

Bangladesh permits bancassurance

In an earlier e-Alert (available [here](#)) we noted that the authorities were exploring permitting the sale of insurance products through banks. On 1 March 2024 bancassurance was formally launched by the Prime Minister.

Several life insurers and banks have already commenced sales, with others in the process of finalising their plans. This e-alert summarises the key contours of the bancassurance model that has been implemented in Bangladesh and discusses the possible impact on the life insurance sector.

Bancassurance guidelines

On 20 December 2023 the country's central bank, Bangladesh Bank (BB), issued formal bancassurance guidelines. They inter alia set out the eligibility criteria for banks wishing to act as corporate agents of insurance companies, summarised below:

- The bank's capital to risk-weighted asset ratio with capital conservation buffer shall not be less than 12.5% (this percentage may be varied by BB from time to time)
- The bank shall have a credit rating of at least BB rating grade 2, defined in the Guidelines on Risk-Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)
- The bank shall meet the minimum CAMELS rating of grade 2 of BB
- The bank's level of non-performing loans shall not be more than 5%
- The bank shall have positive net profit for the last three consecutive years

At any given time a bank cannot have bancassurance agreements with more than three life insurers and three non-life insurers.

The insurance regulator, the Insurance Development and Regulatory Authority (IDRA) has also brought out guidelines which specify that an insurer can only have bancassurance agreements with up to three banks at any given time. We also understand that IDRA will be selective in granting approvals to insurers and paying special regard to insurers' claim settlement ratios. The guidelines also set out maximum limits on the commission (as a percentage of premium) that can be paid to banks, which are summarised below:

INDIVIDUAL PRODUCTS – REGULAR PREMIUM

POLICY TERM	FIRST YEAR COMMISSION	SECOND YEAR COMMISSION	SUBSEQUENT COMMISSION
1	2%		
2	4%	2%	
3	6%	2%	2%
4	8%	5%	2%
5	10%	5%	2%
6	12%	5%	5%
7	14%	10%	5%
8	16%	10%	5%
9	18%	10%	5%
10-11	22%	10%	5%
12-14	25%	10%	5%
15-19	32%	10%	5%
20+	35%	10%	5%

INDIVIDUAL PRODUCTS – SINGLE PREMIUM

The caps here are 2.5% (for terms of less than five years), 3% (for terms of between five and 10 years) and 4% for terms greater than 10 years.

For group protection products the cap is 15% of the premium.

IDRA plans to issue guidelines in relation to persistency bonuses in the future.

Conclusion and implications

The opening up of the bancassurance channel is a very welcome move and judging by the experience of neighbouring countries could boost insurance volumes significantly in this underpenetrated market.

Given the cost efficiencies associated with bancassurance this could lead to lower premium rates and/or higher profit margins. We also feel that the introduction of bancassurance could enhance the industry's reputation in areas such as persistency and claim settlement, with a persistency bonus being worked on by IDRA as well as focus on the importance of claim settlement.

Furthermore, given the ready access to distribution that bancassurance provides this could lead to greater interest in the attractiveness of Bangladesh as a new frontier market, especially from players who are currently not present in the market.



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