

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
APPRAISAL STAGE**

Report No.: PIDISDSA17656

Date Prepared/Updated: 26-May-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Bangladesh	Project ID:	P156823
		Parent Project ID (if any):	
Project Name:	Bangladesh Insurance and Private Pension Market Development Project (P156823)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	20-Apr-2016	Estimated Board Date:	24-Jun-2016
Practice Area (Lead):	Finance & Markets	Lending Instrument:	Investment Project Financing
Sector(s):	Non-compulsory pensions and insurance (100%)		
Theme(s):	Other Financial Sector Development (40%), Other social protection and risk management (20%), Regulation and competition policy (40%)		
Borrower(s):	PEOPLE'S REPUBLIC OF BANGLADESH		
Implementing Agency:	Insurance Development and Regulatory Authority (IDRA)		
Financing (in USD Million)			
Financing Source			Amount
BORROWER/RECIPIENT			20.00
International Development Association (IDA)			80.00
Total Project Cost			100.00
Environmental Category:	C - Not Required		
Appraisal Review Decision (from Decision Note):	The review did authorize the team to appraise and negotiate		
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

Bangladesh has made significant gains in economic growth, development and poverty reduction. Rapid growth has propelled Bangladesh from low income to low middle income country status, as fiscal year 2014 per capita gross national income of US\$1,080 crossed the middle income country (MIC) threshold of \$1,046 (Source: CPF 2016). Bangladesh's per capita gross national income grew more than tenfold from around US\$100 in 1972 to US\$1,220 in 2015. Average annual gross domestic product (GDP) growth has been rising over the last three decades, and grew by more than 6 percent a year on average during the past five years despite the adverse impacts of the global slow down, and natural disasters.

Despite this progress, growth remains below potential. Bangladesh will need overall annual growth of around 8 percent for the country to achieve its ambitious aspiration of reaching middle-income status and reducing poverty from 31.5 percent currently to less than 15 percent by 2021. The increase in GDP growth requires a range of initiatives, including maintaining macroeconomic stability, investing in transformative infrastructure, streamlining trade and investment regulations, strengthening and diversifying the financial sector which is crucial for fueling economic growth and inclusion, and enabling better instruments for managing risks, investments and savings.

Sectoral and institutional Context

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

Although there has been progress in strengthening and deepening of the financial sector, many challenges remain and more needs to be done. Bangladesh has made notable progress in financial sector development over the years increasing the depth of the financial sector (M2/GDP ratio) from 12 percent in 1980 to 62.8 percent in 2014 (World Development Indicators). Progress has been made in many other fronts as well including strengthening banking sector regulation and supervision, financial access to households, recent efforts to strengthen the state owned banks, etc. but a key remaining agenda is the development of the insurance and pensions sectors.

In Bangladesh as in other countries, better insurance and pension sectors will not only aid financial sector diversification but most importantly will help individuals, families, and organizations in expanding options for managing risks and investments. Insurance helps people and businesses protect themselves from shocks. Insurance serves a number of valuable economic functions, including enabling entrepreneurship and innovation, allowing risk transfer, and helping societies save and invest. For instance without insurance, individuals and families could become financially destitute and be forced to seek assistance from relatives, friends, or the government when they suffer a loss. And as studies have shown, private pensions can help improve financial

protection in old age and can improve the sustainability of public finances by complementing public sector social security programs and building a diversified pension system. In Bangladesh, the development and availability of long-term financial products such as insurance and pension have been identified as priority areas by the Government, as well as the Bank's Country Partnership Framework, as crucial to expand economic opportunities, support infrastructure development, mitigate risks, and enhance resilience.

Insurance

In Bangladesh, while there has been rapid growth in the insurance sector, this is from a very small base, and overall the insurance sector is still a small component of the financial system.

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

This low insurance penetration hinders financial sector development and economic growth, and exposes the country and its citizens to risks. For instance, Bangladesh is one of the world's most exposed countries to natural disasters, including floods, cyclones, droughts, and earthquakes. Overall, be it the country's farmers who face production risks, or the general public facing rising costs for quality health care and lacking adequate insurance, vehicle owners who are exposed to higher risks given traffic conditions, the demand for insurance cuts across various segments. Further, with income growth, awareness and consumer demand, further pressure on the supply side to increase choices and improve the quality of insurance products coverage is expected.

For proper development of the insurance industry and to respond adequately to consumer demand, several measures need to be undertaken. They include:

- a. Ensuring effective regulation and supervision by the regulator, IDRA through an upgrade of its supervisory framework including its information technology system and support to enhance its human resources and overall capacity.

b. Improving the capacity of BIA to address the shortage of qualified staff and technical capacity in various fields such as insurance underwriting, actuaries, and marketing insurance products, etc., increase public awareness and trust, improve knowledge for market participants and build market data infrastructure.

c. Helping the two-state insurance corporations, SBC) and JBC to play a more proactive and leading role in increasing the insurance penetration in underserved rural areas.

Pensions

The case for building Bangladesh's pensions sector is compelling because there is a large coverage gap. Formal pension arrangements in Bangladesh are restricted to those in government service, salaried employees of government aided or affiliated institutions, and some salaried workers in larger multinational and domestic corporations. These arrangements cover less than 10 percent of the country's 56 million workforce.

Large portions of the workforce are excluded from formal pensions. The remaining workforce, including owners of micro enterprises, private sector salaried workers, daily wage workers, domestic help, unpaid workers, self-employed professionals, those employed in the farm sector, and other informal sector workers more generally are traditionally excluded from formal pension arrangements. As in other countries in the region, the traditional reliance of the elderly in Bangladesh on children and extended families for old-age income support is being rapidly eroded by labor mobility and economic hardship. Therefore, without an urgent and effective policy response to broad-based pension and social security exclusion, it is possible that poverty among the elderly will contribute to increases in poverty in Bangladesh.

As a result of the nature of the existing system, the majority of the workforce in Bangladesh are constrained to rely on their own lifetime savings to sustain themselves in retirement. This includes the roughly four million women employed in ready-made garment (RMG) export units. Women enjoy a higher life expectancy than men but are disadvantaged compared to men due to relatively lower incomes, a shorter working age, and employment interruptions due to childbirth and other family responsibilities. For these reasons, and as women also dominate Bangladesh's 12 million unpaid workforce, gender issues clearly should be an important consideration for any public policy intervention aimed at providing a meaningful retirement income to excluded citizens.

Addressing the pension coverage gap in Bangladesh is part of the NSSS that proposes a comprehensive pension program for all categories of workers. The program consists of the following three pillars: (i) an Old Age Allowance for the current destitute old that is funded through fiscal transfers (about 2.5 million elderly people (that is 30 percent of people age above 60 in Bangladesh) - receive a monthly allowance of BT300); (ii) a National Social Insurance Scheme (NSIS) - comprising pension, insurance and maternity benefits - for private sector salaried workers delivered through employers and funded equally by employer and employee contributions on a mandatory basis, and; (iii) a voluntary pension scheme for all citizens including the presently excluded informal sector workforce. The voluntary private pension as well as a study of the NSIS proposed to be regulated and supervised by IDRA in the national insurance policy will be the focus of the project.

Tackling the key issues and challenges hindering the development of the insurance as well as the pension sectors is part of the GoB's seventh five year (2016-2020) economic development

plan. This is in harmony with the National Insurance Policy of 2014 as well as the NSSS. Ultimately, developing the insurance and pension markets will also enhance availability and outreach of risk mitigation products and development of a diverse financial sector capable of intermediating long term funds which in turn is vital for the development of Bangladesh's infrastructure both in the social and economic sectors.

C. Proposed Development Objective(s)

Development Objective(s)

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

Key Results

The key results indicators are as follows:

- i. Adoption and implementation by IDRA of smart risk-based supervision
- ii. Number of insurance policy holders (life and non-life)
- iii. Number of adults with a private pension account
- iv. Number of women with a private pension account

D. Project Description

The proposed project will include the following four components: (i) Improving the capacity and effectiveness of the regulator and insurance academy; (ii) Modernization, strengthening and increasing the efficiency of the state-owned insurance corporations; (iii) Development of a voluntary private pension market; and (iv) Project implementation, management, and monitoring.

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

The objective of this component is to strengthen the capacity of IDRA to regulate and supervise the insurance/reinsurance as well as pension sectors including with the support of BIA. Proposed project activities will focus on supporting IDRA's efforts to upgrade its systems, market data infrastructure and improve its capacity to regulate and supervise the insurance sector including through Smart Risk Based Supervision (Smart RBS) as well as improve regulatory and supervisory framework for the pensions sector. This will include training of its staff and management to increase their capacity to formulate rules, regulations and guidelines. For BIA, the project will provide support to strengthen the Academy to establish a reliable resource in Bangladesh to increase the availability of professionals, improve, and advance the knowledge in the sector and undertake enhanced efforts at improving awareness in the public at large.

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

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

Project activities will focus on: (a) Improving organizational structure and strengthening corporate governance of JBC and SBC along with internal control, better transparency, efficiency and compliance with regulatory requirements including implementation of the amendments of the Insurance Corporation Act and the new paid up capital requirements for JBC and SBC as well as other requirements aimed at improving risk management and transfer. Advisory support services to BFID as the agency exercising the government's ownership rights over the state-owned insurance corporations will also be provided; (b) Modernization, upgrade of IT systems and capacity building of SBC and JBC through a provision of technical assistance as well as goods and equipment to improve their operations and business practices including enterprise risk management and business process re-engineering, underwriting and risk transfer mechanism; strengthening policy and practice on reinsurance mechanism; help develop and improve distribution channels such as bank-assurance to reach a broader population spectrum; and allow efficient distribution of insurance products including through banks and other financial institutions as well as digital channels for low cost offers; (c) Capacity building including twinning arrangement and training for staff, management and board members will also be financed.

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

Component 3. Development of a Voluntary Private Pension Market (US\$20 million of which US \$15 million IDA Credit)

The main objective of this component is to help GoB establish a private voluntary pension scheme for all citizens, a pillar of the National Social Security Strategy. Project support will focus setting up a pension division at IDRA, preparing necessary regulatory and supervisory framework, building market infrastructure, piloting different options to ensure the final design is based on the best available evidence, and providing capacity building to various stakeholders. The project will also finance a study to explore the feasibility of a national social insurance scheme (NSIS), pillar 2 of the social security strategy which implementation could benefit from the infrastructure developed for the voluntary pension scheme.

Component 4. Project Implementation, Management, and Monitoring (US\$5 million of which US \$2 million IDA Credit)

This component will help develop a strong monitoring and evaluation (M&E) system to be used by the project implementation unit (PIU) at IDRA and other stakeholders to assess progress in implementation. It will finance consultant services, training and operating costs, including costs for project management, M&E, capacity building and governance and accountability action plan (GAAP) implementation. GAAP would focus on non-fiduciary governance issues, such as eligibility criteria, and citizen feedback, as well as other governance issues relevant to the project.

The PIU will require that additional staff, including industry experts be recruited to manage and monitor project activities.

Component Name

Improving the Capacity of the Insurance Development and Regulatory Authority (IDRA) and the Bangladesh Insurance Academy (BIA)

Comments (optional)

Component Name

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

Comments (optional)

Component Name

Development of a Voluntary Private Pension Market

Comments (optional)

Component Name

Project Implementation, Management, and Monitoring

Comments (optional)

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Dhaka, Bangladesh

F. Environmental and Social Safeguards Specialists

Sabah Moyeen (GSU06)

II. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance (MoF) and more specifically the Bank and Financial Institutions Division (BFID) at the MoF will be the executive division representing the Government of People's Republic of Bangladesh on the project. Responsibility for overall project implementation and management will rest with IDRA and all funds flow for project activities will be managed by IDRA. No funds will be directly transferred from IDA to any project beneficiary. A fiduciary (procurement and financial management) assessment of IDRA has been conducted and concluded that additional staff and consultants will need to be hired to complement IDRA's capacity to manage project activities and comply with reporting and M&E requirements. A Project Steering Committee (PSC) chaired by the Secretary BFID will be set up after project approval and be operational within two months of the project becoming effective. The Committee will include senior representatives from IDRA, senior representatives from Finance Division and Economic Relations Division (ERD) of

MOF, Implementation Monitoring and Evaluation Division (IMED) and Socio-Economic Infrastructure Division (SEID) of the Planning Commission, Ministry of Labor, Bangladesh Bank, MRA, SEC, Insurance companies and other relevant stakeholders as the PSC may decide. In terms of legal arrangements, in addition to the credit agreement between IDA and the Government of Bangladesh, a project agreement will also be entered to between IDA and IDRA. A Subsidiary Grant agreement will also be signed between IDRA and Finance Division of MOF to make the proceeds of the Credit available to IDRA as a grant to undertake the activities of the Project. For implementation of pension activities, partner microfinance institutions (MFIs) will be selected in accordance with the criteria set forth in the Operations Manual for Pension Scheme. At a minimum, partner MFIs will have to hold a license from MRA, the microfinance regulator.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/ BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/ BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
NA
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
NA
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
NA
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

NA
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
NA

B. Disclosure Requirements

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.
If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
All Safeguard Policies			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]

V. Contact point

World Bank

Contact: Korotoumou Ouattara

Title: Sr Financial Economist

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Title: Lead Insurance Specialist

Borrower/Client/Recipient

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Implementing Agencies

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VI. For more information contact:

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VII. Approval

Task Team Leader(s):	Name: Korotoumou Ouattara,Serap Gonulal	
<i>Approved By</i>		
Practice Manager/ Manager:	Name: Niraj Verma (PMGR)	Date: 26-May-2016
Country Director:	Name: Rajashree S. Paralkar (CD)	Date: 27-May-2016