

Terms of Reference

Bangladesh Insurance Sector Development Project (P156823)

Asset Liability Management Study - Firm

Jiban Bima Corporation (JBC) and Shadharan Bima Corporation (SBC)

Package no.: S11

Background:

As the only two state-owned insurance organizations, Jiban Bima Corporation (JBC) and Shadharan Bima Corporation (SBC) offer life and non-life products respectively. SBC also offers reinsurance to all private non-life companies in Bangladesh, JBC can also offer reinsurance to all private life insurance companies in Bangladesh. However, JBC and SBC both operate much below their capacity despite their extensive branch networks. This is primarily due to lack of technical capacity of management as well as staff, limited use of information technology and inefficient business practices. JBC and SBC do not only need to comply with management fit and proper requirements but have been subject until a recent change in their Act, to lower capital requirement than the rest of the industry. The minimum paid-up capital required to establish a new life and non-life insurance is BDT 300 million (US\$3.8 million) and BDT 400 million (US\$5.1 million) respectively as per the current Insurance Act. However, for JBC and SBC, the authorized capital BDT. 3000 million and BDT. 10000 million and paid up capital BDT. 300 million and BDT. 10000 million respectively new provision has been made in sec. 5 of The Insurance Corporation Act, 2019.

While being the second and seventh largest insurance organizations in the country, SBC and JBC have an extensive semi-urban and rural footprint through large network of branches. This is in contrast to the most other private insurance companies which are located in urban areas and have typically only a few branches in rural areas, leaving the large majority of the population out of their reach. While JBC and SBC are well positioned to address the market failure resulting from private companies focusing on urban areas, they are, however, currently operating significantly below their potential. SBC had a premium income of US\$27.02 million and a growth rate of 12.02 percent compared to 40 percent or more among private sector competitors. SBC also operates as the reinsurer for all 45 private non-life companies. By law, all these private companies have to reinsure 50 percent of their business with SBC. This allows SBC to generate three times more revenues from its reinsurance than its direct insurance business. In 2013, SBC had 109,998 policy holders and its total gross premium from reinsurance was BDT 6.05 billion (US\$77.10 million) vs. BDT 1.90 billion (US\$24.2 million) for retail insurance.

JBC had a premium income of US\$62.1 million in 2018 with an annual growth rate of 10.11 percent, which was significantly smaller than the growth of, for example, the market leader MetLife at 14.23 percent. In 2016 JBC's premium income amounted to 5.47% of the market total, occupying seventh position in rankings. Unlike SBC, the state-owned insurer in the non-life sector, JBC does not have a monopoly of government and public sector insurance, and is not required to arrange reinsurance for the other life offices. JBC operates like any other life insurer in the market.

With proper improvements, both JBC and SBC have a potential to help increase insurance coverage among the underserved in Bangladesh. More specifically, the state ownership function can be

significantly enhanced resulting in both corporations operating more effectively and to their full potential. The JBC and SBC boards will need to be empowered and professionalized to exercise the oversight and leadership functions as per best practice. The internal control functions need to be further strengthened. Finally, the management equipped with proper ICT systems and with sufficient training, will be in a position to optimize the distribution channels, price the products competitively, but also profitable.

Objective:

To provide guidance and restructuring of both state-owned insurers, to provide capacity building and training for the management and staff on the new tools and practices, on-the-job training, and exchange visits using South-South partnership. To enhance technical capacity on pricing, underwriting, claims handling, corporate governance, internal control, risk management systems, distribution network policies, and reinsurance.

To provide resident technical advisory services for the strengthening of actuarial and reinsurance management of SBC & JBC.

Scope of Services

The selected firm will be responsible to deliver for both corporations, SBC and JBC, unless otherwise indicated the following activities:

Provide a **Gantt chart** on the proposed schedule to deliver the activities required under this ToR

1. -Assess the existing business plan in relation to the corporation resources and distribution channels and provide areas of improvement in the form of a new business plan together with the needed structure and processes to reduce frictional costs and ineffectiveness.

The new business plan should include all areas: pricing, underwriting, claims handling, commercialization, product design, distribution channels, reinsurance, etc.

For SBC only: In the new proposed business plan the insurance and reinsurance operations should be running in parallel with good automation support.

2. -Evaluate the current and expected financial condition and solvency of the corporation in the next three years taking into account the product pricing, underwriting practice, investment strategy and expenses if
 - a) no changes to the business plan are made.
 - b) if the recommended improvements are made

This analysis should follow international best actuarial practices and be done in accordance the directives given in National Insurance Policy 2014.

The financial and solvency assessment should include an actuarial valuation of the reserves sufficiency and an analysis of the asset liability matching and possible durations mismatch.

3. -Assess the reporting and management systems (ICT) with respect to efficiency, comprehensiveness, integrity, stability and future suitability. The system should support the proposed changes in the business plan.

Provide a detailed recommendation for the ICT system that would effectively support the new business plan. The recommendations should have sufficient specification that allow to obtain quotes from ICT system providers.

4. -Assess of the governance structure and effectiveness. Propose a modern governance structure that would support the new proposed business plan. Provide capacity building to the existing directors and to a set of potential future directors. The capacity building should be to a level of certification of a recognized independent directorship.
5. -Assess the internal controls and risk management and propose improvements to run the new business plan in a risk-controlled environment.
6. -Provide training to the staff in all areas: pricing, underwriting, claims handling, commercialization, product design, distribution channels, reinsurance.
7. The training should result in having the staff at the professional level of their peers in the private insurance sector. The training should be job related and have relevance to the current activities like design of insurance policies, underwriting , assessment of claims, design of an optimal reinsurance program, etc.

For SBC only: Establish a twinning arrangement between SBC and a strong reinsurance company from the region and other countries. Such an arrangement could help to transform SBC into a strong, modern, state reinsurance company. The twinning partner would need to possess genuine capacity and commitment to provide long-term support to SBC.

Submit reports on completed work on agreed schedule and frequency

For JBC only:

Carry out actuarial valuation for the year 2017 & 2018.

Establish a twinning arrangement between JBC and a strong life insurance corporation from the region and other countries. Such an arrangement could help to transform JBC into a strong, modern, state reinsurance company. The twinning partner would need to possess genuine capacity and commitment to provide long-term support to JBC.

The whole set of activities required under this ToR should be reflected in a detailed schedule and the reports on completed work should be submitted on agreed schedule and frequency

Deliverables:

The selected firm will be responsible to deliver for both corporations, SBC and JBC, unless otherwise indicated:

1. A **Gantt chart** on the proposed schedule to deliver the activities required under this ToR
2. Assessment of the existing business plan including insurance products
3. Assessment of existing risk management and transfer (reinsurance) practice
4. Assessment of asset liability management practice including legal framework and recommendations



5. Evaluation of the current and expected financial condition and solvency of the corporation in the next three years
6. Assessment of the reporting and management systems (ICT) with respect to efficiency, comprehensiveness, integrity, stability and future suitability
7. Recommendation for the ICT system that would effectively support the new business plan.
8. Assessment of the governance structure and effectiveness.
9. Proposal for a modern governance structure that would support the new proposed business plan. Capacity building to the existing directors and to a set of potential future directors.
10. Assessment of the internal controls, risk management, risk transfer (reinsurance), marketing, asset liability management, what are the root cause low market penetration for the both state insurance companies, distribution channels, and propose improvements to run the new business plan in a risk-controlled environment.
11. Training to the staff in all areas: pricing, underwriting, claims handling, commercialization, product design, distribution channels, reinsurance.

For SBC only:

Establish a twinning arrangement between SBC and a strong reinsurance company from the region and other countries.

For JBC only:

Actuarial valuation for the year 2017 & 2018.

Establish a twinning arrangement between JBC and a strong life insurance corporation from the region and other countries.

List of key professional positions whose CV and experience would be evaluated

| Sl. No. | Key Professionals | Academic Qualifications | Minimum/Specific Expertise/Experiences | Tentative man months |
|---------|-------------------|---|--|----------------------|
| 1 | Team Leader | Should hold an undergraduate degree of at least four years in insurance, economics, law, finance, business and accounting fields. | Professionals with experience managing a life and non-life insurer along with strong critical thinking and analytical problem-solving skills. Should have minimum ten years of insurance | 18 |

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|---|--|--|--|----|
| | | | knowledge and experience. | |
| 2 | Life Insurance Expert | Should hold an undergraduate degree of at least four years in insurance, economics, law, finance, business and accounting fields. | Minimum 15 years' post qualifying life insurance experience | 9 |
| 3 | Reinsurance /Non-life Insurance Expert | Should hold an undergraduate degree of at least four years in insurance, economics, law, finance, business and accounting fields. | Minimum 15 years' post qualifying non-life insurance and reinsurance experience focusing in the field of property and casualty insurance | 10 |
| 4 | Internal Auditor (risk management, internal controls and auditing) | Should hold an undergraduate degree of at least four years, and should have at least three years of experience in any one of insurance, economics, law, finance, business and accounting fields. | 15 years experience in risk management, internal controls and auditing in the field of insurance | 3 |
| 5 | Life Actuary | Masters level degree or professional Qualification in Actuarial Science | Minimum 10 years' post qualifying actuarial experience in the field of life insurance | 4 |




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|---|--|---|--|---|
| 6 | Non-Life actuary | Masters level degree or professional Qualification in Actuarial Science | | 4 |
| 7 | ICT Expert | Masters level or degree/professional Qualification in Information Technology/Computer science | 10 years' experience in computer science and designing database structure for insurance. | 5 |
| 8 | Trainer for life, non-life and reinsurance | Masters level or degree/professional Qualification in insurance/reinsurance field | 10 years post qualifying experience in the field of insurance/reinsurance training | 5 |

- **Duration of the assignment:** 18 months

- **Facilities would be provided by the client**

- (1) A per diem allowance, including hotel, for experts for every day of absence from the home office for the purposes of the Services;
- (2) Cost of travel by the most appropriate means of transport and the most direct practicable route;
- (3) cost of office accommodation, including overheads and back-stop support;
- (4) Communications costs;
- (5) Cost of purchase or rent or freight of any equipment required to be provided by the Consultants;

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- (6) Cost of reports production (including printing) and delivering to the Client;
- (7) Other allowances where applicable and provisional or fixed sums (if any)

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