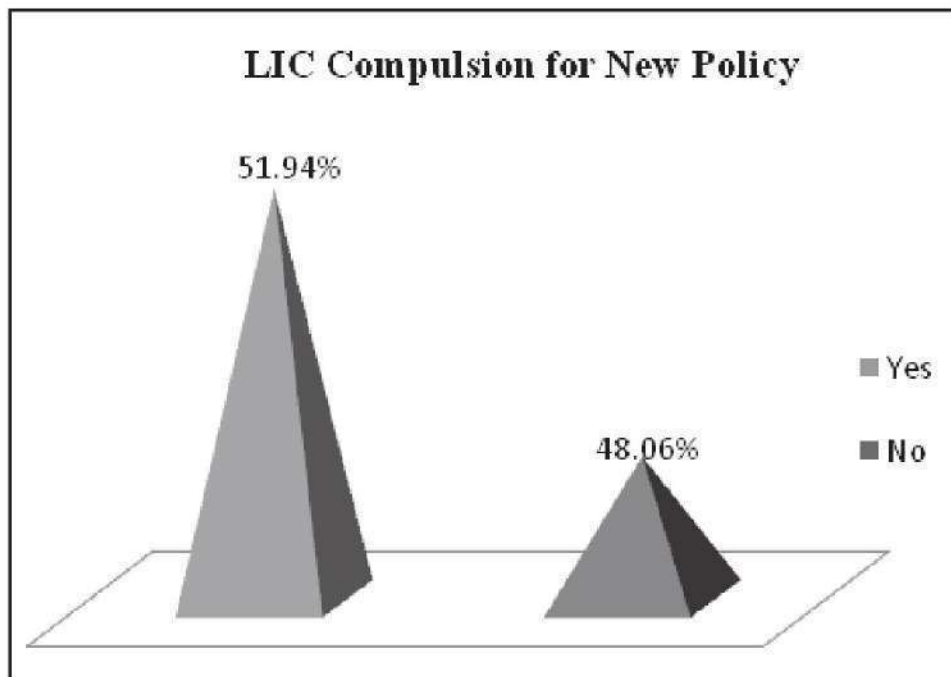
The above table shows that 100.0% of the policy holders replied no' which indicate that no LIC pay 5% more interest with the principal claim to the PH when the claim is paid after 90 days of the application. So, it is clear that LIC do not pay 5% more interests to those policy holders who got their claim after prescribed period (90 days) of Insurance Act 2010.

Thus the LIC violate the legal framework of insurance laws on claim management services which is illegal and at the same time non-compliance with business ethics.

7.1 LICs' Compulsion to Policy holders for New Policy

Any kind of compulsion for new policy is a violation of the Contract Act, 1872, Insurance Act, 2010. To explore LICs' compulsion on policy holders for new policies a question (Do the LIC compel policy holders for new policy?) has been asked to PH and the perceptions have been presented in the below table:

Figure 6: Policy holders' Perceptions on Compulsion for New Policy (N-129)



Source: Field Survey June- November, 2018

The above figure shows that more than average portion of the respondents (53.85%) replied yes, and 46.15% replied no' on the issue of whether they are compelled to buy new policy for claim settlement. This perception indicates that LIC sometime compel policy holders to buy new policy for claim settlement. The compulsion for buying new policy for claim settlement is fully prohibited by the insurance laws but it is violated by the LIC randomly. Thus it can be said that LIC's services related to claim settlement is in non-compliance with business ethics.

8.1 Case Studies of Compulsions for Buying New Policy

The researcher has found that one of the selected LIC has compelled the policy holder to buy a new insurance policy for the settlement of the claim. The PH is currently living in Saudi Arabia. After maturity of the policy he went to the head office of that LIC and the related desk officers gave him some papers and asked him to sign as claim withdrawal procedure. But after two months of the application when policy holder's wife (nominee) went to receive the cheque she found that the amount is 42,000/- tk.

less than the claim amount. She asked the officer and the officers replied that the money has been subtracted for the new policy. She informed the officer that her husband would not reopen another policy. But the officer told her that her husband had given the signature. But the PH did not give the consent to open a new policy. The PH along with the nominee earnestly requested to the officers not to open new policy on account of emergence of money but they did not honor to their request. The LIC open a new policy without consent even without any photos or national ID of the PH. In this way, researcher has found many cases studies where the PH have been compelled to open a new policy for the settlement of claims. Thus the LIC often compel PH to open new policies in order to settlement of the claims which is non-compliance with business ethics. Most of the cases the PH have got their claims after consent of new policies. It has also been revealed that the LIC pay the claims cheques to the PH after subtracting money for the new policies.

Many PH cried to the researcher and told about their sufferings. A Divisional Coordinator (Dev.C.) of a selected LIC had behaved roughly with a PH (woman) and threw her claim documents when she asked him about her claims. That Dev.C. told her that without buying a new policies no PH will get claim. That PH got her claim after 8-9 months letter when she had agreed to open a new policy. When researcher asked the Dev.C politely about that matter he informed that “in order to achieve selling target of 3 crores tk. in a session some time we need to be strict with the PH.” In addition, he also argued that the PH may spend money within some days but if they deposit in the LIC it would be safe and better for the PH in future.

The researcher has observed that many of those cases, the LIC agents have grabbed premiums and the PH have got very small amount in comparison to their deposited money. Nevertheless, good amounts of money have been subtracted from that claims for new policies. It is really that unbelievable what anomalies are going on in the LIC especially in the rural areas. Those practices related to claim settlement along with compulsion for new policy are illegal and non-compliance with business and immediate remedies of these issues are needed for the betterment of LI sector.

9.1 Survival Benefits (SV) Payment Services

Survival benefits are benefit given to the policy holder during or upon completion of the policy tenure. In the case of money back policies, a certain pre-determined amount is paid to the insured after regular intervals. Survival benefit applies only in the case where insured is alive. If not, the insured is entitled to receive death benefits.⁵

⁵ <http://economictimes.indiatimes.com/definition/guaranteed-survival-benefit> [accessed April 10, 2017].

Survival Benefit is a benefit which is given to the policy holders in the 3PP anticipated endowment policies of the LIC. It has unique feature where a part of the sum assured is paid at certain intervals during the term of the policy and the balance of the sum assured together with the accrued bonus at maturity.⁶ It also helps PH in meeting the short-term financial exigencies.

- a) In this plan the LIC offers survival benefits equal to 25% of sum insured on completion of 1/3rd and 2/3rd term of the policy;
- b) If the PH expires during the term of the policy, sum assured, accrued bonuses, unclaimed survival benefits are payable.

9.2 Agents' Miss Interpretation of Survival Benefit (SB)

SB is actually the claim money of the PH which is paid periodically in three terms. The researcher has observed that the agents wrongly explain SB to the clients. They allure the clients by informing that the LIC will give 25% profits in three times for the policy. But SB is not profit from the LIC rather it is 25% of the sum assured money of PH. According to the insurance laws the LIC shall pay the SB within 15 days of the application. But most of cases the SB are not paid within this prescribed period. The respondent's perception on this issue has been presented in the table below:

Table 7: PH Perceptions on the Duration of Getting SB (N-83)

Variable	Frequency	Percent	Cumulative Percent
1-15 days	42	50.60	50.60
15-30 days	38	45.78	96.38
30-60 days	3	3.62	100.0
Total	83	100.0	

Source: Field Survey June- November 2018, SB (Survival Benefit)

The above table shows that only 50.60% Policy holders have got Survival Benefit (SB) within 1-15 days, 45.78% have got in 15-30 days and 3.61% got in 60-90 days. SB is to be paid within 15 days as it is the partial payment of PH deposited money but 50% policy holders do not get SB in time. The researcher has found that a large number of the clients have to face sufferings to get it.

The PH have to collect SB from the head offices in some cases and to visit head offices is time consuming and costly. So, the commitment of services and existing practices related SB is not prompt and transparent and in some cases, it is non-compliance with business ethics.

10.1 Claim Settlement Dissatisfactions and the Causes

It has been found that most of the policy holders are dissatisfied with the services of LIC and claim settlement is one of the main reasons for dissatisfactions. To explore the causes of claim settlement dissatisfactions the researcher has asked five points Lykart Scale questions and the perceptions have been presented in the below table:

Table 8: Perceptions on the Causes of Claim Settlement Dissatisfaction (N- 385)

Sl. No.	Statement	Mean	Median	SD
1	The PH get less benefits than agent's promise before agreement	4.60	5	.82
2	When claim is paid the PH consider it less benefit than bank	4.96	5	.24
3	LIC often delay in death claim by the name of various investigations	4.11	4	.93
4	Sometime the claims especially death claims are rejected by showing shortage of paper and other causes	3.80	4	1.04
5	Sometime PH are deprived from claim for agents fraud and grabbing	3.99	4	.979
6	The LIC do not solve PH problems properly and promptly	3.59	4	1.19
7	Most cases the death claim is not paid within 90 days	3.17	2	1.34

Field Survey June- November, 2018 (Hint: Strongly Agreed-5, agreed-4, Neutral-3 disagreed-2, strongly disagreed-1 and SD-Standard Deviation)

The above table shows that the respondents have agreed with all of the statements except last one as the causes of dissatisfaction in claim settlement services. Here, two variables e.g. (Sl. No.1-2) "The PH get less benefits than agent's promise before agreement" and "When claim is paid the PH consider it less benefit than bank rate" have been highly ranked in mean values (4.60 and 4.96) Median and SD values are 5, 5, and .82, .24 respectively which indicate that respondents are giving highest priority on those variables as causes of people's dissatisfaction on claim settlement of LIC.

The rest variables (sl. 3-6) show the Mean, Median and SD values of 4.11, 4, and .93 for "LIC often delay in death claim by the name of various investigations," 3.80, 4, 1.04 for "Sometime the claims especially death claims are rejected by showing shortage of paper and other causes," 3.99, 4, .979 for "Sometime PH are deprived from claim for agents fraud and grabbing," 3.59, 4, 1.19 for "The LIC do not solve PH problems properly and promptly," which are having moderately priority causes for dissatisfactions to the respondents and one variable (sl. 7) show the Mean, Median and SD as 3.17, 2, 1.34 for "the Most cases the death claim is not paid within 90 days," which are having no priority (dis agree) causes to the respondents. So, it can be said that transparency, justice and business of laws are not available in the claim settlement process of LIC and hence the clients are dissatisfied. Thus the services and practices related to claim management is in non-compliance with business ethics.

11.1 Possible Remedies of Claim Settlement Dissatisfaction

Failure of claim payment within 90 days is the violation of insurance act which also bring sufferings to PH. Three months is a long time for settling claims but why the LIC cannot settle claims, the researcher has tried to identify its causes. By the perceptions of the respondents and KIIs the researcher has revealed that on account of bureaucratic mentality, centralized claim settlement systems, unconsciousness of policy holders, shortage of necessary papers, documents, doctor's certificate, investigation's report and unwillingness of the LIC are the vital causes for not paying claims in 90 days. If claim is properly settled in due time the client's dissatisfactions will be replaced with satisfaction and LIC will gain popularity in the society. In order to do so, the researcher has proposed the following policy recommendations:

- i. Only profit maximizing attitude of the shareholders of LIC should be changed and positive attitude with good will should be brought up.
- ii. Minimum educational qualifications of agents should be HSC level and in agent's selection process scientific method should be followed.
- iii. All claims along with Survival benefit should be paid within prescribe period and strict punishment is to be given for any violation of it.
- iv. Agent's premium grabbing or any kind of fraud with policy holders or LIC should be strictly punished.
- v. Benefits exaggeration and false commitment or any unethical approaches of alluring clients should be punished.
- vi. Proper advertisement and promotional functions for positive image of LIC should be initiated.
- vii. The policy schedule papers along with the terms and conditions of the policies should be written in Bangla with simple words and the font size should be at least 12 so that the clients can easily read and understand the policy agreements.
- viii. Policy holder's day should be introduced for solving clients' problems.
- ix. Commission fraudulent should be banned and transparent commission payment system should be ensured.
- x. Acceptable (least) salary may be fixed for the agents.
- xi. Digitized Management Information system and auto SMS for premium due, deposit and caution for policy lapse or any necessary notices should be introduced.
- xii. LIC should inaugurate one stop customer service center as satisfied customer is the best advertisement;

xiii. Functions of Birad Nispotti Committee (BINIC) should be expanded at least divisional level and easy access to BINIC for justice for the policy holders should be ensured;

xiv. Charging of 5% tax against agent's commissions should be cancelled;

xv. Awareness building programs on Life Insurance and its terms and conditions should be initiated through social, printing and electronic Medias

xvi. To strengthen IDRA's monitoring and supervision capacity, required number of skilled and efficient employees and professionals should be recruited in IDRA;

xvii. The unhealthy competition of offering and paying higher commission to the agents in order to sell more policies to achieve more business should be banned;

It can be expected that by the proper implementation of the above suggestions all claims will be paid properly in due time and thus clients dissatisfaction may be reduced from the LIC.

Conclusion

In this article the present state of claim settlement of the selected LIC has been articulated very clearly and the real situation of the present claim settlement process has also been revealed. Regarding the settlement of maturity claim, death claim and benefit along with other claims respondents are found dissatisfied. False commitment, benefit exaggeration, wrong leading, compulsions of reopen policy, anomalies and illegal practices have been abundantly found in the services and practices of LIC which create dissatisfaction among the policy holders and clients. It has been found that often the agents make false commitment and promise to the policy holders to allure them for policy buying. The clients are dissatisfied with claim settlement process. Often the claims payment becomes delay and the policy holders become dissatisfied when they are not paid expected amount as the agents said before the agreement. The claims especially death claims are paid delay and sometime not paid showing lame excuses. There is a lacking of professionalism and responsibility among the employees. The customer services are not equally up to standard and satisfactory. That is why the mass people have no trust in the life insurance sector. The insurance rules and regulations are not properly followed in the operational activities and services of the LIC. Among the selected companies, the services and practices of MetLife are somewhat better and demand more legal norms than the other domestic LIC in Bangladesh. On the other hand, in context of claim settlement, the services and practices of PLIC have been occupied the worst position among the selected LIC.

It can be expected that by the proper implementation of the above suggestions the anomalies of claim settlement will be reduced and at the same time clients and policy holders will be satisfied and thus a positive image of LIC may be established in the society.
