

**INTERNSHIP REPORT**  
**“PROBLEMS & PROSPECTS:**  
**AN ANALYSIS OF MERCANTILE INSURANCE**  
**COMPANY LIMITED**

**Supervisor**

**Shamim Ehsanul Haque**

**Assistant Professor, BBS & Senior Research Fellow, CED**  
**BRAC Business School**  
**BRAC University**

**Submitted By**

**Anjuman Ara Islam**  
**MBA (2013-2015)**  
**ID: 13164136**

**August 2015**



**BRAC University**

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ON  
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COMPANY LTD.”**

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**This Report has been submitted to Brac University  
in partial fulfillment of the requirements for the degree  
of Master of Business Administration ( MBA), 2015.**

## **Letter of Transmittal**

August 20, 2015

**Shamim Ehsanul Haque**

Assistant Professor

BRAC Business School

BRAC University

**Subject: Submission of Internship Report.**

Dear Sir,

With due respect, I would like to inform you that, I have completed my internship at Mercantile Insurance Company Limited. Throughout the internship period, I have found many problems and prospects of the company. Hence, I chose —”Problems & Prospects: an analysis of Mercantile Insurance Company Limited” as the topic of my internship report. In order to prepare the report, I have collected required information through qualitative research and finally completed the report which is now ready to submit. It was really enjoyable to work on the report as it has provided me with an opportunity to know about realistic fact of the non-life insurance field perspective on Bangladesh. I have learned a lot about the non-life insurance industry after preparing this term paper and got the chance to apply my theoretical knowledge learnt from the university courses. It was a great pleasure for me to work on such a challenging and practical topic.

I shall be highly glad if you kindly receive this report and provide your valuable judgment. It would really be my immense pleasure if you find this report useful and informative.

Thank you

Sincerely yours,

---

Anjuman Ara Islam

Student ID - 13164136

# Acknowledgement

The successful completion of this report on “Problems & Prospects of Mercantile Insurance Company Limited” has been possible for many helping hands. First of all I would like to express gratitude to almighty Allah. Then all the people who were involved both directly and indirectly in the preparation of this report. I apologize to the people whose names that I have not mentioned, and their contribution is highly appreciated by me. At first, I would like to thank my academic supervisor Mr. Shamim Ehsanul Haque, Assistant Professor, BRAC Business School, BRAC University, I sincerely appreciate her interest and valuable guidance in preparing this resourceful report and the significant assistance in choosing the topic of my report. I would like to thank her for the proper direction through valuable discussions and personal advice & support; and especially for the valuable feedback before submitting the final report. More specifically, I would like to thank him for imparting his time and wisdom.

However, the space inadequacy does not allow me to mention everybody individually. At first, I would like to thank Md. Rashedul Islam, Vice-President and Head of Branch, Mercantile Insurance Company Limited, Moghbazar Branch, who has helped me getting the internship opportunity at Mercantile Insurance Company Limited and helped me a lot in understanding the important practical role and procedures of Finance & Accounts in any organization. I would like to express gratitude to him and his company (MICL), since they opened a great platform for me to learn & grow. I would also like to thank the staffs of this organization for giving me the required information to commence this report and for providing the permission to do the required analysis work.

Lastly, I would like to thank BRAC Business School and Office of Career Services & Alumni Relations (OCSAR) of BRAC University for the development of such an important & firm curriculum of the internship program required for MBA.

# Executive Summary

The report on “Problems & prospects of Mercantile Insurance Company Limited” has been prepared based on qualitative research as required for completion of MBA degree from BRAC University. In a developing country like Bangladesh, different insurance companies are playing a very crucial role in the economic growth. Though insurance industry has significant prospects in the economy but for some reasons it has failed to achieve its goal to some extent.

There are 62 insurance companies in Bangladesh. Among them, Mercantile Insurance Company Limited is the second generation non-life private insurance company and it has been doing insurance business in the country over 19 years since 1996. A qualitative research has been conducted to gather required information where I have taken interviews of four top level employees of Mercantile Insurance Company Limited. The entire report has been categorized into six chapters. In chapter one, the introduction, scope, objective, methodology, and limitations of the report have been described. Then chapter two of the report focuses on the Mercantile Insurance Company Limited—the company overview, its services, vision, mission, and future plans. Here, I also have conducted a financial analysis on the company,,s performance since 2002 until 2010 where short descriptions of the performance have been given along with necessary graphical presentations. In chapter three, I have described the internship program under the Department of Finance & Accounts at the corporate office of MICL specifying the departmental responsibilities along with my own responsibilities that I performed as an intern. Here, I have tried to discuss about my work procedures while performing different responsibilities and also my learning from the work experiences. In the report, chapter four and chapter five bear more weight. Chapter four basically works on the topic of this report where a brief description on insurance, Insurance laws and regulatory system, and regulatory conflicts in the insurance industry in Bangladesh along with the emergence of establishing and passing the new insurance act. Besides, the huge prospects of the insurance companies while the new act will be fully functional also has been identified and described. Continuously, in chapter five, the findings have been presented along with developing necessary recommendations addressing both the regulatory authorities and the

Mercantile Insurance Company Limited in order to overcome the conflicting situations as well as to make the prospects come true. Then conclusion has been drawn by expressing hope and expectation on the modernization of the insurance sector in Bangladesh competing with its neighbors. Lastly, in chapter six, appendix of the report has been given which encloses the supporting information & documents of the report & references that might be helpful to understand the whole report more clearly.

Furthermore, the overall condition, problems, prospects and the recommendations of insurance companies or insurance sector have been discussed. Then, the recommendations for MDIC have been found out so that it can take a look of those and develop its condition to develop its existence in the insurance industry.

At the end, it can be said that MICL is one of the leading non-life insurance companies in the insurance industry. It has own reputation and market. For sustaining in the insurance industry it needs to compete with other companies. For that reason it should focus on the innovation and development by competing itself so that it can uplift its own standard from the previous standard.

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## **1.1. Introduction**

Insurance is a system of spreading the risk of one to the shoulders of many. It is a contract whereby the insurers, on receipt of a consideration known as premium, agree to indemnify the insured against losses arising out of certain specified unforeseen contingencies or perils insured against.

Insurance is not a new business in Bangladesh. Almost a century back, during British rule in India, some insurance companies started transacting business, both life and general, in Bengal. Insurance business gained momentum in East Pakistan during 1947-1971, when 49 insurance companies transacted both life and general insurance schemes. These companies were of various origins British, Australian, Indian, West Pakistani and local. Ten insurance companies had their head offices in East Pakistan, 27 in West Pakistan, and the rest elsewhere in the world. There were mostly limited liability companies. Some of these companies were specialized in dealing in a particular class of business, while others were composite companies that dealt in more than one class of business. The government of Bangladesh nationalized insurance industry in 1972 by the Bangladesh Insurance (Nationalization) Order 1972. By virtue of this order, save and except postal life insurance and foreign life insurance companies, all 49 insurance companies and organizations transacting insurance business in the country were placed in the public sector under five corporations. These corporations were: the Jatiya Bima Corporation, Tista Bima Corporation, Karnafuli Bima Corporation, Rupsa Jiban Bima Corporation, and Surma Jiban Bima Corporation. The Jatiya Bima Corporation was an apex corporation only to supervise and control the activities of the other insurance corporations, which were responsible for underwriting. Tista and Karnafuli Bima Corporations were for general insurance and Rupsa and Surma for life insurance.

The basic idea behind the formation of four underwriting corporations, two in each main branch of life and general, was to encourage competition even under a nationalized system. But the burden of administrative expenses incurred in maintaining two corporations in each front of life and general and an apex institution at the top outweighed the advantages of limited competition. Consequently, on 14 May 1973, a restructuring was made under the Insurance Corporations Act 1973. Following the Act, in place of five corporations the government formed two: the Sadharan Bima Corporation for general business, and Jiban Bima Corporation for life business. After 1973, general insurance business became the sole responsibility of the Sadharan Bima Corporation. Life insurance business was carried out by the Jiban Bima Corporation, the American Life insurance Company, and the Postal Life Insurance Department until 1994, when a change was made in the structural arrangement to keep pace with the new economic trend of liberalization.

The Insurance Corporations Act 1973 was amended in 1984 to allow insurance companies in the private sector to operate side by side with Sadharan Bima Corporation and Jiban Bima Corporation. The Insurance Corporations Amendment Act 1984 allowed floating of insurance companies, both life and general, in the private sector subject to certain restrictions regarding business operations and reinsurance. Under the new act, all general insurance businesses emanating from the public sector were reserved for the state owned Sadharan Bima Corporation, which could also underwrite insurance business emanating from the private sector. The Act of 1984 made it a requirement for the private sector insurance companies to obtain 100% reinsurance protection from the Sadharan Bima Corporation. This virtually turned Sadharan Bima Corporation into a reinsurance organization, in addition to its usual activities as direct insurer. Sadharan Bima Corporation itself had the right to reinsure its surplus elsewhere outside the country but only after exhausting the retention capacity of the domestic market. Such restrictions aimed at preventing outflow of foreign exchange in the shape of reinsurance premium and developing a reinsurance market within Bangladesh. The control over insurance companies including their functions relating to investments, taxation, and reporting is regulated mainly by the Insurance Act 1938 and the Finance Acts.

Mercantile Insurance Company Limited, a Public Limited Company incorporates in Bangladesh on March 19, 1996 under the Insurance Act. 1938 and started trading with Dhaka Stock Exchange Limited (DSE) from 7 December, 2004 and with Chittagong Stock Exchange Limited (CSE) from 21 May, 2009.

## **1.2 Origin of the report**

Internship Program of BRAC University is a Graduation requirement for the MBA students, which is also a partial requirement of the Internship program of MBA curriculum. The main purpose of internship is to get the student exposed to the job world. Being an intern the main challenge was to translate the theoretical concepts into real life experience.

The internship program and the study have following purposes:

- To get and organize detail knowledge on the job responsibility
- To experience the real business world
- To compare the real scenario with the lessons learned in the University
- To fulfill the requirement of BBA Program

To accomplish the internship, I was placed at in Mercantile Insurance Company Limited (Moghbazar Branch), under the guidance of Shamim Ehsanul Haque, my academic supervisor. The report topic was approved by the supervisor to satisfy the organizational requirements and fulfillment of the internship program. As a requirement of the completion of the internship program, I had to submit this report, which includes an overview of the organization and Industry Analysis of Mercantile Insurance Company Limited.

### **1.3.Objectives of the Study**

Purpose tells the reason of the report. Before going to the organization I set my objectives that guided me until I finished the report. It always kept me focused to be on right track. The objectives are:

#### **1.3.1. General Objective**

This internship report is prepared primarily to fulfill the Master of Business Administration (M.B.A) degree requirement under the Department of BRAC Business School, BRAC University and to know and the problems and prospects of the Mercantile Insurance Company Limited, as well as the general insurance industry.

#### **1.3.2. Specific Objective**

The specific objectives of preparing the report were as follows:

- To provide a brief overview of Mercantile Insurance Company Limited and their historical background.
- To know the product and services of General Insurance company and those description.
- To present my observation and suggestion to the Insurance Company.
- To come up with the exact information about the regulatory system from both the business point of view and the regulators point of view.
- To identify associated problems in the observations & research and to recommend actions required to mitigate the problematic situation in the insurance industry.

## **1.4 Scope of the report**

The report plots a chronicle outline of Mercantile Insurance Company Limited and its operation. The information consists of the observation and the job experience acquired throughout the internship era. The report also particularizes the internship research focus, financial performance of Mercantile Insurance Company. This report has been prepared according to extensive analysis of financial statements and review of literatures. Also, the report has been prepared by the analysis of general insurance industry. Market information are considered for the Stock evaluation.

## **1.5. Methodology**

This report is primarily based on my experiences from the day to day official work under the department of finance & accounts at the head office of Mercantile Insurance Company Limited. As my research method, I have used qualitative data (Please see Appendix#6.2 for Questionnaires) collected through meetings & interviews with the top management of MICL and some secondary information from the annual reports (2008-2014) of the company & web information from the related companies and regulatory authorities. I have used both primary and secondary data in this report. The data were collected by different ways:

### **1.5.1. Primary Data**

Primary Data were collected though both formal and informal discussions mainly with my supervisor and senior manager of the company. Besides, I took participation in in-depth group discussion and meeting which have given me the opportunity to take very relevant information regarding the particular topic of my report.

### **1.5.2. Secondary Data**

- Annual Report of Mercantile Insurance Company Limited (2008-2014)
- Brochures of Mercantile Insurance Company Limited
- Different written document of Mercantile Insurance Company Limited
- Website of DSE & CSE, Bangladesh.
  
- Newspaper
- Website of Mercantile Insurance Company Limited, Reliance Insurance Limited, Agrani Insurance Company Limited (2008-2012)
- Published article, journals etc. on Insurance industries
- IDRA's various reports and official website

## **1.6. Limitations**

The preparation of this report was not an easy task. I had to face some problems & limitations during the preparation of this report despite the fact that I have tried my best to prepare this project successfully. The limitations were:

- Getting the information and interpreting it, on the basis of my understanding and then implementing it.
- Also, for the first time I have made report on insurance company and industry so it was quite difficult for me to understand the financial terms.
- There were several departments for that reason I faced difficulties while collecting information from those departments
- Confidential information that no organizations inclined to share due to their business interest was another limitation.
- Data from different sources were quite inconsistent which created some problems in making the report & compelled me to verify the data diligently.

## **2.1. Mercantile Insurance Company Limited**

Mercantile Insurance Company Limited is the one of the best second generation non-life private insurance company and it is a reliable insurance company in the insurance landscape in Bangladesh. The company was founded in 1996 in order to provide non-life insurance services in the country. Customers' satisfaction is the company's main concern. Mercantile Insurance Company always tries to value its customer, and provides the entire needed safeguard to them. The company helps its customers to get them set soon again and to march with time.

## **2.2. Vision, Mission and Motto of MICL**

### **Vision**

To be an innovative, profitable, best customer service provider in Insurance industry than others and enhance clients' trust and wealth, employers value and rapid growth in shareholders' equity."

### **Mission**

To become the leading insurance company of Bangladesh excelling in every aspect of its business and in delivering its obligations as a good corporate citizen to its clients, employees, shareholders, public and to the country.

### **Motto**

The company is committed to cordial service.

## **2.3. Services of MICL**

- Marine Insurance
- Fire Insurance
- Motor Insurance
- Marine Hull Insurance
- Contractors all risks policies
- Cash in transit / Cash in save /Cash in counter Insurance
- Workman compensation



- Industrial all risks policies
- Property Insurance
- Personal Accident Insurance
- C.A.R. Insurance
- Jewelry Insurance
- Business interruption and Machinery breakdown Insurance
- Health Insurance including overseas medicalim Insurance

## **2.4. Future Plans**

The Company has undertaken various realistic future plans which include the following plans to be implemented--

- To computerize the entire operation system within the shortest possible time
- To impart extensive training for the employee at home and abroad. Field force (100% has to be properly groomed up).
- To expand Company's operations to all commercially important places of the country gradually.
- To introduce new products depending on the demand of the market.
- To observing March as the "Client Service Month" in every year.
- To follow "Service First than Business "by expeditious and judicious settlement of claim.

## **2.5. Board of Directors of MICL**

<b>Chairman :</b>	Mr. M. Kamal Uddin
<b>Vice-Chairman:</b>	Al-haj Abdul Mannan Mazumder
<b>Chairman Executive Committee:</b>	Dr. Md. Mizanur Rahman
<b>Chairman Audit Committee :</b>	Md. Shah Alam
<b>Independent Director:</b>	Md. Shah Alam

## **2.6. Company's 5 years Performance at a glance:**

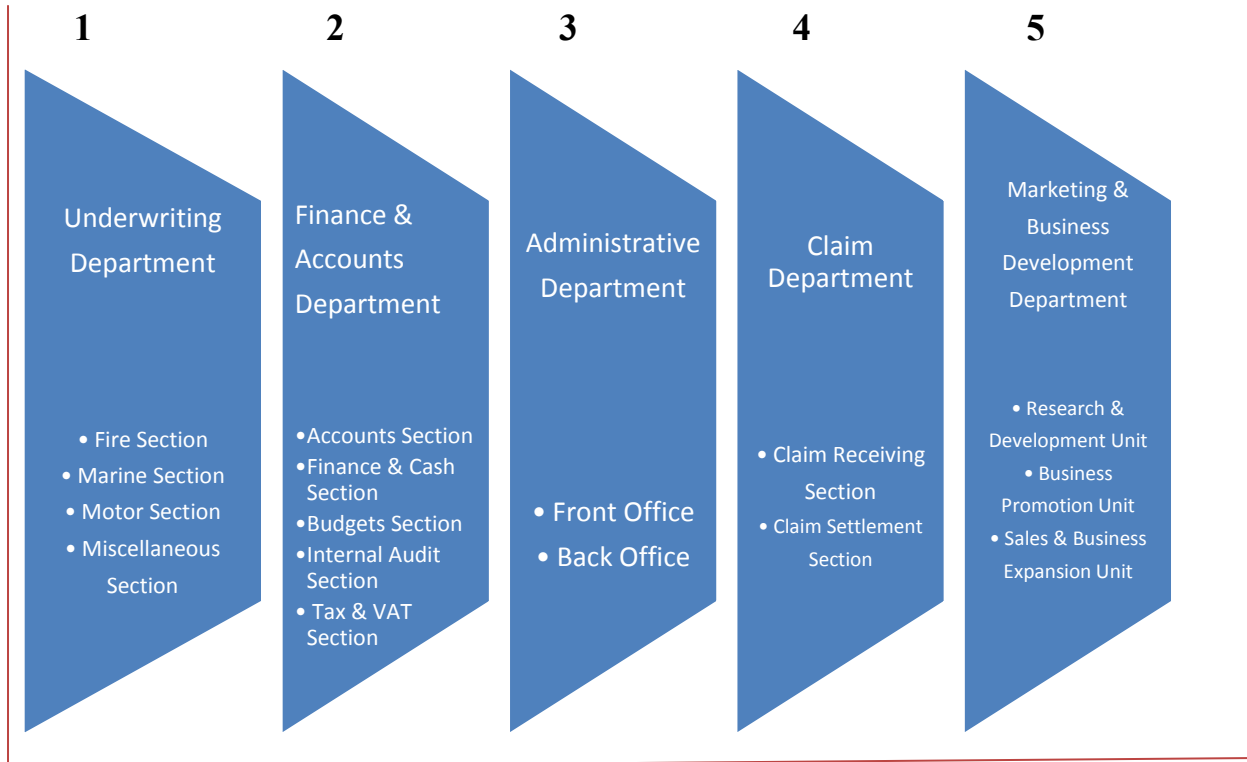
<b>Financial Performance</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Gross Premium Income	285.65	296.49	303.93	264.36	200.25
Net Premium Income	169.46	156.58	168.94	159.95	107.15
Underwriting Profit	14.28	12.53	29.06	27.99	18.68
Investments and others Income	77.11	74.76	74.41	52.95	34.57
Net profit before tax	88.61	83.14	100.54	77.63	40.21
Reserve and fund	243.48	219.40	207.43	184.50	138.69
Investments and FDR	920.23	895.29	727.43	591.33	226.32
Paid up Capital	430.95	430.95	384.78	349.80	165.00
Shareholders' Equity	700.18	680.37	624.88	558.93	265.13
Total assets	1237.57	1162.79	1034.62	878.84	526.91
Dividend	43.10	29.86	46.17	34.98	19.80
Dividend Percentage	10% Cash	10% Group Cash	12% Stock	10% Stock	12% Stock
No. of Shares (restated)	43,095,360	43095360	38,478,000	34,980,000	16,500,000
No. of Brances	17	17	15	15	15
Earning per share	1.51	1.29	1.71	1.54	2.07
Net Asset Value (NAV)	16.15	15.79	16.24	15.98	16.07

## **2.7. Credit Rating:**

<b>Credit Rating</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Long Term	A+	A+	A+	A2	A3
Short Term	AR2	AR2	AR2	ST-3	ST-3
Outlook	Stable	Stable	Stable	Stable	Stable

### **3.1. The Internship Program**

In the head office of Mercantile Insurance Company Limited, there are 5 departments. Those are:



**Figure 3.1: Departments of MICL Corporate Office**

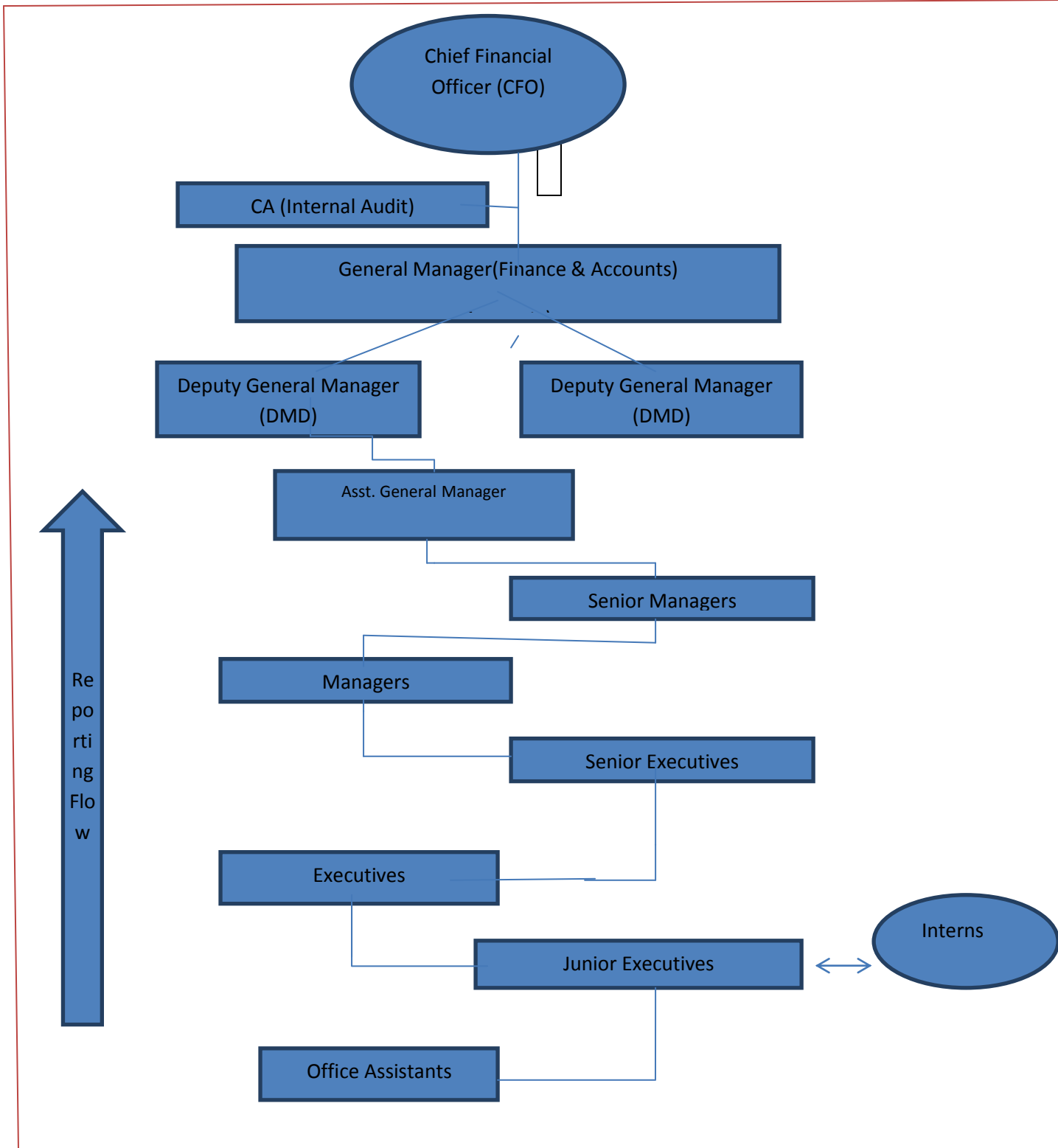
As per the MBA degree completion requirement of BRAC Business School, BRAC University, I had been appointed in the three-month internship program under the Department of Finance and Accounts at the Moghbazar Branch of Mercantile Insurance Company Limited, Bangladesh. During the internship-training program I have worked in different significant programs undertaken by the Finance & Accounts department of the company. Fortunately, I had the advantage of working in the very friendly atmosphere in the MICL. Here I had the chance to learn a great deal.

### **3.2. My Internship at the Finance & Accounts Department:**

The department of Finance & Accounts (F&A) is responsible for all matters relating to Finance and Accounting functions of the Mercantile Insurance Company Limited. To enable it perform its statutory responsibility, the department is structured into 5 different sections as shown in the figure 3.1.

All these divisions however reports administratively to the CFO through the DGM & GM of the respective department. As an intern, I had work with the junior executives luckily under the supervision of the CFO shown in the graph below:

## Hierarchy of the Department of Finance & Accounts of MICL



**Figure 3.2: Hierarchy (Department of F&A)**

### **3.3. Responsibilities My Assigned Department (F&A):**

The finance & accounts department of MICL takes responsibility for organizing the financial and accounting affairs including the preparation and presentation of appropriate accounts, and the provision of financial information for managers & stakeholders.

It is the one of the most important departments of the head office of Mercantile Insurance Company Limited. One can have a complete view of the functions and monthly expenses of the company from the finance & accounts department. The functions the department include managing, controlling and recording the inflow and outflow of cash from the daily basis to monthly and annual basis. It is very difficult job to record all the expenditure of the company which increases the importance of account department in the company.

The basic functions of the department of finance & accounts are as follows:

- ❖ Planning & establishing budget
- ❖ Posting (Underwriting, journals etc.)
- ❖ Billing and keeping proper record
- ❖ Petty cash management
- ❖ Bank reconciliation
- ❖ Maintain cash book & bank book
- ❖ Preparation of financial statements
- ❖ Analysis of financial statements
- ❖ Tax & VAT calculation
- ❖ Preparation & submission of organization contributed tax return of the employees to NBR
- ❖ Conducting internal audit through the internal control unit
- ❖ Financial reporting to the management & to the stakeholders when necessary
- ❖ Maintaining payroll
- ❖ Maintaining liaison with the banks & other financial organizations etc.

### **3.4. My Experience as an Intern:**

#### **3.4.1. Responsibilities assigned on me**

The profitability of a company can be judged through the analysis of its accounts record. Major work of account is done in company's Moghbazar Branch located at 17, New Eskaton, Moghbazar, Dhaka-1000. One can have a complete picture of the different activities and expenses by sitting in —the department of Finance & Accounts|. From this perspective it was a knowledgeable experience for me to work in this department as an intern throughout the three-month internship period. On the very first day my on-site supervisor, Md. Rashedul Islam, who is designated as the Chief Financial Officer (CFO) gave me an overall view of the various functions performed by the department. During the internship period, I learnt a lot not only about the —Accounts| but also various other activities of the Insurance company. Besides, the others Sr. executives of the concerned department were very helpful and cooperative over the three-month internship period. I learnt about various functions of the department of Finance & Accounts. With the help of my supervisor, I was able to manage internal control tools and other related financial documents of the head office. He along with the other respected personnel of the department were helpful enough to take out time from their busy schedule to teach me how to maintain records relating to bank book, cash book. The main work of accounts is done in the company\_s head office. The manager,supervised me about different activities of the department of finance and accounts. He was responsible for —Managing Bank Reconciliation & Variance Analysis| which is a tough job and I helped him along with the Jr. Executives in doing this task during the period of my internship. Working in this department was a very knowledgeable journey for me.

During the training period, I was able to get a complete idea of the working of an insurance company. It was a very knowledgeable experience. In the following pages I have explained the performing various tasks that I have done during the period of internship period. Major Responsibilities:

1. Internal audit for internal control
2. Financial reporting
3. Preparation of Bank reconciliation and necessary adjustment
4. Training to the newly recruited Jr. executives

Now, I would like to give a short overview of the responsibilities that I have performed and my significant learning that I have learnt from my internship at the Mercantile Insurance Company Limited under the department of Finance & Accounts-

### **1. Internal audit for internal control:**

During the internship period, I took participation in internal audit which is a significant tool of internal control and is one of the most important functions of the department of finance & accounts.

#### **Internal control:**

Internal Control is the process designed to mitigate risks to the business and ensure that the business operates efficiently and effectively.

ISA and BSA – 315 - “Understanding the Entity and its Environment and Assessing the Risk of Material Misstatement” defines the internal control –

*“Internal Control is the process designed and implemented to address identified business risks that threaten the achievement of the entity’s objectives”*

#### **Materiality**

As part of internal audit, I had to calculate materiality. Materiality relates to the level of error that affects the decisions of users of the financial statements.

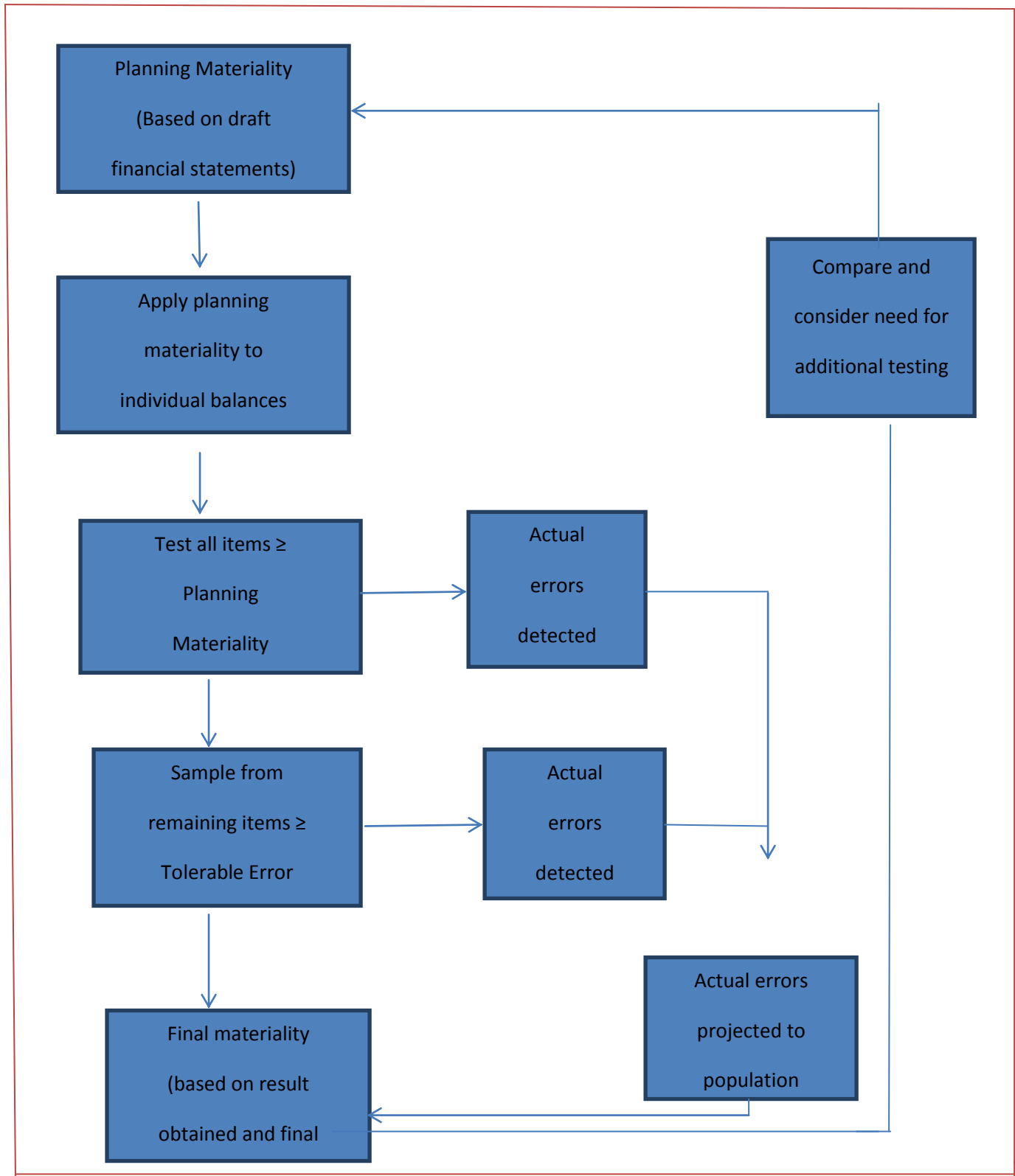
IAS and BSA – 320 – defines –

*“Materiality is the auditors’ judgment about the size of misstatements in the financial Statement”*



## How the Materiality is used in the course of audit engagement:

During working in the internal control unit, I have learnt how the materiality is used in the course of audit engagement. The process is shown below:



**Calculation of Materiality**

Materiality depends on the size of the errors in the context of its omissions or misstatements. I came to know that materiality assessment helps the auditors to decide –

- How many and what items to examine?
- Whether to use sampling techniques?
- What level of error is likely to lead an auditor to say the financial statements do not give
- a true and fair view?

There are different methods used by different audit firms in calculating materiality. But among them, the following are an example used by the Peoples Insurance Company Limited.

❖ Materiality for Planning Purposes –

It is 5% of profit before tax or .5% of total assets or total revenue.

❖ Significant Misstatement Threshold –

It is 75% of Materiality for Planning Purposes.

❖ Audit Difference Posting Threshold –

It is 3% – 5% of Significant Misstatement Threshold.

**Example**

Revenue	BDT. 13,089,394
Profit before tax	BDT. 1,403,444
Total assets	BDT. 4,305,538

Based on this information, calculation is conducted using the above given percentage for calculating the Materiality for Planning Purposes (MPP), Significant Misstatement Threshold (SMT) and Audit Difference Posting Threshold (ADPT).

In the above cases, materiality can be individually or in aggregated in the class of transactions or account balances in the financial statements I have learnt that there are two approaches to calculate materiality –

- Income Statements approach; and
- Balance Sheet approach.

## **2. Financial reporting**

I have audited the accompanying financial statements of Mercantile Insurance Company Limited, which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

### **My Responsibility and Learning while Reporting**

My responsibility was to express an opinion on these financial statements based on the financial analysis & internal audit. I conducted the audit in accordance with International Standards on Auditing (ISA).

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

### **Maintaining Professional Ethics**

During auditing, I have learnt that professional ethics is as important as conducting a proper audit in the purpose of ensuring proper internal control in Mercantile Insurance Company Limited. Professional ethics concerns the moral issues that arise because of the specialist knowledge that professional attain and how the use of this knowledge should be govern when providing a service to the public can be considered a moral issue and is termed professional ethics. It agreed that Professionals are capable of making judgments, applying their skills; reaching informed decisions in situations that general public cannot, because they have not received the relevant training. I have learned that as an auditor, I am required to comply with the following fundamental principles – Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, and Professional Behavior.

### **3. Preparation of Bank reconciliation**

I have prepared a number of bank reconciliation of 17 branches of Mercantile Insurance Company Limited as well as of the head office for the month of June-August, 2015. I have learned that mainly 4 things are considered for preparing bank reconciliation:

- ✓ Cheque issued but not yet presented in the bank
- ✓ Amount Deposited and shown in bank statement but not shown in bank book
- ✓ Cheque issued but not yet accounted for
- ✓ Amount Deposited and shown in bank book but not shown in bank statement

The first two amounts along with bank interests are added with the closing balance of the bank book kept by the organization, and the next two are deducted from it along with the bank charges. Thus the bank reconciliation is prepared, the balance of which is just same as the closing balance of the certain bank statement. (Please see Appendix#6.5 for the format of Bank Reconciliation used by PICL)

### **4. Provided training to the newly recruited Jr. executive**

Before leaving the organization, I had to train up the newly recruited Jr. Executives under the department of finance & accounts about what I had learnt so that they can perform their tasks effectively in my absence.

### **3.5. Other responsibilities:**

The other tasks that I have done in the internship period at PICL include the following:

- Posting of transaction (MR), underwriting, and money collection using accounting software ORACLE 2012.
- Preparing & posting vouchers, and Keeping file & Documentation etc.

## **4.1 Insurance**

### **4.1.1. Meaning & Definition of Insurance**

It is a contract in which one party known as the insured also known as assured, insures with another party (person or organization), known as the insurer, assures or underwrites his property or life, or the life of another person in whom he has a pecuniary interest, or property in which he is interested, or against some risk or liability, by paying a sum of money as the premium. Under the contract, the insurer agrees to indemnify the insured against a loss which may accrue to the other on the happening of some event.

According to Investopedia, Insurance is--

**“A contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients risks to make payments more affordable for the insured.”**

At present, insurance is being used widely and becoming more and more popular both in personal life and in the business sector as a significant risk management tool which is primarily used to hedge against the risk of a contingent, uncertain loss. Insurance contract provides financial protection to the insured by the insurer against a loss arising out of happening of an uncertain event. The insured can avail this protection by paying premium to any insurance company with whom the contract has been made. Insurance works on the basic principle and concept of risk-sharing. When a company insures an individual entity (the insured), there legal requirements to share the risks associated with the insured by the insurer, breaking of which contract creates legal bindings. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type and the re-insurance system makes the total risk at zero level in the long run. On the one hand, insurance can increase fraud; on the other it can help societies and individuals in preparing catastrophes and in mitigating the effects of catastrophes on households, business operations and societies.

### **4.1.2. Features of Insurance**

Insurance has various effects on society through the way that it changes who bears the cost of losses and damage of the insured according to the insurance contract. The distinguished common features of any insurance are as follows:

- ❖ Shifting or transferring risk of loss or damage of any life, asset, or property from one party to another party.
- ❖ Sharing of losses by members of the group/company.
- ❖ One party undertakes the loss incurred on the insured property or asset of the other party.

- ❖ The risk is shared/ accepted by the insurer for a consideration of money from the insured  
called as Premium (No risk to be assumed unless premium is received in advance).
- ❖ It is assured to the insured by the insurer that the amount will be paid on happening of the  
Specified act or event. E.g. Death, Fire, Burglary, Accident, Any peril in Sea etc.

### **4.1.3. Parties of Insurance Contract**

As insurance business has insurance contract, there are mainly two parties in the contract ---

- Insurer : ( The person who undertakes the risk under the contract)
- Insured: ( The person to whom the undertaking is given)

The Insurer can be any of the following mentioned below:

- An individual
- Unincorporated body of individuals,
- Body corporate ( established by the Companies Act)
- An Association of partnership firm Registered,
- Any other agency permitted under any other Law in Bangladesh

In order to lower the huge amount of insurance risk, insurance companies intend to re-insure their contract with any other (mostly larger) local or foreign insurance companies.

## **4.2 Prominent Features of Insurance Law of Bangladesh**

The history of Bangladesh is a history of endless struggle. Since the independence of Bangladesh, its citizens have been fighting for the improvement of their standard of living as well as economic condition. But most of the time various accidental incidents and disasters hamper the smooth continuation of the journey. Over the last 40 years, many helping hand especially insurance companies are trying to share their risk associated with various tasks, assets, operations, and even of their life.

The Insurance business has been introduced & developed in proportion to the development of the economic growth in Bangladesh. There are 62 insurance companies in the country,

including two state-owned enterprises, the Jiwan Bima Corporation (JBC) for life insurance, and the Sadharan Bima Corporation (SBC) for general insurance.

Nevertheless, BD remains behind its neighbors, both in terms of premium income and penetration. Only 1.5 percent of the population has life insurance coverage in Bangladesh, as compared to 4.5percent in Pakistan and 7.5percent in India (as of 2010).

#### **4.2.1. Regulatory Framework in BD**

Every industry needs to be regulated and maintained properly to ensure the conflict free operation in any country. In this regard, Parliament of Bangladesh, on 03 March 2010, passed two insurance laws in a bid to further strengthen the regulatory framework and make the industry operationally vibrant. The new laws, came in to effect on 18 March 2010, are Insurance Act 2010 and IDRA 2010.

##### **Major Insurance Acts**

- ✚ The Insurance Act, 1938
- ✚ Insurance Rules of 1958
- ✚ Bangladesh Insurance (Nationalization) Order 1972.
- ✚ The Insurance Corporations Act, 1973
- ✚ Insurance (Amendment) Ordinances of 1984
- ✚ The Insurance Act, 2010

### **4.3. History of Insurance & Insurance Laws in Bangladesh**

Insurance business is not new in Bangladesh. Almost a century back, during the British rule in India, some insurance companies started insurance business transaction, both life and general, in this region (former Bangal or Indian Subcontinent). This business gained momentum in East Pakistan during 1947-1971, when 49 insurance companies transacted both life and general insurance schemes. The insurance sector was originally regulated by the Insurance Act, 1938 and after the Independence in 1971; the industry was governed by the Insurance Act 1973. In 2010 a new Insurance Act has been passed to modernize the sector.

#### **❖ 1947-1972 Period:**

Insurance is not a new term in this territory of Bangladesh. Right after the great division in 1947, the industry had got its momentum and 49 insurance companies started to conduct their business during the Pakistan period (1947-1971). These companies doing insurance business

were of various origins like British, Australian, Indian, West Pakistan and local. At that time, ten insurance companies had their head offices in East Pakistan, 27 in West Pakistan, and rest elsewhere in the world. Most of these companies were Limited Liability Company. Some of these companies were specialized on dealing in a particular class or sector of business, while others were composite companies that dealt in more than one class of business. After the Independence of Bangladesh in 1971 through the war of liberation, the Government of Bangladesh nationalized insurance industry in 1972 by the Bangladesh Insurance (Nationalization) Order 1972.

#### ❖ **1973 (After Nationalization):**

By virtue of the nationalization order, all 49 insurance companies and organizations transacting insurance business in the country were placed in the sector under five operations except postal life insurance and foreign life insurance companies. These operations were: the Jatiya Bima Corporation, Tista Bima Corporation, Karnafuli Bima Corporation, Rupsa Jibon Bima, Corporation and Surma Jibon Bima Corporation. The Jatiya Bima Corporation was an apex corporation only to supervise and control the activities of the other insurance corporations which were responsible for underwriting. Tista and Karnafuli Bima Corporation were for general insurance and Rupsa and Surma for life insurance. The specialist life insurance companies or for a life portion of a composite company joined the Rupsa and Surma corporations while specialist general insurance companies or the general portion of a composite company joined The Tista and Karnafuli corporations. The basic idea behind the formation of four underwriting corporations, two in each main branch of life and general, was to encourage competition even under a nationalized system. But the burden of administrative expenses incurred in maintaining two corporations in each front of life and general and an apex institution at the top outweighed the advantages of limited competition. As a result of the nationalization of the insurance industry, on 14 May 1973, a restructuring was made under the Insurance Corporations Act 1973. Following the Act, the government formed two corporations in place of five corporations: the Sadharan Bima Corporation for general business, and Jiban Bima Corporation for life business. The postal life insurance business and the life insurance business by foreign companies were still allowed to continue as before. In reality, however, only the American Life Insurance Company Limited continued to operate in the life sector for both new business and servicing, while three other foreign life insurance continued to operate only for servicing their old policies issued during Pakistan days. Postal life maintained its business as before.

#### ❖ **1973- 1984 Period:**

After 1973, general insurance business became the sole responsibility of the Sadharan Bima Corporation. Life insurance business was carried out by the Jibon Bima Corporation, the American Life insurance Company, and the Postal Life Insurance Department until 1994, when a change was made in the structure arrangement to keep pace with the new economic



trend of liberalization. The insurance corporations Act 1973 were amended in 1984 to allow insurance companies in the private sector to operate side by side with Sadharan Bima Corporation and Jiban Bima Corporation.

❖ **1984-1994 Period:**

The Insurance Corporations Amendment Act 1984 allowed floating of insurance companies, both life and general, in the private sector subject to certain restrictions regarding business operations and reinsurance. Under the new act, all general insurance business emanating from the public sector were reserved for the state owned Sadharan Bima Corporation, which could also underwrite insurance business emanating from the private sector. The Act of 1984 made it a requirement for the private sector insurance companies to obtain 100% reinsurance protection from the Sadharan Bima Corporation. This virtually turned Sadharan Bima Corporation into a reinsurance organization, in addition to its usual activities as direct insurer. Sadharan Bima Corporation itself had the right to reinsure its surplus elsewhere outside the country after exhausting the retention capacity of the domestic market. Such restrictions aimed at preventing outflow of foreign exchange in the shape of reinsurance premium and developing an insurance market within Bangladesh. The restriction regarding business placement affected the interests of the private insurance companies in many ways. The restrictions were considered not congenial to the development of private sector business in insurance. Two strong arguments were put forward to articulate feelings: Since the public sector accounted for about 80% of the total premium volume of the country, there was little premium left for the insurance companies in the private sector to survive. In this context, Sadharan Bima Corporation should not have been allowed to compete with the private sector insurance companies for the meager premium (20%) emanating from the private sector; Being a competitor in the insurance market, Sadharan Bima Corporation was hardly acceptable as an agency to protect the interest of the private sector insurance companies and should not have retained the exclusive right to reinsure policies of these companies. The arrangement was in fact, against the principle of laissez faire. Private sector insurance companies demanded withdrawal of the above restrictions so that they could:

Underwrite both public and private sector insurance business in competition with the Sadharan Bima Corporation, and The government modified the system through promulgation of the Insurance Corporation (Amendment) Act 1990. The changes allowed private sector insurance companies to underwrite 50% of the insurance business emanating from the public sector and to place up to 50% of their reinsurance with any reinsurer of their choice, at home or abroad, keeping the remaining for placement with the Sadharan Bima Corporation.

❖ **1994 -- Present:**

Since then the Industry is growing steadily despite many back logs, several amendments were made in the Insurance Law since 1984. In 2010, a New Insurance Act passed by Parliament called Insurance Act, 2010 to replace the old Act of 1973. As soon as the new insurance act has been passed, the old one has become inactive and from now on the entire insurance industry will be regulated by the new Insurance Act 2010.

### **4.3.1. Major Regulatory Conflicts**

Even though the different rules & regulations have been made to regulate the entire insurance industry smoothly, many situations and problems regarding the implementation process caused conflicts over time. The Conflicts

- There was a restriction regarding business placement under the Insurance Act 1938, which affected the interests of the private insurance companies in many ways in Bangladesh. Since the public sector accounted for about 80% of the total premium volume of the country, there was a little percentage of premiums left for the insurance companies in the private sector to survive.
  
- In such situation, the withdrawal of the restriction became essential. So, the private sector insurance companies demanded withdrawal of such restrictions so that they could:
  - (a) Underwrite both public and private sector insurance business in competition with the SBC
  
  - (b) Effect reinsurance to the choice of reinsurers

### **4.3.2. Resolutions Solving the Conflicts**

When there is any problem, there is the emergence of solutions. As the insurance industry faced significant problems regarding the restrictions on business placement, the regulatory bodies had to take necessary resolutions to face & handle the situation. In this regard, the following steps had been taken by the regulatory bodies:

- The Government modified the system through promulgation of the Insurance Corporations (Amendment) Act 1990.
- The changes through the Insurance Corporations (Amendment) Act 1990 allowed the private sector insurance companies to underwrite 50% of the insurance business emanating from the public sector and to place up to 50% of their reinsurance with any reinsurers of their choice, at home or abroad, keeping the remaining for placement with the Shadharon Bima Corporation (SBC).
- Many other changes were introduced such as privatization policy, which paved the way for a number of insurers to emerge in the private sector.
- The overhaul also includes the establishment of an Insurance Regulatory Authority (IRA), which would be autonomous, and have the power to regulate the state-owned JBC and SBC as well as all private insurance companies on an equal footing under a uniform regulatory framework.

### **4.3.3. Reforms in Insurance Sector**

In order to smooth the overall insurance business in Bangladesh, the concerned authority had always been alert. While there was any problem or conflicting situation arises, the authority doesn't sit idle; rather they try to solve it at their best.

- Considering the expansion of trade and commerce in the country and for reducing risk related problems in people's life, the new law titled —Insurance Act 2010\_ has been enacted to update the provisions of \_Insurance Act, 1938\_.
- \_Insurance Development and Regulatory Authority Act 2010\_ has also been formulated with a view to synchronizing the functions of the existing Insurance Department with the spirit of newly enacted Insurance Act, 2010 to maintain proper control and supervision of the sector and protect the interests of policy holders and beneficiaries under the insurance policy.

## **4.4 Overview of the New Insurance Act 2010**

Bangladesh's insurance industry is set to start a new journey with the passage of two new laws in the parliament recently. The House passed two insurance laws in a bid to further strengthen the regulatory framework and make the industry operationally vibrant. The new laws are Insurance Act 2010 and Insurance Development and Regulatory Authority Act 2010. The government has taken the pragmatic step to boost the insurance sector.

<b>NAME</b>	<b>THE INSURANCE ACT, 2010</b>
Act Number	13 of 2010
Summary	This law is related to the matters of Insurance
Ministry	Ministry of Finance
Passing Date	March 03, 2010
Date in Force	Thursday, 18 March
Regulatory Authority	Insurance Development & Regulatory Authority (IDRA)

Insurance Act 2010 and Insurance Development and Regulatory Authority Act 2010 were passed to better regulate the insurance industry and protect customers' interests. And Insurance Bill 2010 said the bill was moved aiming at modernizing and updating the old Insurance Act and to trim down the risks of investment in trade and commerce and of course particularly in the insurance industry. The laws update Insurance Ordinance 2008 and Insurance Regulatory Authority ordinance 2008 of the past caretaker government.

Insurance Development and Regulatory Authority (IDRA) were passed by the Jatiya Sangshad in March, 2010. The newly established IDRA started functioning in January, 2011. There are about 50 rules and regulations to be framed under the Insurance Act, 2010. The IDRA have been working on the initial drafts prepared under an Asian Development Bank (ADB)-funded Technical Assistance (TA) project.

### **4.4.1. The Ordinance has some notable new stipulations:**

The much talked about the Insurance Act 2010 and Insurance Development and Regulatory Authority Act 2010 were passed in the parliament on 3rd March, 2010. The new ordinance has some notable provisions as follows:

### **(1) Setting up of a Policyholders' Protection Fund**

In order to make the overall claim settlement procedure smooth and timely, the insurance companies have to set up a special fund named —Policyholders\_Protection Fund as per the new requirements of the newly passed and being implemented Insurance Act 2010.

### **(2) Greater capital requirements for insurers**

The new Insurance Act 2010 raised the paid-up capital of life and non-life insurance companies to make them financially sound. The minimum paid-up capital of a life insurance company will now rise to Tk. 300 million from Tk. 75 million and for nonlife the capital size will be Tk. 400 million from Tk. 150 million under Basel-II. For Financial Institutions (FIs,) full implementation of Basel-II has been started in January 01, 2012 (Prudential Guidelines on Capital Adequacy and Market Discipline (CAMD) for Financial Institutions). Now, FIs in Bangladesh are required to maintain Tk. 1 billion or 10% of Total Risk Weighted Assets as capital, whichever is higher.

### **(3) Creation of brokerage houses for insurance policies**

The new Insurance Act 2010 (section 33) said that brokerage houses (Banks, financial institutions or any middleman company/organization) should be created for insurance policies. Under the section 58(1), none can give money of commission to anybody except the certain agents or brokerage houses in order to launch or expand any insurance business in Bangladesh. The distribution of the commission must be as follows:

- 35% of the premium in the first year.
- 10% of the renewed premium in the second year.
- 5% of the renewed premium in the 3rd year and on after.

### **(4) Mandatory solvency margins for insurers**

All authorized life assurance companies are closely regulated by the IRA. Regular internal and external audit activity and strict reporting requirements ensure that the companies comply with the regulator\_s safeguards; one of those safeguards is a solvency margin. The solvency margin is the comparison between what a company owns (its assets) and what it owes (it liabilities) and indicates the ratio of assets to debt. Therefore the solvency margin provides a good indicator of the financial stability of that company. The IRA/IDRA, as the regulator, monitors any falls in solvency below a certain percentage

Each and every insurance company has to keep a mandatory solvency margin following a certain percentage (which has not yet been fixed) and by using a certain formula (which has not yet been established) according to section 43 (1) of the Insurance Act 2010.

#### **(5) Allowing foreign investment in the insurance sector**

The Insurance Act 2010 said the sector needs to be managed properly and be strengthened by reducing business risks, and local and international insurance laws need to be harmonized considering the socio-economic aspect of the country and protect the interest of policy-holders and other beneficiaries.

#### **(6) Reduction of the number of directors from 20 to 15**

The insurance act bars a director of an insurance company to become director of any other financial institution including banks. Under the Insurance Act 2010, the number of the directors cannot exceed 15, while it was 20 under the Insurance Act 1938.

#### **(7) Categorization of Insurance Business**

The section 5 (1) of the Insurance Act 2010 proposed that insurance company to be categorized as ‘life’ and ‘non-life’ instead of ‘life’ and ‘general’ and it have replaced the Insurance Act 1938. So, from now on the insurance companies in the entire insurance sector in Bangladesh will be categorized as life and non-life insurance companies under the new insurance act.

### **4.4.2. New Additions by the Act, 2010**

The newly passed Insurance Act 2010 has some notable new additions, which were absent in the previous Insurance Act of 1938. Therefore, the entire insurance industry is facing some new practice while implementing the new act in the insurance business. The new additions by the new act are as follows:

#### **❖ Creation of New Regulatory Authority**

Insurance Regulatory Authority (IRA) will be established for the Insurance sector. There are 62 insurance companies (see Appendix) operating in the country and they need to be regulated under comprehensive laws and guidelines and need to be supervised by a strong regulatory authority. The Insurance Act 2010 said the sector needs to be managed properly and be strengthened by reducing business risks, and local and international insurance laws need to be harmonized considering the socio-economic aspect of the country, and to protect

the interest of policy holders and stakeholders of the insurance industry in Bangladesh. The New Insurance Act provides for the composition of such Authority, its terms & conditions. The IRA will have the power to:

- Making regulation for Insurance Industry and delegation of powers,
- Establishment of the Insurance Regulatory Fund,
- Establishment of Insurance Advisory Committee,
- Power to make any future rules or amendments, etc

The Insurance Development and Regulatory Authority Act 2010 said the authority will comprise a chairman and four members and they will look after the whole sector. The enactment of the law will abolish the department of insurance under the Finance Ministry of Bangladesh.

Premium charged by the companies will be determined by a committee formed by the authorities and it will also investigate any irregularities of the companies, the act said. To create a vibrant insurance sector, the industry got its recognition from the government and a new Insurance Act 2010 has been passed to replacing the old Insurance Act of 1973.

#### ❖ **Legal Framework for Islami Insurance**

Islamic Insurance was already in Bangladesh but it was now bought under legal framework by this new Act 2010. Under the section 7 (1) of the Insurance Act 2010, no insurance company is allowed to do both Islami Insurance business and non-life insurance business together. If any company have both of this businesses, then according to section 7 (2) of the new act it has to give up one and can continue any of these two. And the decision has to be informed to the insurance authority within six month of forming the business authority. However, the claim of the previous policy holders shall be settled according to the previous Insurance act of 1938.

During 1999 & onward many insurance companies have been given license to underwrite Islami insurance business without having proper law, rules and regulations to guide them. It is not proper to allow Islami insurance business without having legal backing and, therefore, this business has been brought under the ambit of new law.

#### ❖ **Micro Insurance Business**

The new Insurance Act 2010 is making way for the Micro Insurance Business opportunities in the insurance sector of Bangladesh which has a great prospect for the small and medium enterprises as well as the growing businesses especially in the rural areas---

- Micro insurance can be a great prospective area for the insurance business in our country especially in the rural areas. Most of the people of our country are unable to have costly and long term insurance policies since a great portion of the country's population is from lower & middle income class.
- Micro insurance can be provided to individual personnel or to small business owners against little insurance premiums and with easy terms and conditions. When they will afford to minimize their risks at a lower price, they will take that opportunity and they will become to get used to it. This can cover a huge portion of the society who can be a prospective target market for this business.

#### **4.4.3. Changes Brought by the New Act**

The Insurance Act has not only brought the new additions, but also has brought some eye-catching changes in some significant areas that existed in the previous insurance act. The changes brought by the Insurance act 2010 are described shortly below—

##### ❖ **Capital Requirements:**

An insurer transacting life insurance business would be required to have a minimum paid-up capital of Tk. 300 million while the minimum paid-up capital for non-life insurer would be Tk. 400 million.

##### ❖ **Spread of Business in Rural Areas:**

Provision has been made to induce insurers to undertake such parentage of his business in the rural areas or in social sectors as maybe specified by the Authority, This provision would encourage savings among the people in the rural areas and social sectors on the one hand, and provide financial security to the insurer, on the other.



#### ❖ **Reinsurance Abroad:**

The present mandatory provision for reinsurance of general insurance with the state-owned Sadharan Bima Corporation (SBC) has been relaxed. An insurer may reinsure with any other insurer inside or outside Bangladesh.

#### ❖ **Penalty**

Under the new insurance law, maximum penalty for any violation will be Tk. 10 lakh in fine while the minimum fine will be Tk. 50,000. If the violation continues, an additional fine of Tk. 5,000 per day will be imposed.

#### ❖ **Provision for Foreign Investment**

With a view to attracting foreign investment in the insurance sector in Bangladesh, foreign investors would be allowed to hold or subscribe to the share of an insurance company up to a prescribed maximum (the maximum limit has not yet been set).

## **4.5. The New Act at MICL and Its Problems & Prospects**

As the entire Insurance industry is having the experience of the new Insurance Act 2010, MICL is also not the exception. There is a significant prospect of the newly passed Insurance Act 2010; still there are some notable problems that the insurance industry including Mercantile Insurance Company Limited is facing due to various reasons regarding the implementation of the new act as well as due to lack of guidance.

### **4.5.1. Problems at MICL**

Mercantile Insurance Company Limited is doing non-life insurance business in Bangladesh since 1996. It was established under the Insurance Act 1938 and was operated under the same act until 2010. As it was the first time for the company to be introduced with a big change through implementing a new Insurance Act since after its inception, it is very natural that there caused some problems for the company due to the Insurance act 2010. Some notable problems that the company is facing regarding implementing the new act in operating their business are shortly described below:

#### ❖ **Increasing Paid-up Capital**

As the amount of paid up capital has been increased both for the life and non-life insurance companies in Bangladesh, Mercantile Insurance Company is facing problems regarding fixing the amount of its paid-up capital.

#### ❖ **Decreasing Number of directors**

There are eighteen directors in Mercantile Insurance Company Limited currently shown in the company's hierarchy below. Since the Insurance Act 2010 restricts the number of directors exceeding 15, the company is facing a serious problem regarding reducing the number of directors as well as in the reduced director's would be designation in replacement of their present designation.

#### ❖ **Maximum Management Expenses**

Due to the increased price of various products used in any office or business, the Mercantile Insurance Company Limited along with other insurance companies existing in the insurance sector of Bangladesh are having a great load of continuously increasing management expenses as well as other expenses. However, there has not been made any change in the maximum percentage of management expenses since 1938 under the new Insurance Act 2010, the company cannot show the actual management expenses if it exceeds the certain percentage.

#### ❖ **Old Habit**

As we all know that there are stubborn employees in almost every old company, Mercantile Insurance Company is not the exception. Since its inception in 1958, MICL is being operated with the earnest hard-work of its employees. However, there are some employees who were just not ready to face changes made by the new Insurance act 2010 and that are why it is quite difficult for the company to come forward all-together. Practically, it is easy for a single entity with a single person to adapt with change, but it is very difficult for any entity consisting of a large group of people to become accustomed with the change.

### **4.5.2. Prospects for MICL**

There are always two sides of anything--good and bad. Even though the Insurance Act 2010 has caused some significant problems to Mercantile Insurance Company Limited as well as to the whole insurance industry, the problems are very insignificant compared to the prospects and benefits of the new act.

- **New Direction at New Age**

It had been a long time since passing and implementing the previous Insurance Act 1938 until 2010. It had been found that the previous Insurance Act 1938 was too restrictive in the matter of investment. The inflexible rigid rules put obstacles in the way of earning high profits for the insurance companies.

Since we are in a new era now, it was very essential to pass a new act with new direction to operate any insurance business in Bangladesh. So, the new Insurance Act 2010 has brought the necessary new direction for the Mercantile Insurance Company Limited.

- **Spreading Business in Rural Areas**

As shown in the map below, Mercantile Insurance Company Limited has 17 branches throughout Bangladesh, over almost districts. Under the new Insurance Act 2010, every insurance company should have a certain percentage (not yet fixed) of its business in the rural areas for the rural insurers. The authority of MICL thinks that they won't have any problem regarding this rule; rather they had planned to spread their business in more rural areas already.

- **Introduction of Proper Agency System Reduces the Risk of Corruption**

The Insurance Act 2010 introduces the agency system in a effective frame. Previously, there were agents and brokers existing in the operation of the insurance business, but there were no mentionable proper & informative records of them. Therefore, there was a chance to commit corruption. For example: the staffs of the insurance business were regular employee of the company who has a certain pay scale. On the other hand, the agents work and get sales commission which is not fixed. In this situation, many corrupted employees particularly of the marketing department used to show their sales in the account of the agent's sales and got a certain percentage of invalid commission from the commission of the agents. Thus they used to earned invalid commission which resulted unexpected financial loss for the double payment (as the employees were paid their salary and at the same time the invalid commission, and also the agents were paid their commission on the sales made by the employees) However, this is really good news that the new Insurance Act 2010 has reduced the chance of such corruption in the insurance industry including the MICL by introducing the proper Agency System.

- **Micro insurance**

Even though Mercantile Insurance Company Limited doesn't have any plan to do micro insurance in near future, it can be a great prospective area for the company in our country. Most of the people of our country are unable to have costly and long term insurance policies specially the rural people. Micro insurance can be provided to those individual personnel or to small business owners against little insurance premiums and with easy terms and conditions. When they will afford to minimize their risks at a lower price, they will take this opportunity and they will become to get used to it. This can cover a huge portion of the society who can be a prospective target market for this business.

- **Risk-free from Penalty**

In the years of history of Mercantile Insurance Company Limited, any penalty caused by violation is not found. So, the authority is also hopeful that they won't have to face any problem regarding the implementation of the new rules on penalty.

## **5.1. Findings**

While working on the internship report, the following findings have been identified:

### **❖ Strong regulatory system**

Through passing the new Insurance Act 2010 and Insurance Development and Regulatory Authority Act 2010 to better regulate the insurance industry and protect customers' interests, a strong regulatory system for the insurance industry has been developed. Therefore, the insurance industry is supposed to be modernized under the new and strong regulatory system and authorities.

### **❖ Introduction of Agency System**

The Agency system for the business development of the insurance business is a new addition under the Insurance Act 2010. So, the implementation is not that easy. Maintaining the —"Agent Account" is a new and complicated task for the MICTL as well as the other insurance companies in Bangladesh which has caused increased pressure of work load. To some extent, it is causing higher expenses also. However, the loss due to corruption has been decreased due to the proper Agency System. Now, it's up to the company to conduct the cost-benefit analysis.

### **❖ Percentage of Agency Commission Expenses Decreased**

Under the new Insurance Act 2010, no non-life insurance company is allowed to expend more than 15% sales commission to the agents or brokers. Due to this, the agents are becoming demotivated, and as a result the MICTL is losing their marketing as well as business. Sometimes, they could offer more commission in order to complete strongly with their business competitors as well as to spread business in some certain areas in Bangladesh where insurance business is not popular at all and seen negatively.

### **❖ Some notable Restrictions**

According to the section 74(1&2), no person who is the agent or appoints agent, brokerage house or directly involved in it, and surveyor or auditor can be the director of any life or non-life insurance company. If such happens to anyone then his/her license or certificate as agent, broker, or auditor will be void as per section 74(3) and that person will be working only as the director of the certain company.

### ❖ **Lack of guidelines & difference in legal opinion due to time gap**

When a new law is passed to replace the old one, the system of the old law is automatically cancelled. In this condition, when the new insurance act of 2010 was passed to replace the previous one, the previous act of 1938 was automatically cancelled & inactive. The insurance Act 2010 only says what to be done by the insurance industry, but it doesn't set the information about how to do and in what amount/percentage. Actually, these things are properly given in the various Rules & Regulations supporting the Insurance Act. At this point, many supporting rules and regulations have not yet been set and established. Therefore, the whole insurance industry is suffering from lack of guidelines & different legal opinion.

### ❖ **Delayed Circulars**

Many necessary circulars separately for the life and non-life insurance companies has not yet been developed and published by the Insurance Development and Regulatory Authority which is causing specific troubles to the concerned insurance companies.

### ❖ **Lack of some necessary changes**

According to section 3 (1) (ii) of the insurance amendment 2011, the given percentage of the management expenses in different stages of the total gross premium is just same as the percentage in 1938. Throughout the last 73 years since 1938 to 2011, it is very natural the management expense has been increased, but the maximum percentage limit is constant which is not practical.

### ❖ **Provision for Re-Insurance**

SBC has long been the sole reinsures in Bangladesh and the private insurance companies of the country were statutorily compelled to place 100% of their reinsurance business with SBC. In 1990 the government amended the relevant provisions of the insurance Act allowing 50% of all reinsurance of general insurance business to be placed forcibly with SBC and the rest to private reinsurance companies .About 70% of premium income from general insurance business in Bangladesh is retained locally and the rest 30% goes to reinsures abroad.

## **5.2. Recommendations**

I want to remind both the insurance regulatory authorities and the insurance business authorities concerned about the poor state of the entire insurance sector in Bangladesh, which is to be abolished following the enactment of the Insurance Development and Regulatory Authority Act 2010. While working on the report I have developed some recommendations

and suggestions both for the insurance authorities and for the insurance companies in Bangladesh specifying the Mercantile Insurance Company Limited.

### **5.2.1. Recommendations to the Regulatory Authority:**

After analyzing the findings of my report I would like to place the following recommendations to the insurance authority of Bangladesh-

- The new Insurance Act 2010 introduced many essential features that were missing in the previous Insurance Act of 1938 but the implementation process were too slow, the independent Insurance Regulatory Body (IRA) is not yet fully functional. It was not yet properly established and many of features are yet to be implemented. So, the Finance Ministry should focus on the problems regarding it and should take pragmatic steps to solve those problems as soon as possible, because this is already too late and we don't want to be more lagged behind.
- To bring a real change and in the Insurance Business Sector in Bangladesh, the proposed changes brought by the Insurance Act 2010 should be implemented prudently and as soon as possible. In this purpose, the concerned authorities need to be stronger and more active as well as accountable enough.
- All the insurance companies in the insurance industry need to be responsive equally and very actively. So, the concerned insurance authority should focus on spreading necessary awareness among the insurance companies as well. To make it possible, regular seminars, meetings with the business authorities and proper auditing may be conducted.
- The percentage of management expenses should be at least double to cope up with the current price hike. In order to ensure maintaining proper expenditure accounts by the insurance companies, the regulatory authority should take this issue into consideration with due importance.
- The total power that has been given to the regulatory authority to deal with the different opinions over insurance claims should be reconsidered.
- Transparency and accountability should be ensured in each and every step to ensure the full implementation of the new Insurance Act 2010 in the insurance sector in Bangladesh. For this, every single person associated with the implementation have to

be honest and conscious. In this regard, everyone should come forward to make the associated procedure smoother.

- As one of the basic requirements for the insurance industry to have sustained growth is to enhance training facilities, Bangladesh Insurance Academy is providing training facilities and professional education to those engaged in insurance business in the country. The syllabus, curriculum and training programs of the academy (BIA) should be modified and updated to meet the modern needs of the insurance industry and to ensure the proper implementation of the Insurance Act 2010.
- To establish the act reliable to the stakeholders and to make its implementation process bendy, the regulatory authority should keep the Insurance Act 2010 as flexible as possible, so that any essential amendment can be made and imposed in order to adjust with the rapid growing and changing situation when necessary.

### **5.2.2. Recommendations to Mercantile Insurance Company Limited**

When there is an emergence to cope up with the time, obviously something need to be changed. With the changes and additions brought by the Insurance Act 2010, there a lot more changes and modifications have to be brought in the individual insurance companies. So, even it is true that there are some problems created due to the implementation of the new act at Mercantile Insurance Company Limited, the company should focus more on the prospects and the pragmatic solutions of the problems. Therefore, I also have come out with some recommendations to the company which is as follows:

- ❖ MICL should provide extensive training to its employees especially to the business development & marketing executives in order to make them able to cope up with the changes brought by the Insurance Act 2010. Through proper training to the employees and agents the company should practice and ensure marketing through the use of promotional tools such as advertising, sales promotion, public relation and publicity, personal selling and direct marketing.
- ❖ The company should raise awareness among all the employees and staffs about the implementation of the new law to make the implementation process much smoother. In order to do so, regular weekly/monthly meetings and seminars can be arranged after the office hours.
- ❖ As one of the most important tasks, client awareness needs to be increased in the insurance sector in Bangladesh. In this purpose, MICL should take the necessary steps



through its large sales and business development force to ensure a level of awareness among their clients throughout the country.

- ❖ Even though it is quite difficult, the company should try its best to reduce the management expenses as well as commission expenses to cope up with the rules regarding these issues under the new Insurance Act 2010. In this regard, each & every employee should work as cost saver. At the end it will certainly be beneficial for them.
  
- ❖ The company should consider the rules and regulations for the non-life insurance companies in Bangladesh under the Insurance Act 2010 before and during setting any future plan regarding operation and expansion of its business, so that there doesn't arise any conflicting situation. It will make their way of business operations much smoother as well as easier and less problematic.
  
- ❖ Transparency and accountability should be ensured in each and every step in the implementation of the new Insurance Act 2010 in the entire departments of MICL. To ensure a transparent environment in the company, the employees along with the management and authorities should come forward with their best flexibility.
  
- ❖ The company should plan to take the opportunity of micro insurance business and Islamic Insurance business as their service diversification tool by providing responsive services and establish efficient departments to perform such task. This will allow them to expand their business among a large number of populations of Bangladesh, which will also help them to distinguish themselves from their competitors. For business expansion, MICL can introduce Islamic Insurance where they can capture a large portion of the population since the majority people of the country are Muslim.

### **5.3. Concluding Remarks**

To conclude, I would like to mention that the whole internship period was a significantly knowledgeable journey for me which allowed me to learn and improve my skills and I hope the significant experience will allow and help me to build a better career in future.

I think Insurance Industry is playing a significant role in the economic improvement of Bangladesh through its risk sharing operations which motivate investment in many important businesses. The government has now embarked on a reform programme in the insurance sector to promote a vibrant insurance sector in our country. As a first step towards achieving

the objective, the Insurance Act, 2010 in replacement of the previous Insurance Act, 1938, and the Insurance Development and Regulatory Authority Act, 2010 also has been passed for establishing a stronger insurance sector in Bangladesh.

I am upbeat that the new laws will help the entire insurance industry of Bangladesh to face the challenges of the time and thus bring dynamism in this sector. While I am genuinely joyous, I also would like to say that the proper implementation of the new act is extremely important. As the Insurance Act 2010 is for the insurance industry, the concerned authority should consider the interests of the insurance companies of Bangladesh as well as the stakeholders' interests. Strict transparency and discipline need to be there where around 3.0 million people are involved. In this regard I support the stand of the Bangladesh Insurance Association that has stressed the need for formation of the Insurance Development and Regulatory Authority and formulate necessary rules and regulations to make the new laws effective and purposeful.

In the era of globalization, domestic market should be well organized while the legal framework should be effective to address the changed circumstances in the business and socio-economic entities. In order to meet the challenges caused by changes, the Insurance Ordinance 2010 should be kept as flexible as practicable so that any change in the operational procedure, accounting, actuarial standard that would be needed in future inline without change in the international and domestic environment could be made without further amendment to the Ordinance. The new Insurance Act 2010 promised to bring the positive changes and I am looking forward for the beginning of a Globally Competitive Modern Insurance Sector in Bangladesh.

## **6.1. Insurance Companies in Bangladesh**

According to Bangladesh Bank, there are 60 private & 2 public insurance companies in Bangladesh-

### **LIST OF THE INSURANCE COMPANIES IN PUBLIC SECTOR**

<b>Sl. No.</b>	<b>Name of the Insurance Company</b>
01.	Sadharan Bima Corporation (Gen. Ins)
02.	Jiban Bima Corporation (Life Ins.) (Source : IDRA)

<b>Sl. No.</b>	<b>Name of the Insurance Company</b>
01.	American Life Insurance Company (Foreign Company)
02.	Baira Life Insurance Company Ltd
03.	Delta Life Insurance Company Ltd.
04.	Farest Islami Life Insurance Co. Ltd
05.	Golden Life Insurance Ltd
06.	Homeland Life Insurance Company Ltd
07.	Meghna Life Insurance Company Ltd.
08.	National Life Insurance Company Ltd.
09.	Padma Islami Life Insurance Company Ltd
10.	Popular Life Insurance Company Ltd
11.	Pragati Life Insurance Ltd.
12.	Prime Islami Life Insurance Company Ltd.
13.	Progressive Life Insurance Company Ltd.
14.	Rupali Life Insurance Company Ltd.
15.	Sandhani Life Insurance Company Ltd.
16.	Sunflower Life Insurance Company Ltd.
17.	Sunlife Insurance Company Ltd.

<b>Sl. No.</b>	<b>Name of the Company</b>
01.	Agrani Insurance Company Ltd.
02.	Asia Insurance Ltd.
03.	Asia Pacific Gen Insurance Co. Ltd.
04.	Bangladesh Co-operatives Ins. Ltd
05.	Bangladesh General Insurance Co. Ltd.
06.	Bangladesh National Insurance Co.Ltd.
07.	Central Insurance Company Ltd.
08.	City Gen. Insurance Company Ltd.
09.	Continental Insurance Ltd.
10.	Crystal Insurance Company Ltd.
11.	Desh Gen. Insurance Company Ltd
12.	Eastern Insurance Company Ltd.
13.	Eastland Insurance Company Ltd.
14.	Express Insurance Ltd.
15.	Federal Insurance Company Ltd
16.	Global Insurance Ltd.
17.	Green Delta Insurance Co. Ltd
18.	Islami Commercial Insurance Co. Ltd.
19.	Islami Insurance Bangladesh Ltd.
20.	Janata Insurance Company Ltd.
21.	Karnaphuli Insurance Company Ltd
22.	Meghna Insurance Company Ltd
23.	Mercantile Insurance Company Ltd.
24.	Nitol Insurance Company Ltd.
25.	Northern Gen. Insurance Company Ltd.
26.	Peoples Insurance Company Ltd
27.	Phonix Insurance Company Ltd.
28.	Pioneer Insurance Company Ltd.

29.	Pragati Insurance Ltd
30.	Pramount Insurance Company Ltd.
31.	Prime Insurance Company Ltd.
32.	Provati Insurance Company Ltd.
33.	Purabi Gen Insurance Company Ltd
34.	Reliance Insurance Ltd.
35.	Republic Insurance Company Ltd.
36.	Rupali Insurance Company Ltd.
37.	Sonar Bangla Insurance Company Ltd.
38.	South Asia Insurance Company Ltd.
39.	Standard Insurance Ltd
40.	Takaful Islami Insurance Ltd.
41.	Dhaka Insurance Ltd.
42.	Union Insurance Company Ltd.
43.	United Insurance Company Ltd

## **6.2. Questionnaires for Data Collection**

### **6.2.1. Questionnaire to the MD & CFO of MICL**

1. What do you think about Insurance Act 2010?
2. What do you think about passing new act to replace the old one? What was the emergence of passing the new insurance act 2010? What were the problems regarding the implementation of the previous act of 1973?
3. What are the preparatory changes that have already been brought in MICL due to the implementation of the new act?

4. What are the major problems faced by the Insurance Industry due to the rules & regulations of the Act in your opinion?
5. Is there any particular problem that is affecting the performance of your company?
6. Is there any change/addition/deduction that is causing serious problem to any of the particular department of your organization? If so, what are those and how they are causing problems?
7. Is there any issue in the new act that might hamper your future plans? If so, what are those and how this might happen?
8. What are the benefits of the Insurance Act 2010 in your company according to you?
9. What problems you might face while the new act will be fully functional?
10. According to you what changes should be brought in the regulatory system to make the overall operation of the insurance industry much smoother?

### **6.2.2. Questionnaire to the Company Secretary**

1. What do you think about the Insurance Act 2010?
2. What was the emergence of passing the new act to replace the old Insurance Act 1938 in your opinion?
3. What are the particular additions/changes that have impacts on your responsibilities as a secretary of the second private insurance company in Bangladesh?

4. What are the preparatory changes that already have been brought by the management of the Mercantile Insurance Company Limited? How you are preparing your company to adapt with the changes brought by the Insurance Act 2010?
5. What are the problems that your company is facing due to the implementation of the new insurance act? Do you think the situation is just the same for the other insurance companies in the insurance sector in Bangladesh?
6. What might be the prospects of the Insurance Act 2010 being implemented in the insurance industry?
7. Do you think that the insurance act 2010 is flexible enough in adapting the continuous changes in the socio-economic and financial condition of Bangladesh?
8. What problems you might face regarding your company's operation, legal affairs and other regulatory issues due to the implementation of the new act replacing the old one?
9. Is there any business expansion plan of your organization that might be hampered while implementing the new act at your organization in near future? If so, please explain.
10. According to you what changes should be brought in the regulatory system to make the overall non-life insurance business in the insurance industry much smoother?

### **6.2.3. Questionnaire to the AGM of the Department of Finance & Accounts**

1. What is your personal opinion about the Insurance Act 2010?
2. What was the emergence of passing the new act to replace the old Insurance Act 1938 in your opinion?
3. What are the particular additions/changes that have impacts on the performance of your department (the Department of Finance & Accounts of MICL)?
4. How you are preparing your department to adapt with the changes brought by the Insurance Act 2010?

5. What are the problems that your department is facing due to the implementation of the new insurance act?
  
6. What might be the prospects of the Insurance Act 2010 being implemented mainly in your department?
  
7. Do you think that the insurance act 2010 is flexible enough in adapting the continuous changes in the socio-economic and financial condition of Bangladesh?
  
8. What problems you might face with your workforce at your department while the new act will be fully functional?
  
9. Is there any future plan of your department that might be hampered while implementing the new act at your organization in near future? If so, please explain.
  
10. According to you what changes should be brought in the regulatory system to make the overall role of the department of Finance & Accounts in different insurance companies in the insurance industry much smoother?

#### **6.2.4. Questionnaires to the GM of the Department Marketing & Business Development**

1. What do you think about the Insurance Act 2010?
  
2. In your opinion, what was the emergence of passing the new act to replace the old Insurance Act 1938?
  
3. What are the particular additions/changes that have impacts on the performance of the department of Marketing & Business Development of MICL in your opinion?
  
4. What are the preparatory changes that already have been brought? How you are preparing your department to adapt with the changes brought by the Insurance Act 2010?



5. What are the problems that your department is facing due to the implementation of the new insurance act?
  
6. What might be the prospects of the Insurance Act 2010 being implemented particularly in your department?
  
7. Do you think that the insurance act 2010 is flexible enough in adapting the continuous changes in the socio-economic and financial condition of Bangladesh?
  
8. What problems you might face with your workforce, specially the agents and brokers under your department due to the introduction of the new —Agency System and its implementation at your department?
  
10. Is there any business expansion plan of your organization that might be hampered while implementing the new act at your organization in near future? If so, please explain.
  
10. According to you what changes should be brought in the regulatory system to make the overall role of the department of Marketing & Business Development in different insurance companies in the insurance industry much smoother?

### **6.3. CSR Activities of MICL**

Mercantile Insurance Company Ltd. has been participating in Corporate Social Responsibility (CSR) continuously since its inception in various ways. As for instance, the company has developed a unique culture to help distressed peoples, environment, heritage, sports, education, employment and much more. A few of the corporate social responsibilities are as follows:

- ❖ After the natural disasters, MICL participates in various types of the activities for the reconstruction of the damaged infra-structures. Moreover, when the calamity is over, we try to take care of those who have lost their lives and their valued properties.
  
- ❖ The company always in favor of protecting our tradition and heritage. For example, our company always sponsors not only the sports which are our own, for example, Kabadi, Bali Khela, Lathi Khela etc. but also our non-traditional sports like football and cricket.

- ❖ The company created a significant number of employment opportunities for the unemployment human resources since its inception. The effort for job creation will continue in future too.
- ❖ The company has a plan to provide scholarships for the needy brilliant students who want to make a career in the fields of technology and digital sciences. MICTL has a plan to help the sick-aged people so that they do not consider themselves as a burden of our society.
- ❖ Finally, the company focuses on the welfare of the employees so that they can have the necessary skills and opportunities to face the challenges.

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