

# **ASSIGNMENT ON PRESENT SITUATION OF INSURANCE BUSINESS IN BANGLADESH.**

## **PRESENT SITUATION OF INSURANCE BUSINESS IN BANGLADESH:**

**Introduction:** Insurance is a means of protection from financial laws. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain laws. An entity which provides insurance is known as an insurer, an insurance company, an insurance carrier or an underwriter. The process of ensuring possible life losses and financial losses of a personnel is called insurance policy. Because, personal life, property, business and vehicles are always at risk. To ensure our financial losses there is a financial policy which is called insurance. Insurance is a written contract that the insurance company will bear all the financial losses by the exchange of a specific amount of premium. On the other hand, if the insured is hampered by any causes mentioned in the contract paper, the insurance company will pay the contracted amount of money to the insured person.

### **Nature of Insurance:**

Insurance is the financial defense system against risk. It distributes risk among individuals at risk. The main subjects of the insurance are life risk and property risks. Insurance companies take the liability of life risk and property risk with specific premium payment. One of the basic factor in life and health premiums is the earned by the insurance company on the premiums it receives and subsequently invests. The concept of insurance developed from the need to minimize the adverse effects of risk associated with the probability of financial loss. The function of insurance is to safeguard against financial loss by having the losses of few paid by the contributions of many who are exposed to the same risk. Insurance is provided through a system which makes large financial losses more affordable by polling the risks of many individuals and business entities and transferring them to an insurance company or other large group in return for monetary payments. Premium payments are collected by insurance companies to cover expenses and the cost of projected losses. The person who under takes to indemnify another by insurance is the insurer and the person indemnified is the insured. Purchasing insurance is one of the best ways of minimizing loss. The insurance purchaser pays a premium to the insurance company in exchange for financial protection in case of loss. By doing so, both parties have entered into a contract and insurer issues an insurance policy. The insurance

company stipulates the promises the insurer has made to pay the insured if a loss of the insured subject occurs. If a loss occurs, the insured person files a claim with the insurer. The claim is an official request for the insurer to fulfill the promises of the contract. [course.uceusa.com]

**Definitions:** According to Cambridge dictionary, Insurance means an agreement in which a person pays a company money and they pay his cost if the person has an accident, injury etc. [dictionary.cambridge.org]

According to Prof. D.S Hansell, “Insurance is a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme”. According to Dr.W.A.Dinsdale, “Insurance is a device for the transfer of risks of individual entities to an insurer, who agrees, for a consideration, to assume to a specified extent losses suffered by the insured”.

According to Ghosh and Agarwal, “Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it”. [commercenototes.org]

### **Historical development of Insurance:**

In 900 BC between the Greek and Babylon civilization, traders introduced a kind of insurance system in the nature of cooperatives for their own benefits. It is also known that the ship Captains of that time introduced various bonds “Bottomery bonds and Respondentia bonds” like guarantee of compensation as a result of the danger. That’s why we can say that traders of that time used to think about insurance policy. At the end of middle age insurance was introduced in different parts of Europe. In the middle of middle age, trade and commerce by sea became widespread. Countries around the Mediterranean Sea (France, Italy, Spain, Turkey) started to use the sea route to trade. According to history, exiled Jews from France came in Italy to settle and they introduced insurance policy for the first time. At that time there were huge risks to transport goods by sea route because of natural calamities. Moreover, there was security guard to protect the ships loaded with goods from pirates but it was not enough. Later a decision was taken by the traders that if there was a loss all the owners of the ships would cooperate to compensate but the process was not successful. After that, traders created a cooperative system and used to pay a specific premium to the system so that they can compensate if a ship sank or was robbed. Later it became a successful business and naval insurance was introduced. In 1200 century, this kind of insurance policy became popular in Europe. In 1720, two insurance companies were established by royal charter named “The Lloyd’s Assurance” and “The Royal Exchange”. Brokers and naval insurers formed an insurance cooperative institution in 1771. Member system was changed in 1774 and formed a new structure to form the cooperative society into an insurance company, which was the first insurance company.”Alliance Assurance Company Ltd. Was another insurance company established in 1824 with Lloyd’s members. In 1871, the Llyod’s members reforms the “Association of Lloyd’s” and transform it into “The corporation of Lloyd’s” which is still the greatest insurance company on earth. After introducing naval insurance, traders wanted

to introduce fire insurance as there were massive fire accidents in London in 1666. There were 13000 houses were burnt and fire was flaming for four days and nights. After that traders started to think about the fire insurance and by the time industrial revolution was started. It is some advanced mechanics that triggers the industrial revolution as there were some new mechanisms created between 1750-1850. As a result of that there was a huge development in production across Europe and established some massive industries. Then fire insurance was introduced around the world. Industrial revolution affects the joint families that separates the family and creates small and single families. Agricultural economy was replaced to industrial economy that increased gathering in the city or industrial area. New enjoyment, more expenditure and mechanical accidents affects life badly. To ensure life against sufferings, life insurance policy was introduced. However, there was proof that there was short term life insurance in mid of 16 hundred century. There is an insurance contract displayed in the British museum that shows a person named William Gibson's life was insured for 12 months by a man named Richard Martin. At the beginning of 18<sup>th</sup> century life insurance, term insurance policy was introduced in Britain. After introducing life insurance, different social insurance was introduced. Because of industrial disease and accidents workers became disable or income less. That's why disease insurance was introduced in Germany for the first time in 1889, accident insurance in 1884, disable and old age insurance was introduced in 1889. Corporate fidelity Bond was introduced in 1840 and Title insurance in 1890. Cattle, crop, agricultural, vehicle, group and miscellaneous insurance were introduced at the same time. Now a days insurance is popular around the world. There is insurance policy for every possible risk to minimize damage and financial losses. Insurance became obligatory for any business even in Bangladesh and fire insurance is mandatory to run a small factory. Vehicle and motorcycle insurance is also mandatory in Bangladesh.

### **Insurance Laws in Bangladesh:**

Insurance business is not new in Bangladesh. Almost a century back, during the British rule in India, some companies started insurance business, both in life and general insurance, in this region. This business has gained momentum in Bangladesh also. So legal provisions were necessary to regulate insurance in Bangladesh. At present, there is a law regarding insurance which is the Insurance Act, 2010. There were some laws in the immediate past regarding insurance, for example Insurance Act 1938.

#### The Insurance Act, 1938:

This Act contained provisions regarding matters like definition of insurer and insured, commission payable to agents, licensing of agents, appointments of staff, register of policies and register of claims powers of the controller of insurance, acquisition of surrender value by policy, actuarial report, deposits, investments, loans, valuation of assets and liabilities, account and balance sheets etc. The Act also contained provisions relating to co constitution, management

and winding up of insurance company. It was applicable to both in life and general insurance business.

The Bangladesh Insurance (Nationalization) Order, 1972:

The order was for the nationalization of insurance business in Bangladesh by transferring all such business to certain corporations established for the purpose and to provide for the regulation and control of the business of the corporation.

The Bangladesh Insurance Corporation (Dissolution) order, 1972:

The order was made for the dissolution on of the Insurance corporations.

Bangladesh Insurance Corporation Act, 1973:

The law contained 34 sections. It was promulgated on 23 June in 1973. However, it was enacted to establish Jiban (Life) Bima Corporation and Sadharon (General) Bima Corporation by abolishing the former four insurance corporations, namely, Rupsa, Surma, Karnaphuli and Teesta.

The Insurance Act, 2010:

All the previous laws relating to insurance were repealed by this Act. It contains 160 sections under seven chapters. It is an updated law. It provides the provisions applicable to insurer, insured, punishment for violation of the law. On the other, it provides provision for Islamic Insurance also.

The Insurance Development and Regulatory Act, 2010:

The control over insurance companies including their functions relating to investments, taxation and reporting are regulated by this Act.

Some Past Laws:

There were some laws and rules which were invoked in past were relating to insurance business but no information is found regarding them. Namely-

- 1). The Insurance Rules, 1958
- 2) The Insurance (Amendment) Ordinance 1984
- 3) The Insurance Regulations, 1990
- 4) The Insurance Ordinance, 2008

### **Contribution of Insurance business in Bangladesh:**

The commitment of the government to promote development of the insurance sector is of enormous consequence for its promising future. In view of the pro-active policy support of the government that the sector has so far received in an unstinted manner, we are certain that within the next few years we will be able to make insurance a very important component of the country's financial system. This will go a long way for eradication of poverty and promoting sustainable economic growth. Insurance serves a number of valuable functions which are very different from those rendered by other types of financial intermediaries. The indemnification and the risk pooling properties of non-life insurance facilitate commercial transaction and the provision of credit by mitigating losses as well as the measurement and management of risk. The availability of insurance enables risk-adverse individuals and entrepreneurs to undertake higher risk and activities that yield higher rate of return, promoting higher productivity and growth. The liabilities of life insurers, on the other hand, are of long terms and due to nature of their liabilities they can serve an important function as institutional investors providing capital to infrastructure and other long term investments. Thus insurance makes a significant contribution to economic growth by improving investment climate and promoting a more efficient mix of activities than would be undertaken in the absence of risk management instruments. The contribution is magnified by the complementary development of banking and non bank financial institutions. To accelerate the process of economic development the Govt. of Bangladesh initiated a set of policy and institutional reforms within the banking sector in recent years. These reforms have continued unabated and extended to non- bank financial institutions in one form or other. Though the insurance sector in Bangladesh has shown remarkable growth in recent years reflecting product development and innovation, it was kept outside the purview of the reform programme until the present government embarked on a set of reform measures to promote a vibrant insurance sector to mobilize savings both from rural and urban areas and use those savings for investment in social and economic programmes and projects. As a first step towards achieving these objectives, Insurance Act, 2010 and Insurance Development and Regulatory Authority Act, 2010 have been enacted. Following the development of an appropriate legal framework, the Govt. has established a strong supervisory body for effective and efficient supervision of the insurance industry. Since its inception in January' 2011, Insurance Development and Regulatory Authority have been working relentlessly and in the process, have undertaken a series of measures in an effort to transform the insurance sector into one of the most efficient, competitive and productive sectors of the wider financial system in Bangladesh. [academia.edu]

### **Problems of Insurance Business in Bangladesh:**

In a developing country like Bangladesh, insurance companies are playing a very important role in the economy. Though insurance industry has very prospect in the economy but for some reasons it's totally failed to achieve it's goal. One of the problems of insurance business in

Bangladesh is the poor economy conditions. Bangladesh is one of the poorest countries in the world and most of the people in this country live under extreme poverty level. All of this people fight hard to earn their livelihood and are marginal in relation to expenditure with the income. It is quite impossible for them to save some money for future need. Therefore, they are quite unable to give the amount to the insurer which is called as premium and regarded as safety or precautionary measures against any accident. The number of people who can bear the premium to the insurance company is very few. Therefore, the overall poor economy condition is creating obstacle to flourish the insurance business in Bangladesh. Another problem is that the per capita income of the people of this country is very low. Many people in the country live below the poverty line. In 2015-2016, the country's GDP was only 23.89 % of the total GDP. Since life insurance and other social insurance depend on the savings tendency of the people, the rate of savings naturally hinders the development of such business. Another problem is weakness in industrial sector. Bangladesh is an agricultural country and the industrial sector is really weak. Only 17.64 % of the total labour force of the country is industrial workers. In 2015-2016, industrial content was only 31.28% of the total national product. Moreover, insurance business completely depend on fire and naval business. The weakness of the industrial sector is one of the great obstacles for insurance business. Another problem is that there is no efficiency in every level of administration in Bangladesh also it is the same for insurance business. Because insurance business is always lag behind. Though there were some private insurance were introduced, still there is no efficient management. Insurance was introduced for naval accidents. It was the beginning of the insurance. However, we do not have a lot of ship that makes our naval insurance business limited. Another problem is that we do not have the trust to the business as the real victim is hardly compensated but the false victims take the advantages in corporation with insurance staff. That's why people do not trust the insurance companies. This is one of the main reason that insurance business can not go ahead. Another problem is that there is no proper awareness about the good side of the insurance even there is no education about insurance business. Moreover, the public insurance company did not play the perfect role to introduce insurance amongst the citizen. In Bangladesh, there are a few insurance workers with lower skills as they do not have the proper training. Though the business was introduced in 1985 and there was some development but later there was no development because of efficiency.

**Evaluation:** Insurance business is an important and efficacious business in Bangladesh. But there are some problems which are obstacles in the development of insurance business. Insurance business ensures people for their life or property risks. Insurance business is a defense system against various kinds of risk. The problems should be removed for the development of insurance business as well as the welfare of the nation.

**Conclusion:** Insurance is so much essential system for providing financial security to the people. The government should take necessary steps to prevent obstacles of insurance business in our country. More loss should be enacted in this regard. So that people of our country will get the financial protection easily for any risk from the insurance companies.

**Reference:**

(1). [Course.uceusa.com](http://Course.uceusa.com)

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(3) [commercenotes.org](http://commercenotes.org)

(4) [academia.edu](http://academia.edu)