



Developing Microinsurance Sector in Bangladesh

Background

Bangladesh is highly vulnerable to tropical cyclones and floods¹ due to its geographical location and very low land elevation.² Those affected by the floods are mostly the poorer segments of society who have no or limited means to take protective measures and have very little capacity to cope with the loss of assets and income.³ To address this, large resources are required for disaster management, including mitigation, recovery, and preparedness.⁴

There is a growing need to expand the insurance system in Bangladesh to protect its people from shocks. Social insurance programs in Bangladesh, however, are limited to civil servants, and leave many informal workers unprotected from catastrophic income shocks, such as loss of employment, health, or disability.⁵

Development of Microinsurance in Bangladesh

The insurance system in Bangladesh consists of 2 state-owned corporations, 43 private sector general insurance companies, and 17 life insurance companies. The insurance sector has grown substantially and has deepened remarkably with additional number of insurance companies in both general and life insurance business. It is also notable that the insurance market has expanded and the volume of assets has increased substantially.⁶ The impressive growth of the insurance industry in Bangladesh is due to operations of private sector insurance companies.⁷

Despite the growth of the insurance industry in the country, some problems exist. For instance, the presence of too many companies in a small market like in Bangladesh has given rise to the unethical practices of some insurance companies, which retarded the growth of the industry. Other problems that made the insurance system vulnerable are weak regulatory system, inadequate capital base, high management expenses, and large number of weak insurers competing with each other.⁸ Furthermore, the insurance policyholders concentrate on the upper- and middle-income population, leaving the estimated 93% of the country's 134 million population without access to formal insurance service.⁹ There is also a need for professionally qualified personnel to manage the insurance industry.

Many large nongovernment organizations (NGOs) in Bangladesh have implemented some microinsurance mechanisms to cover health care, disability, or death. But this microinsurance has not yet made significant impact considering the great demand by the large population. Some of the reasons include (i) an underdeveloped policy and regulatory framework devoted to microinsurance, (ii) limited institutional capacity, and (iii) insufficient knowledge and awareness on insurance among the poor population.

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Assisting the Development of Microinsurance in Bangladesh

The Asian Development Bank (ADB) has been providing loans, technical assistance, and grants to Bangladesh to address vulnerability and accelerate growth. In 2009, ADB approved a grant for Bangladesh to develop the microinsurance sector of the country. The grant helps the Government of Bangladesh to expand its insurance coverage to reach more vulnerable groups. Its objective is to protect the livelihoods of poor households, especially women, from risks, such as accidents, illness, theft, or natural disasters. This will secure their welfare and productive or nonproductive assets through the development of low-cost inclusive insurance services (microinsurance).

The grant project is also geared toward improving the access of the poor to affordable insurance services and reducing their vulnerability to shocks. Among its key performance indicators are (i) an increase of 20,000 poor people covered by microinsurance policyholders compared to the base figure in 2008; (ii) reduced unexpected expenditures or resulting loss of assets by 30% compared to the base figure in 2008; (iii) at least 50,000 rural poor households will become familiar with the insurance concept through training on insurance awareness campaign; and (iv) at least 20 microfinance institutions (MFIs) will be provided with capacity-building training on microinsurance operations. The capacity building aims to develop the MFIs' institutional expertise in insurance underwriting, screening, financial management, product development, and marketing.

To sustain the grant project, viable microinsurance operations were established at the MFIs. This allows MFIs to assess the insurable risks, and adequate price of the insurance against those risks. Consultations at all levels are embodied in the project plan. Key stakeholders include the government through the Ministry of Finance (MOF), Palli Karma–Sahayak Foundation (PKSF),¹⁰ MFIs, and community-based organizations. A project coordinating committee, composed of designated representatives from the MOF, Ministry of Commerce, Microcredit Regulatory Authority, and PKSF, will monitor the project implementation.

A market assessment, product development, and a consolidated profile of potential microfinance clients

were prepared. The assessment presents the knowledge of the clients on insurance services, risks, income and expenditure patterns, seasonality of income and spending, health and health care conditions, ability to afford insurance premiums and willingness to pay, and association and linkage with existing risk mitigation systems, such as community-based mutual funds.

The market assessment component of the grant project covers a significant number of households in rural areas to ensure adequate geographical spread and risk experience. PKSF conducts microinsurance educational seminars for the government, insurance industry, microfinance sector, and other NGOs on the concept, products, policy framework, regulatory environment, grievance mitigation mechanisms for the poor, and illustrations of successful regional and international experiences. The educational seminar promotes microinsurance as a workable mechanism that protects the poor from vulnerability.

The policy, legal, and regulatory frameworks are being strengthened. To achieve this, a review is being conducted on the current legal and policy framework of the country on microinsurance scheme in order to develop workable regulatory environment for the promotion of the microinsurance sector. The review is expected to offer recommendations to enhance the existing legal and policy framework on microfinance.

Another important activity of the grant project is awareness creation and capacity development through intensive training of staff of PKSF and participating MFIs on the insurance system, marketing, and administration to help them function as microfinance agents. Participating MFIs and awareness campaign facilitators are tasked to conduct insurance awareness raising for the rural poor to disseminate the basics of insurance knowledge. The awareness-raising campaign and training are designed to be gender-focused by assessing gender-specific risks mitigation needs and reflecting them in pilot products of the project grants.

Finally, the grant project provides microinsurance pilot scheme and sequences in marketing, product delivery, and monitoring and assessment to test microinsurance products and delivery models, and to identify cost-effective means of providing sustainable insurance services to poor households in rural areas.

Endnotes

- ¹ Cited in the United Nations Development Programme (UNDP) report entitled, A Global Report: Reducing Disaster Risk: A Challenge for Development. Quoted in IRIN. 2009. *Bangladesh: Ever So Vulnerable to Storms, Floods and Sea Level Rises*. Available at www.irinnews.org/report.aspx?ReportId=87611 (accessed 4 November 2010).
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- ⁶ Sadharan Bima Corporation. 2007. *Current Insurance Market Environment in Bangladesh*. Available at www.sbc.gov.bd/current_market.php
- ⁷ A.B.M. Nurul Haq. 2008. *Globalization and its Impact on Insurance Industry in Bangladesh*. *The Financial Express*. Available at www.thefinancialexpress-bd.com/2008/08/15/42696.html (accessed 4 November 2010).
- ⁸ Footnote 7.
- ⁹ ADB. 2008. *Grant Assistance to Bangladesh for the Developing Inclusive Insurance Sector Project*. Manila (JFPR 9129 – approved 27 Jan 2009. Financed by Japan Fund for Poverty Reduction).
- ¹⁰ Palli Karma–Sahayak Foundation (PKSF) was established by the Government of Bangladesh. It has 257 microfinance institutions (MFIs) as its partner organizations in providing financial services.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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