



## Challenges, Prospects and Role of Insurance on Economic Growth in Bangladesh

**Mohammad Ali**

*Department of Business Administration in Management Studies  
Bangladesh University of Professionals, Dhaka, Bangladesh  
E-mail: rana.ali0191@gmail.com*

### Abstract

This paper aims to review the role of insurance on economic growth and to analyse challenges and prospects of insurance sector in Bangladesh. Based on the secondary data, this research critically reviews the previous studies to find the contribution of insurance on economic growth and prospects as well as challenges of insurance sector in the context of Bangladesh. Insurance has significant contribution on economic growth of a country that facilitates to create a strong capital base and gain economic independency. The study found that the key problems of this sector are deficiency of publicity, lack of qualified human resource, dearth of marketing policies, absence of business ethics, legal complexities, unskilled agents, poor IT support, insufficient return on investment, lack of transparency, lack of public awareness and traditional management. Therefore, initiating innovative marketing strategies, attracting and retaining talent, developing talent, increasing awareness, adapting information technology (IT), avoiding harmful competition, increasing return on investment, offering diversifies and attracting packages, adapting dynamic management style and implementing effective insurance policy are suggested to overcome the challenges of this sector.

**Keywords:** *Insurance, economic growth, prospects, challenges, Bangladesh*

---

### Introduction

Insurance is one of the important ingredients of financial sector that can significantly contribute for economic growth and managing risk of a country (Mall, 2018). The concept of insurance emerged as humans are inevitably prone to various types of risk ranging financial to non-financial arenas (Alli, 2011). To define insurance, Lee (2019) stated that insurance drives the pooling of resources at a common place to compensate the insured known as policy holder on the occurrence of specified event in exchange of a periodic payment known as premium. Life and non-life insurance are the two broad categories of insurance (Mall, 2018). Life insurance is for long-term funds whereas non-life insurance is for short-term funds. Olayungbo (2016) argued that life and non-life insurance acts as complements to economic growth rather substitutes. Insurance involves a contract that is demonstrated as insurance policy signed by insurer or assurer or their agent. Insurance assists households and companies to be protected from wide spectrum of risks at a micro level but at a macro level it helps government minimizing financial burden and turns economy stable for the growth and success of business venture. Flourishing Insurance sector is a parameter of healthy economy, not only an epitome of efficient financial sector (Vayanos and Hammound, 2006).

As Bangladesh is a developing country, a balanced contribution of different sector to economic growth is required. Insurance sector can significantly contribute to social and economic development of this country as insurance strengthen capital base through collecting fund and investing it in different purposes. But the contribution and image of this sector is not substantial like the banking sector of Bangladesh (Ali, 2018). Ibrahim (2019) concluded in his research paper that the growth rate of public sector non-life insurance corporations is declining. But Ibrahim (2019) also stated that insurance is vital for economic growth of a country as it provides safety for individual and organizations. Growing economic state over the last decade and increasing number of populations can create new scope for further growth of this sector. Therefore, this paper aims to review the current challenges and potentiality of insurance sector in Bangladesh.

### **Methodology**

This research is completely based on secondary data. Based on outcome of the previous studies, the current study reviews the role of insurance on economic growth. Researcher systematically reviewed newspaper, journals, books, magazines, different websites, research articles and published materials on insurance industry of Bangladesh. To ensure a comprehensive review, articles have been categorized into two categories (Ali and Guha, 2018): paper on Bangladeshi insurance sector and role of insurance on international context. After critically reviewing the research papers, the findings have presented covering the role of insurance on economic growth and prospect and challenges of insurance in the context of Bangladesh.

### **Literature Review**

Insurance market development is intertwined with financial and economic development. Consequently, studies on economic growth without consideration for insurance market development will generate faulty approximation of growth analysis (Pradhan et al., 2015). Researcher like Vadlamannati (2008) claimed that insurance sector has significant positive impact on the long run economic development of India. On the other hand, Lee (2019) stated that impact of insurance sector on economic growth is indirect since performance of the investment of insurers is the prime determinant here. Lee et al. (2013) found that global insurance industry has been growing since 1950 and there is a long-run equilibrium relationship between real GDP and real-life insurance premiums. Real GDP of Nigeria is positively and significantly influenced by insurance premium, insurance claim and insurance income (Onyebuchi et al., 2018). Cristea et al. (2014) insurance has become a major component and it has significant contribution to GDP of certain countries of European Union. They supported that contribution to GDP by insurance company exceeds 10% as a result of higher economic growth in those countries. Insurance market growth can contribute to economic growth by stimulating the savings in the form of financial assets which facilitates a strong capital base (Dash et al., 2018; Liu and Zhang 2016). Dash et al. (2018) argued that development of insurance market and economic growth are interdependent, and they have a bidirectional causal relationship. Alhassan and Biekpe (2016) postulated the long run causal relationship between insurance activities and economic growth for Kenya, Mauritius, Morocco, Nigeria and South Africa. Highly monitored and competitive insurance sector provides strong mobilization of savings and accumulation of capital for other sectors and financial institutions (Alhassan and Biekpe, 2016). Olayungbo and Akinlo (2016) found that insurance has dynamic interaction with economic development in eight African countries for the period of 1970–2013. Verma and Bala

(2013) found that life insurance has significant influences on the economic growth of India during 1990–1991 to 2010–2011. Lee et al. (2013) found a positive bi-causal relationship between economic activity and insurance markets. Mostly in high economic countries, there is a tendency to be reliant on insurance market which ensures high level of economic growth. Business enterprises are the lifeblood for smooth operation of the economy of a country and insurance sector has significant positive impact on the development of business enterprises (Babbuli and Bello, 2018).

Haiss and Sümegi (2008) stated that the development of the insurance sector is high in economically rich countries and relatively low in the least developed countries like Romania, Bulgaria, Latvia and Estonia. This trend portrays that insurance penetration increases when the economy of a country increases. Babbuli and Bello (2018) found that frequent changes in government regulations often prevent the insurance companies to provide fund security to business enterprises. Pradhan et al. (2015) also indicated that to sustain in the long run OECD countries should focus on improving their insurance sectors to develop financial sector indiscriminately. In this regard, Alhassan and Biekpe (2016) emphasized on growth policies as stimulator of insurance market development. Olayungbo and Akinlo (2016) prioritized on the financial reform such as recapitalization and consolidation policies to boost up the demand for insurance policies on the selected African countries. A well-structured and developed insurance sector is required not only for developed countries but also for developing countries like Bangladesh.

### **Role of Insurance on Economic Growth in Bangladesh**

Right after independence in 1971, insurance sector was initiated in Bangladesh through the establishment of 2 nationalized insurance companies where one was life insurance, and another was general insurance company including another foreign insurance company (BB, 2019). At present, 62 companies are operating in Bangladesh under Insurance Act 2010 and out of them 18 are life insurance companies including 1 foreign company and 1 are state-owned company and 44 general insurance companies including 1 state-owned company (BB, 2019). The insurance companies are controlled by Insurance Development and Regulatory Authority (IDRA) which became operational since 2011. The market share of this sector is comprised of 73.5% for life insurance companies and 26.5% for non-life insurance companies whereas Micro-insurance and Islamic Insurance are also included (Islam, 2019).

In 2017, non-life insurers earned a gross premium income of Tk 2,908.1 crores and life insurers Tk 8,203.1 crores (Islam, 2019) that shows the significance and earning calibre of insurance companies in Bangladesh. Gradually, the interest of people on insurance is increasing day by day as the income of the people has been enhanced over the last decade. Insurance penetration in Bangladesh is expected to worth approximately USD 2.2 billion (in terms of insurance premiums) by the year 2020 that indicates 7.04% increment from the 2015 when it was USD 1.58 billion ((PwC report, 2019). Not a bulk, even 1% rise in insurance penetration can lead to significant change in the economy of Bangladesh as it can reduce uninsured losses and significantly contribute to its GDP growth (Rashid, 2019). Besides, the unemployment rate will be reduced, and foreign direct investment will be increased if the insurance sector can be restructured in way that can garb the potentially of insurance market in Bangladesh. The capital market will be flourished though insurance growth that will ultimately lead to the growth of

Bangladesh. Insurance can increase the flow of funds in the economy as it reduces the risk of investment. But the non-life insurance contribution is not significantly improved for the last six years as it was 0.2% in 2012 and also 0.2% in 2018 according to statistical analysis published by Lloyd's of London (Islam, 2019).

### **Challenges and Prospects of Insurance Sector in Bangladesh**

Though Bangladesh is exposed to a variety of risks, insurance coverage is not as much as that level. Insurance companies of Bangladesh have been facing lot of hurdles to operate the insurance activities smoothly and to gain a competitive sustainable development. Mamun (2016) identified four major areas of problems on insurance sector of Bangladesh and among which marketing problems are in very strong position to further growth of this industry. The other problems are related to human resource management, operations and ethical issues. Among the HR problems, low qualification of agents is the most significant one, policy holders' lack of understanding of insurance policies and lack of awareness of the insurance benefits are the major marketing problems (Mamun, 2016). Lack of technical knowledge of employee, poor IT support and inefficient management are the major marketing problems whereas unhealthy competition and agent malpractice are the prime problems related to the ethical issues (Mamun, 2016). Ali (2018) mentioned that due to volatile nature of capital market, insurance companies are not likely to invest in stock and lack of qualified manpower and legal restrictions are entangled with this sector making insurance unpopular in Bangladesh. Apart from these, low return on investment in stock, lack of transparency, tendency to invest in fixed assets and government securities are also the impediments of this sector. Ineffective marketing strategies, lack of advertisement, knowledge gap of clients, unskilled marketing agent, improper market segmentation, ethical issues and bureaucratic procedure are significant current challenges of insurance industry in Bangladesh.

However, there is scope to be optimistic about the growth of insurance sector in Bangladesh as economic expansion is happening in Bangladesh and there is a high chance of growing fire insurance, marine insurance and micro finance insurance in Bangladesh (Mamun, 2016). Bangladesh's macroeconomic trends demonstrate that potential progress in the insurance sector is possible. As the country becomes more industrialized, the demand for fire and property insurance as well as workers' compensation is likely to see a substantial growth in demand. Besides, natural disasters and frequent road accident are the common phenomena in Bangladesh. Therefore, increasing awareness about those incidents' security and their integration with insurance will increase the demand of insurance and enhance the growth of this sector. Based on the analysis of limitations of insurance sector, Mamun (2016) suggested that taking some initiatives may improve the current condition of this sector in Bangladesh which includes attracting and retaining qualified professionals, organizing frequent training programs, focusing on IT development, adapting creative marketing strategies, eliminating unhealthy competition, increasing return on investment and going for merger and acquisition if required. Besides, developing and implementing creative marketing strategies, adoption of uniform policies, focusing on innovation, logical need based segmentation of clients, increasing awareness among mass people, more investment in research and development and implementation of dynamic management style can improve the performance of this sector and assist to acquire sustainable competitive position.

### **Findings**

In comparison to other South Asian countries, the insurance penetration ration is not favorable (Islam, 2019). M. Ali Noor the managing director of Jiban Bima Corporation (JBC) stated that though Bangladesh is exposed to a variety of risks, but the insurance coverage is not up to the mark as still the market of insurance is segmented (Islam, 2019). Besides, the life insurance campaign is not enough to stimulate people regarding life insurance and regulatory framework for promoting insurance is not effective. The financial state of the insurance companies is not in good condition (Islam, 2019) that creates barrier to expand its branches in different location. According to PricewaterhouseCoopers (PwC) report published in 2019 the people of Bangladesh do not like to trust on the agents of insurance companies and insufficient awareness of insurance products is another limitation of this sector. Claim settlement process of insurance companies is quiet longer and bureaucratic. Moreover, people are highly reluctant about premium as still a significant number of people are living substandard life. As most of the people of Bangladesh are living in rural areas, they are not highly aware of insurance and benefits (Islam, 2019). People think insurance is nothing but a way of taking money from them without returning any benefits. Hence, unethical practice of insurance companies is one of the biggest challenges for which people think insurance is a fraudulent business (Mamun, 2015). Besides, almost 90% people in Bangladesh are Muslim and there is a religious superstition regarding insurance (Reza & Iqbal, 2007) that leads decremental demand of insurance. The budget of insurance companies regarding the marketing and promoting insurance is hardly enough to reduce the negative perception of people regarding insurance (Islam, 2019). Most of the insurance companies are centrally located in urban areas. In the remote areas, insurance agents are the local people and they are not well-trained to promote insurance and to attract clients. Besides, companies are also reluctant to invest much to hire and develop talented people as insurance agents though investment to train agents will have sustainable long-run return for the company. Islam (2019) stated that lack of corporate governance, ineffective adaptation with technological change and shortage of actuary consultants are also the current limitations of this sector. Insurance companies are not offering a wide variety of insurance products, hence, all types of potential clients are not covered, for example, education insurance. Despite lot of problems are interlinked with the insurance sector in Bangladesh, there is remarkable potentiality of this sector to grow and contribute for the social and economic development.

Since Bangladesh is a country facing natural disaster every year and highway road accident very frequently almost every day, insurance has huge potential to expand its market (Islam, 2019). Insurance premium per capita in Bangladesh is just USD \$8 (Islam, 2019) that indicates there is significant potential to cover the people who are underinsurance. Reinsurance in case of disaster can play vital role to reduce negative impact on financial performance. As the GDP of people of Bangladesh is growing as GDP growth rate was 5.57 in 2010 and 7.8 in 2019 that indicates upward movement of economy. Hence, there are possibilities that people will be more interested to invest in insurance in future. As the income and literacy rate is increasing, people will be more aware and as a result the demand of insurance will increase (Mamun, 2016). The population increment rate is noticeable in Bangladesh that creates more opportunity to get more clients if they can be properly motivated about the positive aspects of insurance. Islam (2019) suggested about microinsurance through which a lot of people can be covered as such insurance will charge very minimum premium and the duration

of insurance will be shorter. There is scope to convert the common ideology that insurance is not associated with risk only as it can be a great scope of investment. Insurance companies can initiate more alternatives that will create investment opportunities for the clients' savings. As Bangladesh is an agriculture-based country, insurance companies can take the opportunity to cover agricultural sector offering wide range of low premium insurance and offer loan facilities to farmers with minimum conditions.

### **Conclusion**

This paper tries to present the contribution of insurance on economic growth and challenges as well as prospects of insurance sector in Bangladesh. Insurance sector has significant contribution in social and economic growth of both developed and developing countries. Though insurance sector of Bangladesh has some limitations, there is room to further development. This sector has operational, economical and sectoral prospects to expand its market. Insurance companies, regulatory agencies and government should take initiatives to boost up this sector overcoming the barriers to growth. A regulatory framework with strong principles can restructure this sector through proper risk transfer and reasonable premium that will attract and retain the clients for the long run.

Talented and skilled human resource is highly required to improve the current performance of insurance. Academic institutions need to develop separate curriculum on insurance to foster insurance education and create professionals for this sector. Insurance companies can go for mutual alignment with banks which will accelerate this sector as people rely on banks than the insurance agents. Besides, banking sector has already been established as the common platform to deposit money, so, through using this transaction platform, insurance companies can collect their premium more smoothly. This paper can be a base to conduct more research on the discussed limitations and their impact on the performance of the insurance companies. More studies can also be conducted focusing on insurance as an indicator of social, economic and financial growth of a country.

### **DISCUSSION QUESTIONS**

1. What are the roles of insurance on the economic growth of a country?
2. What are the critical current challenges of the insurance sector in Bangladesh?
3. How can Bangladesh overcome the limitations of the insurance sector?



## References

- Alhassan, A. L., & Biekpe, N. (2016). Insurance market development and economic growth: Exploring causality in 8 selected African countries. *International Journal of Social Economics*, 43(3), 321-339.
- Ali, K. M. (2018). Prospects & problems of life insurance in Bangladesh: Challenges ahead. *Fair Review*, (1569).
- Ali, M., & Guha, S. (2018). Talent management in South Asia: Prospects and challenges. *Bangladesh Journal of Public Administration (BJPA)*, 26(2), 1-16.
- Alli, B. C. (2011). The Reforms of Insurance Companies and its Transformation of Nigeria's financial Sector. Online copy: The Layers Chronical. *The Magazine for African Layers*.
- Babbuli, I. M., & Bello, S. (2018). The impact of insurance companies towards the development of business enterprises: case study of national deposit insurance corporation (NDIC) yola. *International Journal For Research In Business, Management And Accounting*, 4(2), 09-26.
- Bangladesh Bank (BB), (2019). Insurance. Retrieved from <https://www.bb.org.bd/fnansys/insurance.php> accessed on 23 June 2019.
- Cristea, M., Marcu, N., & Cârstina, S. (2014). The relationship between insurance and economic growth in Romania compared to the main results in Europe—a theoretical and empirical analysis. *Procedia Economics and Finance*, 8, 226-235.
- Dash, S., Pradhan, R. P., Maradana, R. P., Gaurav, K., & Jayakumar, M. (2018). Impact of banking sector development on insurance market-growth nexus: the study of Eurozone countries. *Empirica*, 1-39.
- Haiss, P., & Sümegi, K. (2008). The relationship between insurance and economic growth in Europe: a theoretical and empirical analysis. *Empirica*, 35(4), 405-431.
- Ibrahim, M. (2019). Expansion of Non-life Insurance both Public and Private Sector in Bangladesh. *Insurance Journal of Bangladesh Insurance Academy*, 64, 100-118.
- Islam, S. (2019). Insurance Laws of Bangladesh: How it plays a role in the development of economic growth (*Doctoral dissertation, East West University*).
- Islam, N. (2019). Fostering Insurance Awareness among the Masses in Bangladesh: Challenges and Opportunities. Available at SSRN 3439348.
- Lee, H. (2019). Insurance Development and Economic Growth. *Financial Statistical Journal*, 1(4), 1-17.
- Lee, C. C., Lee, C. C., & Chiu, Y. B. (2013). The link between life insurance activities and economic growth: Some new evidence. *Journal of International Money and Finance*, 32, 405-427.

- Liu, G., & Zhang, C. (2016). The dynamic linkage between insurance activities and bank credit: some new evidence from global countries. *Int Rev Econ Finance* 44, 40-53.
- Mall, S. (2018). Contribution of Insurance on economic growth in India: An Econometric approach. *Journal of Applied Business and Economics*, 20(1), 85-92.
- Mamun, Z. M. (2015). Ethical Standards in Life Insurance Companies in Bangladesh: The Policy Holders' View.
- Mamun, D. M. Z. (2016). Problems and prospects of insurance business in Bangladesh from the companies' perspective. *Insur J Bangladesh Insurance Acad*, 62, 5-48.
- Olayungbo, D. O. (2016). Effects of life and non-life insurance on economic growth in nigeria: An autoregressive distributed lag (ARDL) approach. *Global Journal of Management And Business Research*, XV(XI), 32-40.
- Olayungbo, D. O., & Akinlo, A. E. (2016). Insurance penetration and economic growth in Africa: Dynamic effects analysis using Bayesian TVP-VAR approach. *Cogent Economics & Finance*, 4(1), 1-19.
- Onyebuchi, B., Nwankwo, S. P., & Onuka, O. I. (2018). Insurance Sub-Sector Development: An Emerging Pillar For Economic Growth and Sustainability in Nigeria. *Journal of Economics, Finance And Management Studies*, 1(1), 75-84.
- Pradhan, R. P., Arvin, M. B., & Norman, N. R. (2015). Insurance development and the finance-growth nexus: Evidence from 34 OECD countries. *Journal of Multinational Financial Management*, 31, 1-22.
- Rashid, M. (2019). Transforming our insurance sector. Dhaka Tribune. Retrieved from <https://www.dhakatribune.com/opinion/op-ed/2019/04/28/transforming-our-insurance-sector>
- Reza, S. M., & Iqbal, M. M. (2007). Life insurance marketing in Bangladesh. *Daffodil International University J Business Eco*, 2(2), 87-103.
- Vadlamannati, K. C. (2008). Do insurance sector growth and reforms affect economic development? Empirical evidence from India. *Margin: The Journal of Applied Economic Research*, 2(1), 43-86.
- Vayanos, E. R., & Hammond, J. D. (2006). Determinants of Household Life Insurance Premium Expenditure: An Empirical Investigation. *Journal of Risk and Insurance*, 34, 397-401.
- Verma, A., & Bala, R. (2013). The relationship between life insurance and economic growth: Evidence from India. *Global Journal of Management and Business Studies*, 3(4), 413-422.