

International Network of Alternative Financial Institutions

INAFI Bangladesh Research Paper

**REDUCING VULNERABILITY OF THE
POOR THROUGH SOCIAL SECURITY
PRODUCTS**

**A MARKET SURVEY ON MICROINSURANCE
IN BANGLADESH**

Rashed Al Hasan

Supported by:  **Oxfam Novib**



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A MARKET SURVEY ON MICROINSURANCE IN BANGLADESH

Rashed Al Hasan

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Navana Shefali, Apt#2D

House#11, Road#14

Gulshan-1, Dhaka-1212

Bangladesh

E-mail: inafi.bangladesh@inafiasia.net

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List of Acronyms

ASA	Association for Social Advancement
BDT	Bangladeshi Taka
BIA	Bangladesh Insurance Association
BRAC	Bangladesh Rural Advancement Committee
CDF	Credit and Development Forum
GDP	Gross Domestic Product
IDF	Integrated Development Foundation
ILO	International Labour Organisation
INAFI	International Network of Alternative Financial Institutions
JBC	Jibon Bima Corporation
MFIs	Microfinance Institutions
NGOs	Non Government Organisations
PKSF	Palli Karma-Sahayak Foundation
RMC	Rural Mother Centres
SBC	Sadharan Bima Corporation
SSS	Society for Social Services
TMSS	Thengamara Mahila Sabuj Sangha
UCD	Urban Community Development Programmes

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Rashed Al Hasan
Programme Officer
INAFI Bangladesh

Foreword

Heightened vulnerability to risk is common in the lives of poor people. From the beginning of human civilisation low income persons have been particularly vulnerable to environmental risks, chronic illness, shocks of sudden or accidental death, physical disability, loss of property due to theft or fire, agricultural losses due to natural disaster, manmade and other disasters. Poverty and vulnerability move forward in parallel and severely impact the poorest. The outcome of these risks and often unpredictable shocks is substantial financial losses. Although poor households may have informal mechanisms at their disposal, such as utilisation of savings, the sale of property and other income-generating activities, borrowing from relatives or informal sources to manage risks, these mechanisms are not sufficient to provide social security and adequate protection. To cope with shocks and vulnerabilities, poor people stand to benefit from financial as well as non-financial services. Their demand for diversified financial and non-financial products as well as social security products like insurance is increasing.

Least Developed Countries (LDCs) like Bangladesh do not have an established social security system that ensures a social safety net. The provision of social protection by public and private institutions is very limited. Microinsurance has been considered here as an extended social security product, along with government initiatives that ensure protection of low-income people against daily hazards. The risks are pooling in exchange for regular premium payments proportionate to the cost of risk involved and the demand of microinsurance clients. With the tremendous success of Microfinance programme some NGOs/MFIs and mainstream insurance companies came forward in late eighties and early nineties to offer insurance products to the poor people. The target market of Microinsurance products are low income people. But most of the products offered by NGOs/MFIs were supply driven not demand driven. Although many MFIs/NGOs are offering Microinsurance products, product diversification and professional Microinsurance operations have not been developed.

Although Microinsurance is gaining attraction and popularity in Bangladesh, the information and documentation on Microinsurance both from the MFIs/NGOs sector and private insurance companies is very scarce. With this in mind, INAFI Bangladesh has undertaken to conduct a Market Survey on Microinsurance products, with a view to taking stock of existing Microinsurance products offered by MFIs/NGOs as well as mainstream insurance companies in Bangladesh and exploring the existing market.

The International Network of Alternative Financial Institutions (INAFI) is an international network of practitioners dedicated to human, social and economic development through the provision of financial services for low income people by creating effective and efficient alternative financial institutions through capacity building, knowledge based research, thematic seminar and conference, exposure visit and training. INAFI Bangladesh Foundation is the national arm of the INAFI Asia network and shares the same philosophy. INAFI Bangladesh has conducted a market study on *'Reducing Vulnerability of the Poor through Social Security Products: A Market Survey on Microinsurance Products in Bangladesh'* by collecting primary data. This research paper explores the nature of existing Microinsurance products offering by MFIs/NGOs and mainstream insurance companies, lessons from both MFIs/NGOs and mainstream insurance companies and compares MFIs/NGOs and mainstream insurance companies in terms of product design and packaging. This paper also examines operational methodology, and the prospect of joint collaboration between MFIs/NGOs and mainstream insurance companies. Through this work, we also hope to provide some recommendations, and we believe this research paper will provide some informative guidelines to different stakeholders including the government, donors, MFIs/NGOs, and private sector, particularly mainstream insurance companies.

I would like to convey my deepest appreciation to the researcher Rashed Al Hasan, Programme Officer, INAFI Bangladesh for his sincere efforts in carrying out this market study. My special thanks also go to Ms. Meera Balakumar, a Fulbright scholar and consultant for her assistance. I would like to thank all the MFIs/NGOs and mainstream insurance companies who provided valuable information. My gratitude also goes to all who provided necessary support and valuable comments on the study. Finally I would like to thank our colleagues in the INAFI Dhaka office for providing logistical support during preparation of the paper.

Atiqun Nabi
Executive Director
INAFI Asia and Bangladesh

Executive Summary

Heightened vulnerability to risk is common in the lives of poor people. To cope with the shocks and vulnerabilities associated with poverty, poor people could potentially leverage financial as well as non-financial services to mitigate daily economic and social shocks and vulnerabilities. Although poor households often have informal mechanisms such as the utilisation of savings, the sale of property and other income-generating activities, borrowing from relatives or informal sources to manage risks, these mechanisms are not sufficient enough to provide social security and risk protection. The poor constitute a demand for diversified financial and non-financial products as well as social security products like insurance, and this demand is increasing every day. Microfinance institutions are thus developing new financial products and services to meet increasing client demand. Microinsurance is one of the products that is gaining wide attention in the world of microfinance. Moreover, insurance companies are now coming forward to tap this huge market.

The definition of 'Microinsurance' has two relevant parts. First, the 'micro' portion of the definition refers to the subset of a product that is designed to be beneficial and affordable for low-income individuals or groups. Second 'insurance' refers to a financial service that uses *risk-pooling* to provide compensation to individuals or groups that are adversely affected by a specified risk or event.

Bangladesh has been considered a pioneer in Microcredit, but still diversification of different financial products and services for poor people is not up to the mark. Although many MFIs are offering Microinsurance products to poor people, a large number of poor people are uncovered by Microinsurance. Current Microinsurance products offered by MFIs/NGOs originate from the supply side other than the demand side. Although many MFIs/NGOs are offering Microinsurance products, still product diversification and professional Microinsurance operations are undeveloped. Some private insurance companies with professional experience are offering insurance products to the poor community. INAFI Bangladesh has undertaken to conduct a Market Survey on Microinsurance products with a view to take stock of existing Microinsurance products offered by MFIs/NGOs as well as mainstream insurance companies in Bangladesh, develop a database of MFIs/NGOs and insurance companies offering Microinsurance products, promote the successes of INAFI member organisations in this area, as well as that of other MFIs/NGOs. We hope to advocate for financially and operationally sustainable Microinsurance products for the poor.

NGOs/MFIs for this study were selected with the help of Palli Karma-Sahayak Foundation (PKSF) and other sources. A total of 92 NGOs/MFIs were identified offering insurance products to their clients in the name of different savings products. Among the 92 NGOs/MFIs, 61 reported their Microinsurance products. At present, among the 18 Life Insurance Companies in existence, 13 companies were identified to offer Microinsurance products. Among the 13 life insurance companies 10 companies provided information about their Microinsurance products. Some information was collected from secondary materials, website, and discussion with individual insurance companies.

The microfinance industry in Bangladesh has been able to demonstrate a remarkable growth during the last two decades and provide access to credit to around 30 million poor households. According to CDF statistics there are around 1410 microfinance institutions (MFIs) currently in Bangladesh. According to Bangladesh Bank, Grameen Bank, BRAC, ASA, and PROSHIKA account for 60% of the total amount of outstanding loans made by all MFIs, and it is widely believed that top 20% institutions account for 80% of the total market.

The insurance industry has been in existence for over a century in Bangladesh. The Insurance Act 1973 was amended in 1984 to allow insurance companies into the private sector to operate side by side with the public sector. The Insurance Act was also amended in 2001. At present there are 62 general and life insurance companies operating in the country. Among them only two companies are within the public sector and the rest of the 60 companies are from the private sector. Of these private sector companies, 17 are life insurance, including one foreign owned and 43 are general insurance companies.

According to Bangladesh Insurance Association (BIA) the premium income of insurance companies in 1986 was around BDT 36 crore (US \$ 6 million) and went up to BDT 2,043 crore (US \$ 341 million) in 2004. Of this figure life insurance premiums constituted BDT 1,463 crore (US \$ 244 million) and general insurance premiums constituted around BDT 580 crore (US\$97 million). Total investment of the insurance companies rose to Tk 3,138 crore (US \$ 523 million) in the year 2004. The GDP share of Insurance sector is increasing. In FY 2005, the share of Insurance sector in GDP was 0.4 percent, where as in FY 2002 it was 0.3 percent. In 2003, insurance premium per capita for Bangladesh was US \$ 2.15.

Bangladesh does not have an established social security system that ensures a social safety net, and the provision of social protection by public and private institutions is very limited. Government schemes are mostly focused on state employees, for whom there is an unfunded pension scheme and free health care facility at government hospitals. During the last few years the government has undertaken several programmes for poor people to ensure social security. But the coverage of these programmes is inadequate and a significant portion of poor people are excluded from these programmes.

Microinsurance is gaining attraction and popularity in Bangladesh. However, the information and documentation on Microinsurance from MFIs/NGOs sector and private insurance companies are very scarce. The Delta Life Insurance is the first private regulated insurance company in Bangladesh that entered in the Microinsurance in 1988, inspired by the growing success of the Grameen Bank and other Microcredit schemes in Bangladesh. The study tried to explore the outreach of Microinsurance clients and it is found from the study that 20.69 million clients are covered by Microinsurance by NGOs/MFIs. Among the Microinsurance clients, 17.54 million (85 percent) are female and 3.15 million (15 percent) are male. Moreover, among the 10 insurance companies 9 companies reported approximately 4.48 million client outreach of Microinsurance products. The cumulative premium collected for different Microinsurance products and plans by the reported 10 insurance companies are approximately Tk.11,275 million. The premium collected by 9 insurance companies during the year 2005 is around Tk. 5,488 million. Among the 10 insurance companies 8 companies reported about claims or bonus. The cumulative claims or bonus paid by the insurance companies is around Tk. 481 million and the claim or bonus paid in the year 2005 is approximately Tk. 148.5 million. The NGOs are not for profit and cover risks such as Primary health, Hospitalisation, Life, Loans and Property. The study explores that the reported 61 MFIs/NGOs are offering total 81 insurance schemes of different products i.e. loan (71%), life (16%), health (6%), livestock (5%) and property insurance (2%).

The MFIs/NGOs basically started their Microinsurance schemes for death risks to reduce the delinquency and amount of nonperforming loan. Average premium charges per Thousand (Tk.1,000) Taka loan insurance is Tk. 8. Most of the NGOs/MFIs collect premium during loan disbursement and offer insurance policy for the loan period only like 45 / 46 weeks or 1 year. In loan insurance the outstanding loan amount is exempted after the death of client. The size of this outstanding loan amount varies and usually not more than Tk.20,000. But some NGOs/MFIs cover larger outstanding loan. In Life insurance, the premium rate varies from Tk. 1 to Tk. 10 per week. Some NGOs/MFIs charge premium between Tk. 10 to 50 during loan disbursement and amalgamated the loan insurance with life insurance. Typically, life

insurance premiums are collected weekly. But some NGOs/MFIs that amalgamated loan insurance with life insurance collect premium once during loan disbursement. The duration of the insurance policy varies from 4 to 8 years. But some organisations offer life insurance for whole membership term of clients. The size of insurance coverage usually varies from 3 to 7 times of deposited amount. But the organisations that combined loan and life insurance provide Tk.1000 to Tk. 5000 as grant along with outstanding loan adjustment after the death of insured client. In health insurance, usually the NGOs/MFIs charge annually Tk. 8 to Tk. 25 on per thousand (Tk.1,000) Taka loan disbursement but premium is collected through weekly installments. Some organisations collect premium once during loan disbursement. The NGOs/MFIs provide primary health care services and also offer discount between 25% to 50% on hospitalisation and essential drugs. In most cases, some portion of the primary health care, essential medicine and hospitalisation costs of clients are covered. In livestock insurance, NGOs/MFIs charge annually 2% to 10% premium on disbursed loan or purchase price on livestock/poultry. Besides, some organisations charge Tk. 300 per cattle. Usually premiums are collected during disbursement of loan. The duration of insurance policies are for one year (during the loan period). The outstanding loan is exempted if the cow dies or there is any epidemic in poultry. Usually, the size of insurance coverage varies from Tk. 500 to Tk. 10,000 depends on losses of livestock/poultry.

The mainstream insurance companies are offering different Microinsurance products named '*Gono-Grameen Bima*' (General Rural Insurance), '*Sharbojonin Bima*' (General Insurance), '*Grameen Jibon Bima*' (Rural Life insurance), and '*Daridra Bimochone Jibon Bima*' (Life insurance for poverty alleviation), *Loko Bima* (Public insurance), *Islami Khudra Bima / Takaful* (Islamic Microinsurance), *Islami Khudra Bima Prokolpo* (Islamic Microinsurance Project), '*Jonopriyo Bima*' (Popular Insurance) etc. Each Microinsurance product has various insurance plans. But the most of the Microinsurance products offered by the insurance companies are almost similar. The diversification of products and insurance plans is not visible.

The target group of Microinsurance clients of mainstream insurance companies are occupation based low income people of informal economy. Usually the households who earn less than US\$100 per month. Some insurance companies offer Microinsurance products whose monthly income varies from Tk.600 to Tk.5000. The age range of the policyholders is between 18 to 45 years. Some companies also offer Microinsurance products up to 55 years clients. The premium charges per Thousand (Tk.1,000) Taka insurance coverage varies from Tk.3.25 to Tk.13.33 per month depending on nature of products, insurance plans, size of insurance coverage, insurance maturity period, installment procedure of premium and the age of policyholder. Another Microinsurance package named single premium policy, where the premium rate per Thousand Taka (Tk.1000) insurance coverage varies from Tk. 757.40 to Tk. 1448.80 depending on insurance plans, the age of policyholders and insurance maturity period. Usually premium is collected monthly / quarterly / half yearly / yearly installments depending on insurance plans and policy holder's interest. Most of the cases the duration of insurance policy vary between 6 to 15 years. But in some insurance plans the duration of insurance policy is up to 30 years. The size of insurance coverage usually varies from Tk. 5,000 to Tk. 100,000 depends on policy holders premium rate. In most of the cases the death risk of insurance policy holder is covered. Some Microinsurance products also cover health and accidental risks along with life by charging some additional premium. Beside, these there are some insurance plans which provide funds for child education, and marriage of daughter after the death of parents. Usually the claims are paid to the family members of deceased policy holder. Moreover, a certain percentage between 10% to 25% bonus on insured amount is paid after a certain period i.e. 3 or 4 years. Some Microinsurance product package also include a certain percentage of profit like 7% on bonus if the policy holder doesn't withdraw it when due and this interest along with bonus is paid after the maturity of insurance term if the policy holder alive. Some plans have also pension

system. If the policyholder doesn't withdraw the full insured amount along with profit bonus, s/he will get monthly pension for 5 to 10 years.

Among the reported 10 mainstream insurance companies, 8 companies expressed their interest for joint collaboration with NGOs/MFIs. As NGOs/MFIs have wide network all over the country especially in the rural and remote areas, so most of the insurance companies expressed collaboration for marketing and premium collection like partner-agent model. The study clearly exposes two important lessons on Product Design and Packaging and Management and Operational Methodology of Microinsurance products offering by both NGOs/MFIs and private insurance companies. There is a big difference in product design between NGOs/MFIs and private insurance companies. Usually the NGOs/MFIs offer different types of insurance products i.e. loan insurance, life insurance, health insurance, livestock insurance and property insurance. Sometimes they cover more risks with single premium. But the insurance companies offer specialised product i.e. life insurance and sometimes health insurance.

By comparing the Microinsurance products offered by NGOs/MFIs and insurance companies it is found that usually the product is designed by NGOs/MFIs with the consideration of Microfinance context and usually try to amalgamate with the various Microfinance products like loan and savings. The insurance companies design the products by considering the income level of target clients and also following some guidelines of the insurance regulatory authority and actuaries. The NGOs/MFIs determine the premium rate through unstructured calculation upon assumptions, whereas the insurance companies determine the premium rate through structure calculation by the actuaries, which depends on the nature of products, insurance plans, size of insurance coverage, insurance maturity period, installment procedure of premium and the age of policyholder.

Insurance has been considered as security product for the high and moderate income level people of the society. But during the last one and half decades it is observed that along with the affluent people of the society, there is a dormant demand for insurance among the poor community and earlier they couldn't expose it. But after involving with Microcredit programme and also other development activities, the poor people considered that their social security is important to survive in this harsh world of poverty. From this study it has been found that the demand for Microinsurance is increasing day by day. As the demand is increasing, so NGOs/MFIs and also the Insurance Companies are thinking about the diversified products. If the product is designed by considering the demand side as well as affordability of the poor people, then the client outreach will also increase. There are different types of uncertainty and vulnerability for low-income households, such as life cycle events, death, disability, loss of property, etc. In the lifecycle events of the poor some risks and vulnerability is negligible, but there are some occasional events such as epidemics, serious natural disasters that are all considerably more risky than life cycle events.

There are two main issues i.e. product design and policyholder issues that discourages NGOs/MFIs and Insurance companies to tap poor households with insurance products. The product design issues include high transaction costs, irregular income flows, difficulties in controlling moral hazard and adverse selection. The policyholders' issues include affordability of premium. Furthermore, poor households have limited understanding about insurance and there is a misconception about insurers. Microfinance providers are also facing challenge in designing product and scaling up outreach. Moreover, lack of skills for actuarial analysis and scope for reinsurance has emerged as another challenge.

The insurance product design and packaging for poor people is very critical tasks. The Insurance companies design product by the Actuaries through scientific calculation, but the NGOs/MFIs follow the unstructured assumption method. Moreover, usually the product is designed and packaged in such a way that in most of the cases the actual needs and

demand of the poor people is ignored. So the Microinsurance providers should consider the needs and demand of the target clients. The product should be designed and packaged in such a way, so that the self exclusion of some clients, who have irregular flow of income or seasonal income, can be avoided.

The size of insurance coverage plays a significant role for restoration of livelihood of the poor people after the death of a family head or earner. But in most of the cases the insurance programme of NGOs/MFIs don't addresses this issue when fix the size of the insurance coverage amount. Although the insurance companies have structured scientific calculation method to determine the size of insurance coverage amount and it seems to be lucrative, but the actual demand as well as affordability of premium rate from the client side is not considered.

The NGOs/MFIs cover different types of risks related to life, health, accident and also property. But due to regulatory framework the life insurance companies can't move beyond life, health and accident, which cause physical damage. So it is very difficult for the insurance companies to expand the existing product line. In this regard, the insurance companies and NGOs/MFIs can work jointly. Moreover, the both parties can establish a separate Mutual entity like Mutual Insurance Company to expand their Microinsurance product line.

It is true that developing and offering a new product always has some risks. Sometimes NGOs/MFIs and insurance companies ignore poor people because they consider the financial sustainability of this Microinsurance product. But many of the risks and vulnerabilities faced by the low-income clients served by NGOs/MFIs are insurable. In these cases, well-designed Microinsurance products can have an important development impact. It is true that the customised products have some challenges specially to make it operationally and financially viable. But for the wellbeing of the poor people, this challenge should be accepted. As a pioneer of Microcredit NGOs/MFIs as well as insurance companies can address the needs of the poor to achieve the United Nations Millennium Development Goals and cover all poor people of the country with social security products like insurance and ensure social safety nets by the year 2015.

1.0 INTRODUCTION

Exacerbated risk and vulnerability is a core component of daily life for poor people. Poor people must often strive hard to slowly generate income and build their assets to get out of poverty. Microfinance makes this process smoother. For this reason Microfinance is considered as proven strategy of poverty alleviation. But in the perilous world of poverty, impulsive shocks such as illness, death within the family, especially primary household earners, and damage of property affect the process of income and asset building. Sometimes Microfinance itself is not sufficient enough to cope with these types of shocks. To cope with the shocks and vulnerabilities, poor people expect some financial as well as non-financial services which can mitigate their shocks and vulnerabilities. The demand from the poorest for diversified financial and non-financial products as well as social security products like insurance is increasing day by day. Microfinance institutions are developing new financial products and services to meet increasing client demand and Microinsurance is one of the products that is gaining wide attention in the world of microfinance. With the tremendous success of Microfinance programmes, some mainstream insurance companies have also come forward with insurance products for the poor that at least ensures some social security.

According to the ILO Convention 1952 (Convention No.102) on Social Security (Minimum Standard), nine branches of social security and the corresponding contingencies were covered: medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit. The Convention No.102, added flexibility clause where it was mentioned that social insurance scheme that could provide minimum level of social security to the people of member states. From this perspective, insurance especially the Microinsurance has been considered as a social security product and an additional financial tool to help people living with poverty coping with the risks and vulnerabilities they face in everyday life. Saving is the traditional way to cope with such risks whereas credit comes in with the objective to strengthen income-earning capacity or stabilize family incomes. Insurance extends the coping capacity to a next level of leverage as it increases the scope of risk coverage (Abels, 2005). It is true that not all Microinsurance products play a role in extending social protection of the Poor. The products like property or asset, livestock, housing and loan protection insurance do not provide social protection. But on the other hand, some products like health, life, old age pensions and disability insurance policy addresses the nine contingencies specified in ILO's Social Security Convention (No. 102) and therefore play a role in the extension of social protection (Churchill, 2006).

Insurance is a mechanism that uses risk pooling to compensate individuals and groups adversely affected by a specified risk or event (Cohen and Sebstad, 2003). Insurance can be defined as such a social and economic security product that pool risk, reduces vulnerability and provides more complete compensation. Microinsurance is a subset of insurance that provides social security and plays role of social safety net to the poor. Its clients and operational methodology are different from the existing formal insurance companies. The clients of Microinsurance are poor and they depend on low income. Usually this income flows fluctuate considerably throughout the year.

The definition of 'Microinsurance' can be understood in two parts. First, the 'micro' portion of the definition refers to the subset of a product that is designed to be beneficial and affordable for low-income individuals or groups. Second, the 'insurance' component refers to a financial service that uses *risk-pooling* to provide compensation to individuals or groups that are adversely affected by a specified risk or event (Brown, 2000). *Risk-pooling* means that a large group or pool of individuals or groups contribute to share the losses resulting from the adverse situation or occurrence of a risky event. Persons affected by an adverse situation and negative event enjoy benefits from the contributions of many others that are not affected and due to risk sharing the affected persons receive compensation that is greater than the amount they have invested in the insurance policy. Products that allow an affected individual to receive only up to the amount they have contributed are considered savings products, and not insurance products. So insurance is different from savings as well as other financial products.

1.1. Objectives and Methodology of the Study

Bangladesh has been considered a pioneer in Microcredit, yet diversification of financial products and services for the poor is not up to the mark. Although many MFIs are offering Microinsurance products to the poor, there are a large number of poor people uncovered by Microinsurance. Current Microinsurance products offered by MFIs/NGOs are coming from the supply side other than the demand side. Although many MFIs/NGOs are offering Microinsurance products to protect their loan as well as provide social security to their clients through reducing risks and vulnerabilities, product diversification and professional Microinsurance operations are not developed. Some professional private insurance companies are offering insurance products to the poor. INAFI Bangladesh has undertaken to conduct a Market Survey on Microinsurance products with the following view:

- ❖ To explore the existing Microinsurance products and the target clients of MFIs/NGOs as well as mainstream insurance companies in Bangladesh
- ❖ To develop a database of MFIs/NGOs and insurance companies offering Microinsurance products,
- ❖ To promote the successes of INAFI member organisations as well as other MFIs/NGOs and mainstream insurance companies offering diversified insurance products that ensures the social security of the poor clients.
- ❖ To learn the prerequisites to launch Microinsurance products by MFIs/NGOs and advocate for financially and operationally sustainable products.
- ❖ To explore the possibility of building alliance of MFIs/NGOs with mainstream insurance companies.

1.1.1 Key Research Questions

The market survey has been conducted with the aim to find answers of some research questions that will clearly fit with the research objectives. The key research questions were:

- ❖ What is the nature of the insurance products the NGOs/MFIs and insurance companies are offering for the poor people?
- ❖ Who are the target clients of Microinsurance products?
- ❖ What is the outreach of the programme?
- ❖ What is the operational methodology (premium charged, premium collection process, duration of policy size of insurance coverage etc)?
- ❖ What types of risks are covered?
- ❖ Whether the Microinsurance programme is sustainable?
- ❖ What challenges the MFIs/NGOs and insurance companies are facing to offer insurance products to the poor?
- ❖ Whether there is any possibility of cooperation between MFIs and insurance companies to offer insurance products for the poor?

1.1.2. Sources of Information

The NGOs/MFIs were selected with the help of Palli Karma-Sahayak Foundation (PKSF) and also from other sources i.e. web-site, personal contact etc. Total 92 NGOs/MFIs were identified offering insurance products to their clients in the name of different savings products. At present among the 18 Life Insurance Companies 13 companies are identified offering Microinsurance products. Among the 13 life insurance companies 10 companies have provided information about their Microinsurance products. Moreover, some information was collected from secondary materials, website, and discussion with the insurance companies.

1.1.3. Data Collection Methods and Data Analysis

The data were collected through a structured questionnaire by using both English and Bengali language. The questionnaire was sent to the identified NGOs/MFIs. Among the 92 NGOs/MFIs 61 organisations completed the questionnaire correctly, 10 organisations couldn't complete the questionnaire accordingly and the rest of the organisations didn't complete the questionnaire. The information from insurance companies collected through another structured questionnaire and personal interview. After receiving the entire completed questionnaire, the data were analysed by using SPSS software. Moreover, some data were collected from secondary materials like various publications and websites, personal interviews, telephone interview and discussion with different stakeholders.

1.1.4. Limitations

The study had some limitations. The major limitations were:

- ❖ Due to time constraint the study couldn't collect information from some other MFIs/NGOs and also from insurance companies, which are offering Microinsurance products.
- ❖ The research team couldn't directly contact with most of the MFIs/NGOs. So the most of the information provided by the MFIs/NGOs couldn't be validated.

2.0 MICROFINANCE IN BANGLADESH

2.1 Evolution of Microfinance in Bangladesh

The microfinance industry in Bangladesh has been able to demonstrate a remarkable growth during the last two decades and to provide access to credit to around 30 million poor households¹. There are around 1410 hundred microfinance institutions (MFIs) currently in Bangladesh². Up to June 2002, four big institutions including Grameen Bank dominate the microfinance market of Bangladesh. Grameen Bank, BRAC, ASA, and PROSHIKA account for 60% of the total amount of outstanding loans made by all MFIs, and it is widely believed that top 20% institutions account for 80% of the total market (Bangladesh Bank).

Bangladesh is considered as pioneer in Microcredit. If the growth of Microfinance industry in Bangladesh is critically analysed, it will find that the growth of Microfinance took place during several distinct phases over the last three decades (Zaman, 2004). The origin of the current Microcredit model evolved through action research and piloting in the late 1970s, carried out

¹ This information excerpted from Microfinance Statistics, Volume 17, December 2004, Credit and Development Forum (CDF), Bangladesh, and the websites of Grameen Bank, BRAC and ASA.

² This information extracted from Member composition(2003 data) of CDF, provided for publication of Global Directory of Regional and Country-Level Microfinance Networks, posted in the website: www.seepnetwork.org

by academics as well as practitioners organizations that were involved with the relief and rehabilitation activities of post-independence Bangladesh.

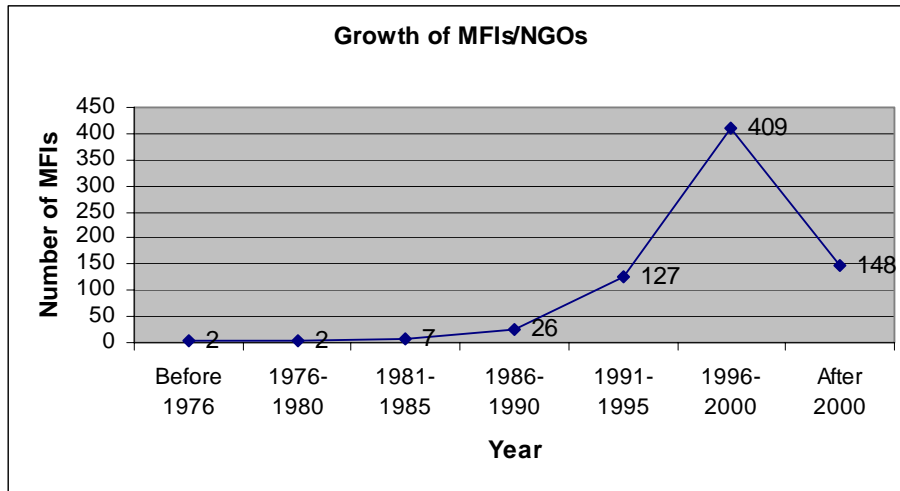
After independence in 1971, the NGO movement in Bangladesh started with the focus on relief, rehabilitation and community development. After working for some years, by the mid 1970s some NGOs, specially BRAC and Proshika moved towards "target-group" approach. Later this target-group approach played a significant role for Microcredit development of the country. At the same time a team of researchers at Chittagong University, led by Professor M. Yunus, now the Noble Peace Laureate 2006, began an action-research program that provided loans to poor households in 'Jobra' village (Zaman, 2004). At that time, it was difficult to conceive that these initiatives would lead to a major Microcredit movement, which would make Bangladesh known to the rest of the world (PKSF, Microcredit Programmes in Bangladesh-Giving a chance to the poor). The success of Grameen Project paved the way for the establishment of the Grameen Bank under a special ordinance in 1983.

During the early 1980s, several NGOs experimented with different ways of delivering credit and provided loans for group projects compared to offer loans to individuals. But group credit approach couldn't become popular due to lack of strong monitoring, operational complexity and group project failure, which negatively impacted on recovery rate. So by the late 1980s, the NGOs shifted towards providing individual loans to a target group of poor households, with peer monitoring and strong MFI staff follow-up and this model became predominant. The Association for Social Advancement (ASA) is a classic example of this shift. This shift towards target-group approach encouraged NGOs to expand their Microcredit programme, which has been considered a revolution for the development of the Microfinance in Bangladesh.

The early 1990s was the period of rapid expansion of the Grameen-style Microcredit approach. (Ahmed 2003). Due to target-group approach and individual loan, borrowers' accountability to repayment the loan increased and capacity of MFIs also enhanced and rapid expansion of MFIs was observed. Due to rapid expansion MFIs were facing huge fund shortage and demand for fund increased. With a view to meet the demand for fund for re-lending by the development partners (NGO-MFIs), and due to an urge to coordinate the flow of such funds to appropriate use, the Palli Karma-Sahayak Foundation (acronym PKSF and the full Bengali name can be translated in English as "Rural Employment Support Foundation") was established by the government in 1990. In the Mid-1990s some MFIs, which were emerging, offered diversified financial services for different cliental groups by keeping low operational costs. These diversified financial products also attract some other MFIs and during the Mid-1990s there was a significant growth in the Microfinance sector of the country.

2.2.1. Growth of MFIs/NGOs in Bangladesh

The Microfinance industry in Bangladesh has exposed a significant growth over the last two and half decades. Before 1990, there were only 37 MFIs/NGOs operated Microcredit programmes. The main dilemma of insignificant growth of MFIs/NGOs before 1990s were lack



Source: Microfinance Statistics of CDF, December 2004, Information based on reported MFIs of CDF of capacity to operate Microcredit programme and another important issue was availability of revolving loan fund. After establishing PKSF in 1990 as an Apex funding organisation for funding Microcredit programme, there was a significant growth in the microfinance sector of Bangladesh. The significant growth in the microfinance sector of Bangladesh was observed from 1996 to 2000. Due to huge competition, the number of new MFIs/NGOs declined after 2000.

3.0 THE INSURANCE INDUSTRY IN BANGLADESH

The insurance industry of Bangladesh has been considered as thirist sector. At present there are 62 general and life insurance companies are operating in the country. Among them only two companies are from the public sector and the rest of the 60 companies are from the private sector. It has been reported that 103 applications for registration to establish insurance companies are lying with the authorities.³ This evidence clearly depicts that insurance business has great prospects in Bangladesh.

Table-1: Number of Insurance Companies in Bangladesh⁴

Insurance Industry in Bangladesh	Number of Companies
Public sector Life Incurrence company	1
Private sector Life Incurrence companies	17

³ Financial Express, Streamlining the insurance sector, February 02, 2006.

⁴ The source of this data is Bangladesh Insurance Association

Total Life Insurance Companies	18
Public sector General Insurance Company	1
Private sector General Insurance Company	43
Total General Insurance Companies	44
Total Insurance Companies	62

Although the country has huge prospect in insurance sector due to large population, but this sector remains underdeveloped compared to that of neighbouring countries. In FY 2005, the growth of Insurance sector was 7.6 percent, where as in FY 2002 this growth was 12.4 percent. The GDP share of Insurance sector is increasing. In FY 2005, the share of Insurance sector in GDP was 0.4 percent, where as in FY 2002 it was 0.3 percent.⁵

The global insurance market expanded by 2 percent in 2003. The South Asian market was more buoyant with the significant growth of 17.6 percent during the same period. Even though, its share in the world insurance market was hardly 0.6 percent in the year 2003. In 2003, insurance premium per capita for Bangladesh was US \$ 2.15, India US \$ 16.38, Pakistan US \$2.93 and Sri Lanka US \$12.58. The life insurance premium in 2003 of South Asia collectively was US\$ 14,071 million. The premium amount of Bangladesh was US\$194 million, India US\$13,590 million, Pakistan US\$185 million and Sri Lanka US\$102 million. On the non-life side, the aggregate premium for South Asia was US\$ 4,241 million in the year 2003. It was US\$102 million for Bangladesh, US\$3,712 million for India, US\$ 289 million for Pakistan, and US\$ 137 million for Sri Lanka.⁶

3.1 History of formal Insurance in Bangladesh

The insurance is more than a century back business in Bangladesh. The life insurance in its existing form arrived in the Indian Sub-continent in the year 1818 with the establishment of the Oriental Life Insurance Company in Kolkata. Non-life business arrived later, when the Triton Insurance Company commenced business in the same city in 1850(Pereira, 2005). During this British regime in India, some insurance companies started transacting business, both life and general, in the Bengal. In 1938, the British Government enacted Insurance Act 1938 to regulate Insurance business in Indian Sub-continent. Insurance business gained momentum in East Pakistan during 1947-1971, when 49 insurance companies transacted both life and general insurance schemes.

After Independence in 1971, the government of Bangladesh nationalised insurance industry in 1972 by the Bangladesh Insurance (Nationalisation) Order 1972. By virtue of this order, all

⁵ Source of this information is National Accounts Statistics, June 2005, Bangladesh Bureau of Statistics (BBS) and reported at Bangladesh Bank Annual Report 2005. FY means Fiscal Year from July to June next year. The data of FY2005 is provisional. The data is measured at FY 96 constant price.

⁶ Pereira, Joseph. Michael , Booming South Asian insurance market, DAWN-Business News, March 21,2005, Website:<http://www.dawn.com>

49 insurance companies and organisations transacting insurance business in the country were placed in the public sector under five corporations. Insurance Act 1973 was amended in 1984 to allow insurance companies in the private sector to operate side by side with public sector companies.⁷ Bangladesh Insurance Association was formed on 25 May 1988 and now has 30 members. It aims at promoting, supporting and protecting the interests and welfare of the member companies. Insurers of the country now conduct almost all types of general and life insurance, except crop insurance and export credit guarantee insurance, which are available only with one public sector insurance company named Sadharan Bima Corporation.

Table-2: Chronicle of Insurance Industry in Bangladesh

Year	Milestone for Insurance Industry
1818	First life insurance company of Indian Sub-continent named Oriental Life Insurance Company was established in Kolkata.
1850	First Non-life insurance company named Triton Insurance Company commenced business in Kolkata.
1938	British Government enacted Insurance Act 1938 to regulate Insurance business in Indian Sub-continent
1947-1971	49 insurance companies transacted both life and general insurance schemes. Ten insurance companies had their head offices in East Pakistan, 27 in West Pakistan, and the rest elsewhere in the world.
1972	The government of Bangladesh nationalised insurance industry in 1972 by the Bangladesh Insurance (Nationalisation) Order 1972. All 49 insurance companies and organisations transacting insurance business in the country were placed in the public sector under five corporations.
1973	On 14 May 1973, a restructuring was made under the Insurance Corporations Act 1973. Following the Act, in place of five corporations the government formed two: the Sadharan Bima Corporation for general business, and Jibon Bima Corporation for life business.
1973	The government established Bangladesh Insurance Academy (BIA) in Dhaka to impart training to insurance professionals and others taking up insurance as a career. The academy started functioning in early 1974.
1984	Insurance Act 1973 was amended in 1984 to allow insurance companies in the private sector to operate side by side with Sadharan Bima Corporation and Jibon Bima Corporation.
1988	Bangladesh Insurance Association was formed on 25 May 1988 under the Companies Act. It is registered with the Registrar of Joint Stock Companies and has 30 members.
2000	Up to 2000, the government has given permission to 19 general insurance companies and 10 life insurance companies in the private sector.
2005	62 Life and General Insurance Companies both from public and private sectors are operating business in Bangladesh.

3.2 Regulatory Framework for the Insurance Industry

Insurance business in Bangladesh is almost two centuries old when Bangladesh was the part of the then British India. The Insurance Act 1938 was enacted, which provide for

⁷ The information excerpted from the Banglapedia, website:<http://www.banglapedia.org>

licensing of insurer, investment of funds, settlement of claims etc. This Act was continuing till 1947 without any amendment and after independence of Pakistan in 1947, this Insurance Act was amended and after independence of Bangladesh in 1971, the insurance Act of 1938 was amended in 1973 and 1984. The Insurance Act 1938 has been amended from time to time to cope with administrative, economic and social changes.

Table-3: Basic Features of Insurance Industry in Bangladesh⁸

Key Issues	Basic Features
Insurance regulatory authority	The Insurance Directorate under Ministry of Commerce, headed by the Chief Controller of Insurance
Key Functions of the regulatory authority	Licensing of insurer, Consumer protection, policy approval, monitoring and supervision that includes looking into the accounts and balance sheets and investment funds of insurers
Approval guidance for License of Insurance Companies	According to Insurance Act 1938 an insurer must be a public limited company or a cooperative society registered under cooperative acts or a public limited company incorporated under the law of any country outside Bangladesh for doing business, Life and General Insurance businesses should be segregated.
Risks categories	The Insurance Companies in Bangladesh can normally cover the risks of fire, lightning, explosion, earth-quake, riot and strike damage, hail, flood, cyclone, air/marine/land, transit, accident, employer's liability, workmen's compensation, public liability, professional indemnities, burglary, robbery, theft, fidelity, motor vehicle, engineering, third party risks, glass, life, disease, sickness, health, agriculture, livestock and poultry risks, and every kind of guarantee and indemnity business and counter guarantee and counter indemnity business ⁹ .
Number of re-insurers	Two local and several international
Certification requirements for agents	Minor fee, generate six policy holders, pass exam, can either sell for life or non-life.

According to the Bangladesh Insurance Act 1938(revised in 2001), there are different capital and deposit requirement for different types of insurance business i.e. life insurance, general insurance, specified miscellaneous insurance, cooperative insurance society-life insurance, cooperative insurance society- general insurance, mutual insurance and provident society.

⁸ The main source of this information is The [Bangladesh] Insurance Act, 1938 and Rules 1958, revised in October 2001. Some information is excerpted from Health Microinsurance-A Comparative of Three Examples in Bangladesh.

⁹ Choudhury A. Nasir, Insurance Market in Bangladesh

Table-4: Capital and Deposit Requirements for Insurance Industry¹⁰

Types of Business	Capital Required (In million Tk)	Capital Requirement (US \$ in thousand)	Deposit Required (In million Tk)	Deposit Requirement (US \$ in thousand)
Life Insurance	75	1,279	4	72
General Insurance	150	2,556	3	52
Specified Miscellaneous Insurance	15	256	6	103
Cooperative Insurance Society-Life Insurance	10	175	10	175
Cooperative Insurance Society-General Insurance	20	340	20	340
Mutual Insurance	10	175	1.4	21
Provident Society	5	86	50	860

3.3 State Social Security Programmes

Bangladesh does not have an established social security system that ensures social safety net, and the provision of social protection by public and private institutions is very limited. Government schemes are mostly focused on state employees, for whom there is an unfunded pension scheme and free health care facility at government hospitals. During the last few years government has undertaken several programmes for the poor people to ensure social security. But this coverage of these programmes is inadequate and still a significant portion of poor people are excluded from these programmes. The government first established a regulatory framework in 1998 for old age and disable poor people to provide them monthly pension. The target group of this programme is low income people of the country aged 57 and older. A monthly pension of Tk.120 (as per July 2002), which usually equal to 10% of average income is provided (Social Security Programs throughout the World: Asia and the Pacific, 2002). Government has very old social insurance system providing cash and medical benefits to the employees of factories in manufacturing industries employing 10 or more workers and employees of shops and establishments of 5 or more workers. Medical facilities provided by some employers in the public and private sectors through dispensaries in their establishments; workers can also use general hospital facilities run by the government. The government has also rules to provide sickness benefits which include 50% of wages for factory workers and 100% of wages for workers in shops, establishments, and large factories, for up to 14 days a year. In the government maternity benefit rules, the female employees' should be provided prior wages and maternity leave is

¹⁰ The [Bangladesh] Insurance Act, 1938 and Rules 1958, revised in October 2001. Exchange rate considered as 1 US\$ = BDT 58.687

12 weeks, 6 weeks before and 6 weeks after childbirth. For medical benefits, if medical facilities are not provided, a medical allowance of Tk.100 per month is paid to workers. The government has amended the old law of work injury in 1982 which mentioned the employer liability system for accidental injuries and 34 listed occupational diseases. This law covers the employees of railways, factories with 10 or more workers and estate and dock employees. But clerical staff and workers earning Tk.1200 or more per month are excluded from this law. As temporary disability benefits, 100% of wages for the first 2 months, 2/3 of wages for the next 2 months, and half of wages for subsequent months of disability or for 1 year, whichever is shorter is provided. For permanent disability benefits, between Tk.10, 000 and Tk.30, 000 per month, depending on the insured's monthly wage, payable for up to a year of disability.

Table-5 : Government Social Security Programmes at a Glance

Programmes	Activities
Protection and Integration	<ul style="list-style-type: none"> ◆ Sarkari Sishu Sadan/Sishu Paribar (State Orphanages) ◆ Baby Home ◆ Day Care Centre ◆ Training and rehabilitation centre for Destitute children ◆ Rural Social Service ◆ Urban Community Development Programmes (UCD) ◆ Rural Mother Centres (RMC) ◆ Programme on Rehabilitation of Acid Burnt Women and the Physically Handicapped ◆ Training centre for socio economic development of women ◆ Vocational Training and Production centre for the destitute Women
Program on Social Safety Net	<ul style="list-style-type: none"> ◆ Old-age allowance ◆ Allowance for distressed disabled persons ◆ Allowance for freedom fighters ◆ Sheltering / Housing project
Program On Addressing Social Disintegration	<ul style="list-style-type: none"> ◆ Correctional centre for the juvenile delinquents ◆ Probation and After Care Services ◆ Training and rehabilitation centre for the vagrants ◆ Capacity Building, Poverty Alleviation and Sustainable Livelihood of the Disadvantage Women ◆ Safe Home
Program On Welfare And Service Delivery	<ul style="list-style-type: none"> ◆ Program for hospital social service ◆ Integrated Education Program for the blinds ◆ Institution of mentally Retarded Children ◆ School for the visually impaired ◆ Schools for the visually impaired ◆ Institution for deaf and dumb ◆ The computerized Braille Press ◆ Plastic materials Production center ◆ Mineral/drinking water Plant ◆ Artificial Limbs production centre ◆ The Employment Rehabilitation Centre for the Physically

	Handicapped.
Program On Community Empowerment	<ul style="list-style-type: none"> ◆ Registration and control of voluntary organizations ◆ Monitoring of management services of Private orphanage and providing capitation grant.

Source: Ministry of Social Welfare and National Social Welfare Policy, December 2005, Government of Bangladesh,. website: www.msw.gov.bd,

3.4 Government Insurance Programmes¹¹

Before 1984, insurance business was solely operated by the government. There are two government insurance programmes in Bangladesh. For Life insurance the government has established Jibon Bima Corporation and for general insurance Sadharan Bima Corporation was established. Jibon Bima Corporation (JBC) was established on 14 May 1973. Until 1985, Jibon Bima Corporation was the only institution to handle life insurance business in Bangladesh.

In 2004, the corporation earned gross premiums of Tk 1,970 million, which comprised first-year premiums (Tk 560 million), renewal premiums (Tk 1,300 million), and group insurance premiums (Tk 110 million). In 2004, the gross premiums increased by Tk. 28 million than the year 2003 when the gross premium was Tk.1942 million. In 2003, the corporation had 342,539 policies in force.¹²

Sadharan Bima Corporation (SBC) was established on 14 May 1973. As the single state-owned institution to handle all types of general insurance business in Bangladesh, Sadharan Bima Corporation did monopoly business until 1984. Through the Insurance (Amendment) Ordinance 1984 and Insurance Corporations (Amendment) Ordinance 1984, the government allowed operation of insurance companies in the private sector. In 1990, the government further allowed private sector insurance companies to underwrite 50% of public sector business and the remaining 50% was kept reserved for Sadharan Bima Corporation. Private insurance companies were also given option to insure 50% of their re-insurable business with any local or foreign insurance companies. SBC distributes 50% of all public sector insurance businesses to private general insurance companies on an equal basis.

Sadharan Bima Corporation underwrites private sector business and competes with private companies in the underwriting business. Private insurance companies have the option to re-insure 50% of their re-insurable business with any local or foreign insurance companies. But in practice, they do not exercise the option. Instead, they re-insure 100% of their re-insurable business with SBC, which offers better terms and conditions. SBC also provides insurance coverage to some non-traditional (sometimes, non-profitable) businesses like livestock

¹¹ This section borrows heavily from Rahman, S M. Mahfuzur, Banglapedia-National Encyclopaedia of Bangladesh, website: www.banglapedia.org

¹² Bangladesh Insurance Association, Progress at a glance

rearing, shrimp culture, air travel, sickness and dread disease insurance. In addition, the corporation manages the Export Credit Guarantee Scheme. In 2004, the gross premium of SBC was Tk. 778.65 million of which Tk. 618.65 million from public sector and Tk.160 million from private sector. The total assets were Tk.6360 million in 2004.

3.5 Private Commercial insurance Companies in Bangladesh

Insurance is a booming sector and the total market for only life insurance grew BDT 6 billion (US\$ 99 million) over the past five years.¹³ According to Bangladesh Insurance Association (BIA) the premium income of insurance companies in 1986 was around BDT 36 crore (US \$ 6 million) while it went up to BDT 2,043 crore (US \$ 341 million) in 2004, of which life insurance premium was BDT 1,463 crore (US \$ 244 million) and general insurance premium was around BDT 580 crore (US\$97 million). Total investment of the insurance companies rose to Tk 3,138 crore (US \$ 523 million) in the year 2004.¹⁴

The activities of private sector insurers of Bangladesh can be expressed different ways. The progress of private sectors insurance companies as below¹⁵:

Premium Income: When insurance companies were allowed to function in the private sector, the premium income of insurance companies during 1986 was hardly around Tk. 36 Crore¹⁶, of which life premium was Tk. 10 crore and general insurance premium was Tk. 26 Crore. As opposed to this, the premium income of 2004 went up to Tk.2043 crore, of which life insurance premium is Tk.1463 crore and general insurance premium is around Tk.580 core. This indicates the tremendous growth of insurance industry over the years.

Investment: The total investment in 1986 was Tk. 25 crore, life being Tk. 10 crore and general being Tk. 15 crore, it went up to Tk. 3138 crore in 2004, of which life investment is Tk. 2492 crore and general investment Tk. 646 crore. This invested money goes directly into the capital market through different sources for economic development and growth of the country.

Claims: Total Claims Settlement up to 2004 Tk. 1,801 crore (both life and general)

(a) **Life** : Total claims settled Tk.826 crore (Death and Maturity) comprising of

- (i) Death claims Tk. 157 crore
- (ii) Maturity and other claims Tk. 669 crore.

(b) **General** : Total claims settled Tk. 975 crore comprising of-

- (i) Fire (including flood and cyclone) Tk. 447 crore
- (ii) Marine Tk. 260 crore

¹³ Michael J. McCord and Craig Churchill, Delta Life Bangladesh, CGAP Working Group on Microinsurance, Good and Bad Practices, Case Study No. 7, Washington DC, USA, February 2005.

¹⁴ Bangladesh Insurance Association press briefing, The Daily Star, Dhaka, Bangladesh, June 05, 2005

¹⁵ Source of this information is Bangladesh Insurance Association, Insurance Newsletter, Volume 1, Issue 1, April-June 2005.

¹⁶ 1 Crore is equal to 10 million

(iii) Miscellaneous Tk. 268 crore

Employment Generation: Total employees – 2, 65,000 (approximately). For Life insurance employment generated -2, 50,000 (including working agents) and for General insurance approximately 15,000 employment generated.

Insurance Growth: The collective growth rate of all financial intermediation has been recorded as 6.7% of which insurance industry alone contributes to the extent of over 12%.

3.6 An Overview of Microinsurance in Bangladesh

Microinsurance is a new concept, which is gaining attraction and popularity in Bangladesh. As a new concept a new product, the information and documents on Microinsurance, both from MFIs/NGOs sector and private insurance companies are very scarce. The Delta Life Insurance is the first private regulated insurance company in Bangladesh that entered in the Microinsurance in 1988, inspired by the growing success of the Grameen Bank and other Microcredit schemes in Bangladesh. Delta launched an experiment of its own, Grameen Bima or village insurance. Initially, the design for Grameen Bima called for collaboration with a Microcredit NGO that provided the delivery structure for Delta's endowment product. This partnership dissolved after a short time because of a difference in objectives (Michael J. McCord. 2005.)

With the tremendous success of Delta Life Insurance, some MFIs/NGOs as well as private insurance companies came forward to offer Microinsurance products to the poor people. The MFIs/NGOs came forward with health insurance and also loan insurance to protect their portfolio and reduce portfolio at risks. Bangladeshi microfinance NGOs came into the Microinsurance scene in the late 1990s and early 2000s. Important players in Microinsurance are BRAC, Grameen Kalyan, ASA, Proshika, Gonoshashtho Kendra, Sajida Foundation, Shakti, Dhaka Community Hospital, Nari Uddug Kendra, Dushtha Shasthya Kendra, Integrated Development Foundation (IDF) and Society for Social Services (SSS). Gonoshashtho Kendra is the first NGO which offered Health Microinsurance in Bangladesh. BRAC started its health Microinsurance in 2001, Grameen Kalyan started Microinsurance in 1997 and SSS launched health Microinsurance in 1993 (Ahmed, Mosleh U 2005). ASA launched Microinsurance products in 1993 with loan insurance with a view to help the member's family in case of her sudden death¹⁷. Proshika started Microinsurance products in 1997. IDF started Microinsurance programme in October 1997 in response to requests of group members to help their families in the case of serious sickness or death of any earning members¹⁸.

In 2003, the ILO's WEEH project carried out an extensive study to take inventory of Microinsurance products in Bangladesh. The study covered twenty organizations that

¹⁷ ASA Annual Report 2004

¹⁸ IDF Annual Report 2004

provide thirty-six schemes in various parts of the country. Three of these are large NGOs, namely BRAC, Grameen Kalyan, and Proshika. These NGOs have nationwide reach through their organizational infrastructure built on established micro-credit groups across the country. Sixteen schemes are provided by small to medium locality based NGOs such as the Chittagong based IDF. These schemes provided by the NGOs are not for profit and cover risks such as Primary health, Hospitalisation, Life, Loans and Property. Lastly, one scheme is run by a commercial insurance company - Homeland Life Insurance. Their schemes have nationwide coverage and their risks coverage is limited to Life insurance. According to ILO study, they have segregated the thirty-six schemes of twenty organisations in five categories.

Table-6: Types of Microinsurance in Bangladesh¹⁹

Types of Schemes	No of Schemes	Distribution (%)
Health	14	39
Life	13	36
Loans/Capital	6	18
Livestock	2	5
Disaster	1	2
Total	36	100

4.0 THE PRACTICE OF MICROINSURANCE IN BANGLADESH: SURVEY FINDINGS FROM MFIs/NGOs PERSPECTIVE

The MFIs/NGOs came forward with Microinsurance products during the late 1990s and early 2000 when they observed that due to death of Microfinance clients, the delinquency and portfolio at risks of the organisation usually increases. Moreover, the demand from the clients' side also compelled MFIs/NGOs to offer Microinsurance products. Besides, the success of Microinsurance products a private insurance company also encouraged MFIs/NGOs to offer insurance products for there Microfinance clients.

4.1 Nature of Products

The study explores that the reported 61 MFIs/NGOs are offering total 81 insurance schemes of different products i.e. loan, life, health, livestock and property insurance. The distribution of different schemes is given in the following table:

Table-7: Nature of Microinsurance Products of MFIs/NGOs

¹⁹ This information has been excerpted from WEEH, ILO, Inventory of Microinsurance Schemes in Bangladesh, September 2003

Name of Products	No of schemes	Frequency distribution (%)
Loan insurance	57	71%
Life insurance	13	16%
Health insurance	5	6%
Livestock insurance	4	5%
Property insurance	2	2%
Total	81	100%

Source: Findings of Market Study on Microinsurance Products, 2006

Loan Insurance: The MFIs/NGOs basically started their Microinsurance schemes with the name of death risks to reduce the delinquency and amount of nonperforming loan. It is evident from the study that 57 (93 percent) organisations are offering loan insurance products to secure their loan portfolio and reduce portfolio at risk after the death of clients and 4 organisations (7 percent) are offering other insurance products, not loan insurance products.

The study depicts that along with loan insurance 13 MFIs/NGOs are offering life insurance, 5 health insurance and 4 livestock insurance and 2 property insurance products

Table-8: Loan Insurance product at a glance

Product description	Product Features and Packages
Target Clients	The Microcredit borrowers
Premium rate	Average premium charges per Thousand (1,000) Taka loan insurance is Tk. 8. The maximum amount charges Tk. 40 and the minimum amount charges Tk. 2 per Thousand (1,000) Taka insurance coverage. Moreover, some organisations collect certain amount between Tk. 10 to Tk.50 during loan disbursement.
Premium collection procedure	Most of the MFIs collect premium during loan disbursement
Duration of insurance policy	Most of the MFIs offer insurance policy for the loan period only like 45 / 46 weeks or 1 year. Moreover, some MFIs offer insurance for whole membership term.
Size of insurance coverage	For loan insurance, after the death of client the outstanding loan amount is exempted. The size of this outstanding loan amount varies and usually not more than Tk.20,000. But some organisations cover more outstanding loan. Moreover, some MFIs provide additional benefits along with loan exemption.
Types of risk coverage	In most of the cases the death risk of insurance clients is covered. Moreover, some MFIs also cover the death risk of household head or earner, accidental risks, and property loss.
Claims paid or premium refund	After the maturity of insurance term if the client doesn't die then no premium is refunded. If the client dies, then outstanding loan is exempted.

Life Insurance: Along with loan insurance 13 (21%) MFIs/NGOs are offering life insurance products to their clients. In most of the cases, this life insurance product is similar to loan insurance product. But there are some variations in product designing.

Table-9: Life insurance product description

Product description	Product Features and Packages
Target Clients	The Microcredit clients
Premium rate	The premium rate varies from Tk. 1 to Tk. 10 per week. Some NGOs charges premium between Tk. 10 to 50 during loan disbursement and amalgamated the loan insurance with life insurance.
Premium collection procedure	Usually life insurance premium is collected weekly. But some organisations that amalgamated loan insurance with life insurance collect premium once at a time during loan disbursement.
Duration of insurance policy	The duration of insurance policy varies from 4 to 8 years. But some organisations offer life insurance for whole membership term of clients.
Size of insurance coverage	The size of insurance coverage usually varies from 3 to 7 times of deposited amount. But some organisations that combined loan and life insurance provide Tk.1000 to 5000 as grant along with outstanding loan adjustment after the death of insured client.
Types of risk coverage	In most of the cases the death risk of insurance clients is covered. Moreover, some MFIs also cover the death risk of household head or earner, and accidental risks.
Claims paid or premium refund	Some organisations refund the premium with 4% to 5% interest after the maturity of insurance term if there is no claim. But some organisations either don't refund the premium or not provide interest on deposited premium, if there is no claim.

Health Insurance: Among the reported MFIs/NGOs only 4 organisations (6%) are offering health insurance products. In most of the cases the MFIs/NGOs provide a lump sum amount for treatment as insurance claim. Some NGOs have own health care centre from where health service is provided as part of insurance claim.

Table-10: Health insurance product synopsis

Product description	Product Features and Packages
Target Clients	The members of the organisation
Premium rate	Some organisations charges annually Tk. 8 to Tk. 25 on per thousand (1,000) Taka loan disbursement. One organisation charges Tk. 250 to Tk. 300 annually for health insurance.
Premium collection procedure	Usually health insurance premium is collected weekly. But some organisations collect premium once at a time during loan disbursement.
Duration of insurance policy	The duration of insurance policy is usually up to the whole membership term of clients. But one organisation offers the health insurance for one year.
Size of insurance coverage	The NGOs provide primary health care services and also offers discount between 25% to 50% on hospitalisation and essential drugs. One organisation provides Tk. 1500 annually as medical grant as part of insurance coverage.

Types of risk coverage	In most of the cases some portion of the primary health care, essential medicine and hospitalisation costs of clients are covered.
Claims paid or premium refund	Generally the deposited premiums are not refunded. But some organisations refund the deposited premium, if there is no claim within certain years.

Livestock Insurance: Among the reported MFIs/NGOs only 4 organisations (7%) are offering Livestock Insurance products.

Table-11: Livestock insurance product description

Product description	Product Features and Packages
Target Clients	The members of the organisation
Premium rate	Some organisations charges annually 2% to 10% premium on disbursed loan or purchase price on livestock/poultry. Besides, some organisations charges Tk. 300 per cattle.
Premium collection procedure	Usually premium is collected during disbursement of loan.
Duration of insurance policy	The duration of insurance policy is for one year (during the loan period).
Size of insurance coverage	The outstanding loan is exempted if the cow dies or there is any epidemic in poultry. Usually, the size of insurance coverage varies from Tk. 500 to Tk. 10,000 depends on losses of livestock/poultry.
Types of risk coverage	Losses of livestock/ poultry are covered.
Claims paid or premium refund	In most of the cases the deposited premiums are not refunded. But some organisations refund the deposited premium, if there is no claim within certain years.

4.2 Target Clients

The study reveals that target clients of Microinsurance products are both rural and urban poor people. Beside this, some MFIs are also offering insurance products to the hardcore poor (30 MFIs/NGOs) and micro-entrepreneurs (27 MFIs)

4.3 Outreach of Microinsurance Clients

Among the total outreach of Microfinance clients (30 million), it is found from the study that 69 percent (20.69 million) clients are covered by Microinsurance and 31 percent clients are still untapped. Among the Microinsurance clients, 17.54 million (85 percent) are female and 3.15 million (15 percent) are male. Among the total Microinsurance clients(20.69 million) BRAC covered 26.58 percent (5.50 million), ASA 27.54 percent (5.7 million), Grameen Bank 26.94 percent(5.58 million), Proshika 9.38 percent(1.94 million) and 9.52 percent(1.97 million) clients are served by rest of the 58 Small and Medium MFIs/NGOs.

4.4 Operational Methodology

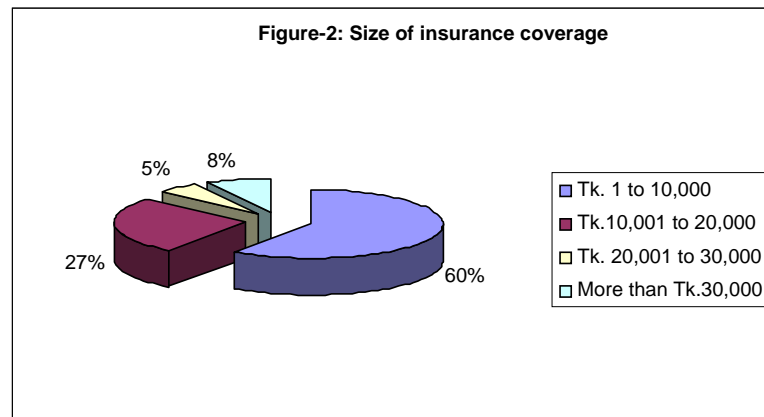
Premium Rate: It is evident from the study that the average 12 Taka premium is charged per Thousand Taka (Tk.1000/-) insurance coverage. The highest premium is charged per Thousand Taka (Tk.1000/-) insurance coverage is Taka 40 and lowest Taka 2.

Premium collection procedures: It is found from the study that 93 percent (57 MFIs/NGOs) organisations, which are offering loan insurance collect insurance premium at the time of loan disbursement. Beside this, some organisations (7 MFIs/NGOs), which are offering life and health insurance collect premium weekly basis.

Duration of insurance policy: It is evident from the study that most of the MFIs (80 percent) offer insurance products only for one year up to loan period of the clients. Some MFIs (16 percent) offer insurance for whole membership term of the clients, some (4 percent) offers for more than one year

4.5 Risk Management

Size of insurance coverage: The study clearly exposed that almost all the MFIs (93 percent) cover only the outstanding loan after the death of clients and the outstanding loan is exempted. But the exemption of outstanding loan size of the organisations varies. Among the responded 61 MFIs/NGOs, 37 reported about the size of insurance coverage. Beside the exemption of outstanding loan some organisations (13 percent) MFIs/NGOs are providing some additional benefits.



Source: Findings of Market Study on Microinsurance Products, 2006

Risk coverage: It is evident from the study that almost all the MFIs (98 percent) covered death of insurance client. Beside, along with the death of insurance client 48 percent covered death of household head/earner, 17 percent accidental risks (i.e. physically invalid, lost of important organ) and 13 percent covered loss of property and livestock

5.0 FINDINGS OF MICROINSURANCE PRODUCTS OFFERED BY COMMERCIAL INSURANCE COMPANIES IN BANGLADESH

In Bangladesh, usually Microinsurance products are offered by Life Insurance Companies. The Delta Life Insurance is the first private regulated insurance company in Bangladesh that entered in the Microinsurance in 1988, inspired by the growing success of the Grameen Bank and other Microcredit schemes in Bangladesh. Delta launched Microinsurance product named Grameen Bima or village insurance. With the tremendous success of Delta Life Insurance, some private life insurance companies came forward to offer Microinsurance products to the poor people. At present among the 18 Life Insurance Companies 13 companies are identified offering Microinsurance products. Among the 13 life insurance companies 10 companies have provided information about their Microinsurance products. The major findings of the survey on Microinsurance products offered by Insurance Companies are as below:

5.1 Client Outreach

Among the 10 insurance companies 9 companies reported about their client outreach of Microinsurance products. The total number of clients is approximately 4.48 million.

5.2. Number of Branches / Insurance Agent Office

The total number of branches or insurance agent offices of 10 insurance companies are 4879 through which they operate Microinsurance products.

5.3 Number of Insurance Agents

The total number of insurance agents of 10 insurance companies is 1,63,682

5.4. Premium Collection

The cumulative premium collected for different Microinsurance products and plans by the reported 10 insurance companies are approximately Tk.11,275 million. The premium collected by 9 insurance companies during the year 2005 is around Tk. 5,488 million.

5.5. Claims / Bonus paid

Among the 10 insurance companies 8 companies reported about cumulative claim or bonus and also claim or bonus of the year 2005. The cumulative claim or bonus paid by the insurance companies is around Tk. 481 million and the claim or bonus paid in the year 2005 is approximately Tk. 148.5 million.

5.6 Nature of Products

The insurance companies are offering different Microinsurance products named ‘Gono-Grameen Bima’ , ‘Sharbojonin Bima’ (General Insurance), ‘Grameen Jibon Bima’ (Rural Life insurance), and ‘Daridra Bimochone Jibon Bima’ (Life insurance for poverty alleviation), *Loko Bima* (Public insurance), *Islami Khudra Bima / Takaful* (Islamic Microinsurance), *Islami Khudra Bima Prokolpo* (Islamic Microinsurance Project), ‘*Jonopriyo Bima*’ (Popular Insurance), ‘*Pragati Bima*’, and *Pragati Islami Bima*’ etc. Each Microinsurance product has various insurance plans. But the most of the Microinsurance products offered by the insurance companies are almost similar. The diversification of products and insurance plans is not visible. The nature of Microinsurance products offered by insurance companies is given as below:

Table-12: Nature of Microinsurance Products offered by Insurance Companies

Key Factors	Product Features and Packages
Target Clients	Occupation based low income people of informal economy. Usually the households who earn less than US\$100 per month. Some insurance companies offer Microinsurance products whose monthly income varies from Tk.600 to Tk.5000. The age range of the policyholders is between 18 to 45 years. Some companies also offer Microinsurance products up to 55 years clients.
Premium rate	The premium charges per Thousand (1,000) Taka insurance coverage varies from Tk.3.25 to Tk.13.33 per month depending on nature of products, insurance plans, size of insurance coverage, insurance maturity period, instalment procedure of premium and the age of policyholder. Another Microinsurance package named single premium policy, where the premium rate per Thousand Taka (Tk.1000) insurance coverage varies from Tk. 757.40 to Tk. 1448.80 depending on insurance plans, the age of policyholders and insurance maturity period.
Premium collection procedure	Usually premium collected monthly / quarterly / half yearly / yearly instalments depending on insurance plans and policy holder's interest.
Duration of insurance policy	Most of the cases the duration of insurance policy vary between 6 to 15 years. But in some insurance plans the duration of insurance policy is up to 30 years.
Size of insurance coverage	The size of insurance coverage usually varies from Tk. 5,000 to Tk. 100,000 depends on policy holders premium rate. But in some insurance plans the size of insurance coverage amount is up to Tk.3,60,00. For single premium term package usually the size of insurance coverage is 2.5 times or 250 percent of insured amount.
Types of risk coverage	In most of the cases the death risk of insurance policy holder is covered. Some Microinsurance products also cover health and accidental risks along with life by charging some additional premium. Beside, these there are some insurance plans

	<p>which provides fund for child education, and marriage of daughter after the death of parents. In these insurance plans the parent (either father or mother) of children is policyholder. The death risk of this insurance policyholder as well as death risk of children is covered in these plans.</p>
<p>Claims paid or Bonus paid</p>	<p>Usually the claims are paid to the family members of deceased policy holder. Moreover, a certain percentage between 10% to 25% bonus on insured amount is paid after a certain period i.e. 3 or 4 years. Some Microinsurance product package also include a certain percentage of profit like 7% on bonus if the policy holder doesn't withdraw it when due and this interest along with bonus is paid after the maturity of insurance term if the policy holder alive. Some plans have also pension system. If the policyholder doesn't withdraw the full insured amount along with profit bonus, s/he will get monthly pension for 5 to 10 years. If the policyholder dies during this pension period, then the rest of the pension amount will be paid to the successor of the policyholder. In child stipend or education plans, the children will get a certain amount of stipend in every month up to completion of his/her master's level education. In female children marriage endowment plan, the daughter of the policyholder will receive the insured amount along with profit at the age of 18 years. For single premium package if the policyholder doesn't die, then the policy holder usually receives 2 times or 200 percent of the deposited premium.</p>
<p>Other Benefits</p>	<p>Some Microinsurance product package includes other benefits like savings and credit opportunity. Usually the policyholders can withdraw a certain percentage of deposited premiums as loan after a certain period.</p>

5.7 Prospect of Joint Collaboration with NGOs/MFIs

Among the reported 10 insurance companies, 8 companies (80percent) expressed their interest for joint collaboration with NGOs/MFIs. As NGOs/MFIs have wide network all over the country especially in the rural and remote areas, so most of the insurance companies expressed collaboration for marketing through Partner-agent model. The NGOs/MFIs have direct interaction with the Poor people through Microfinance and other socioeconomic development programmes. So the NGOs/MFIs could act as catalyst like insurance agent to link their clients with mainstream insurance companies, which will reduce the operational cost of Microinsurance products of mainstream insurance companies. The model could be as below:

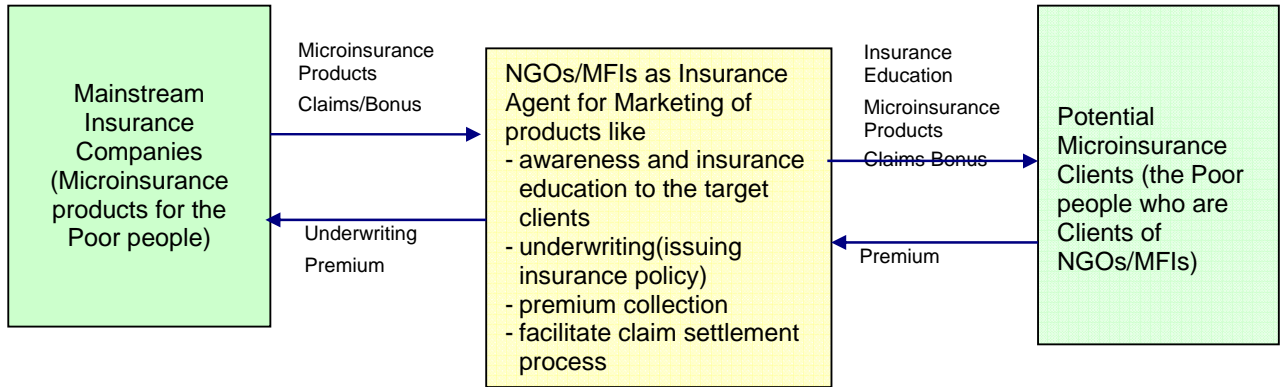


Figure-3: Potential Partner-Agent Model

It is obvious that it is very difficult for the mainstream insurance companies to tap the poor community due to higher operational costs. The poor people are more vulnerable and they need insurance. So there is a dormant demand for insurance beyond savings and credit. The NGOs/MFIs also feel about this latent demand of low income people and from this perspective some NGOs/MFIs are offering insurance products to the low-income people. But due to lack of expertise they couldn't reach the poor people with appropriate products. As the mainstream insurance companies have expertise and NGOs/MFIs have filled level infrastructure and experience, so both parties are interested for joint cooperation. If the joint collaboration possible, then there will be win-win situation for both parties.

6.0 COMPARATIVE ANALYSIS OF MICROINSURANCE PRODUCTS OFFERED BY NGOs/MFIs AND MAINSTREAM INSURANCE COMPANIES

If the product design and packaging, and the management and operational methodology of NGOs/MFIs and mainstream insurance companies are critically analysed then a significant gap will be observed. The following table can clearly depict the comparative analysis of Microinsurance products offered by NGOs/MFIs and mainstream Insurance companies:

Table-13 : Comparison of Microinsurance products of NGOs/MFIs and Mainstream Insurance Companies

Key Factors	NGOs/MFIs	Mainstream Insurance Companies
Target Clients	The Members of NGOs/MFIs. The target clients of NGOs/MFIs are usually both rural and urban poor people specially the women.	Occupation based low income people of informal economy. Usually the households who earn less than US\$100 per month and the age range between 18 to 45 years. Some insurance companies offer Microinsurance products whose monthly income varies from Tk.600 to Tk.5000.
Product design methodology	Usually the product is designed by considering Microfinance context and	The product is designed by considering the income level of

	usually try to amalgamate with the various Microfinance products like loan and savings	target clients and also following some guidelines of the insurance regulatory authority and actuaries.
Premium rate	The premium rate varies depending on the nature of products. The premium rate is determined through unstructured calculation upon assumptions.	The premium rate varies depending on the nature of products, insurance plans, size of insurance coverage, insurance maturity period, instalment procedure of premium and the age of policyholder. The premium rate is determined through structured calculation by the Actuaries who are authorised to calculate the premium rate.
Premium collection procedures	The premium collection procedures depend on the nature of the products. In most of the cases premium is collected once at a time during loan disbursement. Sometimes premium is collected through weekly instalments.	Usually premium is collected through monthly / quarterly / half yearly / yearly / once at a time depending on the policy holders' interest and financial condition.
Duration of insurance policy	In most of the cases the duration of insurance policy is for 45 / 46 weeks or 1 year. Moreover, some MFIs offer insurance for 4 to 8 years and also for whole membership term of client.	Usually the duration of insurance policy is between 6 to 15 years, but in some plans the duration is up to 30 years.
Size of insurance coverage	The size of insurance coverage varies depending on the product nature. In loan and livestock insurance usually the outstanding loan is exempted. For life insurance generally 3 to 7 times of deposited amount or a certain amount of money is provided as insurance coverage.	The size of insurance coverage varies from Tk. 5,000 to Tk. 1,00,000 depends on policyholders premium rate. Sometimes a certain percentage of deposited premiums are provided as insurance coverage.
Types of risk coverage	For each insurance product the types of risk coverage is different. For loan and life insurance the death of insurance client and sometimes the death of household head / earner is also covered. Some organisation also covered accidental risks. In health insurance, usually the some portion of the primary health care, essential medicine and hospitalisation costs of clients are covered. For livestock insurance losses of livestock / poultry are covered.	The types of risk coverage depend on the nature of product. In most of the cases the death risk of insurance policyholder is covered. Some insurance plans also cover health and accidental risks along with death risk by charging some additional premiums. Another plan also covers the fund for education of children and marriage of daughter.
Investment of deposited premium	The NGOs/MFIs invest most of the deposited premium as revolving loan fund and the rest of the amount is deposited in the bank.	The insurance companies invest the most of the deposited premium in government bond and securities, stock exchange or readily marketable securities. Some deposited premium is also invested for long term investment.
Claims paid or premium refunded or bonus paid	In most of the cases in premium is not refunded if there is no claim. But some organisations offering life and health insurance refund premium with 4% to 5% interest after the maturity of	A certain percentage between 10% to 25% bonus on insured amount is paid after a certain period i.e. 3 or 4 years. Some Microinsurance product package also include a

	insurance term if there is no claim.	certain percentage of profit like 7% on bonus if the policy holder doesn't withdraw it when due and this interest along with bonus is paid after the maturity of insurance term if the policy holder doesn't die. For single premium package if the policyholder doesn't die, then the policy holder receives 200 percent of the deposited premium.
Other Benefits	NGOs/MFIs sometimes provide additional benefit i.e. some lump sum amount and funeral cost along with providing insurance coverage amount.	Some Microinsurance product package includes other benefits like savings and credit opportunity. Usually the policyholders can withdraw a certain percentage of deposited premiums as loan after a certain period.

7.0 LESSONS FOR MICROINSURANCE DEVELOPMENT: FROM BOTH MFIs/NGOs AND MAINSTREAM INSURANCE COMPANIES

The study clearly exposes two important lessons on Product Design and Packaging and Management and Operational Methodology of Microinsurance products offering by both NGOs/MFIs and private insurance companies.

7.1 Product Design and Packaging Lessons

There is a big difference in product design between NGOs/MFIs and private insurance companies. Usually the NGOs/MFIs offer different types of insurance products i.e. loan insurance, life insurance, health insurance, livestock insurance and property insurance. Sometimes they cover more risks with single premium. But the insurance companies offer specialised product i.e. life insurance and sometimes health insurance. The lessons learned from Microinsurance products of NGOs/MFIs and Insurance Companies as below:

Table14- : Product Design and Packaging Lessons from NGOs/MFIs and Mainstream Insurance Company Perspective

Key Factors	Lessons from NGOs/MFIs	Lessons from mainstream insurance companies
Target Clients	The NGOs/MFIs may include the other family members and also other poor people who are not member of their organisations to increase the number policyholders and pool the risks.	The insurance companies give more emphasis on the people who have monthly regular income. So the possibility of exclusion of the people who have seasonal income or irregular income flow. If these people could be included as Microinsurance clients, then the outreach will increase and these untapped people will be benefited.
Premium rate	The premium rate should be determined through structured	Although the premium rate is calculated by the Actuaries through structured

	<p>calculation by considering probability of risks and also sustainability of each insurance product. Moreover, affordability of target client should also be considered to determine premium rate.</p>	<p>methodology, but it seemed that the premium rate is calculated by considering the context of each insurance plan. If the premium rate is calculated by mixing up different insurance plans, so the policyholders can have the choice to take facilities of different insurance plans within affordable premium rate.</p>
Premium collection procedures	<p>The premium collection procedures should be more flexible and customised, so that insurance product would be accessible to all poor clientele groups. So potential client survey is important.</p>	<p>The premium collection procedure is flexible for the policyholders. But the insurance companies should become more flexible regarding default premium instalment and give more opportunity to the default policyholders to renew their insurance policy.</p>
Duration of insurance policy	<p>The duration of insurance policy is important for client satisfaction as well as sustainability of the product. So the duration of each insurance product should be calculated scientifically. The duration of each insurance product should be longer.</p>	<p>Although the more duration of insurance policy is important for feasibility and sustainability analysis of each insurance plan, but the low income people usually expect to get the bonus money within short period. So the insurance companies can rethink about the short duration of some of its insurance plans.</p>
Size of insurance coverage	<p>The size of insurance coverage should be calculated scientifically by considering whether the insurance coverage amount is sufficient enough for the policyholder's family members to retain the existing livelihood from the insurance claim amount. Moreover, affordability of premium rate and sustainability of the product should be considered before determining the size of insurance coverage.</p>	<p>The size of insurance coverage amount should be considered by considering the minimum amount required for restoration of livelihood after the death of main household earner. Moreover, affordable premium rate should also be considered for sustainability of product.</p>
Types of risk coverage	<p>The demand study of the client is important to determine the types of risk coverage. The premium rate, affordability of clients and sustainability of individual product should be considered before designing the product and the type of risks coverage.</p>	<p>Along with death risk coverage of policyholder the insurance companies can also think about health hazard and accidental risks coverage within their existing product packages.</p>
Claims paid or premium refunded or bonus paid	<p>There is no structured calculation and policy regarding paying claim or refund premium or paying bonus to the policyholder. The bonus may be paid after a certain period and a lump-sum amount could be paid after the maturity of insurance term if there is no claim. But scientific calculation and sustainability of insurance product should be considered to pay claims or refund premium or pay bonus.</p>	<p>The insurance companies pay the bonus on the insured amount through structured calculation after certain period. This bonus system of insurance companies will encourage the existing policyholders and attract more potential clients.</p>
Other Benefits	<p>As NGOs/MFIs are working hard for the socioeconomic wellbeing of the</p>	<p>The savings and credit act as safety net of policyholders regarding demand for</p>

	<p>poor people, so they can include some other additional benefit in their insurance product packaging without charging additional premium. There should be a check and balance between other benefit and sustainability of the product.</p>	<p>money when needed.</p>
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7.2 Management and Operational Methodology Lessons

If the management and operational methodology of NGOs/MFIs and Insurance companies is critically observed, then more gaps will be identified in NGOs/MFIs operations.

Table15- : Management and Operational Lessons from NGOs/MFIs and Mainstream Insurance Company Perspective

Key Factors	Lessons from NGOs/MFIs	Lessons from mainstream insurance companies
<i>Product design methodology</i>	<p>The product is designed without any structured methodology and it is designed in such a way that is somehow linked with Microfinance clients and products. The products should be designed in such a way, so that along with Microfinance clients their family members can also be incorporated. Moreover, the insurance products should be separated from Microfinance products.</p>	<p>The product is designed through structured methodology. But the product is designed by considering supply side other than give more emphasis on demand side.</p>
<i>Premium rate determination</i>	<p>The scientific method should be implemented to determine premium. Moreover, before determine the premium rate the affordability of clients and sustainability of insurance products should also be considered.</p>	<p>Although the premium rate is determined thorough structured calculation by the actuaries, but it seems that sometimes premium rate is determined without considering the affordability and demand of policyholders.</p>
<i>Target client selection</i>	<p>Along with the Microfinance clients, the other family members can also be considered as target clients for Microinsurance products.</p>	<p>The insurance companies usually give more emphasis on clients who have regular income flow. So the possibility of people who have irregular or seasonal income might be excluded.</p>
<i>Insurance premium collection procedures</i>	<p>The insurance premium collection procedure can be more flexible i.e weekly / monthly / quarterly / biannually / yearly/ seasonal / once at a time depending on policyholders financial situation. For example- the insurance premium can be collected seasonally when the clients have money during harvesting season.</p>	<p>Although the insurance premium collection procedure is flexible, but it could be more flexible for different cliental group who have irregular income flow. So without keeping strict procedure, the bulk amount of premium can be collected when the policyholders have available money.</p>
<i>Investment of deposited premium</i>	<p>Along with investing the deposited premium as revolving loan fund, the NGOs/MFIs can invest some</p>	<p>The deposited premium is invested according to the regulatory framework. The investments of</p>

	portion of its deposited premium as fixed deposit in bank and some portion in the capital market.	insurance companies ensure more liquidity to provide any sudden claim.
<i>Determination of risks coverage amount</i>	The risks coverage amount should be determined scientifically in such a way that determines the actual amount needed to the family members of deceased policyholder to restore their normal livelihood. But there should be a check and balance between premium rate and risks coverage amount for sustainability of insurance products.	Although the risk coverage amount is determined through scientific actuarial calculation, but the actual need of the family member of deceased policyholder should be given more emphasis.
<i>Methodology of claims payment or premium return or bonus payment</i>	NGOs/MFIs can provide certain percentage bonus on insured amount after a certain period i.e. 3 / 4 years. Moreover, after the maturity of insurance term, if the policyholders remain alive, the NGOs/MFIs can provide insured amount along with lump-sum profit.	The methodology of bonus payment is well structured. The insurance companies can reconsider regarding the timeframe of bonus payment and make it shorter.

8.0 PROSPECT OF MICROINSURANCE IN BANGLADESH

Insurance has been considered as security product for the high and moderate income level people of the society. But during the last one and half decades it is observed that along with the affluent people of the society, there is a dormant demand for insurance among the poor community and earlier they couldn't expose it. But after involving with Microcredit programme and also other development activities, the poor people considered that their social security is important to survive in this harsh world of poverty. From this realisation the dormant demand for insurance came forward and after the first Microinsurance product offered in 1988 in the country, the growth of this product was tremendous and significant growth also has been observed till now. It is expected that the growth will continues.

From this study it has been found that the total outreach of NGOs/MFIs and Insurance companies of Microinsurance clients are 25.17 million (NGOs/MFIs 20.69 million and Insurance Companies 4.48 million) and the demand for Microinsurance is increasing day by day. As the demand is increasing, so NGOs/MFIs and also the Insurance Companies are thinking about the diversified products. If the product is designed by considering the demand side as well as affordability of the poor people, then the demand for Microinsurance products will increase and client outreach will also increase. There are different types of uncertainty and vulnerability for low-income households, such as life cycle events, death, disability, loss of property, etc. In the lifecycle events of the poor some risks and vulnerability is negligible, but there are some occasional events such as epidemics, serious natural disasters that are all considerably more risky than life cycle events. Life cycle events are relatively predictable

as compared to disability, illness or losses to property resulting from accidents, disasters, etc. Correspondingly, the resulting losses or costs for each of these sources of vulnerability can vary from small to very large. The uncertainty and vulnerability is daily companion of the poor people of the country and the government social security and social safety net programme alone can't compensate their different types losses. So there was a demand for insurance from long time and the demand will also exist in future.

9.0 RECOMMENDATIONS AND CONCLUSION

Insurance is not only the mechanism for reducing vulnerability but also ensure social and economic security to the poor. Insurance protects households against those risks that they are unable to protect themselves through informal mechanisms, savings or credit. Insurance providers are concerned that coverage of risks can be provided on a sustainable basis. Therefore, insurance is appropriate when there is an overlap of perspectives of both the household and the provider. Poor people have different needs and priorities. Designing insurance products on a one-size-fits-all platform runs the risk of neglecting these differences and affecting any insurance programme adversely.

There are two main issues i.e. product design and policyholder issues that discourages MFIs and Insurance companies to tap poor households with insurance products. The product design issues include high transaction costs, irregular income flows, and due to the difficulties in controlling moral hazard and due to adverse selection. The policyholders' issues include higher risks in providing this product as well as issues regarding affordability. Furthermore, poor households have limited understanding about insurance and there is a misconception about insurers. Microfinance providers are also challenged by their need to achieve scale, the need for data and skills for actuarial analysis, reinsurance, and investment.

The insurance product design and packaging for poor people is very critical tasks. The Insurance companies design product by the Actuaries through scientific calculation, but the NGOs/MFIs follow the unstructured assumption method. Moreover, usually the product is designed and packaged in such a way that in most of the cases the actual need and demand of the poor people is ignored. So the Microinsurance providers should consider the need and demand of the target clients and the product is designed and packaged by considering demand side. The product should be designed and packaged in such a way, so that the self exclusion of some clients, who have irregular flow of income or seasonal income, can be avoided.

At present premium rate is determined either scientific calculation or assumption, but not considering the affordability of the target clients. So during setting premium rate the affordability of the poor people should be considered. Another important aspect is premium

collection procedures. Although it seems that the premium collection procedure of insurance companies is more flexible than the NGOs/MFIs, but still there is room for to be more flexible regarding premium collection. The Microinsurance providers should think about the irregular or bulk premium collection method after a certain period rather following structured premium collection method.

The duration of insurance policy should consider the need and demand of clients. The NGOs/MFIs usually offer insurance product for short term and the insurance companies offer product for long term. In both of the cases, it seems that client needs and demands are not addressed. So the NGOs/MFIs and Insurance companies should design some insurance products, which duration matches with clients needs and demands.

The size of insurance coverage plays a significant role for restoration of livelihood of the poor people after the death of a family head or earner. But in most of the cases the insurance programme of NGOs/MFIs don't addresses this issue when fix the size of the insurance coverage amount. Although the insurance companies have structured scientific calculation method to determine the size of insurance coverage amount and it seems to be lucrative, but the actual demand as well as affordability of premium rate from the client side is not considered. Both the NGOs/MFIs and insurance companies should reconsider the actual need and demand of the clients and also their affordability to pay premium to meet the need based insurance coverage amount etc.

The NGOs/MFIs cover different types of risks related to life, health, accident and also property. But due to regulatory framework the life insurance companies can't move beyond life, health and accident, which cause physical damage. So it is very difficult for the insurance companies to expand the existing product line. In this regard, the insurance companies and NGOs/MFIs can work jointly. Moreover, the both parties can form a separate Mutual entity operated as Mutual Insurance Company to expand their Microinsurance product line.

There is no structured guideline about the investment of deposited premium for NGOs/MFIs. Usually the NGOs/MFIs invested most of its deposited premium as revolving loan fund and some portion has been deposited in the banks. Due to regulatory guidelines, the insurance companies invest in government bond and securities, stock exchange or readily marketable securities. Some deposited premium is also invested for long term investment. Both NGOs/MFIs and insurance companies should find out the investment options within the existing regulatory framework, which have more return for sustainability of their Microinsurance products.

The NGOs/MFIs usually provide claims, but some organisations also pay bonus. The claims and bonus payment method of NGOs/MFIs is simple and it doesn't take more time. But the claim and bonus payment method of insurance companies seems little bit complex and

usually takes time. As a service provider, both the parties should think about the customer satisfaction and how to provide better service to the customer by making claim and bonus payment very simple and less complex. The NGOs/MFIs and insurance should also explore the about the additional services that could be provided to the clients within existing product line and premium rate.

It is worldwide recognized that Bangladesh has been considered as pioneer in Microcredit with diversified products. Many NGOs/MFIs in Bangladesh are striving to offer demand driven and diversified financial products and services to the poor people. But still a significant number of poor people are vulnerable to adverse situation in their life cycle and untapped with social security products like insurance that can be a social safety net for them. Although, there are different types of institutions providing Microinsurance, including private commercial companies but that insignificant.

It is true that developing and offering a new product always has some risks. Sometimes NGOs/MFIs and insurance companies ignore poor people because they consider the financial sustainability of this Microinsurance product. But many of the risks and vulnerabilities faced by the low-income clients served by MFIs are insurable. In these cases, well-designed Microinsurance products can have an important development impact. The challenge is to ensure that the product developed is appropriate for the needs and preferences of the households, is financially viable, and is provided through institutions that have the resources and expertise to manage the finances and the risk inherent in the product. If the Microinsurance products can be developed in such a way that addresses the needs of the poor, then this product can be financially viable and sustainable. Moreover, Insurance companies can also come forward with social security products for the poor. As a pioneer of Microcredit NGOs/MFIs as well as insurance companies can address the needs of the poor to achieve the United Nations Millennium Development Goals and cover all poor people of the country with social security products like insurance and ensure social safety nets by the year 2015.

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ANNEXURE-1: List of MFIs/NGOs Surveyed and Contacted

Sl. No	Name of MFIs/NGOs
1	Ad-din
2	Annesha Foundation
3	ASA
4	ASHRAI
5	ASOD
6	ASPADA
7	BASA
8	BRAC
9	BRIDGE
10	BURO Tangail
11	CARB
12	CARSA
13	CARSA Foundation
14	CCDA
15	CDHC
16	DAK DIYE JAI
17	DBS
18	DISA
19	DORP
20	DSK
21	DUS
22	Grameen Jana Unnayan
23	GUK, Gaibandha
24	HEED Bangladesh
25	Hilful Fuzul
26	IDF
27	JAKAS
28	Jana Kallyan Sangstha
29	Life Association
30	Padakhep
31	Page Development
32	PBK
33	PDIM
34	PIPASA
35	POPI
36	POSOBID

37	PPD
38	PROGRESS
39	PROSHIKA
40	PROTTYASHI
41	Proyas
42	Sagorika
43	Samadhan
44	Sangkalpa Trust
45	SAP Bangladesh
46	SATU, Tangail
47	SETU Kushtia
48	SHAKTI
49	SHARP
50	SHISHU NILOY
51	SJK
52	SKS
53	Sopiret
54	SSS
55	SUS, Savar
56	Swanirvar Bangladesh
57	TMSS
58	UDPS
59	UNNAYAN
60	VPKA
61	YPSA

ANNEXURE-2: List of Insurance Companies Contacted

SI No	Name of Insurance Companies
1	Delta Life Insurance Company Ltd.
2	Fareast Islami Life Insurance Ltd.
3	Jibon Bima Corporation
4	Meghna Life Insurance Company Ltd.
5	Padma Life Insurance Company Ltd.
6	Popular Life Insurance Company Ltd.
7	Pragati Life Insurance Limited
8	Prime Islami Life Insurance Lt
9	Rupali Life insurance Co Ltd
10	Sun Life Insurance Company Ltd