

Bangladesh – a forward perspective of the life insurance industry

On 4 February 2020, more than 50 senior cross-functional leaders of Bangladesh’s life insurance industry met in Dhaka to discuss topical issues in the industry, at the Milliman event “A forward perspective of the life insurance industry in Bangladesh”.

At this event, the participants were polled on various aspects of the life insurance industry in Bangladesh. The results of the polls are presented below.

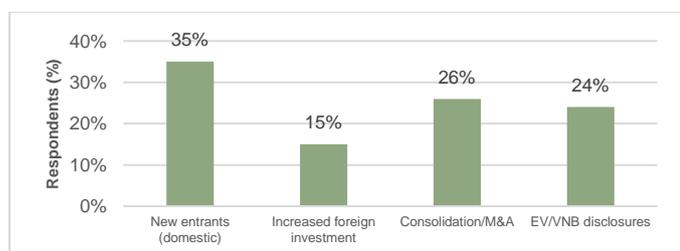
MOST LIKELY SHORT-TERM SCENARIO FOR THE INDUSTRY

Bangladesh, with a population of approximately 160 million has 32 life insurers and is beginning to attract the interest of foreign investors due to the low level of insurance penetration (c. 0.5% of GDP).

When participants were asked about the most likely scenario for the industry within the next two years the most popular option was for the establishment of new domestic entrants (chosen by 35% of the respondents) which was followed by consolidation/M&A (26%). Around 15% of respondents also saw an increase in foreign participation as the most likely scenario.

There would, therefore, appear to be no settled consensus about industry structure in the short term. However, with 24% of respondents seeing EV/VNB disclosure as the most likely scenario within the next two years it does appear that some companies envisage an increased focus on shareholder reporting in the coming years.

QUESTION 1: WHAT WOULD BE THE MOST LIKELY SCENARIO WITHIN THE NEXT TWO YEARS IN BANGLADESH?



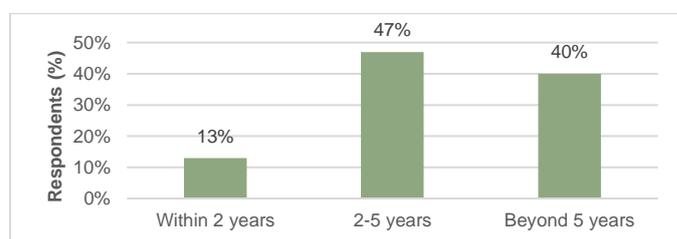
RESERVING AND CAPITAL REGULATIONS

Currently, Bangladesh has a net premium valuation (NPV) method for reserving, but no solvency margin requirement, with the solvency margin provisions in Insurance Act, 2010 still to be

implemented. Increasingly, the norm in the Asian markets is to adopt gross premium valuation (GPV) method for reserving, together with a risk based capital (RBC) framework for solvency.

Participants were asked about a timeframe for the likely introduction of GPV/RBC in Bangladesh. Most respondents did not expect such regulatory changes for at least two years.

QUESTION 2: BY WHEN WOULD YOU EXPECT THE REGULATOR TO MANDATE GPV/RBC?



NEW PRODUCTS

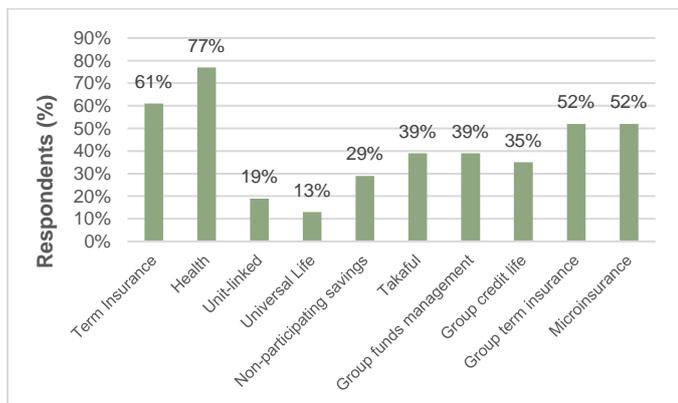
Bangladesh’s life insurance industry currently focuses on selling participating products.

Participants were asked about the type of products they see a need to launch within the short to medium term. On the whole, there was a strong preference for protection products, with term insurance and health insurance being the most popular, potentially requiring a greater emphasis on experience analysis (for the larger companies at least) and greater reinsurer support.

About 29% of the respondents also felt a need for non-participating savings products. If such products were to be introduced, the industry would need to adopt stronger risk management practices, to help manage the guarantees that would result.

With the regulator expected to soon permit bancassurance distribution, it is not surprising that approximately 35% of the respondents also felt the need for group credit life products.

QUESTION 3: DO YOU SEE A NEED TO LAUNCH ANY OF THE FOLLOWING IN THE SHORT TO MEDIUM TERM (SELECT ALL THAT APPLY)



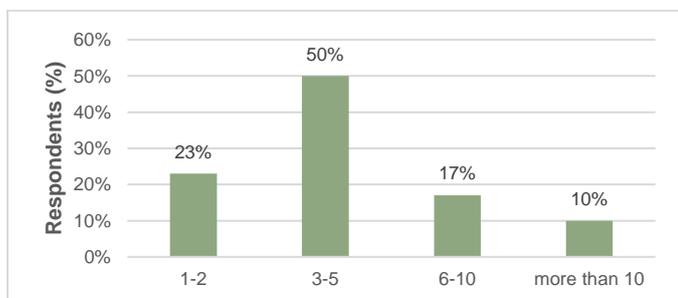
ACTUARIAL STAFFING LEVELS

There is an acute shortage of actuaries in Bangladesh with the number of actuaries being in single digits. Delegates highlighted a need for the industry to develop and grow actuarial talent.

For example, in neighbouring India, it is not uncommon for life insurers to have 30-40 (large insurers) / 10-15 (small insurers) actuarial staff in the actuarial department, together with an in-house Appointed Actuary.

In the short term, the industry may look to seek support from consulting actuaries, until insurers are able to attract or develop further actuarial talent. Participants' views on the number of actuarial staff they need are depicted below.

QUESTION 4: HOW MANY ACTUARIAL STAFF DO YOU NEED?

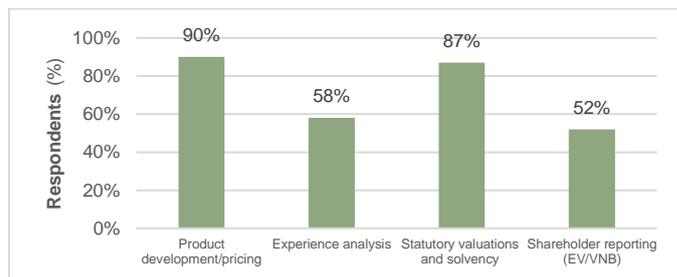


AREAS FOR ACTUARIAL INVOLVEMENT

When asked which business areas actuaries should be involved in, there was overwhelming support for product development/pricing (90%) and statutory valuation (87%), reflective of the current roles played by actuaries.

There is also a view that actuaries can increase their involvement in the areas of experience analysis and embedded value/new business profitability reporting. Such a move would help the industry prepare for the greater interest in the market from potential external investors.

QUESTION 5: IN WHICH BUSINESS AREAS SHOULD YOUR ACTUARIES BE INVOLVED IN THE SHORT TO MEDIUM TERM? (SELECT ALL THAT APPLY)



CONCLUSION

With a recent track record of strong GDP growth (in excess of 7% p.a. over the past three years) and the current low level of insurance penetration (approximately 0.5% of GDP), the life insurance market has significant potential to grow in the long term.

With the right policy framework and appropriate regulatory support, coupled with the industry adopting best practices voluntarily, the Bangladesh life insurance industry can develop successfully in years to come.

CONTACT

Heerak Basu
heerak.basu@milliman.com

Philip Jackson
philip.jackson@milliman.com

Sanket Kawatkar
sanket.kawatkar@milliman.com

Richard Holloway
richard.holloway@milliman.com

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