

Recent developments in the Bangladesh life insurance market

Bancassurance

We understand that the authorities in Bangladesh are currently considering a proposal to permit bancassurance based on an 'open architecture' model where banks would be required to distribute the products of more than one life insurer and that this may be effected some time in 2021.

Given the low level of life insurance penetration in Bangladesh, such a measure, with proper safeguards in place, could help to substantially boost insurance penetration. Bangladesh has a fairly large number of banks (approximately 60), including several foreign banks as well as approximately 35 non-banking financial institutions. Furthermore, going by the experience in neighbouring India, introducing bancassurance may result in substantial efficiency gains for the industry, with improved policyholder returns. In the longer term, this may also help enhance the reputation of the industry in the eyes of the general population.

The banks in Bangladesh also seem to have an incentive to engage in bancassurance given the pressures on profitability arising from their core lending operations due to the interest rate cap on lending imposed by the authorities from 1 April 2020.

Covid-19 and protection business

As with other life insurance markets in the region, there has been a significant slowdown in premium volumes as a result of the ongoing pandemic. This has led to fierce competition within the industry for distribution and has put upwards pressure on commission levels offered to the distributors.

Given the growing awareness about mortality and morbidity risks amongst the population, some insurers have already floated products to provide cover related specifically to Covid -19. We also understand that further protection products are on the anvil.

Furthermore, we understand that for the first time, the Insurance Development and Regulatory Authority (IDRA) has asked for claims data from players to carry out an industry mortality study, which may lead to the possible development of the first insured lives mortality table in Bangladesh. Currently, pricing in Bangladesh is largely performed with reference to the UK mortality table A49-52 (i.e. based on the experience from 1949 to 1952 in the UK market).

The increased focus on protection business is welcome as it would address the underserved protection needs of the population and also help to enhance insurer profitability.

In an earlier e-alert (available [here](#)), we had observed that a vast majority of insurers in Bangladesh have not yet segregated their life fund into separate 'participating' and 'non-participating' funds. With a possible shift in business mix towards non-participating protection products, segregating the funds becomes all the more important from a profitability perspective.

Growing interest by multinational companies

For reasons outlined in our previous e-alert, we are seeing growing interest in the Bangladesh life insurance market from multinational insurance companies.

Now, with the possibility of the authorities allowing bancassurance models and the growing focus on protection business, the Bangladesh market is becoming structurally more attractive to new entrants and to multinational insurance companies looking to take a stake in an existing life insurance company. Such a strategy may also help to provide growth and attractive returns at a time when it is becoming increasingly difficult to achieve growth in their core domestic markets.

Expenses of management rules

In January 2020 the IDRA made some relatively minor changes to the existing rules governing expenses of management via the 'Maximum Limit of Management Expense for Life Insurers Rules, 2020' ('2020 Rules'). Management expenses are defined to include not only operating expenses but all expenses including commission and other distribution payments.

The erstwhile rules were being breached by several players in the industry. The key features of the new 2020 Rules are given below:

FIGURE 1: MANAGEMENT EXPENSE LIMITS

	Allowance as a % of premium in a given calendar year as per the 2020 Rules
Single premium policies	5%
Annuities with more than one premium	10% of first year premium 5% of renewal year premium
Annuities paid	1% of annuities paid
Paid-up policies	0.05% of the sum assured
Group policies	15% of premium paid
Regular premium policies other than those already covered above^(a)	
Duration of insurance business (1-5 years)	95% of first year premium 25% of renewal year premium
Duration of insurance business (6-10 years)	94% of first year premium 22% of renewal year premium
Duration of insurance business (>10 years)	93%/92%/91% of first year premium depending on total premium volumes 20%/19%/18%/16%/15% of subsequent years' premium for calendar years 2019, 2020, 2021, 2022, 2023 and onwards, respectively

a: For policies with premium payment term (PPT) less than or equal to 11 years, the first year premium allowance is capped to 7.5% multiplied by PPT.

Given their business mix, a large proportion of the expense allowance for most life insurers tends to be driven by the allowances flowing from the latter section of the table pertaining to other regular premium policies.

Going by the experience of neighbouring India, where several life insurers breached such maximum expense limits on a regular basis until 2015, life insurers in the much smaller Bangladesh market may also continue to breach these limits unless they are able to secure bank distribution (i.e. if and when bancassurance is permitted) or gain substantial economies of scale.

Conclusions

Despite the ongoing Covid-19 situation, which is adversely impacting life insurance markets globally, this year has seen several positive developments in the Bangladesh life insurance market.

The possible introduction of bancassurance in the near future coupled with changing regulatory and consumer attitudes towards protection business augur well for the sector. We expect to see a greater degree of interest by multinational insurance companies in this market in the medium term.



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