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IDA/R2017-0035/1

March 1, 2017

Closing Date: Monday, March 20, 2017 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Bangladesh – Bangladesh Insurance Sector Development Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Bangladesh for a Bangladesh Insurance Sector Development Project (IDA/R2017-0035), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Document of

The World Bank

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Report No: PAD1631

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR47.9 MILLION
(US$65 MILLION EQUIVALENT)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR A

BANGLADESH INSURANCE SECTOR DEVELOPMENT PROJECT

February 23, 2017

Finance and Markets Global Practice
South Asia Region

BANGLADESH CURRENCY EQUIVALENTS

(Exchange Rate Effective: January 31, 2017)

Currency Unit	=	Bangladeshi Taka (BDT)
US$1	=	BDT 79.0
US$1.35699373	=	SDR 1

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ABIA	Associate of Bangladesh Insurance Academy
ADB	Asian Development Bank
ACII	Associate of Chartered Insurance Institute
BB	Bangladesh Bank
BFID	Bank and Financial Institutions Division
BIA	Bangladesh Insurance Academy
BDT	Bangladeshi Taka
CG	Corporate Governance
CP	Consumer Protection
CPF	Country Partnership Framework
CPFL	Consumer Protection and Financial Literacy
CPTU	Central Procurement Technical Unit
CRM	Customer Relationship Management
DA	Designated Account
DFID	U.K. Department for International Development
DPD	Deputy Project Director
EIOPA	European Insurance and Occupational Pensions Authority
ERD	Economic Relations Division
ERP	Enterprise Resource Planning
FBS	Fixed Budget Selection
FM	Financial Management
FSSP	Financial Sector Support Project
FY	Fiscal Year
GAAP	Governance and Accountability Action Plan
GDP	Gross Domestic Product
GNI	Gross National Income
GoB	Government of Bangladesh
GPN	General Procurement Notice
GRS	Grievance Redress Service
IAIS	International Association of Insurance Supervisors
ICB	International Competitive Bidding
ICP	Insurance Core Principle
ICT	Information and Communication Technology

IDRA	Insurance Development and Regulatory Authority
IMED	Implementation Monitoring and Evaluation Division
IRR	Internal Rate of Return
IUFR	Interim Unaudited Financial Report
IT	Information Technology
JBC	*Jiban Bima* Corporation
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MoF	Ministry of Finance
MRA	Microcredit Regulatory Authority
MTPL	Motor Third Party Liability
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
NPV	Net Present Value
NSIS	National Social Insurance Scheme
OECD	Organization for Economic Corporation and Development
PD	Project Director
PDO	Project Development Objective
PIU	Project Implementation Unit
PPA	Public Procurement Act
PMI	Private Medical Insurance
POM	Project Operations Manual
PSC	Project Steering Committee
QBS	Quality-Based Selection
QCBS	Quality and Cost-Based Selection
RBS	Risk-based Supervision
RMG	Ready-made Garment
SBC	*Shadharan Bima* Corporation
SCD	Systematic Country Diagnostic
SEC	Securities and Exchange Commission
SSS	Single Source Selection
TA	Technical Assistance
TOR	Terms of Reference
UFA	Universal Financial Access
UNDB	United Nations Development Business
WB	World Bank
WBG	World Bank Group

Regional Vice President:	Annette Dixon
Country Director:	Qimiao Fan
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Niraj Verma
Task Team Leaders:	Korotoumou Ouattara, Serap Gonulal

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PAD DATA SHEET

Bangladesh

Bangladesh Insurance Sector Development Project (P156823)

PROJECT APPRAISAL DOCUMENT

SOUTH ASIA

0000009284

Report No.: PAD1631

Basic Information			
Project ID P156823	EA Category C - Not Required	Team Leader(s) Korotoumou Ouattara, Serap Gonulal	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [X]		
	Series of Projects [ ]		
Project Implementation Start Date 1-July-2017	Project Implementation End Date 31-August -2022		
Expected Effectiveness Date 1-July-2017	Expected Closing Date 31-August -2022		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Niraj Verma	Ceyla Pazarbasioglu-Dutz	Qimiao Fan	Annette Dixon

Borrower: PEOPLE'S REPUBLIC OF BANGLADESH			
Responsible Agency: Insurance Development and Regulatory Authority (IDRA)			
Contact:	M. Shefaque Ahmed	Title:	Chairman
Telephone No.:	88029565528	Email:	idra.bd@gmail.com

Project Financing Data(in USD Million)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	80.00	Total Bank Financing:	65.00

Financing Gap:	0.00

Financing Source	**Amount**
BORROWER/RECIPIENT	15.00
International Development Association (IDA)	65.00
Total	80.00

Expected Disbursements (in USD Million)

Fiscal Year	2018	2019	2020	2021	2022	2023				
Annual	5.00	10.00	15.00	20.00	10.00	5.00				
Cumulative	5.00	15.00	30.00	50.00	60.00	65.00				

Institutional Data

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Social Protection & Labor

Cross Cutting Topics

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[X] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Finance	Insurance	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Financial and private sector development	Other Financial Sector Development	50
Financial and private sector development	Regulation and competition policy	50
Total		100

Proposed Development Objective(s)
The project development objective is to strengthen the institutional capacity of the regulator and state-owned insurance corporations and increase the coverage of insurance in Bangladesh.

Components	
Component Name	**Cost (USD Millions)**
Improving the Capacity of the Insurance Development and Regulatory Authority (IDRA) and the Bangladesh Insurance Academy (BIA)	30.00
Modernization, Strengthening and Increasing the Efficiency of the State-owned Insurance Corporations	45.00
Project Implementation, Management, and Monitoring	5.00

Systematic Operations Risk- Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	High
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

Compliance		
Policy		
Does the project depart from the CPF in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [X]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		**X**
Natural Habitats OP/BP 4.04		**X**

Forests OP/BP 4.36		**X**
Pest Management OP 4.09		**X**
Physical Cultural Resources OP/BP 4.11		**X**
Indigenous Peoples OP/BP 4.10		**X**
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	Recurrent	Due Date	Frequency
Project Implementation Unit	**X**	By no later than one (1) month after the Effective Date	CONTINUOUS

Description of Covenant

By no later than one (1) month after the Effective Date, the Project Implementing Entity shall: establish and thereafter, maintain, throughout the period of implementation of the Project, the Project Implementation Unit ("PIU") with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
Financial Management, Procurement, and Monitoring and Evaluation Specialists	**X**	By no later than two (2) months after the Effective Date	CONTINUOUS

Description of Condition

By no later than two (2) months after the Effective Date, the Project Implementing Entity shall adopt and thereafter maintain, throughout the Project implementation period, a Project Operations Manual in form and substance satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
Project Steering Committee	**X**	By no later than two (2) months after the Effective Date	CONTINUOUS

Description of Condition

By no later than two (2) months after the Effective Date, the Recipient shall establish and thereafter maintain, throughout the period of implementation of the Project, the Project Steering Committee ("PSC") with a mandate, composition and resources satisfactory to the Association.

Conditions

Source Of Fund	Name	Type

IDA	Subsidiary Grant Agreement	Effectiveness
Description of Condition		
The Recipient shall make the proceeds of the Financing available to IDRA under a subsidiary grant agreement between the Recipient and IDRA, under terms and conditions acceptable to the Association.		

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Korotoumou Ouattara	Team Leader (ADM Responsible)	Senior Financial Sector Economist	Team Leader	GFM06
Serap Gonulal	Team Leader	Lead Insurance Specialist	Team Leader	GFM1B
MD Kamruzzaman	Procurement Specialist (ADM Responsible)	Procurement Specialist		GGO06
Tanvir Hossain	Procurement Specialist	Senior Procurement Specialist		GGO06
Suraiya Zannath	Financial Management Specialist	Lead Financial Management Specialist		GGO24
Aminata Ndiaye	Team Member	Young Professional		GFM06
Andras Bodor	Team Member	Senior Social Protection Economist		GSP06
Amir Munir	Team Member	Senior IT Officer, Program Management II		ITSCR
Ananya Wahid Kader	Team Member	Senior Financial Sector Specialist		GFM06
Aza A. Rashid	Team Member	Program Assistant		GFM06
Bridget Rosalind Rosario	Team Member	Program Assistant		SACBD
Jorge Luis Alva-Luperdi	Counsel	Senior Counsel		LEGES
Mazen Bouri	Team Member	Senior Financial Sector Specialist		GFM01
Mihasonirina Andrianaivo	Team Member	Financial Sector Specialist		GFM06
Sabah Moyeen	Safeguards Specialist	Senior Social Development Specialist		GSU06
Satish Kumar Shivakumar	Team Member	Finance Officer		WFALN

Shah Nur Quayyum	Team Member	Senior Financial Sector Specialist		GFM06
William Joseph Price	Team Member	Senior Financial Sector Specialist		GFM3A

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Bangladesh	Dhaka	Dhaka	✓		

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required?	Consultants will be required

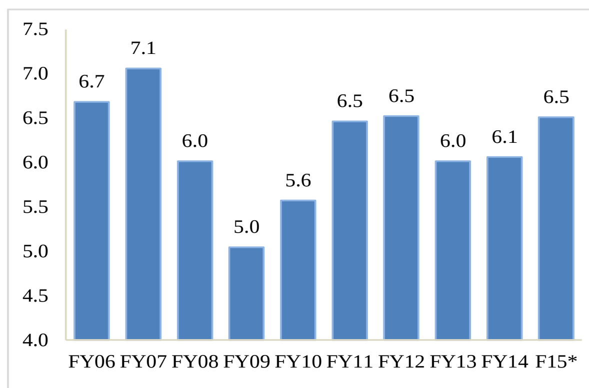
I. **STRATEGIC CONTEXT**

A. Country Context

1. **Bangladesh has made significant gains in economic growth and poverty reduction**. Rapid growth has propelled Bangladesh from a low income to low middle income country status. In the fiscal year (FY) 2014, per capita gross national income (GNI) of US$1,080 crossed the middle income country threshold of US$1,046.[1] Bangladesh's per capita GNI grew more than tenfold from US$100 in 1972 to US$1,220 in 2015. Average annual gross domestic product (GDP) growth has been rising over the last three decades, and has grown on an average by more than 6 percent in a year during the past five years, despite the adverse impacts of the global slowdown, and natural disasters (Figure 1).

2. **Situated in a fertile low-lying river delta at the confluence of *Jamuna, Padma,* and *Meghna* Rivers, Bangladesh is highly vulnerable to floods, tropical cyclones, earthquakes, and climate change**. In addition, with around 160 million people living in less than 150,000 square kilometers, Bangladesh has one of the world's highest population densities. Nonetheless, Bangladesh's economy has performed well over the past decade. Bangladesh's prudent management of fiscal and monetary policy has contributed towards its macroeconomic stability. Over the past 10 years, inflation has also been contained well below double-digits during most of the period. While, inflation in 2014 was 7.24 percent (monthly average), it eased off to 6.29 percent by August 2015 (source: Bangladesh Bank, BB).

Figure 1. Bangladesh GDP growth over the past decade



Source: Bangladesh Systematic Country Diagnostic

3. **The World Bank Group's Systematic Country Diagnostic (SCD): "More and Better Jobs to Accelerate Shared Growth and End Extreme Poverty" of October 25, 2015, notes that Bangladesh is the only country in South Asia with positive public savings**. In addition, the overall budget deficit financed through prudent external borrowing has kept the effective interest rate on public debt at less than 5 percent. Recourse to monetary financing of deficit has been used as a very short-term measure that has typically been quickly reversed. The public debt-to-GDP ratio declined throughout the last decade. Since adopting the floating exchange rate regime in 2003, BB has followed an exchange-rate policy that ensured smoothing out of exchange-rate volatility and building up of foreign exchange reserves. Monetary policy allowed monetary aggregates to expand in line with the growth in demand for credit in the private sector and price stability.

4. **Despite this progress, growth remains below potential**. Bangladesh will need overall annual growth of around 8 percent for the country to achieve its ambitious aspiration of reaching

[1] Bangladesh Country Partnership Framework (CPF), March 8, 2016. Report No. 103723-BD

middle-income status by 2021. The increase in GDP growth requires a range of initiatives, including, maintaining macroeconomic stability, investing in transformative infrastructure, streamlining trade and investment regulations, and strengthening and diversifying the financial sector which is crucial for fueling economic growth and inclusion, and enabling better instruments for managing risks, investments and savings.

5. **Although there has been progress in strengthening and deepening of the financial sector, many challenges remain and more needs to be done**. Bangladesh has made notable progress in financial sector development over the years increasing the depth of its financial sector (M2 [money supply]/GDP ratio) from 12 percent in 1980 to 62.8 percent in 2014. Progress has been made on many other fronts as well, such as strengthening banking sector regulation and supervision, and financial access to households, in addition, to its recent efforts to strengthen the state-owned banks. However, this remains an unfinished agenda on several counts, especially with regard to the insurance sector which remains miniscule in size, and outreach despite its considerable relevance and need.

6. **In Bangladesh as in other countries, a better insurance sector will not only aid financial sector diversification but also, most importantly, will help individuals, families, and organizations in expanding options for managing risks and investments**. Insurance helps people and businesses protect themselves from shocks. Insurance serves a number of valuable economic functions, including enabling entrepreneurship and innovation, allowing risk transfer, and helping societies save and invest. For instance without insurance, individuals and families could become financially destitute and be forced to seek assistance from relatives, friends, or the government when they suffer a loss. In Bangladesh, the development and availability of long-term financial products such as long-term life insurance and pensions which have been identified as priority areas by the Government as well as the Bank's country partnership framework (CPF) remain crucial to expand economic opportunities, support infrastructure development, mitigate risks, and enhance resilience.

7. **Bangladesh is commonly ranked as one of the most vulnerable countries in the world in terms of natural disasters[2], with important consequences for Government finances**. The recovery and reconstruction costs from the aftermath of Cyclone *Sidr* in 2007, were estimated at US$1.3 billion, or 28 percent of government expenditures.[3] Every five years on average in Bangladesh, production shocks lead to a drop of up to 50 percent in crop income for rural households. This drop pushes many small- and medium-scale farmers back into poverty. Overall, the demand for insurance and lack of access to insurance cut across various segments, including the farmers who face production risks, and the general public who face rising costs for quality healthcare. Furthermore, with income growth, awareness and consumer demand, additional pressure on the supply side to increase choices and improve the quality and coverage of insurance products is expected. For the insurance sector to respond adequately to market demand, several key constraints related to regulatory, market data infrastructure, institutional and

[2] For example, World Risk Report 2014, United Nations University identifies Bangladesh as one of the vulnerable countries in the world ranking 168th out of the 172 countries.
[3] World Bank, August 2015. "Bangladesh Policy Options for Agricultural Insurance".

capacity inadequacies need to be addressed. It is important to note that if not well regulated and supervised, the insurance sector can generate crises that affect the entire financial sector.

B. Sectoral and Institutional Context

8. **Bangladesh's financial sector consists of the banking sector, microfinance institutions (MFIs), nonbank financial institutions, the capital market and the insurance sector**. Banks dominate the financial system in Bangladesh with 57 percent of total assets as of June 30, 2014, the capital market accounts for 40 percent and the insurance sector for only 3 percent. Regulation and supervision of financial institutions are undertaken by a number of regulators including BB (for the banking sector), the Securities and Exchange Commission (SEC) of Bangladesh (regulating the stock market operations), the Insurance Development and Regulatory Authority (IDRA) for insurance companies, and the Microcredit Regulatory Authority (MRA) that regulates MFIs, an industry with 697 licensed institutions, but dominated by 10 large MFIs and *Grameen Bank*.

The Insurance Sector in Bangladesh

9. **While there has been rapid growth in the insurance sector, this is from a very small base, and overall the insurance sector is still a small component of the financial system**. Bangladesh is a country that is exposed to a variety of risks; yet insurance penetration is particularly low. The total assets amounted to 3 percent of GDP while the penetration ratio, measured as the ratio of gross written premium to GDP was only 0.9 percent in 2014 (0.7 percent for life insurance and 0.2 percent for non-life) even after having increased for the past five years. This is despite the fact that the insurance sector in Bangladesh is made up of a large number of companies. Among the 77 life and non-life insurance companies operating in Bangladesh as of December 31, 2015,[4] two are state-owned corporations – *Shadharan Bima Corporation* (SBC) and *Jiban Bima Corporation* (JBC) – which have a better distribution network than the others. The majority of companies are, thus, private domestic and 30 provide life insurance and 45 offer general (non-life) insurance. According to the seventh five year plan 2016-2020 of the Government of Bangladesh (GoB), the vast majority of people in Bangladesh across product segments (life and non-life) remain untapped by the insurance market. Only four people in 1,000 in Bangladesh have life insurance, that is, most of the lives are not brought under the coverage of insurance[5] and underinsurance of property risk also poses a significant challenge[6]. The low insurance penetration in Bangladesh with about 17.1 million policy holders in 2014 (International Monetary Fund data), compares unfavorably with other South Asian countries. In 2007, the insurance premium in Bangladesh was slightly less than US$3.0 per capita (0.51 percent of GDP). Although this had risen to US$7.4 per capita by 2014, it compares poorly with 1.15 percent of GDP in Sri Lanka, 3.46 percent of GDP in India and 4.51 percent of GDP in Malaysia.

10. **Most insurance companies are located in urban areas and there are far fewer branches in rural areas, leaving the large majority of the population unserved**. The small

[4] The license for a non-life company was canceled in 2016.
[5] Source: National Insurance Policy - 2014
[6] Property risks refer to buildings and contents risk, including fire, burglary and related business interruption

market that exists is quite concentrated with the five largest life insurance companies accounting for nearly 70 percent of the life insurance market and MetLife, the only foreign company, being by far the largest provider (30 percent market share). Within the non-life insurance market, the five largest companies account for about 50 percent of the total premium income with Green Delta Insurance as the largest provider (12 percent market share). Most non-life insurers belong to groups owned by manufacturing companies. Many insurance companies are small and operate essentially as in-house insurers for the business of their sponsoring groups or shareholders, taking modest retentions and relying heavily on reinsurance. Banks are not involved actively in selling insurance products, and not permitted to own shares in insurance companies or to act as insurance agents. MFIs are involved in micro-insurance but without proper regulations so insurance companies refrain from offering the product through such channels.

11. **Insurance companies in Bangladesh offer a wide range of products but these are beset with issues**. Most insurance products that are available in Bangladesh suffer a lack of quality with regard to price and coverage due primarily to a combination of shortage of professional skills as well as lack of insurance-enabling regulations. There is also a lack of market data including updated mortality and morbidity tables.[7] Currently, the highest growing business line for non-life insurance companies in Bangladesh is property insurance (38 percent of the total non-life premium) which covers – construction, fire, natural hazards, index-based flood insurance, marine and transit. Due to lack of awareness and efficient distribution network, even the compulsory Motor Third Party Liability (MTPL) insurance can only achieve a 70 percent penetration ratio.[8] Group Private Medical Insurance (PMI) is becoming popular more than individual insurance but there are problems of fraudulent claims. For some product segments (for example crop insurance, and property insurance), insurance companies cannot meet the high demand due to lack of technical skills. The life insurance sector is also growing, though with a big lapse ratio. Based on figures reported in January 2015 by the life insurance companies, between 60 and 70 percent of policies lapse by the end of their first year in force. This is one of the highest lapse rates in the world. This is due, in large part to inadequate supervision, and lack of public awareness as policies are being sold to people with limited incomes who then realize that they cannot afford the payments.

The Insurance Development and Regulatory Authority (IDRA)

12. **Another key factor inhibiting the development of the sector in Bangladesh is the capacity of the regulator.** IDRA was established by the IDRA Act of 2010 that followed the Insurance Act of 2010 and became operational in January 2011. IDRA is in charge of regulating and supervising all the insurance companies. However, inadequate regulatory/supervisory capacity has made it difficult to properly discharge its duties which has adversely affected the development of the insurance sector in Bangladesh. Globally it is well understood that good regulation and supervision is a foundation for the development of effective insurance markets. Without it, markets simply fail to develop and grow adequately. This is exemplified in the case of Bangladesh, where despite the large number of insurance companies that are operating, the outreach of insurance remains very low. Inadequate and low entry barriers (including low capital

[7] IDRA has the mandate to produce the mortality and morbidity tables
[8] Source: AXCO, SIGMA and World Bank team calculation

requirements) have led to fragmentation and have allowed many companies with weak quality and capacity to get licensed.

13. **IDRA suffers from a lack of capacity and shortage of qualified staff to fully perform its legally mandated tasks.** Currently IDRA has 64 staff members, most of whom have been recruited from diverse backgrounds and trained on the job. This is in contrast to the organizational chart of IDRA comprising 157 full positions that have been approved by the Ministry of Finance (MoF) and GoB. It does not help that not all the necessary skills are readily available in the labor market in Bangladesh. The lack of qualified and adequately trained staff and lack of enforcement of regulations have led to improper market practices that have further contributed to an erosion of public trust in the insurance sector. IDRA has not had the human resources to ensure that all insurance companies comply with even the current, lower than prudent, minimum capital requirements. New solvency rules are also yet to be published by IDRA as per the Insurance Act of 2010; so inadequate solvency margins continue to be calculated based on the Insurance Act of 1938. Further, of the 50 rules and regulations to be enacted by IDRA to enforce the provisions of the Insurance Act of 2010, only 11 have so far been approved and implemented**.** In that respect, a stronger accountability framework between the MoF and IDRA that imposes accountability on IDRA but also limits Government intervention is needed to provide IDRA operational independence in performing its duties including setting up and enforcing rule and regulations.

14. **IDRA's business and corporate governance processes and the required policies, guidelines, and manuals are yet to be established**. At IDRA, manuals for on-site inspection of insurance companies, effective off-site monitoring, and early warning indicators do not exist. Thus, an adequate supervision framework including an early warning system, in addition to, manuals for all components of supervisory review and reporting, as well as preventive and corrective measures need to be developed, adopted and implemented. IDRA also needs a modernization of its processes as well as an upgrade of its information technology (IT) system including automation of relevant regulatory data collection exercises, a prerequisite for effective capacity for financial sector regulation and supervision. There is a need to strengthen IDRA's own internal reporting, financial management (FM), audit, and compliance functions vis-à-vis its board and the Government, as well as external outreach to the public.

15. **Trust in the insurance sector is modest at best**. This is a consequence of inadequate supervision resulting in the proliferation of many insurance companies without adequate credentials. The presence of many, but weak insurance companies, means that on average, there is inappropriate risk transfer and management in the insurance sector, differences and lag in consumer protection approaches, inefficiency in claims management and transparency and reporting are weak. There is no comprehensive law or regulation for consumer protection in the financial services industry. The Consumer Rights Protection Act of 2009 does not apply to financial services. In addition, public awareness and knowledge of insurance remains low as on average these companies invest very little in marketing and IDRA's efforts on consumer literacy have been limited. The low confidence in the insurance sector is also manifested by the high level of lapse ratios in life insurance. In the end, even some of the better managed/more capable companies are negatively affected by an overall lack of trust in the sector, causing this to be a drag on overall sector development.

16. **IDRA has been positioning itself to respond to these challenges that require several potential areas for regulatory reforms to support the growth of the market in a sound and sustainable manner**. This is also in response to the National Insurance Policy of 2014 which aims to protect the interests of the insurance policy holders and beneficiaries of a policy by establishing effective regulation and supervision for proper development of the insurance sector. As a single regulator for insurance, it is critical for IDRA to strengthen its capacity and modernize its operations including through upgrading its information system to make inroads towards a risk-based supervision (RBS) regime, as well as ensuring an appropriate and proportionate approach to regulation across market segments. Priority areas to be expected are key regulatory requirements related to solvency margins, supervisory review and reporting, reinsurance and other forms of transfer, conduct of business, investment, reinsurance and micro-insurance, corporate governance, enforcement, accounting standards, distribution networks (including bank-assurance) and policy holder protection.

The Bangladesh Insurance Academy (BIA)

17. **Weak market infrastructure, especially a low-capacity BIA has meant that a lack of quality training institutions affects the sector at large**. A shortage of qualified staff and technical capacity in various fields such as insurance underwriting, actuaries, and marketing of insurance products is a big problem for the regulator, insurance companies including the two state-owned corporations, and consumers. A key institution that could have contributed to addressing the skills constraints as well as help build public awareness and trust in the sector is BIA, the national level insurance training and education provider in the country. Established in November 1973, BIA, however, is not yet capable of meeting the demand for insurance professionals including actuaries and claims/loss adjusters. While BIA has been set up as a public entity to offer basic, comprehensive and field based training courses on life and non-life insurance, as well as deliver certificates, its training facilities are not adequate and it lacks sufficient regular faculty members. BIA is overseen by a 10 member Board of Governors, the highest policy making body of the Academy. Among board members, six are from the insurance industry (including three from the insurance association, two from JBC and SBC, one from IDRA), one from Dhaka University, two from related ministry and one member is the full time director of the Academy. A well represented Board has the potential to play a stronger role in setting overall direction for BIA and oversight of its activities. The current organizational structure of BIA which currently consists of 36 staff involved in both academic and administrative functions on a part-time basis is inadequate to undertake its activities.[9] BIA offers a professional insurance diploma (Associate of Bangladesh Insurance Academy – ABIA) which is the only professional diploma for insurance in Bangladesh. The program has two stages namely a certificate stage and a diploma stage. Since the course started in 1980, a total number of 550 candidates have been awarded the ABIA diploma, which corresponds to about 15 diplomas per year. However, some improvement was noted in the past five years with BIA awarding on average 50 diplomas per year and the Academy is in the process of revising its diploma syllabus with inputs from international insurance experts.

[9] BIA plans to recruit 21 full time academicians to implement its new growth strategy.

18. **A strong and effective BIA is crucial to promote higher standards of integrity, technical competence and business capability to address the severe lack of insurance professionals, not only for insurance companies, but for IDRA as well**. BIA has the advantage of benefiting from the Government's support and being the organization that all stakeholders recognize, it is best placed to cover the training needs of the sector at a national level. There is a planned restructuring of BIA that is meant to give vital technical and practical support to the insurance industry and IDRA and to ensure that the organization has a better structure and governance to ensure its viability and long-term sustainability. BIA management has already drawn plans to modernize its facilities and operations so as to meet market demand and even play the role of a chartered insurance institute in the long term that can provide accreditation and professional qualifications to members.

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

19. **In Bangladesh, the case for strengthening the capacity of the two state-owned insurance corporations is strong and compelling.** JBC and SBC are the first insurance corporations established in Bangladesh under the Insurance Corporation Act of 1973. The only two state-owned insurance corporations in the country, JBC and SBC offer life and general non-life insurance respectively. While being the second and seventh largest insurance companies in the country, which makes them systemically important in the insurance sector, SBC and JBC are particularly important as they have the most extensive semi-urban and rural footprint through large network of branches. While JBC and SBC are well positioned to address the market failure resulting from most private companies focusing on urban areas, they are currently operating significantly below their potential, leaving the large majority of the population out of their reach. In addition, JBC and SBC are JBC had a premium income of US$39 million in 2012 with an annual growth rate of 3.93 percent, which was significantly smaller than the growth rate of, for example, the market leader MetLife at 14.23 percent. By 2014, the number of policy holders at JBC decreased by 2 percent over the previous year, and with 374,292 policy holders, JBC earned a net premium income of BDT 3.9 billion (US$48.7 million equivalent). Similarly, SBC had a net premium income of BDT 2.2 billion (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) versus BDT 1.90 billion (US$24.2 million) for retail insurance business.

20. **JBC and SBC are keen to fulfill their mandate of playing a proactive role in market development**. While slowly improving performance, SBC and JBC continue to operate much below capacity. JBC and SBC have not been able to leverage their extensive networks adequately in semi-urban and rural areas and extend appropriate services to underserved populations. This, among other things is due to inadequate technical capacity of their management and staff, limited use of IT, weak corporate governance, and unavailability of adequate number of distribution channels. Paid up capital requirements according to the Insurance Corporation Act of 1973 are BDT 50 million (US$625,000 equivalent) and BDT 100 million (US$1.25 million equivalent) for JBC and SBC respectively, and remain below that of

private companies at BDT 300 million (US$3.75 million) and BDT 400 million (US$5 million) for life and non-life respectively. JBC and SBC are conscious of the necessity to compete on solid grounds and on commercial basis with other private companies to be the insurers of the state and drive increased penetration rates in semi-urban and urban areas. Their management have, thus, embarked in a modernization process of their operations including an IT upgrade to help cover the large gap in insurance coverage in Bangladesh.

21. **Modernization of the operations of SBC and JBC to increase operational efficiency, and operate on a commercial basis while improving their corporate governance is essential for them to achieve their mandate**. This will entail a focus on better risk, underwriting[10] and claims management, and better quality and variety of products and services. A more effective integration of the branch network will ultimately result in more policy holders and increased profitability. During the project preparation, a high level review of corporate governance was carried out for JBC and SBC as well as the private insurance sector which revealed several weaknesses and a need to close the existing gap with international best standards.[11]

22. **While there is growing recognition of the importance of good corporate governance and some improvement in the legal framework particularly for privately owned companies, the practice is significantly lagging behind international best standards in particular for JBC and SBC**. Key areas for improvement include the following:

- The state ownership function can be significantly enhanced. Currently, BFID signs an annual "performance contract" with SBC and JBC that basically sets out financial targets. However, while such a contract can be useful as a guiding document, what is missing is a well-articulated mandate from the Government on the roles of JBC and SBC in the sector.
- The internal control functions can be further strengthened. Internal audit units exist and an outside independent external auditor reviews accounts annually. However, there is no dedicated risk management function, actuary units, or compliance units.

23. **Tackling the key issues and challenges hindering the development of the insurance sector is part of the GoB's seventh five year (2016-2020) economic development plan**. Developing the insurance sector will enhance availability and expand the coverage of risk mitigation products. This will contribute to a diverse financial sector capable of intermediating long term funds which in turn is vital for the development of Bangladesh's infrastructure both in the social and economic sectors.

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[10] Insurance underwriting is the process of classification, rating, and selection of risks. In simpler terms, it's a risk selection process. This selection process consists of evaluating information and resources to determine how an individual will be classified (whether a standard or substandard risk). After this classification procedure is completed, the policy is rated in terms of the premium that the applicant will be charged. The policy is then issued and subsequently delivered to the purchaser by the *producer.*

[11] This encompassed the administration of a corporate governance questionnaire that covered both state-owned and privately owned insurance companies. The questionnaire which contains six sections (Ownership Structure; Government Oversight; Board and Management; Internal Control Functions – Internal Audit, Actuary, Compliance; Transparency and Disclosure – including External Audit; Shareholder and Stakeholder Protection; and Risk Management) was sent to JBC and SBC as well as three leading private insurance companies to better gauge the practice of governance in the sector. These questionnaires were followed up by detailed discussions during the preparation missions with the Bank and Financial Institutions Division (BFID), IDRA, JBC, SBC and private insurance companies.

C. Higher Level Objectives to which the Project Contributes

24. **The project is well grounded in the SCD of October 25, 2015 and the CPF for Bangladesh discussed by the Executive Directors on April 6, 2016**. The SCD has identified financial stability, and improved financial intermediation as foundational priorities to sustain the needs of a growing economy and macroeconomic stability. There is widespread recognition of the role of financial markets in economic stability, poverty alleviation and growth.[12] Finance matters for development. Experience worldwide has shown that economic growth and diversification that is employment-generating, volatility reducing, and productivity enhancing, cannot take place in the absence of a robust, adequate and accessible financial sector. The project will contribute to strengthening governance through better transparency and accessibility of financial services, including improved security, governance and adoption of Information, and Communication Technology (ICT) infrastructure for digitization of processes, transactions and controls in Government agencies such as IDRA. The project also addresses Focus Area 1: Growth and Competitiveness, one of the three focus areas identified in the CPF which sets the World Bank Group's objectives in Bangladesh from FY2016 to FY2020, through strengthening the capacity of the insurance regulator and companies, as it helps to improve financial sector stability and expand financial intermediation.

25. **The CPF notes how underdeveloped insurance markets have limited sources of long-term financing that create impediments to financing the country's deteriorating infrastructure and to creating jobs**. As the project aims to create a well-functioning insurance sector, it will directly help achieve this objective. Empirical research generally finds good evidence of a causal relationship between insurance sector development and economic growth. The sector helps pool risks and reduces the impact of large losses on firms and households—with a beneficial impact on output, investment, innovation, and competition. As financial intermediaries with long investment horizons, life insurance companies can contribute to the provision of long-term finance and a more effective risk management. The project complements on-going and planned financing engagements in the CPF including, the Financial Sector Support Project (FSSP - P150938), the Investment Promotion and Financing Facility 2 (P159429), the Modernization of State Owned Financial Institutions Project (P155363) and the World Bank Group Programmatic Approach (PA) on Advisory Services and Analytics (ASA) for Financial Sector Development (P156131).

26. **Overall the project contributes to building a stronger financial sector**. By facilitating improved financial intermediation, the project promotes inclusive growth, thereby contributing to the Bank Group's twin goals of ending extreme poverty by 2030 and boosting the incomes of the bottom 40 percent. Developing the insurance sector enhances opportunities for risk mitigation and income-smoothing mechanisms for underserved populations and helps relieve pressure on social welfare systems, reserving Government resources for essential social security and other worthwhile purposes. The project also contributes to the Bank's initiative on promoting Universal Financial Access (UFA), where Bangladesh ranks as one of the top five priority countries in the globe.

[12] Global Financial Development Report (2014)

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

27. **The project development objective** (PDO) is to strengthen the institutional capacity of the regulator and state-owned insurance corporations and increase the coverage of insurance in Bangladesh.

B. Project Beneficiaries

28. The project primary beneficiaries include: the insurance sector including the regulator (IDRA), insurance corporations/companies, the training academy (BIA), and Bangladeshi citizens in general who buy insurance products.

C. PDO Level Results Indicators

29. The results indicators are as follows (see details in Annex 1):

i. Adoption and implementation by IDRA of smart risk-based supervision

ii. Number of insurance policy holders (life and non-life)

III. PROJECT DESCRIPTION

A. Project Components

30. The proposed project will include the following three components: (i) Improving the Capacity of the Insurance Development and Regulatory Authority (IDRA) and the Bangladesh Insurance Academy (BIA); (ii) Modernization, Strengthening and Increasing the Efficiency of the State-owned Insurance Corporations; and (iii) Project Implementation, Management, and Monitoring. A summary of project component activities is described below with more details provided in Annex 2.

Component 1. Improving the Capacity of the Insurance Development and Regulatory Authority (IDRA) and the Bangladesh Insurance Academy (BIA) (*US$30 million of which US$25 million IDA Credit*)

31. The component aims at strengthening the capacity of IDRA to regulate and supervise the insurance as well as the reinsurance markets with the support of BIA. Enhancing the capacity of BIA is meant to address the skills constraints and data needs for the market as well as IDRA to set up sound legal, regulatory and supervisory frameworks to improve supervision combined with strong infrastructure which are essential for ensuring a secured and resilient insurance sector. This component will include implementation of a stable and secured ICT, including cybersecurity infrastructure. It will finance goods and equipment, non-consulting as well as consulting services, training and workshops.

Sub-component 1a. Strengthening the Capacity of the Regulator IDRA

32. This sub-component will finance the following activities:

(a) Design and implement a governance and accountability framework of IDRA in relation to the Government, including drafting internal procedures and charters in line with its new organogram, establishing an effective autonomous authority, and strengthening internal control functions. This will require a review of the IDRA Act which may lead to a number of amendments in the future.

(b) Upgrade IDRA's supervisory function with provision of goods and equipment, as well as technical assistance (TA) through: (i) the adoption and implementation of a smart RBS[13] including for consumer protection; (ii) implementation of an ICT system to capture insurance supervisory information to the granularity required for modern smart-RBS; (iii) improvement of IDRA's understanding of Insurance Core Principles (ICPs)[14] and regulatory reporting; (iv) the setting up of a research and statistical unit for the collection of data, update of mortality and morbidity tables, and publication of annual reports; (v) increasing IDRA's capacity to set up rules, regulations and guidelines to improve insurance products and market practice (for example micro-insurance *Takaful i.e.* Islamic insurance, livestock insurance, motor insurance along with MTPL, property insurance); and develop new insurance channels such as bank-assurance; and (vi) the improvement of corporate governance of claims management as well as complaints redress systems.

(c) Provide capacity building and training for IDRA's current staff as well as new hires, management and members on the new tools, practices, and core competencies (for example, supervisory review and reporting process), on-the-job training, and exchange visits, including for IDRA management and members through training and exposure visits with regulators from other countries using South-South partnerships. Twinning arrangements with other regulatory bodies will be facilitated. That will enable IDRA to develop human capital which is essential to enhance the supervisory review and reporting process (see Annex 3 on implementation arrangements for training).

(d) Finance a study to explore the feasibility of a national social insurance scheme (NSIS), the implementation of which has been entrusted to IDRA under the National Insurance Policy.

Sub-component 1b. Strengthening the Capacity of BIA

33. **This sub-component aims at helping BIA become a reliable resource in Bangladesh for training and research and achieve national recognition.** The project will provide technical advisory support as well as goods and equipment to BIA to undertake the following:

[13] Smart RBS is an approach to supervision that uses in a proportionate manner both off-site monitoring and on-site inspections to examine the business model of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements.

[14] The ICPs provide a globally accepted framework for the supervision of the insurance sector. The ICP material is presented according to a hierarchy of supervisory material. The ICP statements are the highest level in the hierarchy and prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of policyholder protection

(a) Design and implement a corporate governance, management and staff structure that is consistent with its new organizational structure.

(b) Improve data infrastructure and advance knowledge in the sector. Build up a research center for insurance/reinsurance to develop human capital, explore other priority areas for insurance sector development, improve awareness among the public at large and develop activities to improve consumer (policy holder) protection and financial literacy (CPFL). In that light, the component will support a survey on CPFL and promote CPFL through formulating the financial literacy strategy accompanied by developing policy-holder protection and disclosure requirements related to the insurance sector.

(c) Develop appropriate course curriculums and manuals; modernize BIA training facilities and address its ICT needs to design and deliver the training courses, and education in the form of diplomas, certification courses and degrees.

(d) Build capacity of BIA staff, faculty, management and board members which will be carried out through on-the-job training, training of trainers, exposure visits to insurance institutes from the region and other countries and twinning arrangements. BIA could offer academic degrees through affiliation with universities (for example Dhaka University).

Component 2. Modernization, Strengthening and Increasing the Efficiency of the State-Owned Insurance Corporations (*US$45 million of which US$38 million IDA Credit*)

34. **The objective of this component is to assist the two state-owned insurance corporations (JBC and SBC) improve their systems and business practices.** This will help them run their businesses on a commercially sound basis to deliver on their mandate and strategies to increase insurance coverage and thus contribute better to the development of the insurance sector in Bangladesh. Project activities will focus on the following:

(a) Improving organizational structure and strengthening corporate governance of JBC and SBC along with internal control, better transparency, efficiency and compliance with regulatory requirements including implementation of the amendments of the Insurance Corporation Act[15] and the new paid up capital requirements for JBC and SBC[16] as well as other requirements aimed at improving risk management and transfer.

(b) Advisory support services to BFID as the agency exercising the Government's ownership rights over the state-owned insurance corporations and IDRA as the regulator will also be provided.

[15] The Insurance Corporation Act of 1973 governs the activities of the two state-owned insurance corporations: JBC and SBC.

[16] The new paid up capital is expected to be raised to BDT 1.25 billion (US$16 million equivalent) for SBC and BDT 300 million (US$4 million equivalent) for JBC. While SBC has the resources to comply with the new capital requirement when the amendments become effective later in 2016, JBC will be provided financial support from the Government's budget. In both cases, GoB's intervention will be required.

(c) Modernization, upgrade of IT systems and capacity building of SBC and JBC through a provision of TA as well as goods and equipment to improve their operations and business practices including enterprise risk management and business process re-engineering, underwriting, claims management and risk transfer mechanism; strengthening policy and practice on reinsurance mechanism; helping develop and improve distribution channels such as bank-assurance to reach a broader population spectrum; and allow efficient distribution of insurance products including through banks and other financial institutions as well as digital channels for low-cost offers.

(d) Capacity building including twinning arrangement and training for staff, faculty, management and board members will also be financed.

35. **For SBC reinsurance activities.** This component will provide resident technical advisory services for the strengthening of a separate reinsurance department at SBC, following the latest proposed amendments of the Insurance Corporation Act, that SBC reinsurance activities should be undertaken through a separate division of SBC with a firewall between general insurance and reinsurance activities. This approach is meant to pave the way for the reinsurance business of SBC to be spun off as a subsidiary or a separate company at a later date to be decided by the authorities based on the performance of the corporation and the successful implementation of the activities of the project.

Component 3. Project Implementation, Management, and Monitoring (*US$5 million of which US$2 million IDA Credit*)

36. This component will help develop a strong monitoring and evaluation (M&E) system to be used by the Project Implementation Unit (PIU) at IDRA and other stakeholders to assess progress on implementation. It will finance consultant and non-consulting services, training and operating costs, including costs for project management, M&E, and capacity building. The PIU will require that additional staff, including industry experts be recruited to manage and monitor project activities. GoB contribution will be expected on a number of items including salaries and allowance for staff in the PIU. This will be done on a parallel basis.

B. Project Financing

37. The lending instrument will be an investment project financing (IPF), with an implementation period of five years to accommodate the expected slow start of the reform agenda and long term life insurance product design and implementation. Project costs will be financed by an IDA Credit in special drawing rights (SDR) of US$65 million equivalent, and the Government's contribution of US$15 million equivalent. GoB through IDRA, will make financial as well as in-kind contributions to finance project activities including office space for the PIU, salaries of staff for project management, and goods. This will be done on a parallel basis.

C. Project Cost and Financing

38. Table 1 summarizes the project costs and proposed financing arrangement. Of the total project cost of US$80 million, the Government's contribution of US$15 million equivalent will

be provided for project implementation. It will cover items not financed by IDA such as salaries, per diem, vehicles, fuel, workshop, sitting allowances and honorarium of any other nature as well as goods that are identified and financed on a parallel basis. The IDA Credit of US$65 million equivalent will represent 81 percent of total project cost. Retroactive financing of up to 5 percent of approved financing will be allowed for eligible expenditures made during the period of retroactivity, using Bank procurement rules.[17]

[17] Retroactive payments will be made up to 12 months before the expected date of signing of the legal agreements as long as project implementation arrangements, including fiduciary and safeguards procedures as applicable, agreed with IDA have been used. Retroactive payments will be for eligible expenses incurred by IDRA in setting up the PIU with the support of the accountant at IDRA. Eligible expenses will be reviewed by IDA before reimbursement.

Table 1. Project Cost and Financing

Project Components	Project cost including contingencies (US$ million) (1)	IDA Financing (US$ million) (2)	% Financing (including taxes) (3) = (2)/(1)
1. Improving the Capacity of the Insurance Development and Regulatory Agency (IDRA) and the Bangladesh Insurance Academy (BIA)	30	25	83.33
2. Modernization, Strengthening and Increasing the Efficiency of the State-Owned Insurance Corporations	45	38	84.44
3. Project Implementation, Management, and Monitoring	5	2	40.00
Total Project Costs	**80**	**65**	**81.25**

D. Lessons Learned and Reflected in the Project Design

39. The project has factored in lessons learned from previous and ongoing operational work in Bangladesh and elsewhere, in particular on reforms in the financial sector, and strengthening regulatory capacity.

40. The Bangladesh Central Bank Strengthening Project (IDA Credit No. 3792-BD), which supported BB's automation program, provided important lessons such as the need to: (i) pay early attention to the detailed technical design and procurement plans for IT equipment; (ii) identify appropriate consultant services to support project implementation; (iii) establish a strong and well-staffed PIU with qualified fiduciary, technical, and project implementation experience; (iv) define clear implementation arrangements for key project beneficiaries; (v) identify quantifiable financial and other results indicators up front to monitor project performance; and (vi) formulate a detailed M&E framework with quantifiable targets. The project also benefits from the design of FSSP which has significant institutional development and IT components and will benefit from the ongoing implementation experience.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

41. The MoF and more specifically BFID will be the executive division representing the GoB on the project. Responsibility for overall project implementation and management will rest with IDRA and all funds flow for project activities will be managed by IDRA. A fiduciary assessment for both procurement and financial management (FM) of IDRA has been conducted and it concluded that additional staff and consultants will need to be hired to complement IDRA's capacity to manage project activities and comply with reporting and M&E requirements (see

Annex 3 for more details). IDRA will prepare, adopt, and maintain throughout the implementation period, a Project Operations Manual (POM) in form and substance satisfactory to IDA. IDRA will ensure that the Project is carried out in accordance with the arrangements and procedures set out in the POM. A Project Steering Committee (PSC) chaired by the Secretary of BFID will be set up after project approval and be operational within two months of the project becoming effective. The PSC will include senior representatives from IDRA, senior representatives from the Finance Division and Economic Relations Division (ERD) of MOF, Implementation, Monitoring and Evaluation Division (IMED), and Socio-Economic Infrastructure Division of the Planning Commission, Bangladesh Bank, SEC, Insurance companies and other relevant stakeholders, as the PSC may decide. In terms of legal arrangements, in addition to the Financing Agreement between IDA and the GoB, a Project Agreement will also be entered into between IDA and IDRA. A Subsidiary Grant Agreement will also be signed between IDRA and Finance Division of MoF to make the proceeds of the Credit available to IDRA as a grant, to undertake the activities of the Project. More details on implementation arrangements and implementation support plan are provided in Annex 3 and 4.

B. Results Monitoring and Evaluation

42. A strong M&E framework is essential to systematically track inputs, outputs, and outcomes for the various components of the project. The proposed framework and indicators have been discussed and agreed with BFID and IDRA (see Annex 1).

43. The PIU at IDRA will establish standard formats with baseline information and data, guidelines for data collection, and report updates of M&E to the PSC. The PIU will be responsible for overseeing and coordinating this process. Project interventions through IT and data infrastructure upgrades will help build the capacity to capture data and monitor results. The PSC will provide strategic policy guidance and oversight of the project implementation.

44. The World Bank will evaluate progress on the proposed indicators through regular reporting by the PIU and through implementation support missions, including the midterm review. The mid-term review is expected to be in month 36 of implementation. The PIU will submit quarterly reports, tracking output and outcome indicators, and semi-annual FM reports. A project audit will be undertaken annually in line with the terms of reference (TOR) included in the POM. In addition, a beneficiary feedback mechanism has been integrated into the project and will be monitored during implementation through an indicator on citizen engagement (see Annex 1). A specialist in M&E to be recruited for the PIU, will be made available immediately after the project becomes effective and will remain with the project throughout the implementation period.

C. Sustainability

45. The project's sustainability depends on a number of key factors. These include: (i) successful strengthening of IDRA's capacity that translates into better supervision and regulation of the insurance sector for effective development of the sector. Without proper regulation and supervision, markets simply fail to develop and grow adequately; and (ii) restoring public confidence in the insurance sector and having stronger insurance companies, including state-owned corporations that offer more appropriate/tailored products and have efficient risk management/ transfer, will be essential for a sound and viable insurance sector. Availability of

skilled human resources in insurance, and proper data infrastructure are key for sustainable development of the insurance sector. Addressing foundational issues in the insurance sector and building the capacity of IDRA, BIA and market infrastructure, along with strengthening the state-owned insurance corporations will not only lay a good foundation for building the insurance sector, but will also contribute to the development of a sound and sustainable insurance sector with reliable price, coverage, improved consumer protection (CP) and efficient claims management. Eventually, a more consolidated but stronger sector will result in improvement in life, health and property coverage/insurance products and raise the level of trust among policy-holders (see also economic analysis – Section VI and Annex 5).

V. **KEY RISKS**

A. Overall Risk Rating and Explanation of Key Risks

46. Key risks have been identified and rated in the Systematic Operations Risk-Rating Tool (SORT) presented above in the project data sheet. Project's risks and all specific measures identified to reduce them have been carefully assessed during project preparation and appraisal.

47. The overall risk of the project is rated Substantial because of high political and governance risks; substantial risk for institutional capacity for implementation and sustainability; and substantial fiduciary risk.

48. The high political and governance risk comes from the risk of a reversal of policy commitment and failure to go through the necessary reforms. Because the project directly supports the GoB priority agendas for financial sector development, as highlighted in the country's sixth and seventh five-year plans, it is not anticipated that the Government would reverse its support for the objectives and activities proposed under the project. Furthermore, the proposed project is designed in close consultation with IDRA, BFID of the MoF where a strong leadership is in place, a momentum for reforms exists, and the activities planned under the project are fully owned by the concerned parties. A newly appointed Secretary of BFID has renewed the commitment of the MoF to the objectives of the project and its activities. In addition, IDRA as well as the insurance companies have already started the modernization process that the project will be supporting.

49. The institutional capacity for implementation and sustainability risk is substantial because IDRA has limited experience in implementation of Bank-financed projects, and is currently under-staffed. A dedicated-staff PIU supplemented with capable and qualified personnel or consultants to be hired, is planned for the implementation of the project to mitigate this risk. The PIU will be in place before the start of project implementation. IDRA as well as insurance companies will also receive capacity building training that will strengthen their ability to undertake the planned project activities.

50. The substantial fiduciary risk stems from the lack of procurement and FM personnel available at the PIU. This risk will be mitigated through the hiring and training of required staff to undertake these fiduciary functions as soon as the project becomes effective.

Governance and Accountability

51. A detailed Governance and Accountability Action Plan (GAAP) has been prepared with the goal of strengthening management control over the project, reducing potential risks, and ensuring complete realization of project objectives. It outlines specific responsibilities of IDRA to facilitate effective and appropriate use of the funds for the project and maintain good governance in the management and implementation of project activities. The key elements of the GAAP (see Annex 6) are measures to safeguard procurement and financial management, (ii) ensure coordination among different project beneficiaries and IDRA for effective implementation of the project, and (iii) establish an efficient procurement management system.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

52. **Achieving the project development objective will deliver substantial benefits**. If successfully implemented, the project will contribute to a stable, more diversified, and sound financial sector; increased access to financial services for firms and households, including the poor and traditionally underserved, in Bangladesh.

53. **For the insurance sector, the benefits of a developed insurance market will be felt at all levels of the Bangladeshi economy—households, companies, financial institutions, and public finances**. In addition to contributing to increased financial sector stability, a developed insurance sector will support resilience in Bangladesh. Given the country's high exposure to a variety of risks—in addition to the standard risks covered by property, motor, and life insurance products—increased penetration of the insurance sector will reduce the vulnerability of poor households to disasters and limit the volume of ad hoc payouts for GoB. Moreover, an effective insurance sector will improve the efficiency of other segments of the financial sector, such as banking and bond markets, for example, by enhancing the value of collateral through property insurance and helping reduce financing risk. In the long term, insurance companies will be better positioned to support the economy by investing their stable inflows (premiums) in the capital markets (for example, Government and corporate bonds) and foster the development of new long-term financial instruments such as covered bonds, asset-backed securities, and refinancing facilities particularly relevant for infrastructure development.

54. **The project's direct economic, financial, and social benefits for the insurance industry are described in Annex 5, based on activities financed and beneficiaries**. Through TA planned for the insurance academy and market players, the project will contribute to enhanced professionalization of and skills of professionals in the sector, the availability of better, adequately priced products and services, and ultimately an improved penetration of the sector. The project will stimulate innovations in the financial sector by supporting the development of new products (for example, micro-insurance and Islamic insurance). The strengthening of the state-owned corporations will help them become more efficient and able to fulfill their potential of reaching populations in rural, underserved areas. Furthermore, insurance-enabling regulation and effective supervision of the insurance sector will help increase competition and productivity and mitigate the risk of failure of insurance companies. Through more effective protection of policyholders and awareness raising, the project will lay the foundation for enhanced confidence

and interest of the population in the insurance sector. A standard economic and financial analysis of the project's impact on the insurance sector was not carried out due to the nature of benefits expected and the indirect relationship between the capacity-building supported under the project and the stream of benefits that it is expected to trigger (Components 1 and 2). However, a detailed description of benefits is provided in Annex 5, with quantitative elements as appropriate. Project support and activities including TA and IT investment, in addition to liberalization of insurance premium/rates will enable the insurance industry to set up risk based premiums and reserves through actuarial approach and help ensure the long term sustainability of JBC and SBC. At the end of the project, both state-owned corporations are expected to run their businesses more effectively through better risk management, aligned with commercial good practices, and in compliance with all regulations that IDRA will put in place, including a new solvency ratio. As shown in Annex 5, an increase in the number of policy holders, premium growth rate, and net claims ratio, and a decrease in the expense ratio should allow JBC and SBC to run their businesses profitably by maintaining a combined ratio of less than 100 percent.[18]

B. Technical

55. **The proposed project is technically feasible and sound.** The project's technical design builds on country and regional context, international good practice, extensive technical work during preparation, and consultations with all stakeholders. The design benefitted from engagement of a range of international expert consultants and the World Bank, including from multiple Global Practices. The project combines investments in institutions (to ensure the efficiency, effectiveness, and sustainability) with investments in infrastructure (to deliver tangible benefits) for the provision of insurance coverage/service. Design of the modernization program for IDRA, JBC, and SBC conforms to best practices established by international bodies such as the International Association of Insurance Supervisors (IAIS), Organization for Economic Co-operation and Development (OECD) and European Insurance and Occupational Pensions Authority (EIOPA).

56. The technical design of the project incorporates lessons learned from several countries and other World Bank TA projects and takes into account IDRA's institutional capacity challenges. The technical design includes phasing and prioritization that emphasizes a graduated approach to the delivery of TA and sets up a feedback or learning-by-doing mechanism that can influence the path of planned activities in subsequent phases.

C. Financial Management

57. An assessment was carried out to evaluate the overall FM capacity prevailing in the country and within the implementing agency, IDRA. It was noted during the assessment that there is no professional FM staff in IDRA, which is critical to manage day-to-day FM activities of the project. The accounting system assessment shows that financial records in IDRA are

[18] The combined ratio is calculated by taking the sum of incurred losses and expenses and then dividing them by earned premium. The ratio is typically expressed as a percentage. A ratio below 100% indicates that the company is making underwriting profit while a ratio above 100% means that it is paying out more money in claims that it is receiving from premiums.

currently maintained manually and there is limited use of IT (Tally accounting software) that needs upgrading to facilitate record keeping, tracking, and reporting of project financial information. To adequately perform all required project activities and FM requirements in a timely manner, an FM specialist will be hired and made available immediately after the project becomes effective and will remain with the PIU throughout the project implementation period. To reduce the FM risks under the project, several other measures will need to be implemented according to the agreed FM action plan (see Annex 3 and Annex 4 on World Bank's resourcing plan during implementation).

D. Procurement

58. An assessment was performed of IDRA's capacity to carry out project procurement and the procurement risks at the country, sector, and operations levels associated with the implementation of procurement under the operation. This was done using, respectively, the Assessment of Implementing Agency's Capacity template and the dynamic Procurement Risk Assessment and Management System tool. The key procurement risks include the fact that IDRA has no procurement staff and limited knowledge in public procurement, especially good international procurement practices. Internal control, documentation, information dissemination, contract administration, including delivery follow-up, payments, and complaints handling, also need to be strengthened for IT procurements. For project readiness for implementation, an acceptable Procurement Plan covering the first 18 months of project implementation is available. It was agreed that a procurement specialist will be hired and made available immediately after the project becomes effective and will remain with the PIU throughout the project implementation period. Several other mitigation measures have been agreed to be introduced to minimize procurement risks during project implementation. They are described in Annex 3.

E. Social (including Safeguards)

59. The project will have an important social impact as increasing insurance coverage will help families and individuals expand options for managing risks and avoid becoming destitute and falling into poverty when they suffer a loss. Women enjoy a higher life expectancy than men but are disadvantaged, compared to men due to relatively lower incomes, a shorter working age, and employment interruptions due to childbirth and other family responsibilities, in addition to lower access to insurance products. In general, due to the low penetration rate of insurance in Bangladesh, women, poor households, and those in remote areas are excluded from insurance coverage. For these reasons, gender issues need to be an important consideration for project implementation. Thus, the project will put an emphasis on increasing coverage to women, and poor households in remote areas with products such as micro insurance, etc. The project is, thus, aligned with the twin goals of poverty reduction and shared prosperity, and with Bangladesh being one of the top five priority countries in the globe, it contributes to the Bank's initiative on promoting universal financial access. The project will have gender-disaggregated client satisfaction surveys as one of the project results indicators and will use a citizen engagement indicator to capture beneficiary feedback during implementation.

F. Environment (including Safeguards)

60. The environment safeguards for this project is rated Category C according to OP 4.01. No environmental safeguard policy is triggered due to no or minor environmental impacts. A climate and disaster risk screening carried out for the project shows that climate change poses a low risk to project development outcome/service delivery.

G. World Bank Grievance Redress

61. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: Bangladesh

Project Name: Bangladesh Insurance Sector Development Project (P156823)

Results Framework

Project Development Objectives

PDO Statement

The project development objective is to strengthen the institutional capacity of the regulator and state-owned insurance corporations and increase the coverage of insurance in Bangladesh.

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	YR5
Adoption and implementation by IDRA of smart risk-based supervision (Percentage of insurance market supervised by smart-RBS)	0	RBS being set up	RBS being set up	RBS adopted	40	70
Number of insurance policy holders (life and non-life) (Number)	17,000,000	18,000,000	18,500,000	19,000,000	20,000,000	22,000,000

INTERMEDIATE RESULTS

Intermediate Result (Sub-component 1a): Strengthening the Capacity of IDRA for Insurance Supervision and Regulation

Indicator Name	Baseline					
		YR1	YR2	YR3	YR4	YR5
Insurance companies follow off-site monitoring templates issued by IDRA (Percentage)	NA	NA	Issued	30	45	70
On-site inspections of insurance	10	10	10	10	10	30

companies performed annually by IDRA (Number)						
Solvency margin rule for insurance companies issued by IDRA and implemented (Yes/No)	No	No	Yes (Issued)	Yes (Issued)	Yes (Implemented)	Yes (Implemented)
Corporate governance regulations issued by IDRA are followed by insurance companies (Percentage of market share)	0	0	5	10	25	60
Insurance companies follow Claims Management Methodology and regulation issued by IDRA (Percentage of companies)	0	0	5	15	25	70
Insurance companies issue key facts statements to policy holders following new Consumer Protection regulations issued by IDRA (Percentage of companies)	0	0	5	10	25	80
Mortality and Morbidity tables produced (Yes/No)	No	No	No	Yes	Yes	Yes
National Social Insurance Scheme (NSIS) Study conducted (Yes/No)	No	Yes	Yes	Yes	Yes	Yes
Intermediate Result (Sub-component 1b): Strengthening the Capacity of BIA						
Number of people trained who received ABIA Diplomas and Certificates (Number)	50	100	200	300	400	600
Intermediate Result (Component 2): Modernization, Strengthening, and Increasing the Efficiency of the State-owned Insurance						

Corporations						
Life Insurance policies that lapse after one year at JBC (Percentage)	50	50	45	40	35	30
Total number of policy holders at JBC & SBC (Number)	463,000	475,000	490,000	500,000	520,000	550,000
Net Claims Ratio at JBC (Percentage)	66	70	70	75	75	80
Net Claims Ratio at SBC (Percentage)	35	35	45	55	60	60
Premium growth rate at JBC (Percentage)	7	8	10	12	13	15
Premium growth rate at SBC (Percentage)	7	8	9	10	12	15
Solvency margin rule issued by IDRA are implemented by SBC and JBC (Yes/No)	No	No	issued	issued	Implemented	Implemented
Component 3: Project Implementation, Management, and Monitoring						
Direct project beneficiaries (Number) - (Core)	0	40,000	50,000	100,000	200,000	500,000
Female beneficiaries (Percentage - Sub-Type: Supplemental)	0	20,000	25,000	50,000	100,000	150,000
Direct project beneficiaries that feel that project investments reflected their needs (Percentage)	0	30	40	50	70	80

Indicator Description				
Project Development Objective Indicators				
Indicator Name	**Description (indicator definition etc.)**	**Frequency**	**Data Source / Methodology**	**Responsibility for Data Collection**
Adoption and implementation by IDRA of smart risk-based supervision (Smart RBS)	Smart RBS is an approach to supervision that uses in a proportionate manner both off-site monitoring and on-site inspections to examine the business model of each insurer; evaluate its condition, risk profile, and conduct; and evaluate the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements.	Annually	IDRA	PIU
Number of insurance policy holders (life and non-life) increases	While there has been rapid growth in the insurance sector, this is from a very small base. Insurance penetration remains low in Bangladesh with about 17.1 million policyholders in 2014 (International Monetary Fund data). This represented only 0.74 percent of GDP and compares unfavorably with other south Asian countries like Sri Lanka with 1.15 percent of GDP, India with 3.46 percent of GDP, and Malaysia with 4.51 percent of GDP.	Annually	IDRA	PIU
Intermediate Results Indicators				
Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Insurance companies follow off-site monitoring templates issued by IDRA	Templates to be issued by IDRA will be adopted and followed by insurance companies to allow the regulator to undertake its off-site monitoring and supervision	Annually	PIU/IDRA	IDRA
On-site inspections of insurance companies performed by IDRA	On-site inspections by the regulator are crucial to examine the business model of each insurer; evaluate its condition, risk profile, and conduct; and evaluate the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements.	Annually	IDRA	PIU
Solvency margin rule for insurance companies issued by IDRA and	Solvency margin means the amount by which the assets of the insurance company, at fair values, are considered to exceed its liabilities and other comparable commitments. The solvency	Semi-annually	IDRA	PIU

implemented	margin functions as the company's buffer particularly against the risks related to investment activities. The solvency margin must always exceed its minimum amount. Minimum solvency margin represents the regulatory minimum amount of solvency margin to be held by insurance companies.			
Corporate governance regulations issued by IDRA are followed by insurance companies	Good Corporate Governance (CG) has become increasingly imperative in the insurance sector in recent years as a recognition of the need to ensure adequate accountability to company shareholders, robust oversight of management, and equitable treatment of all stakeholders (in particular policy holders). Indeed, good CG not only safeguards and protects a company's assets but also provides the foundation for business development through enhanced credibility, disclosure, and transparency—qualities that, in the insurance business where clients essentially rely on trust and promise of future benefit, are paramount. As a result of this, global standards covering governance in the insurance sector have been strengthened in recent years culminating in the Organization for Economic Co-operation and Development Guidelines on Insurer Governance as well as IAIS-issued ICPs on CG and Risk Management and Internal Control.	Annually	IDRA	PIU
Insurance Companies follow Claims Management Methodology issued by IDRA	Insurance claim management is a core issue for the protection of insurance policyholders. From the insurance company viewpoint, claim management is a key element in the competition among insurance providers and for the improvement of the industry's public image. Settling insurance claims is just one aspect of the claims management process. The time it takes to process a claim involves several stages beginning with a person filing a claim. The stages that follow determine if a claim has merit as well as how much the insurance company will pay. Insurance customers expect a company to settle claims quickly and to their satisfaction. Because high customer satisfaction levels can give a company a competitive edge, reducing the time it takes to settle insurance claims is one way to decrease the number of customer complaints and improve service. The use of claims management	Annually	IDRA	PIU

	system software that speeds the process and minimizes costs offers a practical solution. Simplifying the claims process through automation helps reduce expenses for smaller companies that operate with smaller budgets.			
Insurance companies issue key facts statements to policy holders following new Consumer Protection regulations issued by IDRA	Key facts statements are normally a single page (or maximum 2 pages) that sets out the key terms and conditions of insurance coverage in nontechnical terms that will include the following information: • Level and type of coverage • Total product costs (any sign up fees, amount of premiums and frequency of payments, and other costs) • How to make a claim • Any cooling off period following contract signature (that is, if a client changes their mind within a certain amount of time and wish to decline coverage even after contract signing—usually between 24 and 72 hours) • Renewal/cancellation options • Grievance/complaints-handling mechanism Key facts statements will be different from and in addition to the full insurance contract, which will still need to be there and be the binding legal document. Key facts statements are part of proactive disclosure and transparency in the industry.	Annually	IDRA	PIU
Mortality and Morbidity tables produced	Bangladesh does not have its own mortality and morbidity tables which partly contributes to improper premium calculation and adversely affects even those companies that have good credentials.	Annually	IDRA	PIU
Number of people who receive ABIA Diplomas and Certificates.	In 1980, BIA introduced a Diploma in Insurance program named Associate of Bangladesh Insurance Academy (ABIA). During 1974-1999, a total of 397 courses on both life and general insurance were held and attended by 12,071 trainees. To date, about 21,128 participants have attended BIA courses. For its ABIA program, since the course stated in 1980, 550 candidates have been awarded the ABIA Diploma. The program has two stages namely a Certificate stage and a Diploma stage and ABIA remains the only insurance professional diploma in Bangladesh and the academy needs	Annually	BIA	PIU

	strengthening and reorganization to deliver quality training to companies as well as regulators.			
Life Insurance policies that lapse after one year	Based on figures reported in January 2015 by the life insurance companies, between 60 and 70 percent of policies lapse by the end of their first year in force. This is one of the highest lapse rates in the world and due, in large part to policies being sold to people with limited incomes who then realize that they cannot afford the payments; inadequate supervisory capacity and lack of public awareness.	Annually	JBC	PIU
Total number of policy holders at JBC and SBC increases	JBC and SBC have the largest branch networks in the insurance industry. Currently JBC has more than 354,000 life insurance policy holders while SBC has 109,000 policy holders for its direct non-life insurance business	Annually	JBC & SBC	PIU
Net Claims (loss) ratio	The net claims ratio also known as the loss ratio, compares the company's losses (paid claims) to the company's premiums. It is the ratio of net incurred claims divided by the company's total net premiums earned. This ratio is often miscalculated and therefore leads to confusion. Low loss ratios usually indicate that the ratios have been calculated incorrectly or that expense rates are excessive. In developing markets like Bangladesh expense rates tend to be higher and there is less room in the premium to cover claims. This means that lower claims ratios may be justified for a while, but claims ratios of less than 50 percent point to a market that is not working properly or to inadequate claims provisioning.	Annually	JBC & SBC & IDRA	PIU
Premium growth rate increases	The premium growth rate, measured by a change in net premium, that is, ([gross premium written in the current year minus gross premium written the previous year] over the net premium written the previous year), provides an indication of a number of symptoms of potential stress in the company. However, more in-depth analysis and possibly on-site inspections are usually required to confirm suspicions.	Annually	JBC & SBC	PIU
Solvency margin issued by IDRA is implemented for SBC and JBC	Solvency margin, with regard to an insurance company, means the size of its capital relative to the premiums written, and measures the risk an insurer faces of claims it cannot cover.	Annually	JBC & SBC & IDRA	PIU
National Social Insurance	The study will explore the feasibility of a National Social	Annually	IDRA	PIU

Scheme (NSIS) Study conducted	Insurance Scheme (NSIS) comprising of insurance and maternity benefits - for private sector salaried workers delivered through employers and funded equally by employer and employee contributions. The implementation of NSIS could be undertaken through insurance companies.			
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from project intervention. That will include insurance companies supervised by IDRA, state-insurance corporations (JBC and SBC) and their clients, people and groups benefiting from BIA interventions.	Quarterly	IDRA	PIU
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, this indicator specifies what percentage of the beneficiaries are female.	Quarterly	IDRA	PIU
Direct project beneficiaries who feel that project investments reflected their needs	Household surveys and focus group discussions will be conducted to record and report inputs from people or groups who directly derive benefits from project interventions (insurance activities). Surveys and focus groups will include gender specific requirements.	Annually	PIU	PIU

Annex 2: Detailed Project Description

BANGLADESH: Insurance Sector Development Project

A. Introduction

1. The project has three main components to help achieve the development objective. They are as follows: (a) Improving the capacity of the Insurance Development and Regulatory Agency (IDRA) and the Bangladesh Insurance Academy (BIA); (b) Modernization, Strengthening, and Increasing the Efficiency of the State-owned Insurance Corporations; and (c) Project Implementation, Management, and Monitoring. The following sections describe in detail the components and subcomponents of the project.

Component 1. Improving the Capacity of the Insurance Development and Regulatory Agency (IDRA) and the Bangladesh Insurance Academy (BIA)

2. This component aims at strengthening the capacity of IDRA to regulate and supervise the insurance sector, and provide support to BIA for sustained professionalism in the insurance industry. The component will finance goods and equipment, consultants, and non-consulting services including training and workshops.

Sub-component 1a. Strengthening the Capacity of the Regulator IDRA

3. Since its establishment in 2010 with a mandate to regulate and supervise the insurance sector, IDRA has not been given the human as well as financial resources, nor the independence to carry out its activities in an effective manner to help achieve the objectives of the National Insurance Policy (see Box 2.1). The main goal of this subcomponent is to equip IDRA, including with a proper governance and accountability framework, to build and put into practice a professional and modern regulatory and supervisory system. Activities will support IDRA's efforts to implement its new organogram as a stepping stone to improve its organizational and corporate governance structure, upgrade and enhance its supervisory systems and data infrastructure, and improve its capacity to regulate and supervise the insurance/reinsurance sector. This will include support along three main areas: (a) Designing and implementing an accountability and governance framework; (b) Strengthening the regulatory and supervisory framework; and (c) capacity building and training for IDRA staff and management.

(a) **Designing and implementing an accountability and governance framework:** The current organizational structure at IDRA with a Chairman, four members, and a few officers and support staff is incomplete as it lacks clear managerial positions. A new organogram which was recently approved by the authorities aims at putting in place a more complete structure and governance framework with properly defined responsibilities at all levels of management and staff. It is important that the new framework also stipulates the establishment of a full-fledged IDRA board. IDRA also still lacks full authority over state-owned insurance corporations, which are not subject to IDRA's fit and proper test for appointment of managers. In addition, IDRA does not have full independence to issue rules and regulations. This may be due to a lack of internal capacity but adds long delays and inefficiencies to the regulatory system that needs to be remedied. The project will, thus, provide advisory support to the IDRA to design and implement a governance and accountability framework in relation to the Government, including drafting internal procedures and charters in line with international good practice for regulators. In that context, the project will also support a review of the legal framework governing the insurance sector (IDRA Act 2010, the Insurance Act 2010, and the Insurance Corporations Act 1973) to identify inconsistencies among the acts and work with the authorities to adopt amendments to bring them up to international standards, as well as fully empower IDRA to undertake its supervisory duties.

Box 2.1. Bangladesh National Insurance Policy

The National Insurance Policy was published in June 2014 with an overall objective to ensure the benefits of insurance in social and economic development by making insurance services available to the majority of the population. This will be done through timely guidelines for proper operation and regulation of the insurance sector and will also introduce a fair, ethical framework to ensure transparency and accountability of insurers, maintain financial discipline, create professionalism in industry and commerce, and address irregularities, mismanagement, and corruption in the efforts to transform the insurance industry—from conventional practice to a dynamic one—and raise the share of insurance in GDP (to 4 percent possibly) by 2021.

The fundamental principle of the policy is to harness all potentiality of insurance for overall economic development through ensuring international standards and code of conduct, CG, using state-of-the-art electronic technology, and ensuring highest professionalism and transparency to overcome unexpected risks of life and assets due to any natural or human-created disaster or accident including climate change through coordinated programs of Government and private insurance firms.

Source: GoB - MoF/BFID - June 2014.

(b) **Strengthening and upgrading the regulatory and supervisory framework including for CP.** This will entail helping the IDRA on a number of fronts including: (i) Design and implementation of a modern and independent supervisory infrastructure through the introduction of a risk-based supervisory approach, along with prudential standards and market conduct. TA will thus be provided to IDRA to adopt and use modern smart RBS including for supervising high standards of corporate governance and CP (see discussion of CP below). The smart risk-based approach to supervision uses in a proportionate manner both off-site monitoring and on-site inspections to examine the business model of each insurer; evaluate its condition, risk profile, and conduct, and evaluate the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements; (ii) An upgrade of IDRA supervisory system through the design and implementation of a modern IT system, including provision of equipment and software, that will be necessary to capture insurance regulatory and supervisory data and information to the granularity required for modern smart RBS. (iii) Understanding and implementation of the ICPs[19] (see Box 2.2) and regulatory reporting; (iv) Setting up of research and statistical unit for the collection of

[19] The ICPs provide a globally accepted framework for the supervision of the insurance sector. The ICP material is presented according to a hierarchy of supervisory material. The ICP statements are the highest level in the hierarchy and prescribe the essential elements that must be present in the supervisory regime to promote a financially sound insurance sector and provide an adequate level of policyholder protection.

data, update of mortality and morbidity tables, and publication of annual reports. (v) Increasing IDRA's technical capacity to prepare rules, regulations (for example, solvency ratio), and guidelines for new products (e.g *micro-takaful* insurance, livestock insurance) and to restructure existing products (such existing motor/motor third party liability) and to enhance distribution channels (for example, bank-assurance and digital channels for low-cost offering); and (vi) Improvement of corporate governance for insurance companies claims management and complaint redress systems.

Box 2.2. Insurance Core Principles

There are 26 ICPs adopted by the IAIS. These principles are intended for all supervisors around the world, regardless of the level of development and sophistication of the insurance market. These principles, together with the guidance statements as prepared by the IAIS, are presented below. It is recognized that supervisors need to tailor certain supervisory requirements and actions in accordance with the nature, scale, and complexity of individual insurers. In this regard, supervisors should have the flexibility to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers as well as the potential risks posed by insurers to the insurance sector or the financial system as a whole. This is provided for in the ICPs and standards where relevant.

ICP1 - Objectives, Powers and Responsibilities of the Supervisor-The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.

ICP2 - Supervisor - The supervisor, in the exercise of his/her functions and powers:

- is operationally independent, accountable, transparent, and protects confidential information,
- has appropriate legal protection,
- has adequate resources, and
- meets high professional standards.

ICP3 - Information Exchange and Confidentiality Requirements-The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.

ICP4 - Licensing-A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.

ICP5 - Suitability of Persons - The supervisor requires board members, senior management, and key persons in control functions and significant owners of an insurer to be and remain suitable to fulfil their respective roles.

ICP6 - Changes in Control and Portfolio Transfers-Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legally or naturally), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.

ICP7 - Corporate Governance-The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.

ICP8 - Risk Management and Internal Controls - The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.

ICP9 - Supervisory Review and Reporting - The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business model of each insurer; evaluate its condition, risk profile, and conduct; and evaluate the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.

ICP10 - Preventive and Corrective Measures - The supervisor takes preventive and corrective measures that are timely, suitable, and necessary to achieve the objectives of insurance supervision.
ICP11 - Enforcement - The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
ICP12 - Winding up and Exit from the Market - The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to the timely provision of benefits to policyholders.
ICP13 - Reinsurance and Other Forms of Risk Transfer - The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmers. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
ICP14 – Valuation - The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
ICP15 – Investment - The supervisor establishes requirements for solvency purposes on the investment activities of insurers to address the risks faced by insurers.
ICP16 - Enterprise Risk Management for Solvency Purposes - The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.
ICP17 - Capital Adequacy - The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses to provide for degrees of supervisory intervention.
ICP18 - Intermediaries - The supervisor sets and enforces requirements for the conduct of insurance intermediaries to ensure that they conduct business in a professional and transparent manner.
ICP19 - Conduct of Business - The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
ICP20 - Public Disclosure - The supervisor requires insurers to disclose relevant, comprehensive, and adequate information on a timely basis to give policyholders and market participants a clear view of their business activities, performance, and financial position. This is expected to enhance market discipline and an understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.
ICP21 - Countering Fraud in Insurance - The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report, and remedy fraud in insurance.
ICP22 - Anti-Money Laundering and Combating the Financing of Terrorism - The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.
ICP23 - Group-wide Supervision - The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.
ICP24 - Macro-prudential Surveillance and Insurance Supervision - The supervisor identifies, monitors, and analyzes market and financial developments and other environmental factors that may affect insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.
ICP25 - Supervisory Cooperation and Coordination - The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.

ICP26 - Cross-border Cooperation and Coordination on Crisis Management - The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.

Source: IAIS.

Strengthening and upgrading the regulatory and supervisory framework for consumer protection (CP)

In all industries, CP—for ensuring safety of products, transparency in labeling, providing for dealing with customer complaints, among other items—is essential. In the financial services industry, which deals with people's funds and relies on trust, stricter CP standards are required. For the insurance industry, which expects policyholders to pay premium to provide payment in case of future eventualities, CP regulations and practices must reassure the public of the efficiency, affordability, credibility, and durability of their policies. Additionally, to aid in expanding outreach, it is important to raise consumer awareness and financial literacy for insurance products which can be quite complex, especially with regard to the risks covered, pay-off triggers, and costs involved. While there is increasing awareness of its importance, the practice of CP is lagging and is not uniform across the insurance sector. Reportedly, there is only one firm that provides a dedicated complaint handling unit and mechanism. Additionally, complaints data collection and analysis at the level of the company and regulator are not done systematically nor are they used to refine product feature or inform policy measures. There is also no specific requirement for companies to provide simplified, short information on insurance products. The project support will thus include: diagnostic review of CPFL in the insurance sector to assess the legal, regulatory, and institutional frameworks for financial CP in insurance in Bangladesh, with reference to good practices; a financial capability survey for insurance to provide a baseline from which to measure and monitor progress and inform policy initiatives to improve financial inclusion and capability as well as CP; and capacity building for IDRA to strengthen its regulatory and supervisory role in the area based on the findings of the diagnostic review and survey. .

(c) **Capacity building and training for IDRA staff, management, and board.** The project will support provision of tailored training for IDRA's current staff as well as new hires starting on supervisory review and reporting process, on-the-job training, and exchange visits, management training, and exposure visits with regulators from other countries using South-South partnership. Capacity building on corporate governance, risk management, and internal control for the IDRA board/management committee, senior management, and key internal control staff (audit, FM, and risk) units will also be provided. Milestones to monitor and chart improvement in this area will be set.[20] The

[20] Drawing on the World Bank Corporate Governance for State-owned Enterprises Toolkit, as part of the CG improvement plan for IDRA, a progression matrix will be established to monitor progress. The progression matrix sets out milestones for the following dimensions: financial discipline; board effectiveness; transparency, disclosure, and internal controls; and commitment

IDRA needs to establish an effective IT organizational structure to embark on this ambitious automation initiative. Currently, there is a clear lack of skilled IT resources in the organization, and although the proposed Organogram has some IT positions, they are, however, primarily data entry staff and computer operators. The project will partly finance hiring of skilled IT resources, most of whom will remain permanent IDRA staff, covering IT infrastructure from network to data center operations, enterprise architecture, business analysis, application development, information security, database administration, and IT procurement (see Box 2.3). IDRA staff training in the area of CP supervision and best practices will be provided along with capacity support for systems for tracking, analyzing, and following up on the policyholder complaints and claims handling. Among the reforms that can be expected will be establishing an ombudsman at the IDRA to deal with complaints that are not resolved at the company level, requiring all insurance companies to have complaint handling units and redress mechanisms, establishing minimum disclosure requirements for insurance products, and setting high standards for customer service through an industry code of market conduct.

Box 2.3. IT and Automation Needs of IDRA

End-to-end business process automation and implementation of ancillary IT systems is at the heart of transforming IDRA into an effective insurance regulator and supervisor. At present, IDRA lacks essential IT tools and systems to regulate the insurance market efficiently. Thus, the project will finance the key initiatives described below:

- **Comprehensive interactive portal** defining the regulatory guidelines, programs, and policies having access to insurers, intermediaries, and general consumers. This will be the core system for IDRA, and therefore, it is *critical to fast-track portal implementation.*
- **Agents and brokers empanelment** to define and regulate the process for intermediaries such as agents, brokers, etc. Given the business criticality it is important to *implement this as soon as possible.*
- **Online certification process for agents** to define the criteria for becoming an agent and perhaps establishing an online testing system. This activity of high business criticality can be done in collaboration with the BIA.
- **Internal business automation** to support human resource management information system, payroll, finance and accounting, fixed assets, and so on. Implementation of an integrated enterprise resource planning (ERP) is critical for efficient running and overall administration of the organization including human resource and accounting and will deliver high *business impact.*
- **Data standardization and business analytics** defining the data standards for all insurers and intermediaries to submit policy, premiums, and claim data and develop business analytics solution for analysis on insurance business market and overall risk analysis. IDRA should take a *phased approach* in embarking on this initiative.
- **Document management system** to capture insurance policy records to be submitted by all insurers and intermediaries. Based on business impact, a *phased approach* can be taken in digitizing all records and documents.

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to CG along four development levels with level one denoting acceptable practice to level four denoting leadership in governance in the country.

- **Fraud detection and prevention system** at the industry level by leveraging all available information. This enables insurers identify frauds in underwriting and early claims stage— *phased implementation approach to be followed.*
- **Centralized rating system** to eventually move away from the tariff-based rating to a centralized rating mechanism on product lines and opening up free rates with certain guidelines in conjunction with centralized rating perimeters—*phased implementation as and when IDRA decides to move to the centralized rating system.*
- **Motor road accidents database** for centralized road accident claims to identify accident areas on a map to report risks. This could enable partners in accident reduction and prevention measures effectively—*phased implementation recommended*.

(d) **National Social Insurance Scheme (NSIS).** The project will finance a study for the feasibility of an NSIS which implementation has been entrusted to IDRA under the National Insurance Policy. The study will assess the feasibility of a scheme comprising of insurance and maternity benefits for private sector salaried workers delivered through employers and funded equally by employer and employee. This could be packaged and delivered by insurance companies as an insurance product.

Sub-component 1b. Strengthening the Capacity of the BIA

4. BIA was established in 1973 by the GoB to provide training to insurance professionals and others. It currently functions as an autonomous body under the administrative control of the MoF. The 10 members of the board are drawn from concerned ministries, regulatory authorities (IDRA), state insurance corporations, and private insurance companies, Bangladesh Insurance Association, Dhaka University, and the Director of the Academy. BIA was created to perform the following functions: (i) promote, organize and impart professional education in insurance leading to degrees, diplomas or certificates; (ii) organize, conduct and promote research on issues in the insurance industry; (iii) organize and conduct training for the staff, managers and employees of JBC, SBC, and other private insurance organizations; (iv) facilitate, promote, encourage and foster publication of research work and literature including dissemination of foreign publications on insurance matters; (v) establish and maintain close contact and enter into relationships with experts and similar institutions in Bangladesh and abroad; (vi) provide coaching facilities for standard international examinations; (vii) award prizes and rewards to persons who, in the opinion of the Academy have made notable contributions to the development of insurance education.

5. Today, the Academy conducts various training programs for personnel in the insurance industry, as well as seminars, symposiums, and conferences. BIA started operations in early 1974 with only 12 employees. The same year, the academy got affiliated with the Chartered Insurance Institute in London and started conducting coaching classes for the institute's Associate of Chartered Insurance Institute, London (ACII) program in Dhaka and examinations for Bangladeshi candidates for ACII certificate. Between 1974 and 1977, the academy offered a total of 17 training courses, of which eight were on life insurance, while the rest were on general insurance with 437 and 232 participants respectively from JBC and SBC. These were the only two state-owned insurance corporations in Bangladesh until 1984, when the GoB promulgated the Insurance (Amendment) Ordinance 1984 and Insurance Corporations (Amendment)

Ordinance 1984 and allowed private insurance companies to operate with the primary objective of improving the services of insurance and developing a competitive spirit for the benefit of the insuring community. Participants in the academy's training courses were mainly from those corporations. With the establishment of an increasing number of general and life insurance companies in the private sector, the number of participants in the academy's courses started to increase. It adopted new courses and expanded the areas of training to cater to the needs of training for insurance professionals. In 1980, it introduced a Diploma in Insurance program named ABIA. During 1974–1999, a total of 397 courses on both life and general insurance were held and attended by 12,071 trainees. To date, about 21,128 participants have attended BIA courses. For its ABIA program, since the course started in 1980, only 550 candidates have been awarded the ABIA Diploma, which corresponds to about 15 diplomas per year. The program has two stages namely a certificate stage and a diploma stage. The current organizational and governance structure of BIA which consists of 36 staff involved in both academic and administration on a part-time basis remains inadequate to properly respond to the training and capacity-building needs of the market. ABIA is the only insurance professional diploma in Bangladesh and the academy needs strengthening and reorganization as well as proper tools and equipment to deliver quality training to companies as well as regulators.

6. The main goal of this subcomponent is to help Bangladesh Insurance Academy (BIA) become a reliable resource in Bangladesh for training and research in life and non-life insurance product lines. BIA will also be strengthened so as to contribute to improving data availability and advance the knowledge in the insurance sector and improve public awareness at large.

7. Project support will be structured around the following areas:

(a) **Provision of technical advisory services to BIA to design and implement a governance, management, and staff structure.** This is meant to provide consistency with its new proposed structure legal status currently under review that aims at allowing BIA to become an independent, sustainable organization and achieve national recognition.

(b) **Advisory services to BIA to help build data infrastructure and to design and set up efficient policyholder protection scheme and financial literacy (CPFL) as well as awareness programs of the public at large**. Due to the complex nature of insurance, lawmakers believe that contractual arrangements with policyholders deserve special protection. Governments fulfill their duty in this regard with special laws as well as through strong regulatory/supervisory agencies. Following an initial period during which external expertise will be necessary, the BIA will become later on responsible for regular relevant data collection, research, and analysis. Currently, there exists several training initiatives by the leading private insurance companies, but these are mainly for their own staff and they are not coordinated at the industry level. There are no general awareness-raising campaigns for insurance products, and insurance-specific education at tertiary institutions is at an embryonic stage. The project will therefore support the development of a comprehensive financial literacy strategy and pilot interventions under the strategy (workshops, media awareness campaigns, marketing/informational brochures, etc.). While BIA will be the main implementing agency for the strategy, it is important that all relevant stakeholders (from the Government, private sector, educational institutions, and civil society) be part of the planning, development, and implementation of the strategy. The Financial Capability Survey to be undertaken will provide a baseline against which to monitor progress in financial literacy. The project will also partner with BIA to build its capacity to deliver CG training for boards and management of SBC, JBC, as well as private insurance companies.

(c) **Provision of TA as well as equipment for BIA to develop appropriate course curriculums and training manuals to meet the demands from the industry.** The project will help implement a modern IT system for BIA to be able to design and deliver training, research, and education in the form of offering diplomas and certification courses, as well as degrees, carrying out research for insurance sector development, holding seminars, and workshops. Financing of IT and automation needs of BIA will include setting up state-of-the-art distance-learning center with videoconferencing facilities which can connect BIA with other international insurance learning centers and academies. This will enable BIA to offer courses which are not available locally in a cost-effective manner. In addition, the project will cover the cost of modernizing the classrooms by upgrading the facilities and equipping them with the latest technologies. Academic degrees could be offered through partnerships with universities (including Dhaka University) and other courses through twinning arrangements with other training institutes as well as chartered institutes from relevant countries with the objective to establish a professional body for insurance degree holders and professionals that could pave the way for acquisition of chartered insurance status.

(d) **Capacity building and provision of training to staff, faculty, management, and board.** This will help BIA to fully assume its responsibilities will include financing of training of newly hired BIA staff through on-the-job training and exchange visits. Twinning arrangements with other insurance institutes from the region and other countries (for example, Malaysia and Turkey, etc.) will also be pursued. Similar to IDRA, corporate governance (CG) improvement milestones will be set to monitor progress.

Component 2. Modernization, Strengthening and Increasing the Efficiency of the State-owned Insurance Corporations

8. As the only two state-owned insurance corporations, JBC and SBC offer life and non-life products respectively. SBC also offers reinsurance to all private non-life companies in Bangladesh. However, JBC and SBC 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 IT, and inefficient business practices. JBC and SBC also benefit from a 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$3.75 million) and BDT 400 million (US$5 million) respectively as per the current Insurance Act. There is no guidelines for establishing a reinsurance company. However, for JBC and SBC, the minimum paid up capital

has remained BDT 50 million (US$637,100) and BDT 200 million (US$3 million) respectively, as per the Insurance Corporation 1973 Act, but is being raised to match the requirements of private companies. Both JBC and SBC have a potential to help increase insurance coverage among the underserved in Bangladesh. This potential can be realized, granted proper reforms, including for corporate governance, are undertaken. Project activities will focus on the following:

9. **For the insurance business of JBC and SBC**, project activities will focus on: (a) support to enhance their corporate governance framework; (b) modernization including automation of SBC and JBC, IT upgrade of their systems including with hardware and software for small-scale technical infrastructure at existing locations (power, electrical, server cooling, and Internet), and implementation of key IT systems to improve the quality and effectiveness of their insurance activities and practices; and (c) capacity building and training of the staff, management, and board. Ultimately, project support aims to help JBC and SBC operate more effectively and increase insurance penetration in semi-urban and rural areas where they have an extensive footprint.

(a) **Enhancing Governance Framework at JBC and SBC.** While there is growing recognition of the importance of good CG and some improvement in the legal framework particularly for privately owned companies, the practice is significantly lagging international best standards. Indeed, with the exception of a few large established private companies, the state of governance in the industry is still underdeveloped, in particular in the case of JBC and SBC. Given the role that good governance can play in not only attaining the project's immediate objectives but also in fostering the development of the sector over the long-term, the project will take a comprehensive and integrated approach to elevate the framework for and practice of governance in the insurance sector. Such an approach dictates interventions at the level of the state owner (BFID), relevant regulators (IDRA and SEC), company boards, management, auditors, internal units (internal audit, compliance, risk management, and actuary), and industry associations. It also requires that SBC and JBC adhere to the same high standards of corporate governance as the private insurance companies. As a first step, the project will conduct a legal review with a corporate governance of the following: Insurance Act, IDRA Act, Insurance Corporations Act, SEC Listing Requirements, Companies Law, other relevant IDRA and SEC directives. The purpose will be to identify any gaps and/or inconsistencies in the legal and regulatory framework for corporate governance and recommend any amendments to current laws and/or additional directives to be issued by IDRA or other regulatory entities. A thorough assessment of the sector (including all insurance companies) will be undertaken as well as additional in-depth CG assessment for JBC and SBC. This review is modeled on those conducted by the World Bank elsewhere for the banking sector and will identify systemically the strengths and weaknesses in CG in the sector and for JBC and SBC.

(b) **Technical Assistance (TA) to BFID and IDRA.** The Project will leverage the capacity building planned for BFID to strengthen its role for state-owned banks under the Modernization of State-owned Financial Institutions Project and will complement that with targeted TA for BFID for strengthening its oversight/ownership role for JBC and SBC. Additionally, for IDRA, the project will provide capacity building to enhance its ability to review, monitor, and enforce high standards of CG in the sector. Depending on the outcome of the legal review, this will likely require additional IDRA directives for CG (such as an industry-specific Code of Corporate Governance). Based on the legal and company-specific reviews, the project will support a CG improvement plan for JBC and SBC. Such a plan could cover, as applicable, ownership policy; board composition, selection, committees, evaluation, and remuneration; management committees and reporting development and strengthening of the four internal control functions (audit, compliance, risk management, and actuary); annual public reporting; and stakeholder communications and outreach. The CG improvement plans will include milestones to measure progress to achieving improved CG. These will be adapted from the World Bank CG Toolkit Progression Matrix which measures CG development in key areas such as financial discipline; board; transparency and disclosure internal control. As part of these plans, on-site and external training and capacity building will be provided for all stakeholders in the process. The existing performance agreements signed between BFID and JBC and SBC will be reviewed and strengthened as part of these improvement plans so that they will set out each company's overall mandate and strategy, financial and nonfinancial performance indicators, and frequency and procedures for reporting. While these agreements may span multiple years, they are monitored and revised as needed on an annual basis. The project will actively monitor progress in CG and support additional interventions as the need arises. The CG plans will provide for monitoring of progress at JBC and SBC levels. In carrying out its interventions, the project will draw from the established World Bank Group (WBG) methodology for corporate governance reviews and TA, as well as building on the initiatives already undertaken by the WBG for strengthening governance in the banking and corporate sectors. The project will also partner with and rely on BIA for the design and delivery of training under this component which will provide a foundation for the BIA to continue this support beyond the project timeline.

(c) **Modernization and IT upgrade for improvement of JBC and SBC operations.** Both state-owned insurance corporations need a broad automation plan to improve overall organizational effectiveness and internal controls. The level of business automation at both JBC and SBC remains minimal. Both companies need to implement a broad automation plan to improve overall organizational effectiveness and internal controls. This is critical for ensuring integrity of the operations and business processes, supporting better management and efficiency in operations, and enabling improved regulator and Government oversight on the operations of these institutions. This in turn will allow these institutions to offer modern products and services that the market demands. Indeed, such an effort is a necessary condition for future sustainability and to enhance the financial performance of the two companies.

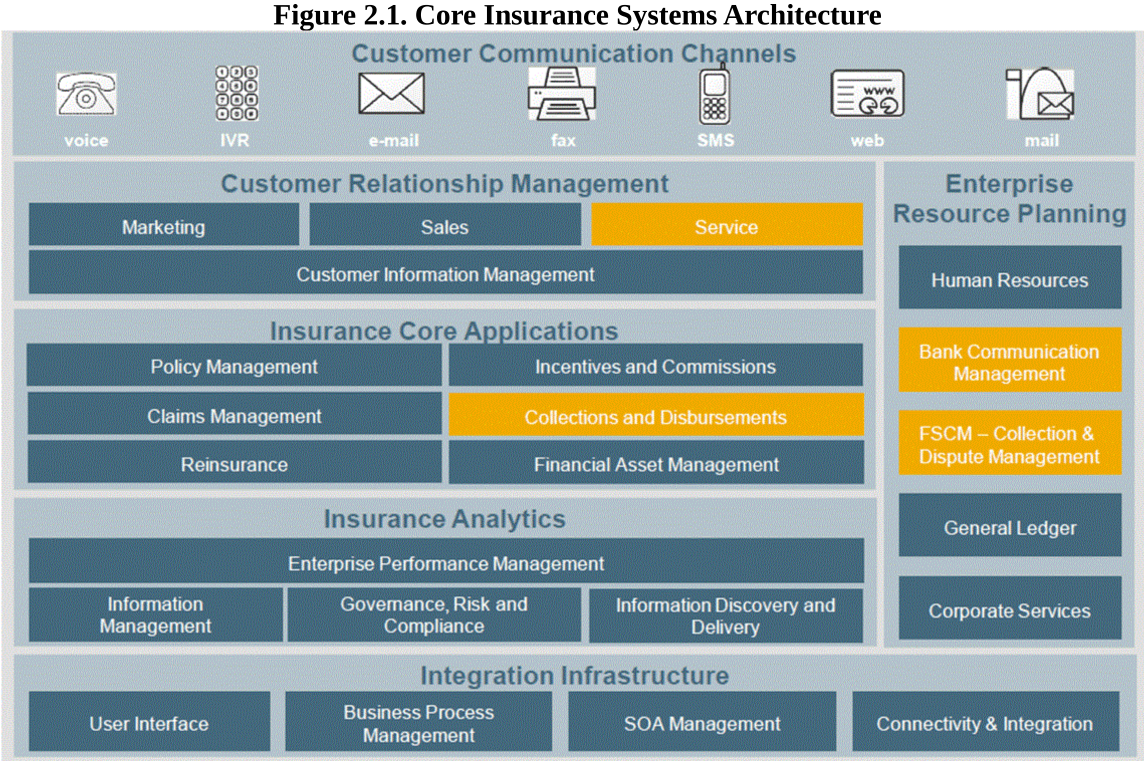
- SBC handles all its business processes manually. Thus, the company lacks automation to handle its core business functions like policy administration, claims management, sales, underwriting and rating system, re-insurance, workflow management, data mining and reporting, billing and premium accounting, commission management, document management, and ERP. An IT organization with skilled workforce is nonexistent resulting in lack of basic automation like email, website development, and so on. There are only 150 personal computers across the organization and only 18 email accounts which are shared by staff within different units. Some basic locally developed human resource and accounting system has been deployed to cover provident fund account, pension disbursement, benevolent fund account, payroll, etc. SBC has a basic website on Government portal which is used to gather data from zonal offices on a monthly basis. The project will provide advisory support to SBC efforts to set up a fully sourced IT division headed by a chief information officer/chief technical officer and a team with skills covering IT infrastructure from network to data center operations, enterprise architecture, business analysis, application development, information and cyber security, database administration, IT procurement, etc. If legally feasible, given the scarcity of IT resources specializing in the insurance sector in Bangladesh and for economies of scale, SBC and JBC may consider setting up a joint IT organization in the future to whom they will outsource their IT needs. The project will finance goods and equipment needed for basic automation which entails a robust email platform servicing the entire organization, Intranet, a fully integrated ERP and all software/system of SBC and JBC, including human resource management information system, Internet and branch connectivity, and so on and comprehensive business process automation covering policy administration, claims management, sales, underwriting and rating system, reinsurance, workflow management, data mining and reporting, billing and premium accounting, commissions management, document management, and ERP.

- JBC has automated some of its key business functions including policy administration life cycle and ERP. The system is locally developed and covers ERP as well as core insurance system including claims management. Some of the functionalities covered include administration, finance and accounting, insurance, management information system, utility, and services. Although, there is an IT department, there is a clear need to hire additional skilled resources to run and upgrade the existing IT systems. JBC's 73 sales offices are connected with the central system, and out of a branch network of 455, only 35 branches are online. The company has recently introduced premium payments through the mobile network. JBC also has a basic data center/server room upgrade of which the project will help finance to bring it in line with current industry standards. The project will also cover the cost of the establishment of a backup/disaster recovery site. Although JBC seems to have automated some of its business processes, the system is not fully integrated and does not cover basic functionalities like workflow management, claims management, customer portal, etc. A detailed review and systems audit of the existing core insurance and ERP system is being undertaken through the IDA-financed FSSP to be ready on time for project approval and implementation.

- The project will support a shared IT, if legally feasible, including cybersecurity infrastructure to be established for both state-owned insurance corporations JBC and SBC that will result in significant cost savings for the GoB. This will involve support of a consolidated data center and disaster recovery site that will serve both organizations, a single core policy administration, and ERP system that will result in savings in acquisition and implementation costs. See Figure 2.1 for an illustration of a core insurance systems architecture covering customer-facing channels, customer relationship management (CRM), core insurance system, data mining and analytics, integration infrastructure, and ERP.

- Modernization of JBC and SBC systems will be combined with advisory services to help improve the business practices of JBC and SBC so they are able to provide life and non-life insurance products tailored for Bangladesh and run their respective business effectively and on a commercially/actuarially sound basis. That will entail setting up an effective life insurance underwriting system, and internal controls including effective functions for risk management, actuarial matters and internal audit. The project will help the two companies set up effective distribution channels for current and future life insurance products, as well.

Figure 2.1. Core Insurance Systems Architecture



(d) **Capacity building and training.** The project will finance training of staff including through on-the-job training as well as South-South partnerships. The project will support training to boards and management on best practice in CG and risk management in the insurance sector through workshops, peer exchanges, training, etc. Companies will be encouraged to benchmark themselves against industry leaders and develop their own individual improvement plans. SBC and JBC as well as IDRA, SEC, and BFID will be invited to all CG training activities.

10. **The project will also support the strengthening of the reinsurance activities of SBC**. For SBC reinsurance business**,** the Bangladeshi authorities have decided, through the forthcoming latest amendments of the Insurance Corporation Act[21], that SBC reinsurance activities will be undertaken through a separate division of SBC, with a firewall between general insurance and reinsurance activities. This approach is meant to pave the way for the reinsurance business of SBC to be spun off as a subsidiary or a separate company at a later date. Given that fact, the project will thus support activities that will insure the integrity and effectiveness of the firewall between SBC insurance and reinsurance business. Strengthening of SBC reinsurance department will focus on TA for re-evaluation and modernization of all aspects of reinsurance business model and operations, including: (a) enhancement of risk management through setting up necessary risk management tools; (b) identifying, pricing, and determining coverage of current and future risks in Bangladesh; (c) development and implementation of a guideline on reinsurance negotiation skills; (d) development and implementation of methodology/guidelines on forms and types of reinsurance; (e) review and improvement of an accounting system; and (f) setting up effective marketing and distribution departments. The project will also finance necessary hardware and software and other goods needed to make the department self-sufficient.

Component 3. Project Implementation, Management, and Monitoring

11. Management of project implementation will be assumed by a PIU at IDRA. The component will finance costs for project management,[22] M&E, and GAAP implementation. This project component will help develop a strong M&E system to be used by the PIU and other beneficiaries and stakeholders to assess progress in implementation. This component will also provide support to the PIU to build up its capacity in the areas of project implementation and M&E. This would include: the following

- **Project management and capacity building.** Implementation support will be provided to the PIU for the day-to-day management and coordination of project activities. TA will be provided not only to increase the PIU’s expertise in managing the procurement and FM aspects of the project and ensure that staff develop the required technical skills for the future , but also to oversee the technical quality aspects of project implementation under the other components.

- **M&E.** PIU’s capacity to collect and analyze data for project M&E will be strengthened through TA. An M&E specialist will be part of the PIU team to help plan and develop a strong M&E mechanism, including third-party monitoring, and a

[21] The Insurance Corporation Act of 1973 governs the activities of the two state-owned insurance corporations: JBC and SBC.
[22] Project management costs include all expenditures incurred by the PIU at the IDRA in coordinating and implementing the project. Out of these PIU operating costs, the IDRA staff salaries, GoB civil servant salaries, sitting allowances, honoraria, and cash per diem will be ineligible for IDA financing and will be financed by the Government’s contribution.

credible baseline, including the beneficiary feedback mechanism. The M&E expert will also build capacity within IDRA.

Annex 3: Implementation Arrangements

BANGLADESH: Insurance Sector Development Project

Project Institutional and Implementation Arrangements

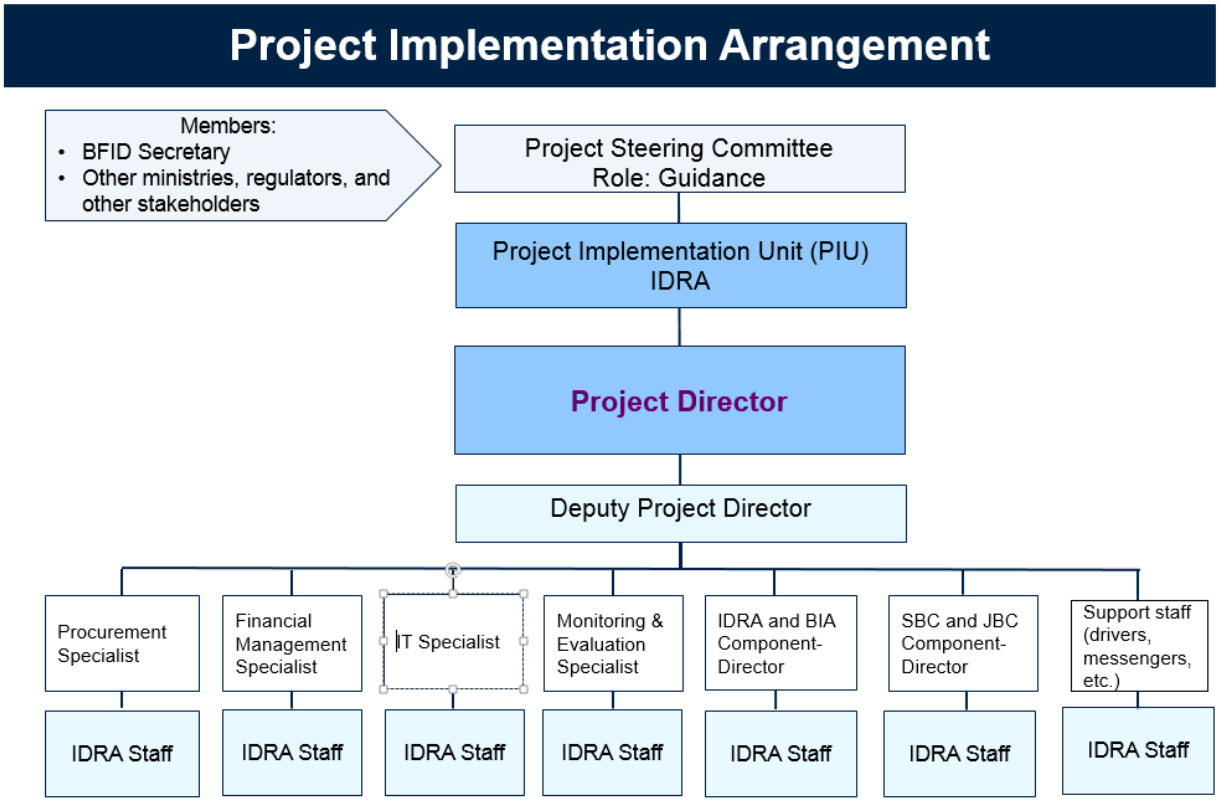
1. The MoF and more specifically the BFID at the MoF, will be the executive division for the project. IDRA will be the implementing agency and will be responsible for overall project implementation. Funds for project beneficiaries will flow through IDRA. With regards to legal arrangements, in addition to the credit agreement between IDA and the GoB, a project agreement will reflect the agreement between IDA and the IDRA. A subsidiary grant agreement will also be signed between the IDRA and the MoF.

2. **Policy and overall guidance.** A PSC will provide the project with overall guidance, monitoring functions, and attention to inter-ministerial issues. A PSC chaired by the secretary of BFID will be set up after project approval and be operational within two months of the project becoming effective. The committee will include senior representatives from IDRA, the Finance Division and ERD of the MoF, Implementation Monitoring and Evaluation Division (IMED) and Socioeconomic Infrastructure Division of the Planning Commission, BB, SEC, BIA, JBC, SBC, private insurance companies, and other relevant stakeholders, as the PSC may decide. The PSC will meet at least twice a year to decide on policy and major implementation aspects of the project. The project director (PD), appointed by GoB, will act as the member secretary to the committee, and a deputy project director (DPD) will support him/her in the committee with project details.

Project Administration Mechanisms

3. Responsibility for project management will be entrusted to a PD. This PD will lead the PIU located at IDRA. The PD will be supported by a full project implementation team, responsible to provide the necessary support to the PD for carrying out day-to-day implementation activities of the project. The key members of the team with adequate qualifications and appropriate skills will be hired and will include a DPD, FM specialist, procurement specialist, IT specialist, and M&E specialist. Consulting firms and contractors will also be hired under the project to carry out specialized project activities such as risk management and reinsurance. Each project component will be managed by a Director who will be responsible for the implementation of his/her respective component (the POM will include a summary description of their roles). Due to the shortage of personnel at IDRA, Directors as well as other professionals (as least one per component) and the needed support staff including an accountant, administrative assistants, messenger, etc. will have to be hired as regular IDRA staff members and will remain at IDRA after the project closes. The PD and Directors will be supported by the DPD, who will coordinate and monitor the activities of the various components, beneficiary agencies, and technical experts. The experts will work under the direct supervision of the PD, Directors and DPD (see Figure 3.1). The PIU will also coordinate with the other regulators in the financial sector like the MRA, Bangladesh SEC, and BB to implement specific project activities and the industry associations for implementation of the capacity building and awareness raising.

Figure 3.1. Project Implementation Arrangement



Financial Management, Disbursements, and Procurement

Fiduciary Capacity

4. Based on the assessment of IDRA's fiduciary capacity, the overall fiduciary risk is Substantial.

5. A procurement risk assessment was carried and the procurement risk of the project is Substantial. IDRA has no procurement staff and limited knowledge in public procurement, especially good international procurement practices. Internal control, documentation, information dissemination, contract administration including delivery follow-up, payments, and complaints handling need to be strengthened for IT procurements. Several measures will need to be introduced to minimize procurement risks during project implementation.

6. An FM capacity assessment was carried out to evaluate the overall FM capacity prevailing in the country and within the implementing agency, the IDRA. The overall FM risk is Substantial partly because of lack of experience in managing Bank-funded projects and other capacity constraints identified in the assessment. It was noted during the assessment that there is no professional FM staff in the IDRA, which is critical to manage day-to-day FM activities of the project. An assessment of the accounting system shows that financial records in the IDRA are currently maintained manually. With the limited use of IT (Tally accounting software), it will be difficult to facilitate record keeping, tracking, and reporting of project financial information,

which currently facilitates the accounting of receipt and payment. The accounting system has not been updated due to the shortage of resources. To address the capacity constraints, it was agreed that a senior-level FM specialist will be recruited with additional supporting staff to carry out the FM functions. The GoB project preparation team has already started the process for the recruitment of fiduciary staff to be available from the commencement of the project.

Planning and Budgeting

7. **Planning.** A draft Procurement Plan covering all major procurement has been prepared for the entire duration of the project. This plan will be agreed upon between the borrower and the Bank during negotiations and be made available on the Bank's external website. In consultation with the Bank, IDRA will update the Procurement Plan, at least annually, to reflect the actual implementation needs.

8. **Budgeting.** A budget plan will be maintained for the entire term of the project, and detailed budgets for each fiscal year will also be produced to provide a basis for FM activities of the project. The annual budget will be prepared on the basis of the Procurement Plan and any other relevant annual work/implementation plans. These budgets will be monitored periodically to ensure actual expenditures are in line with the budgets and to provide input for necessary revisions.

Internal Control

9. **Filing and record keeping.** IDRA will preserve all procurement records and documents in accordance with provisions of the Public Procurement Act (PPA) 2006 and the POM as applicable. These records must be made readily available on request for audit, investigation, or review by the Government and the World Bank. All project-related documents must be filed separately to facilitate internal and external audits, as well as reviews by the World Bank.

10. **Financial Management and Project Operations Manual:** There is no guidance and reference manual for FM functions in the IDRA. It has been agreed that an FM Manual will be prepared under the project, covering overall FM of IDRA along with FM of the project. The FM Manual will have all the ready references to financial rules and regulations of the Government along with the project requirements from the World Bank. IDRA agreed to review and update the FM Manual periodically (after interval of three years/such other appropriate interval) in order to keep this manual updated even after the closure of the project. It was agreed that the manual will have reference to the FM Guidance Book that the Bank has developed to facilitate the management of FM activities in accordance with rules and regulations of the country, as well as with the FM requirements of the Bank. The FM manual will be a component of the POM approved by IDA and maintained throughout the period of implementation of the Project.

11. **IT-based FM system.** The accounting system assessment shows that the financial system is mostly manual and not automated. The limited use of the Tally accounting software mainly facilitates the accounting of receipt and payment transactions only. With the existing system in place, it will not be possible to facilitate record keeping, tracking, and timely reporting of project financial information. Furthermore, to facilitate overall automation of work flow, which among others, will include financial record maintenance, assets management, cash or automated Bank

transaction, human resource information system, and other appropriate modules. In addition, an appropriate ERP or accounting software will also be required. In the absence of a robust organization-wide automated FM system, it was agreed that an appropriate accounting software will be purchased under the project. Contract package for the purchase of the said software will also include the training of FM staff on the operation of the software, and a separate maintenance contract may also be signed with the vendor for the life of the project. To aid the bookkeeping and reporting, accounting software will need to be purchased and installed within one year from the date of signing of the financing agreement.

Oversight Arrangements

12. **External audit.** IDRA is audited by a professional audit firm each year to meet the statutory requirement. The project will also continue to be audited by the same professional audit firm in accordance with expanded TOR, so that separate project audit can be avoided. The annual audit reports will be submitted to the Bank within six months from the end of each financial year and this will be monitored in the Bank system (PRIMA). The audited financial statements will be made available for public disclosure. If there is any audit objection, the PD with the assistance of the PIU will follow up and take remedial actions within the agreed timeline. In addition, the project will undergo a Bank-led annual integrated fiduciary review, which will cover the procurement and technical aspects of the project. This will start from the second year of project implementation. There are no pending audit reports, nor any serious audit issues, for any closed and ongoing projects under IDRA, the implementing unit.

13. **Financial reports (interim unaudited financial reports).** The implementing agency will be required to maintain a satisfactory FM system, including all the mandatory books of accounts for preparing quarterly and yearly financial statements. Quarterly Interim Unaudited Financial Reports (IUFRs) will be submitted to the Bank by the project within 45 days from the end of each quarter and the IUFR will need to be directly produced by the accounting software within one year from the start of the project.

14. **Procurement complaints.** In addition to the grievance redress mechanism, which is in place for procurement-related aspects, IDRA will establish a system for managing complaints, including a database for recording, monitoring, and following up on all procurement activities. The World Bank must be notified of any complaints to ensure transparency in the resolution process.

Procurement Considerations in the Fiduciary Assessment

15. **Procurement implementation arrangement.** A PIU formed at IDRA will be responsible for all procurement. Total procurement under the project are valued at about US$62 million, out of which goods are US$47 million and consulting and non-consulting services of individuals and firms are about US$15 million. The key procurements here are, several International Competitive Bidding (ICB) IT and other goods packages. Procurement will be carried out in accordance with the Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014 (Procurement Guidelines) and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014 (Consultant Guidelines),

as well as, the specific provisions stipulated in the financing agreement. A general procurement notice (GPN) for all major procurements to be financed by the proposed project will be published on the Bank's external website and the United Nations Development Business (UNDB)

16. **Procurement of goods.** Except as otherwise agreed in the procurement plan, procurement of goods will follow ICB procedures. Procurement of goods with an estimated value that is less than the ceiling stipulated in the Procurement Plan may follow National Competitive Bidding (NCB) and shopping procedures. Direct Contracting may be allowed under special circumstances with prior approval of the Bank. NCB contracting will be carried out under the Bank's Procurement Guidelines, following procedures for the Open Tendering Method (OTM) of the PPA 2006 (including the first amendment to the PPA of 2009) and the Public Procurement Rules, 2008 (as amended in 2009), using standard bidding documents satisfactory to the Bank. For NCB contracting, the following shall apply: (a) post bidding negotiations shall not be allowed with the lowest evaluated or any other bidder; (b) bids should be submitted and opened in public in one location immediately after the deadline for submission; (c) lottery in the award of contracts shall not be allowed; (d) bidders' qualifications and experience requirements shall be mandatory; (e) bids shall not be invited on the basis of percentage above or below the estimated cost and contract award shall be based on the lowest evaluated bid price of compliant bid from eligible and qualified bidder; and (f) single-stage two-envelope procurement shall not be allowed.

17. **Procurement of non-consulting services.** Except as otherwise agreed in the Procurement Plan, procurement of non-consulting services will follow ICB procedures. Procurement of non-consulting services having an estimated value less than the ceiling stipulated in the Procurement Plan may follow NCB procedures.

18. **Selection and employment of consultants.** The following methods will apply for the selection of consultants: Quality- and Cost-Based Selection (QCBS), Quality-Based Selection (QBS), Fixed Budget Selection (FBS), Consultants' Qualification (CQ), Least-Cost Selection (LCS), and Single-Source Selection (SSS). Single-Source Selection (consultants) may be allowed under special circumstances with prior approval of the Bank. Short lists of consultants for services estimated to cost less than US$500,000 equivalent per contract may be composed entirely of national consultants. The procurement plan will specify the circumstances and threshold under which specific methods will be applicable.

19. **Staffing - procurement focal person.** IDRA shall nominate a procurement focal point for the project. The focal point will support the PIU in day-to-day procurement follow-up and preparation of periodic procurement reporting. This focal person will be a mandatory member of all evaluation committees for procurement implemented by IDRA.

20. **Procurement consultant.** IDRA will hire a qualified procurement consultant on a full-time basis for the entire project period. This procurement consultant will help the PIU in day-to-day procurement and also will conduct training to build procurement capacity of IDRA. The procurement consultant will be a mandatory member of all evaluation committees.

21. **Webpage for procurement information.** All information pertaining to bidding and procurement above the specified thresholds, according to Public Procurement Rules of 2008, must be published on the Central Procurement Technical Unit (CPTU) website. In addition, the IDRA will publish procurement information on its own website. This information must include invitations to bid, bid documents, and requests for proposals (wherever applicable); latest information on procurement plans and contracts; status of evaluations once completed; contract award information; and information covering the poor performance of contractors, suppliers, and consultants, including a list of debarred firms. The website will be accessible to all bidders and interested persons equally and free of charge.

22. **Evaluation committee.** The evaluation committee will consist of five members. The procurement focal person and procurement consultant shall be mandatory members of the committee.

23. **Independent evaluation by the Bank.** The major contracts will be thoroughly reviewed by the Bank, and as needed, independent consultants will be recruited to review such contracts at various stages of evaluation and award and to evaluate proposed changes in the contract.

24. **Publication of award of contract.** IDRA will publish contract award information within two weeks of contract award on its own website, as well as on the United Nations Development Business (UNDB) Online and Central Procurement Technical Unit (CPTU) websites. The following information must be included: contract package number, advertisement date, number of bid documents sold, number of bids submitted along with names of bidders, bid prices as read out at bid opening, name and evaluated price of each bid, number of responsive bids along with name of bidder, name of bidders whose bids were rejected and brief reasons for rejection of bids, name of the winning bidder and the price it offered, and proposed completion date of contract, as well as a brief description of the contract awarded.

25. **Prior review of procurement decisions.** IDA's prior review of procurement decisions will be governed by Appendix 1 of the Bank's Procurement Guidelines and Consultant Guidelines. For each contract to be financed by the credit, the monetary threshold for prior review and post review will be identified in the procurement plan. In addition, all TOR for consultants will be subject to the Bank's review, irrespective of the prior review status of the contract.

26. **Post review by the Bank.** The World Bank will conduct a fiduciary post review (procurement and FM) on a sample basis. The sample size will depend on risk and efficiency. This review will be on an annual basis and will cover all contracts managed and implemented by IDRA.

Financial Management Considerations in the Fiduciary Assessment

27. **Financial Management (FM) Risk.** The key FM risks for the project are the following: (a) weak capacity to generate an accurate and timely financial report including IUFRs; (b) absence of internal audit function; (c) absence of FM staff; (d) absence of appropriate FM guidelines; and (e) weakness in record keeping. To mitigate these risks, an FM action plan has been agreed after a derailed assessment was undertaken. .

28. **Staffing.** It was noted during the assessment that there is a shortage of professional FM staffing; therefore, to address capacity constraints, additional support of one (1) senior FM specialist is needed. In addition, one staff deputed from IDRA from its newly hired personnel will be made available to the PIU for the position of junior FM specialist. It was agreed that IDRA will initiate the hiring/recruitment of senior FM specialist so that she/he can be onboard immediately after the project becomes effective. This is to ensure full control of fund utilization and proper reporting thereon, from the inception of the project. The TOR of the FM specialist will have to be cleared by the Bank. A junior FM specialist with qualification in accountancy discipline will join the PIU within two weeks of the start of the project.

29. **Internal audit.** The purpose of the internal audit is to: (a) ascertain the effectiveness of expenditure, (b) ensure adherence to rules and regulations by the Government/implementing agency in the payment process, and (c) ensure effective management of assets and funds of the project. IDRA does not have its own internal audit function within the organization; thus, internal audit by a professional accounting firm will be needed every year. In the long run, an internal audit department will need to be created and strengthened through the hiring of technically qualified staff as part of capacity building.

30. Bank's prior clearance on TOR and selection process in hiring an internal auditor will be needed. Going beyond the financial aspects, the internal audit will also look into the effectiveness and efficient use of project resources and conduct an independent appraisal of the PIU and other partners in the implementing arrangements. The key internal audit functions will be to: (a) ascertain whether the system of internal checks and controls for preventing errors, fraud, and corruption within the organization is effective in its design as well as operation; (b) ensure reliability of accounts and other records, as well as ensure that accounting methods provide the necessary information for the preparation of correct financial statements; (c) determine the extent to which the project entity's assets are safeguarded from any unauthorized uses or losses; (d) undertake physical verification of assets/goods; (e) establish whether administrative and financial regulations of the Government and instructions issued by the Treasury and other legal requirements are complied with; and (f) verify whether funds used/employed resulted in achievements of intended purpose.

31. **Assets and payments.** All project payments will be made by the PD through mandatory banking systems (checks/other bank transfer), except for small petty cash expenses, the nature of which is to be agreed with the Bank. The project will maintain assets tracking system for ensuring annual physical verification and reporting on assets procured under the project.

32. **Operating costs.** "Operating costs" mean the reasonable costs required for the day-to-day coordination, administration, and supervision of project activities by the PIU at IDRA, including: (a) leasing and/or routine repair and maintenance of vehicles, equipment, facilities, and office supplies, utilities, consumables, communication expenses, translation, printing, photocopying, and postal expenses; (b) bank charges; (c) advertising expenses; (d) insurance; (e) costs of clearing, forwarding, inspection, survey, and transportation of goods; (f) project-related meeting expenses; and (g) project-related travel, provided that such operating costs are paid to the eligible recipient through the banking system (except for petty cash expenses following the recipient's existing policy). However, it will exclude vehicles, fuel, office space, salaries, per diem, allowances, and honorarium of officials of the recipient's civil service and/or other sitting

allowances and honorarium of any other nature. Those expenses will be financed from the Government's contribution.

33. **Training.** "Training" means the reasonable costs required for the participation of personnel involved in training activities and workshops under the project which have been approved by the Bank in writing on an annual basis, including: (a) travel, hotel, and subsistence costs for training and workshop participants, provided that, such allowances are paid directly to the eligible recipient using the banking system; (b) costs associated with the rental of training and workshop facilities, preparation and reproduction of training and workshop materials, costs of academic degree studies, and other costs directly related to training course or workshop preparation and implementation, but excluding salaries of consultants and sitting allowances and honorarium of any other nature.

Disbursements

34. **Flow of funds from Designated Account.** IDA funds will be disbursed into a Designated Account (DA) to be maintained by the PIU in a commercial bank in accordance with the approved government procedures governing the establishments of DA. There will be no flow of funds from the DA to the project beneficiaries BIA, JBC, and SBC. All payments from the DA to beneficiaries will be through IDRA. This will be a convertible Bangladesh taka account. The commercial bank should have adequate experience, manpower, network, and authority to process transactions on a fast-track basis. The approved government procedures governing the establishments of DA shall be followed in all respects. Although the PD of the PIU at the IDRA will be the authorized signatory to operate the DA of the project, it is recommended that the project propose additional authorized signatory through ERD, so that, fund withdrawals are not delayed in case the lone signatory is not available. Payment of counterpart share of expenses will be made from a separate bank account or GOB account as per the decided arrangements.

35. **Basis of disbursements.** It was agreed that the project will start with the transaction-based disbursements and will convert to IUFRs-based disbursements within a year of project implementation when the project demonstrates the capacity to prepare reliable and timely financial reports.

Environmental and Social (including Safeguards)

36. NA.

Monitoring and Evaluation

37. A strong M&E framework is essential to systematically track inputs, outputs, and outcomes for the various components of the project. The proposed framework and indicators have been discussed and agreed with BFID and IDRA (see Annex 1).

38. The PIU at IDRA will establish standard formats with baseline information and data, guidelines for data collection and report updates of M&E to the PSC. The PIU will be responsible for overseeing and coordinating this process. Terms of reference of a specialist in M&E to be recruited for the PIU have been approved by IDA. The PSC will provide strategic policy guidance and oversight of the project implementation.

39. The World Bank Group will evaluate progress on the proposed indicators through regular reporting by the PIU and through implementation support missions, including the midterm review. The midterm review is expected to be in month 36 of implementation. The PIU will submit quarterly reports, tracking output and outcome indicators, and semiannual FM reports. A project audit will be undertaken annually in line with the TOR included in the POM. In addition, a beneficiary feedback mechanism to be integrated into the project will be monitored during implementation.

Annex 4: Implementation Support Plan

BANGLADESH: Insurance Sector Development Project

Strategy and Approach for Implementation Support

1. The World Bank Group will support the implementation of the project and provide the technical advice necessary to facilitate the achievement of the PDO.

2. Throughout the project duration, the World Bank Group team will closely monitor the project on semi-annual implementation support missions. During the implementation support missions, the World Bank will ensure that the financial arrangements agreed on are respected and will assess if any additional training or support is needed. The World Bank team will review and clear the audit TOR, review the audit reports and interim financial reports received, and provide its feedback in a timely manner. The project team will also be responsible for reviewing all prior-review procurement contracts.

3. TA support under the project will largely be provided by consultants (individuals as well as firms), and the World Bank Group team will review their TOR and the deliverables and engage in reviewing the TA performance during implementation support missions. Parallel TA will also be provided by activities under the programmatic approach for financial sector development in Bangladesh, that is currently under preparation and other support activities, including those possibly funded by trust funds.

4. The World Bank's implementation support will follow a risk-based approach. At least two missions will be carried out annually, in addition to, follow-up visits as deemed necessary. The audit reports and the interim and annual financial statements, in addition to the management letter, will be reviewed on a regular basis by the World Bank FM specialist. The results and/ or any issues identified during the review, will be followed up during implementation support missions. Also, during the World Bank's implementation support missions, the project's FM and disbursement arrangements will be reviewed to ensure compliance with the World Bank requirements and to assess the FM performance for the Implementation Status and Results Report.

5. The Bank's fiduciary team, which is currently based in Dhaka, will advise and support the IDRA in FM and procurement. The IDRA and PIU staff will receive training and capacity-building support under other core public FM and procurement programs financed by the Bank. Project staff will also be provided specific training on issues such as Bank procurement guidelines and strengthening financial controls, including internal audit.

Implementation Support Plan

6. The World Bank Group implementation support team will consist of technical specialists from its Finance and Markets and Social Protection and Labor Global Practices as well as specialists in operations, procurement, FM, safeguards, and M&E. The external communications specialist will advise on the project's communications strategy.

7. Technical specialists will review project documents, including TOR, bidding documents, and consultant reports. They will also conduct site visits to assess progress in the field and on project implementation and consult with the financial sector stakeholders, including think tanks, research centers, and professional associations.

8. During project implementation, support will be provided as indicated in tables 4.1 and 4.2.

Table 4. 1. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate (US$)	Partner Role
First 12 months	• Selection of all consultants and PIU staff • Selection of unit staff • Design of pilots • Procurement • FM	• Technical (see table 4.2) • Procurement • FM	165,000	–
12–60 months	Project management and implementation support	• Technical (see table 4.2) • Procurement • FM • M&E	165,000	–

Table 4. 2. Required Skills Mix

Skills Needed	Number of Staff Weeks/Year	Number of Trips	Comments
Financial sector/inclusion specialist – TTL	12	3	Overall supervision and implementation support
Insurance specialist - Co-TTL	9	2	Overall supervision and implementation support focusing on insurance activities
IT specialist	4	1	Supervision and implementation support of IT activities
Corporate Governance specialist	4	1	Supervision and implementation support of CG activities
Legal counsel	4	1	Supervision and implementation support of legal and regulatory framework activities
Fiduciary specialists	10	Dhaka based	Supervision and implementation support of FM and procurement

Annex 5: Economic Analysis

BANGLADESH: Insurance Sector Development Project

1. **The proposed PDO** is to strengthen institutional capacity of the regulator and state-owned insurance corporations and increase the coverage of insurance in Bangladesh.

2. **Methodology of the economic and financial analysis.** Due to the nature of activities financed under the project, a monetary value cannot be assigned to all benefits to calculate the project's net present value (NPV) or Internal Rate of Return (IRR). The following sections will, however, include a comprehensive assessment of benefits and costs associated with each of the project's components due to project intervention (Figure 5.1). A financial analysis of JBC and SBC based on key performance indicators along with ratios for the insurance companies/industry is discussed and provided. In addition, a discussion on the requirements for JBC and SBC to remain viable, solvent, profitable and sustainable with project intervention is also provided.

3. **The projected life expectancy of benefits is far superior to the duration of the project, especially for life insurance products**. Most of the project's benefits are not quantifiable, in particular for the capacity-building activities. In light of these, the analysis includes both a quantitative and a qualitative discussion of the projects costs and benefits and concludes with a discussion on the rationale for public intervention and the value addition of the World Bank Group.

4. The discussion in the following sections will be organized by components, as the analysis attempts to further detail expected benefits and costs.

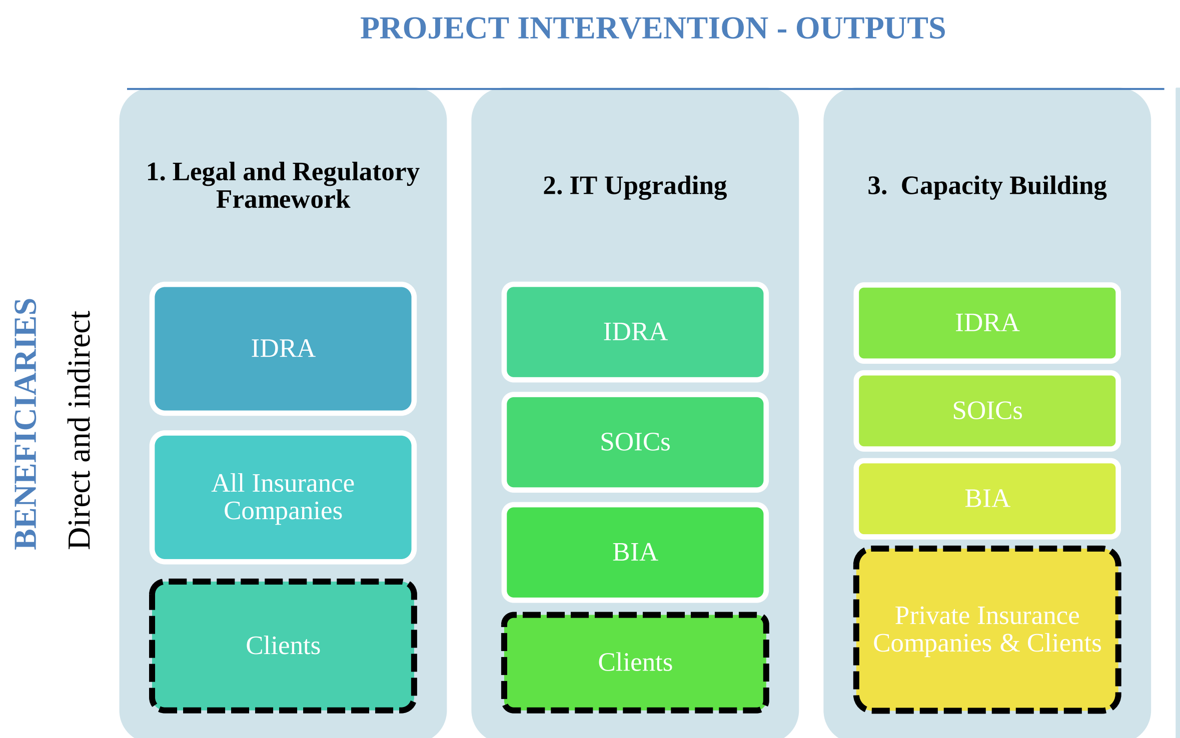
Component 1: Improving the Capacity of the Insurance Development and Regulatory Agency (IDRA) and the Bangladesh Insurance Academy (BIA)

5. **The role of the insurance sector in contributing to economic growth, although not studied as extensively as that of banks, has been increasingly discussed in the literature.** Skipper (1997)[23] provides an overview of channels through which insurers contribute to the economy, such as (a) financial stability thanks to increased liquidity guaranteed by insurance coverage, (b) substitution for Government security programs, (c) savings mobilization in particular life insurers can channel significant amount of long-term savings into capital markets, and (d) more efficient allocation of capital. Webb et al. (2000)[24] find a two-way relationship between life insurance penetration and growth rate, with increases in life insurance penetration being associated with increases in GDP per capita. They also argue that insurance companies have the potential to develop capital markets and increase expected returns on investments by lowering the costs of financing, as they pool risks and provide optimal investments and asset-liability matching.

[23] Skipper Jr, H. 1997. *Foreign Insurers in Emerging Markets: Issues and Concerns.* Occasional Paper 97–92. Center for Risk Management and Insurance.

[24] Webb, I., M.F. Grace, and H.D. Skipper. 2002. *The Effect of Banking and Insurance on the Growth of Capital and Output.* Working Paper 02. Center for Risk Management and Insurance.

Figure 5.1. Mapping out the Project's Activities and Beneficiaries



Note: = Indirect beneficiaries.

6. At a meso and micro-level, the project's direct benefits are as follows:

Detailed Future Benefits of the Overall Component (Qualitative Discussion)

(a) For the industry

- Greater trust and improved confidence of the population, attributable to effective monitoring and compliance management systems

- Improved client satisfaction. For example, improved claims management system will lead to reduced processing times of claims. In addition, products and services offering will be: (a) increased, better tailored, and of better quality; (b) better priced (risk-based rather than flat premium, including after updating mortality tables); and (c) better aligned with international practices. This will help the industry grow at a faster rate and attract new, untapped population and profitability may also improve.

- Improved protection of policyholders in life insurance (including better education), which may reduce lapse ratio.

- Enhanced skills. The project will help address the shortage of actuaries through all stakeholders involved. Continuous and up-to-date training delivered by the BIA to different levels of management and staff will contribute to the development of professional skills.

- Increased international recognition, extended professional networks, and ability to develop and maintain relationships (including knowledge exchanges) with other markets. IDRA and BIA will by the end of the project be more professionalized and better known, with greater capacity to help develop the sector.

(b) For the population

- Improved protection for policyholders, including women, for all insurance products.

- Better tailored insurance products (regulated) such as agriculture insurance and micro-insurance that help mitigate risks by reducing vulnerability to external shocks, particularly in rural areas.

- Lower premium costs.

Component 2: Modernization, Strengthening, and Increasing the Efficiency of the State-owned Insurance Corporations

Operating and Performance Indicators for SBC and JBC

7. A basic financial review comparing SBC and JBC's performance to that of the other insurance companies in Bangladesh was conducted based on available data. The top 10 private insurance companies account for more than half the sector and were all non-life insurance companies. While data constraints made it difficult to calculate several key ratios including leverage ratios such as the debt/equity ratio as well as profitability ratios such as return on assets and investment yield, with project support, a significant improvement on data collection and analysis is expected for the insurance sector in general and for SBC and JBC in particular. This will allow the regulator IDRA to generate all key ratios, including a new solvency ratio and use them to better monitor the performance of insurance companies.

8. As discussed previously, minimum capital requirements are BDT 400 million for non-life and BDT 300 million for life insurers. This is well above the paid-up capital requirements for JBC and SBC, which are, respectively, BDT 50 million (US$637,100) and BDT 100 million (US$1.25 million), but this is being increased to match the requirements of private companies. Whereas JBC will need financial support to comply with the new capital requirement of BDT 300 million (US$3.75 million), SBC has the resources to meet the new capital requirements of BDT 1.25 billion (US$16 million) when the amendments become effective. Based on 2013 figures and number of companies, the total capital shortfall for the sector is estimated at a total of BDT 7,536.0 million (US$96 million).

9. In 2014, SBC assets stood at BDT 21,358 million representing 27 percent of the total assets of the 46 non-life insurance companies, while JBC assets at BDT 17,613 million represented only 6 percent of the total assets of 31 life insurance companies (Yearbook of Bangladesh Insurance Association, 2015).

10. Select performance indicators for the insurance industry are shown in Table 5.1. SBC's gross premium income, vital for its sustainability has been declining since 2012 compared to the rest of the general life insurance companies. SBC gross income was at BDT 8,008.9 million in 2014, reflecting an increase of 61 basis point compared to 2013. Nonetheless, this figure is low compared to the increase of 600 basis point for Bangladesh non-life insurance companies over the same period. SBC underwriting results produced an estimated surplus of BDT 1,196.6 million during the same period, which increased to about BDT 1.468 million in 2015. Net profit of about BDT 1.7 billion was declared by SBC for both periods. For JBC, gross premium increased by about 680 basis point to BDT 3,899.3 million in 2014, and this is equivalent to the increase of gross premiums of life insurance companies over the same period. Although JBC's share in life insurance remains modest, premium growth was comparable to the rest of the sector.

11. Although data on investment income need to be reconciled across insurance companies and data sources, it appears that investment by both life insurance companies and non-life insurance companies, including JBC and SBC, has generated positive returns, which have increased in nominal terms since 2010. Life funds of JBC and other life insurance companies have also increased reaching BDT 267.5 billion in 2014 for the life insurance sector, of which BDT 16 billion (about 6 percent) for JBC.

Table 5.1. Select Business Performance Indicators of Insurance Companies including SBC and JBC in 2014

	Top 10 NL Private Insurers		Non-life Sector			Life Sector		
	Median	**Average**	**2014**	**2011–14 (per annum)**	**SBC 2014**	**2014**	**2011–14 (per annum)**	**JBC 2014**
Number of policyholder growth (%)	–	–	8	7	–	1	−0.20	–
Number of policies growth (%)	–	–	10	8.20	–	1	−0.30	–
Average premium/policyholder	–	–	BDT 21,156	BDT 21,084	–	BDT 4,425	BDT 4,173	–
Average premium/policyholder growth (%)	–	–	−1	1	–	5	4	–
Gross premium growth (%)	6	8	6	9	−8	7	4.10	7
Net premium growth (%)	2	6	9	13	10	7	4.70	7
Net claim/net premium (%)	21	25	25	25	35	51	40	72
Reinsurance rate (%)	50	48	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Underwriting profit/gross premium (%)	11	12	17	17	68	n.a.	n.a.	n.a.

Source: Yearbook of Bangladesh Insurance Association, 2015, and data from IDRA.
Note: NL = Non-life insurance companies; n.a. = Not applicable or not available.

12. A comparison of SBC and JBC with the average of the non-life insurance and life insurance sectors on select underwriting ratios commonly used in the insurance industry is shown in Table 5.2. The premium growth rate—measured by a change in net premium, that is, gross premium written in the current year minus gross premium written the previous year over the net premium written the previous year—provides an indication of a number of symptoms of potential stress in the company. Higher growth rate compared to the industry average should not come at the expense of higher-risk clients, while slower growth rate might be an indication that the company is looking for only the highest quality insurance opportunities. In 2014, SBC premium growth rate was lower than that of non-life insurance companies while JBC premium growth rate was similar to that of other life insurance companies. Nonetheless, higher premium collections do not necessarily mean higher profits as the number of claims (low-risk client) also affects profitability.

13. The combined ratio (net claims (loss) ratio[25] + expense ratio[26]) is a measure of profitability used in the insurance industry. A ratio below 100 percent indicates that the company is making underwriting profit while a ratio above 100 percent means that it is paying out more money in claims than it is receiving from premiums. Based on available data, SBC combined ratio was less than 100 percent in 2014 and suggests higher efficiency and potentially underwriting profit. JBC expense ratio was, however, higher than that of other life insurance companies and a combined ratio likely above 100 percent suggests that it was paying out more money in claims than it was receiving from premiums. Nonetheless, because the ratio does not include the income received from investments, JBC could potentially still be making a profit.

Table 5.2. Evolution of Select Underwriting Ratios

		2010	**2011**	**2012**	**2013**	**2014**	**Project Baseline**	**Project End Target**
Non-life Insurance Companies								
Net claims ratio (%)	NL	34.7	27.2	32.5	29.7	30.6	–	–
	SBC	57.1	39.3	54.5	41.3	42.0	35.0	60.0
Premium growth rate (%)	NL	0.0	23.7	18.6	8.0	8.9	–	–
	SBC	0.0	9.9	6.2	−5.5	−3.1	7.0	15.0
Life Insurance Companies								
Net claims ratio (%)	L	28.2	36.0	42.8	51.7	61.3	–	–
	JBC	57.6	76.8	87.4	82.7	86.2	66.0	80.0
Premium growth rate (%)	L	0.0	7.3	5.0	0.3	6.8	–	–
	JBC	0.0	−11.0	11.5	6.4	6.8	6.0	15.0

Note: NL = Non-life insurance companies; L = Life insurance companies; n.a. = Not applicable or not available
Source: Data from the IDRA, JBC, and SBC.

[25] Net claims (loss ratio) is the ratio of net incurred claims over net earned premiums
[26] Expense ratio is calculated by dividing underwriting expenses, which are the costs of obtaining new policies from insurance carriers, by net premiums written

14. Many insurance companies and experts believe that the combined ratio is the best way to measure the financial stability and success of a company because it does not include investment income and only includes profit that is earned through efficient management. However, the net claims ratio is often miscalculated and low loss ratios, as is the case in Bangladesh, usually indicate that the ratios have been calculated incorrectly or that expense rates are excessive. Expense rates in Bangladesh tend to be higher and leave less room in the premium to cover claims. However, lower claims ratios may be justified for a while, but claims ratios of less than 50 percent point to a market that is not working properly or to inadequate claims provisioning. Thus, both JBC and SBC are expected to increase their net claims ratios in the future. Consequently, a target of 80 percent has been set to be reached by the end of the project for JBC and 60 percent for SBC. Maintaining a combined ratio of less than 100 percent, and thus profitability, would require an expense ratio below 20 percent for JBC and less than 40 percent for SBC. Bringing the expense rates down to these levels will necessitate that several related issues be taken care of, including reforming the central rating committee and liberalizing insurance rate setting, all of which the project will support.

15. SBC and JBC will benefit from more effective integration of their IT network, quicker and less costly underwriting process, and faster claim processing. Through efficiency gains, both insurance companies have the potential to increase insurance penetration, including in underserved low income, semi-urban, and rural segments of the population. With adequate capacity enhancements and institutional strengthening as proposed in this project, the two state-owned insurers can pave the way for private insurers to enter new markets (for example, agriculture insurance and rural areas).

Detailed Future Benefits of the Overall Component (Qualitative Discussion)

16. Several benefits that cannot be quantified are expected from implementation of project activities.

(a) By the end of the project, both companies can be expected to run their insurance business more effectively and better aligned with commercial practices:

- Automation will reduce redundancies and define workflows. This will not necessarily translate into lower operating expenses as staffing costs may initially rise to provide for more skilled labor (alternatively in the medium- to long-term operating, the margin will be higher, even if costs are higher on an absolute basis).

- Claims management will be improved.

- Marketing and commercialization of products will improve through review of causes for high lapse ratio in life insurance and for low attraction of new customers.

(b) Given that both state-owned insurance companies have a greater branch network into underserved areas, access to financial services can be expected to improve.

- JBC has the largest network all over the country with 8 regional, 12 corporate offices, 71 sales offices, and 390 branch offices. SBC has 86 offices.

- By comparison, Metlife (largest life insurer by assets) has 9 offices. Green Delta (largest non-life by assets) has 39 offices.

- For example, SBC will be better able to reach out to farmers and expand its agriculture insurance pilot.

(c) Healthy competition is expected within the industry, with demonstration effects for targeting underserved segments.

Benefit: Higher underwriting profit and increased premium (only due to the higher number of clients)

(d) Setting up an internal firewall between SBC's insurance and reinsurance activities will increase industry confidence. The improved capacity of the reinsurance arm through improved underwriting, claims adjustment, risk management, staff capacity, and capital adequacy, will provide improved reinsurance resources for the primary insurance sector. Adequate reinsurance will allow the insurance industry to manage and mitigate risks, as it undertakes expansion.

Benefit: More competitive reinsurance premiums offered by SBC

Rationale for Public Funding

17. There is strong rationale for public intervention in the insurance sector to increase outreach and coverage especially for those in rural and other underserved areas. Project interventions to improve IDRA's capacity as a regulator are expected to improve the efficiency of provision of insurance services to the population. The focus on modernization and reorganization of the state-owned insurance companies will also relax binding constraints to public sector performance (for instance, through core institutional reforms), and support re-distributional impacts. State-owned insurance corporations, indeed, have the potential to increase penetration of insurance products in underserved rural areas, where private insurance companies have limited presence. The project is in addition expected to enable 'crowding in' the market by demonstrating the ability to sustainably insure these segments based on commercial principles.

18. Project interventions in the insurance sector especially the development of life insurance products will also develop long-term funding options for the financial sector by providing assets that financial institutions can invest in. Long-term finance is scarce in Bangladesh, and the development of markets for long-term finance is essential to fund the investments in areas such as energy, transport, and urbanization, for Bangladesh's long-term development. The rationale for public provision/financing is strengthened on this ground.

Value Addition of the Bank

19. The World Bank has played a leading role in the development of the financial sector in Bangladesh. The World Bank having provided support to many countries and in particular, for

developing the insurance sector for increased coverage of the population, is a key player in the areas of financial sector stability, financial systems, and financial inclusion.

20. WBG's support will lead to increased impact in ways that go beyond what can be realized by alternative sources of support. Added value is derived through the technical inputs provided by the Bank, drawing on its broad and deep international experience in the insurance sector of addressing similar challenges.

21. In addition, WBG's intervention will support institutional capacity building during implementation, including training, and risk management, which will promote sustained focus on project's development objectives.

22. Finally, the World Bank's convening power by bringing development partners together to help support a government and sourcing global knowledge from external industry and think tanks as needed is invaluable. This is mostly relevant for knowledge exchange envisaged under the project (South-South knowledge exchange or with other developed countries).

Annex 6: Governance and Accountability Action Plan

BANGLADESH: Insurance Sector Development Project

Introduction and Background

1. The overall objective of the GAAP is to highlight the risks associated with the project and to delineate approaches to ensure effective and smooth implementation of the project through reducing potential risks. The GAAP will outline specific responsibilities of IDRA to facilitate the effective and appropriate use of the funds for the project and maintain good governance in the management and implementation of project activities. The key elements of the GAAP are measures to: (a) safeguard procurement and FM; (b) ensure coordination among IDRA, SBC, JBC, BIA, and other stakeholders for effective implementation of the project; and (c) establish an efficient procurement management system.

2. The GAAP will assess the governance and fiduciary risks envisaged in the context of Bangladesh during the project tenure. The GAAP is expected to be reviewed and adjusted as and when necessary during the project implementation period, to reflect any emerging governance issues and/or to reinforce existing actions and add new ones. The GAAP will be monitored regularly through the measures agreed upon with the implementing agency, as well as during the Bank implementation support missions.

Context for Risk Assessment

3. In recent times, Bangladesh has undertaken various initiatives with a view to improving the quality of governance and has managed to make progress in governance indicators. Based on the global indicators, it is deemed essential to continue the effort of improving governance as a key priority to achieve the country's development aspirations. The core governance systems are underway for strengthening core governance institutions. To combat corruption, a legal framework under the Anticorruption Commission has been in place. Aiming to increase transparency, the Right to Information Act of 2009 has been enacted with a view to facilitate greater access of citizens to public documents. Massive automation initiatives have been taken to reduce in-person interactions to get public services. A National Integrity Strategy has also been adopted in 2014 to improve ethical framework of public servants in the country. Although Bangladesh has improved its governance culture to a great extent, there is still scope for improvement in the public sector governance. Pertinently, ensuring good governance in the implementation of this project will require an action plan to mitigate probable corruption and governance risks that are relevant to the project.

Governance in Financial Sector

4. Financial institutions, including insurance companies, play a vital role of intermediation and risk reduction and thus serve the diverse financial needs of a growing economy like Bangladesh. The magnitude of their role underscores the importance of governance in the insurance sector. A number of initiatives have been taken to ensure good governance, with particular focus on the accountability and transparency of the management in the insurance sector of Bangladesh. The legislative and regulatory framework related to the insurance industry has been revised, with a view to help improve the governance and strengthen discipline in the

sector, primarily through the Insurance Act of 2010 and the IDRA Act of 2010. However, governance is an issue of continuous scrutiny and is addressed on a regular basis as and when required.

5. The project outcomes are designed to be realized through focusing on the following areas: (a) strengthening the capacity and effectiveness of IDRA and BIA; and (b) modernizing and increasing the efficiency of SBC and JBC. The expected activities of the project will ensure good governance. By improving the capacity of the regulatory authority to oversee the insurance sector, the transparency and accountability of the overall insurance sector will be improved. The secretary of the BFID will serve as the head of the PSC that will provide guidance and oversight of the PIU at the IDRA. A new secretary has been appointed to the BFID in March 2016. The previous secretary had been closely involved in the project preparation and strongly supported the initiatives undertaken. The Bank project team will forge a relationship with the incoming secretary to ensure the smooth transition of responsibilities.

Description of Governance Risks and Mitigation Actions

6. The following four areas of governance and accountability risks have been identified under the project: (a) project design and formulation; (b) project implementation and supervision; (c) procurement capacity, including contract management; and (d) FM capacity.

7. A number of governance risks/issues are associated with the implementation of the project. These risks are categorized under the four areas mentioned in the previous paragraph. The GAAP matrix delineates mitigation actions for each of these issues, timeline for each action, and responsible official/agency for implementation. The GAAP matrix is given in table 6.1.

Disclosure of Project Information

8. The PIU at IDRA will upload all project-related information in its official website. They will also be updated regularly. A staff of the PIU will be assigned as designated information officer. Besides, BFID and the PIU will ensure due diligence in all other information disclosure in the light of the Right to Information Act of 2009.

GAAP Monitoring, Remedies, and Sanctions

9. The Bank will apply sanctions according to its guidelines if it determines incidences of fraud, corruption, collusion, and coercive practices. These sanctions may include fines, blacklisting, suspension of disbursements, or ultimately cancellation with respect to that contract. The Bank will seek first to remedy cases of corruption through cooperation with IDRA. Information regarding such cases, where lessons are learned and funds are retrieved, will be widely disseminated.

10. GAAP will be monitored regularly through indicators and reflected in progress reports by the implementing agency, as well as in World Bank implementation supervision reports, including aide memoires and implementation status reports of the supervision missions. The GAAP matrix will be used widely for monitoring purposes. Any 'early warning' indicators of governance and accountability risks will be monitored regularly so that corrective measures could be carried out promptly. A governance specialist will also be included in the Bank

supervision team to strengthen the dialogue on the governance and accountability issues with the implementing agency.

11. The project will require intensive supervision by Bank staff. Supervision arrangements for this project, particularly for procurement and FM, are extensive. Throughout the project duration, the World Bank team will closely monitor the project on semi-annual implementation support missions. The Bank will also conduct regular monitoring between supervision missions.

12. The GAAP will be adjusted as necessary during implementation to reflect governance issues that may emerge and/or to add actions. The project design, funds flow and oversight arrangements are such that the implementing agency will have adequate systems to account for and report on the project resources and expenditures accurately and ensure that the project funds are used for the intended purpose.

Table 6. 1. GAAP Matrix

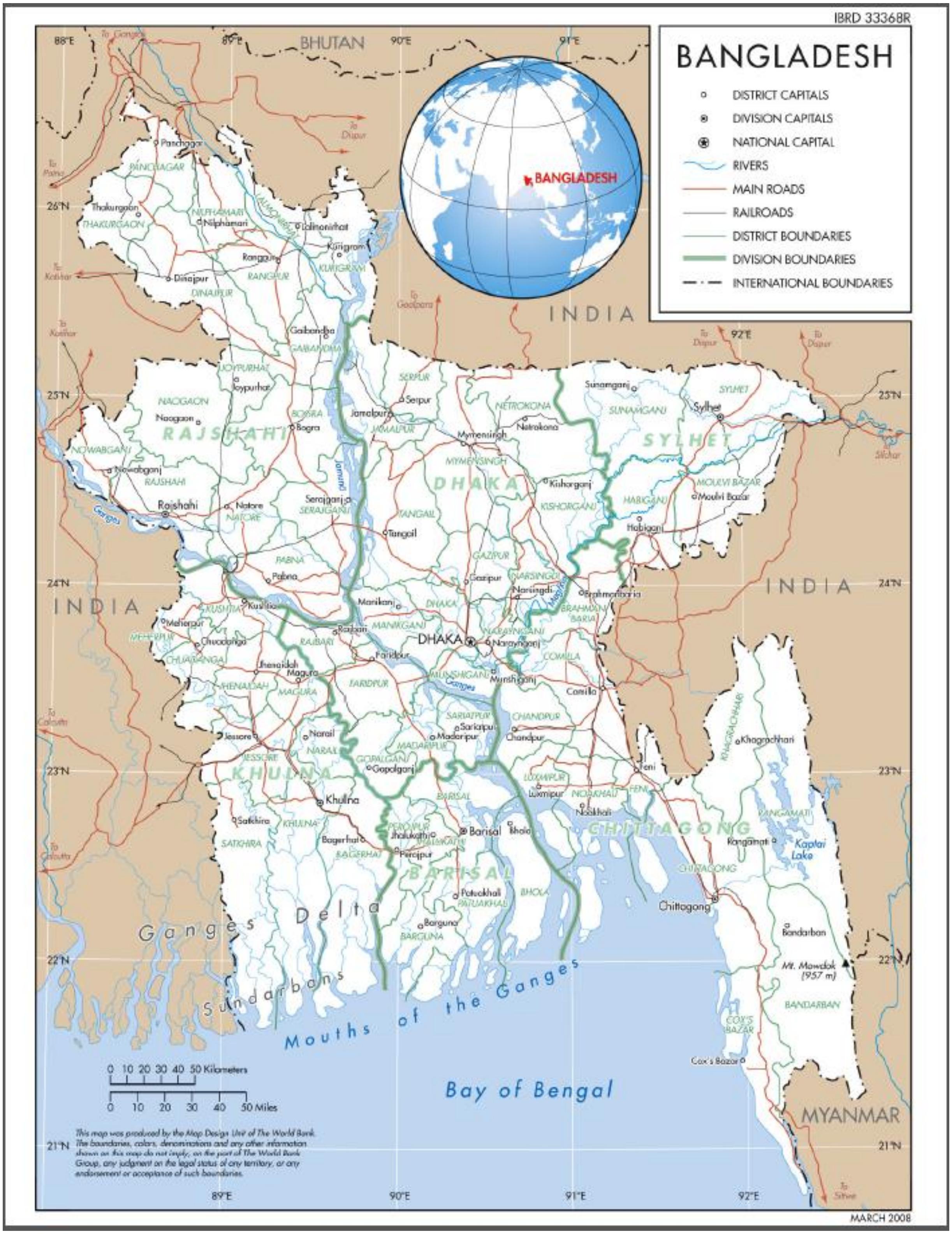
Issues/Risks	Mitigation Actions	Timeline	Responsibility
A. Project design and formulation			
Ensure ownership and participation of the concerned stakeholders for successful implementation of the project	• Discussion meetings with concerned departments and with the senior management of the IDRA, SBC, JBC, BIA, and BFID to meet the appropriate requirements and gain their cooperation. • Consult with the selected industry associations, NGOs, financial institutions, and other stakeholders to gain a solid understanding of the demand for specific insurance products.	• Before the approval of the project by the Bank and the GoB	• PIU, IDRA
B. Project implementation and supervision			
Ensure timely guidance from appropriate authority to address the critical issues on policy and major implementation aspects of the project	• A PSC will be formed. It will be chaired by the secretary of the BFID and include representatives from the PIU, the chairman of the IDRA, BB, SEC, insurance companies, and other relevant stakeholders as the PSC may decide. The PD will act as the member secretary to the PSC, and a DPD will support the PD in the committee. • Implementation of each component will be assigned to a Director who will provide overall guidance to the implementation team.	• Meetings of the PSC will be convened biannually. However, the PSC may meet anytime if required. • Directors will be assigned at the start of project implementation.	• PD
Ensure smooth functioning of the PIU in the absence of key members of the project authority	• A full time PD and a DPD will be appointed to carry out the project activities. The implementation unit can fill the gaps in the absence of any project personnel.	• The acting PD is already in place. The DPD will be in place before implementation.	• PIU, IDRA.
Ensure obtaining relevant and timely approvals from concerned Government	• As the PSC consists of senior members from all the concerned government agencies, if any approval needs special	• As and when required	• PIU, IDRA

Issues/Risks	Mitigation Actions	Timeline	Responsibility
agencies	attention, it will be raised in PSC meetings and intervention by the PSC members will help get timely approvals.		
Ensure proper M&E of the project achievements and implementation process	• Employ an M&E specialist as an IDRA staff member to support the PIU. • Develop a strong M&E framework with the help of the M&E specialist.	• The M&E specialist will be hired and available within a month of the project becoming effective. • Reporting: All required reports will be prepared in a timely manner.	• PD and DPD.
All-out cooperation of various cross-functional units of the IDRA, SBC, JBC, BIA, and other organizations linked with the project	• Regular coordination meetings will be arranged with the concerned departments. Special meetings will be held as and when necessary. • The DPD will be assigned to work with the Directors to ensure proper coordination among different functional units of the IDRA, SBC, JBC, BIA, and other organizations.	• Throughout the project life	• PD and DPD
Ensure adequate and appropriate members and resources in the implementation teams for proper supervision and monitoring of subcomponents' implementation	• IDRA and BIA will hire legal, regulatory, corporate governance, insurance product rating, IT, and data infrastructure specialists under Component 1, and the Director will monitor their implementation progress.	• Throughout the project life	• DPD and Directors
Ensure effective implementation of each component	• Each Director will be responsible for one component in the PIU. • The Director will use the resources from the relevant functional areas to achieve the project's goals. • Specialists and experts in the related areas will be hired to help the Directors. • The DPD will sit regularly with the PIU and Directors to review and steer the implementation of each component and	• As and when required	• DPD and Directors

Issues/Risks	Mitigation Actions	Timeline	Responsibility
	activity.		
C. Procurement capacity, including contract management			
1. Ensure that specifications of goods for the IT systems are prepared correctly based on the requirements 2. Ensure that procurement-related information and all documents will be made available on time in accordance with procurement regulations 3. Ensure on-time completion of procurement processes 4. Ensure timely recruitment and availability of suitable consultants during the implementation of specified components 5. Ensure transparency, accuracy, and efficiency in procurement process	• An in-depth procurement assessment will be carried out for the project at appraisal. • The PIU will hire a procurement specialist to ensure that proper procurement procedures are followed. • Other IDRA staff will work with the procurement specialist to ensure timely and effective procurement execution. They will be provided with training to build their capacity. • A general procurement notice and specific procurement notices will be published on time in relevant media in accordance with the procurement provisions.	• The M&E specialist will be hired and on board within a month of the project becoming effective. • The procurement team at the PIU will execute its responsibilities throughout the project life.	• PD
D. FM capacity			
1. Ensure correct recording of all transactions and balances and support the preparation of periodic and reliable financial statements 2. Ensure proper control and risk management mechanism in project FM and ensure that the	• IDRA will hire a dedicated FM specialist to oversee the FM aspects of the project. • IDRA has started digitizing its accounting system, and the Bank project team will decide if the current software is adequately capable for ensuring proper tracking and reporting of the project's financial information. • The Finance and Accounting	• The FM specialist will be hired and on board within a month of the project becoming effective.	• PD

Issues/Risks	Mitigation Actions	Timeline	Responsibility
financial statements are reliable and consistent	Department at IDRA will be strengthened with additional qualified personnel under the new approved organogram to enable the PIU to meet the requirements of quarterly financial reports. • An audit firm, with a TOR acceptable to the Bank, will be recruited to perform the annual audit due within 6 months of the end of each fiscal year.		

MAP



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BANGLADESH
DISTRICT CAPITALS
DIVISION CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
DISTRICT BOUNDARIES
DIVISION BOUNDARIES
INTERNATIONAL BOUNDARIES
BHUTAN
INDIA
MYANMAR
Bay of Bengal
Mouths of the Ganges
Ganges Delta
Sundarbans
RAJSHAHI
DHAKA
SYLHET
KHULNA
BARISAL
CHITTAGONG
DHAKA
Chittagong
Rajshahi
Khulna
Barisal
Sylhet
0 10 20 30 40 50 Kilometers
0 10 20 30 40 50 Miles
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