FUND INVESTMENT PRACTICES AND THEIR IMPACT ON STAKEHOLDERS OF LIFE INSURANCE COMPANIES IN BANGLADESH

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Abstract: The objectives of the study was-(1)To analyze the investment practices of life insurance fund in Bangladesh and (2) To identify the impact on Stakeholders' for investment practices of life insurance fund in Bangladesh. At the time of the study the survey and documentary analysis types followed by the researcher and purposive sampling methods were used. Out of 30 local life insurers' only 12 life insurers floated their shares in public. Three life insurers have not yet prepared and published their financial statements for the years 2013 & 2014. Therefore, the researcher made the overall analysis of information obtaining from the 9(nine) life insurers, which covered 77.62% to 87.34% of the revenue of the life insurance industry for 5(five) years. Total data collected from 198 respondents' through personal interview. Primary data collected through personal face to face interviews through questionnaire for the relevant fields and was tabulated and analyzed by using computer program Microsoft Excel. It was found that, there is no avenues for investment of life insurance fund are available in govt. structural development projects in the existing insurance laws. It was found from the respondents opinion that, limit fix by the regulations for investment in deposits in a Schedule bank or Leasing Company (maximum 50% of balance assets) and investments in other sources (maximum 7.5% of balance assets) are required to revise. Cause of so high management expenses was increase of business procurement cost (Salary, Office set out cost, Fuel cost, Renewal registration fees, Corporate tax etc.). Nevertheless, the limit has not yet changed between the years 1938 to year 2014. It reveals from the analysis that, excess management expenses reduced the dividend to shareholders and policy bonus for the policyholders of the insurers. In Bangladesh, the life insurers' fund investment practice were observed and result was that, Out of the 9(nine) insurers' 8(eight) insurers' were not able to invest the entire amount of its life fund in the various avenues mentioned u/s 27(i) and 27(ii) of Insurance Act 1938, section 41 of Insurance Act 2010 and rule 10A of Insurance Rules 1958.No insurers' were able to comply with the investments minimum 30% of its investable fund in govt. securities and 5 insurers were failed to comply with the investment of 70% of its investable fund in approved securities.4(four) life insurers' made investments in excess of its allowable limit of its balance assets in immovable properties as per rule 10A (1) (g) of Insurance Rules 1958.3(three) insurers' made investments in excess of its allowable limit of its balance assets in capital market (Share and Debentures) as per rule 10A (1) (e) of Insurance Rules 1958. All the insurers made investments in excess of its allowable limit of its balance assets in deposits in a schedule banks and financial institution as per rules 10A(1) (i) of Insurance Rules 1958.Only 2 (two) insurers made investment in excess of its allowable limit in other avenues as per rules 10(A) (1)(k) of Insurance Rules 1958, as amended in 2004.Most of the insurers spent 45% to 55% of annual premium income as management expenses and balance 45% to 55% invested for earning return. It was found that, the present practices of investment of life insurance fund affected the stakeholders'. None depositing of money by the field employees of the insurer exclusively or within the stipulated time, the policyholders or their nominees do not receive the survival benefit, Paid-up value, maturity claims and death claims properly and timely. Due to present high volume of management expenses, investment volume reduces as well as investment return also low as the excess expensed amount is not recovered by the present investment practice and the surplus along with policy bonus be low. The policyholders do not get their policy bonus at their expected level. The outside stakeholders' may affect by the loss due to improper present investment practices of life insurance fund. Knowing this, the outside stakeholders may not interest to continue their business with the insurer due to loose of reputation. The directors, Sponsors and the shareholders do not get their dividend as per their expectation. The employees and agents do not receive their future benefits also. However, Present life insurance fund investment scope is limited in our country. Regulations should have revised and avenues for investments should be expanded. To quick accumulation of life insurance fund, management expenses should be keeping at a minimum and renewal persistency should be increased. New avenues for investment in areas of leasing, health, mortgages, public utilities, venture capital fund, investment in derivatives, manufacturing unit, money market (along with BSP & DSC), education sector, investment in community & affordable housing and health sector, as other countries should introduced and enhanced. The present allowable limit of management expenses set by the rules to be changed and to be re-set based on the current market price and market scenario. Investment Avenue should explored in Govt. structural development project as investment in govt. securities. The related laws should amend, if needed. Investment limit in deposits in a schedule bank or Leasing Company should be reduced and limit for investment in other sources be increased. Tax-free bond may issue by the govt. as avenues for investment in govt. securities. Life insurance fund should substantially may place in the long-term investments rather than short-term investments. Provisions should include in the laws.

Key words - **Investment, Life Insurance Fund, Insurer, Policy bonus, Dividend, Investment return, renewal persistency, Management expenses, Allowable expenses, Actual expenses.**

1. INTRODUCTION

There are some guidelines under the Insurance Act-2010 and Insurance Rules 1958 for investment of Life Insurance Funds. No life insurer can take independent decision for investing its life insurance fund except within the guidelines framed by the rules. There are some avenues framed by the rules and has given the minimum and maximum limits to invest the life insurance fund to protect the interest of the stakeholders' (mainly policyholders'). These avenues stated below:

Every insurer shall have to invest and at all times keep invested in the manner provided in section 41 of Insurance Act-2010, assets equivalent to not less the sum of –

i. The amount of his liabilities to policyholders (mathematical reserves) of life insurance policies in Bangladesh on account of matured claims; and

ii. The amount required to meet the liability on policies of life insurance maturing for payment in Bangladesh less-

Premiums have fallen due but not yet been received on account of grace period; and Loans granted to policyholders within their surrender value.

1.1 Avenues for Investment under section 41 of the Insurance Act 2010 and Insurance Rules 1958

i) Minimum 30% of the above calculated assets should be invested in Govt. Securities; and

ii) Balance 70% assets should be invested in the following manner:

Table-1: Avenues of Investments of Balance (70%) Assets

Sl	Details	Amount
1	Mutual fund, Unit fund (Approved by BSEC)	Maximum 30%
2	Shares, Debentures or other Securities *Note: Total investment in Debentures should not be more than 15% and investment of shares any company shall always not have exceeded 10% of paid up capital of the company.*	Maximum 30%
3	Immovable property situated in the area of City Corporation or district headquarters or municipality *(In case of mortgage property, it should not be more than 10%).*	Maximum 20%
4	Deposits in a Schedule Bank or Lasing Company *(Prior permission should obtained from IDRA in case of Leasing Company)*	Maximum 50%
5	Bridge finance under a share underwriting agreement	Maximum 5 times of paid up capital.
6	Others (with the approval of the Authority	Maximum 7.5%

2. OBJECTIVES OF THE STUDY

Objectives of this study are given as under:

(i) To analyze the investment practices of life insurance fund in Bangladesh.

(ii) To identify the impact on Stakeholders' for investment practices of life insurance fund in Bangladesh.

3. METHODOLOGY OF THE STUDY

3.1 Study design

The study was survey and documentary analysis type.

3.2 Study area

Mainly 7 (seven) divisional headquarters: Dhaka, Chittagong, Khulna, Sylhet, Rajshahi, Rangpur, Mymensingh, Bogra, Comilla, Jessore, Cox's Bazar, Noakhali, Barishal, Patuakhali, Faridpur, Sirajgonj and Kushtia districts headquarters and adjacent area had selected as study area.

3.3 Sampling Method

Purposive sampling method was used for the study.

3.4 Sample Size

Presently 30 local life insurers' are operating their activities in the country. Out of the 30 Companies, only 12 Companies floated their shares in public. Three Companies namely Padma Islami Life Insurance Ltd, Sunlife Insurance Co. Ltd and Progressive Life Insurance Co. Ltd have not yet prepared and published their financial statements for the years 2013 & 2014 due to absence of actuarial valuation report as Insurance Development and Regulatory Authority not yet accorded approval of Actuarial Valuation bases of their assets and liabilities. It is very much essential to participate and performance in Capital market of the issuer along with analysis of the fund investments of the issuers. Therefore, the researcher made the overall analysis of information obtaining from the 9(nine) Companies only those who have participated in the operation of Capital Market for 05(five) years' financial and non- financial data starting from the year 2010 and ending the year 2014 as under: Rupali Life Insurance Co. Ltd, National Life Insurance Co. Ltd, Delta Life Insurance Co. Ltd, Sandhani Life Insurance Co. Ltd, Meghna Life Insurance Co. Ltd, Fareast Life Insurance Co. Ltd, Pragati Life Insurance Co. Ltd, Popular Life Insurance Co. Ltd. and Prime Islami Life Insurance Co. Ltd. Further noted that, the sample size covered 77.62% to 87.34% of the revenue of the life insurance industry for the 5 (five) years.

3.5 Sources of data collection

Two types of data collected by the researcher were:

(i) Primary data

(ii) Secondary data

3.6 Primary data collection

Primary data were collected through personal interviews and questionnaire for the relevant fields.

3.7 Secondary data collection

Secondary data were collected from the insurers'/ company's Annual reports, brochure and booklets, Statistics of the local government, Ministry of Finance, Insurance Development and Regulatory Authority, Insurance Annual reports, Bangladesh Insurance Association, Bangladesh Insurance Academy, Journal and relevant sources of different insurance Corporations and Companies, Bangladesh Securities and Exchange Commission, Dhaka Stock Exchanges, Chittagong Stock Exchanges. Different accounting and statistical techniques such as premium records, investments information, and life fund information, Claims information, management information etc. used to interpret the data and draw inference there from.

3.8 Tools for data collection

Questionnaire was used for collection of data from the respondents.

3.9 Methods of data collection

Primary data were collected through face to face interview and questionnaire of the following top level / managerial level work force, owners and customers (policyholders') of the Companies:

Table- 2: Details of Respondents for data collection

Sl	Categories	No. of respondents	Nature of respondents	Remarks
1	Chief Executive Officer	9	Employee	One from each insurer
2	Chief Financial Officer	9	Employee	One from each insurer
3	Chief Investment Officer	9	Employee	One from each insurer
4	Company Secretary	9	Employee	One from each insurer
5	Share Officer	9	Employee	One from each insurer
6	Head of Claims	9	Employee	One from each insurer
7	Head of Underwriting	7	Employee	One from each insurer
8	Policyholders	45	Customer	Five from each insurer
9	Sponsors	45	Sponsor	Five from each insurer
10	Shareholders	45	Shareholder	Five from each insurer
Total		**198**		

3.10 Analysis of data

The results of analysis presented in appropriate table and graphs. Researcher did empirical study on insurance Company's growth of insurance fund, adequacy of investment according to Insurance Act-2010 and Insurance Rules-1958 and onwards and investment income, through primary and secondary data.

3.11 Implications of the study

Theory section contains a review of theories concerning in definition, functions and of insurance. Entrepreneurship development, Corporate Governance, Analysis of Life Insurance Fund, Investment and its return also discussed on this section.

3.12 Limitations of the study

While investing the funds, the insurers' considered the following matters:

i) To protect the interest of the policyholders.
ii) Insurer have must sufficient fund to pay the claims.
iii) The earning should be constant and the market price of the securities must not fall considerably.
iv) There should be complete good faith of the public in the insurer's management of funds.
v) A great care had taken while selecting suitable channels of investment.

3.13 Settlement of limitations

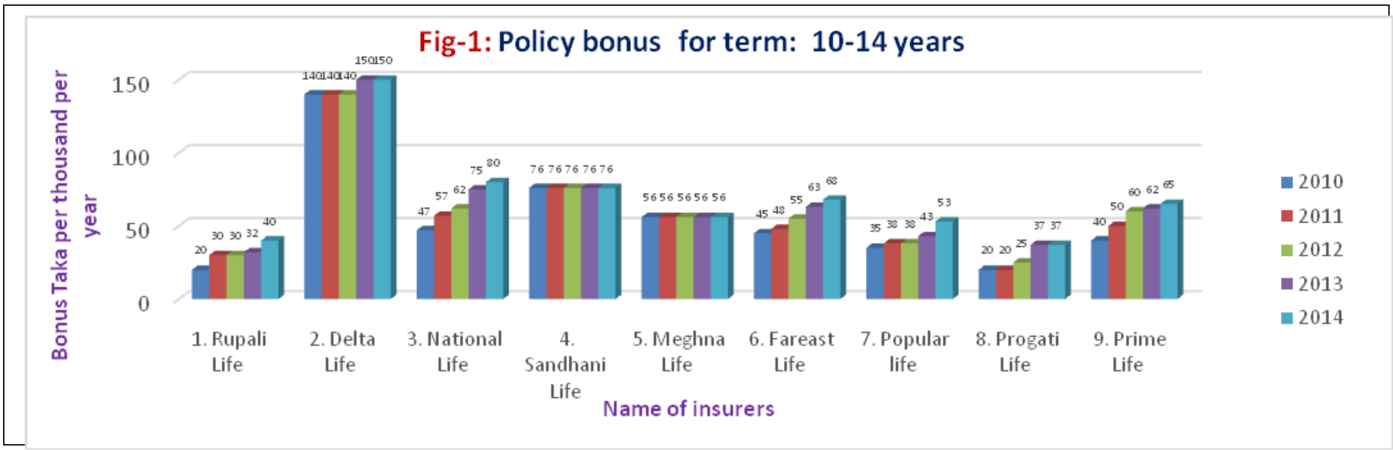
The Researcher worked on the following areas to sort out relevant problems:
i) Researcher engaged with some practical work and study with 4 Life Insurance Companies in Bangladesh.
ii) The researcher analyzed and interpreted the available data from authenticate source.
iii) The researcher went for field survey.
iv) Researcher considered the information available for flow of fund.
v) The researcher took interview, as sample survey, to learn the social and financial impact of financial ability.
vi) The researcher analyzed and inter operate the impact of payments of claims to the economy.

4. EFFICIENCY ANALYSIS FOR POLICY BONUS AND DIVIDEND PAYMENT

The researcher also made an analysis on efficiency of policy bonus and dividend payment for 9 (nine) life insurers' under discussion. The results of analysis also depicted below:

4.1 Policy bonus

In every year, every insurer has to prepare a valuation of its assets and liabilities by an Actuary for the purpose of declaration of policy bonus. The surplus to be finding out through the valuation and minimum 90% of surplus should have allocated among the policyholders as policy bonus. Graphical presentations for policy bonus declared by the insurers' classified term wise into four Categories presented below:



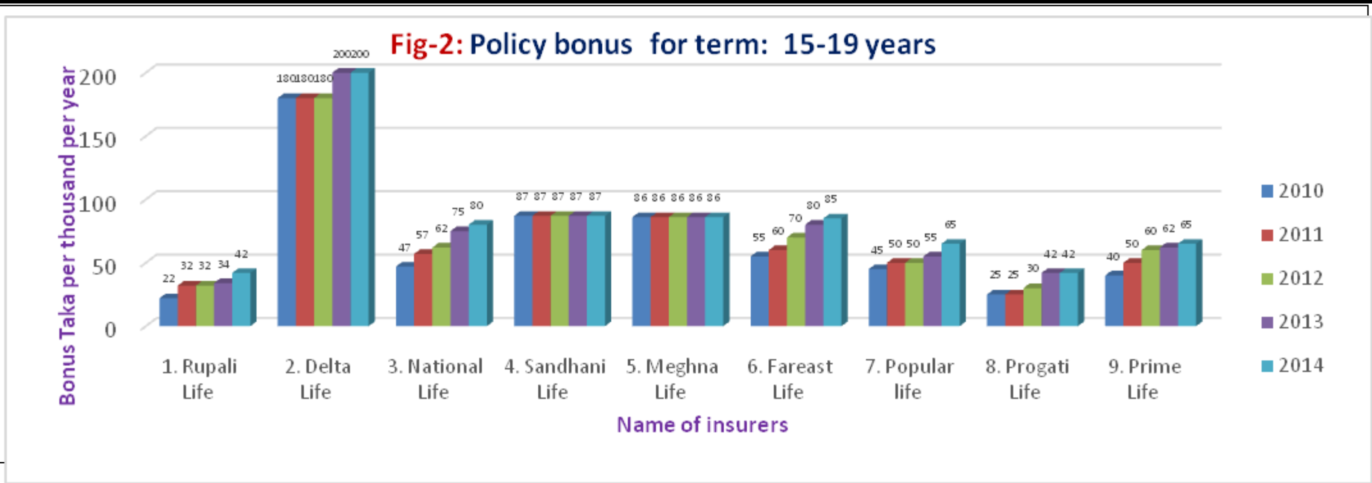


Fig-2: Policy bonus for term: 15-19 years

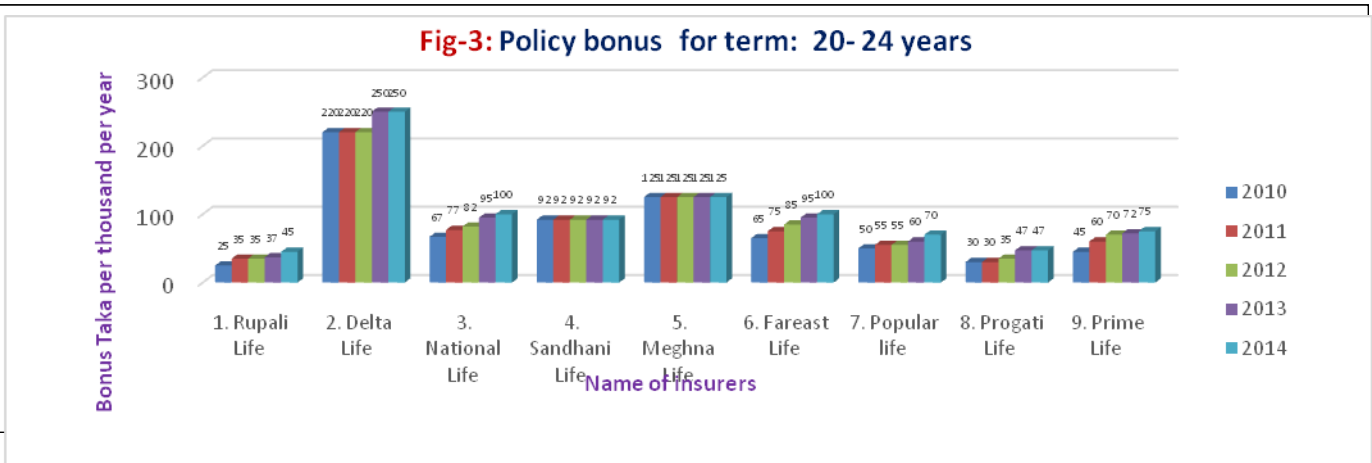


Fig-3: Policy bonus for term: 20- 24 years

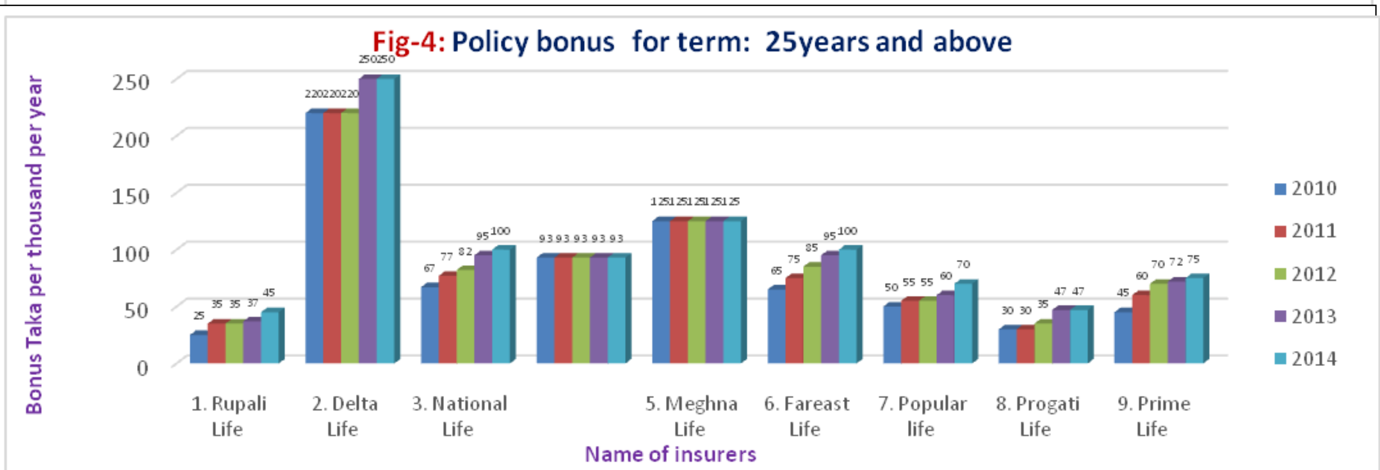


Fig-4: Policy bonus for term: 25years and above

The researcher observed from the above graphical presentation that, among the above 9 (nine) insurers, Delta Life insurance is giving highest policy bonus, whose origin is the first generation life insurer.

4.2 Dividend payment to Shareholders

After finding out the surplus through the valuation, maximum 10% of surplus may be distributed/ allocated among the shareholders as dividend (Section 49 A of the Insurance Act 1938). The researcher found that, the policyholders' bonus, dividend for shareholders depends on the factors as discussed below:

Growth of premium (Premium growth ratio)
Management expenses ratio
Renewal expenses ratio
Renewal persistency ratio
Investment return
Investment yield on life fund
Death claim ratio
Allowable expenses ratio

4.2.1 Growth of premium (Premium growth ratio)

When the volume of premium becomes high, the growth rate gradually become low although the growth volume of current year over the previous year is high. Growth of premium results the increase of life fund of which ultimate result is higher surplus and higher policy bonus and dividend.

4.2.2 Management expenses ratio

Management expenses include the commission expenses, all administrative expenses and a portion of capitalized expenses. A management expense is one of the factors, which affects the bonus to policyholders and dividend to shareholders. If management expenses become high, the life fund would be reduces as well as surplus reduces. If surplus reduces, then the policy bonus and share dividend is also ultimately reduces. When the management expenses become low, then the life fund increases as well as surplus increases, which ultimate is also increases of policy bonus and share dividend.

Excess management expenses of the insurers' under discussion tabulated below:

Table-3: Excess management expenses as % of gross premium (all insurers)

Name of insurers	Allowable management expenses calculated on gross premium (for 2010-2014)	Actual management expenses calculated on gross premium (for 2010-2014)	Excess management expenses on gross premium (for 2010-2014)
Rupali Life Insurance Co. Ltd	40.32%	46.57%	5.25%
Delta Life Insurance Co. Ltd	28.52%	30.37%	1.85%
National Life Insurance Co. Ltd	29.75%	34.42%	4.67%
Sandhani Life Insurance Co. Ltd	35.16%	46.53%	11.37%
Meghna Life Insurance Co. Ltd	37.60%	41.05%	3.45%
Fareast Islami Life Insurance Co. Ltd	29.06%	34.72%	5.66%
Popular Life Insurance Co. Ltd	30.16%	34.82%	4.66%
Pragati Life Insurance Co. Ltd	36.43%	50.92%	14.49%
Prime Islami Life Insurance Ltd	31.63%	38.51%	6.88%

4.2.3 Renewal expenses ratio

The expenses, which expensed from the renewal premium for procuring the renewal business, defined as renewal expenses. Renewal expenses ratio affects the surplus and ultimately affects the policy bonus and shareholders dividend. When the renewal expenses kept within the permissible limit, the financial position of the insurers stated better. When the renewal expenses are beyond the allowable limit, the position of insurers gradually goes down to worsen. It observed from the renewal expenses of the insurers under discussed, all the years of renewal expenses were too excess compared with the allowable limit. It effects on adverse situation on surplus of the insurers. The bonus and dividend declaration capacity would have increased, if the renewal expenses ratio remains within their allowable limit or less of that.

Noted that, as per rule 39 of Insurance Rules 1958, present allowable limit of renewal expenses is 15%. However, most of the insurers' under discussion have exceeded their limit on renewal premium expenses ratio.

Table-4: Excess renewal expenses as % over allowable limit (all insurers)

Name of insurers	Allowable renewal expenses	Renewal expenses ratio (2010-2014)	Excess renewal expenditures
Rupali Life Insurance Co. Ltd	15%	24.48%	9.48%
Delta Life Insurance Co. Ltd	15%	19.62%	4.62%
National Life Insurance Co. Ltd	15%	21.77%	6.77%
Sandhani Life Insurance Co. Ltd	15%	30.96%	15.96%
Meghna Life Insurance Co. Ltd	15%	22.39%	7.39%
Fareast Islami Life Insurance Co. Ltd	15%	22.95%	7.95%
Popular Life Insurance Co. Ltd	15%	20.90%	5.90%
Pragati Life Insurance Co. Ltd	15%	65.37%	50.37%
Prime Islami Life Insurance Ltd	15%	25.26%	10.26%

4.2.4 Renewal persistency ratio

Renewal persistency ratio means the percentage of total renewal premium of a certain year over the total premium up to previous year. The efficiency of renewal persistency can reflect the efficiency of policy bonus and rate of shareholders dividend. The renewal persistency of insurers of our country is not so good.

A comparison of renewal persistency of 9 (nine) companies under discussed are appended below:

Table-5: Renewal persistency ratio of insurers'

Persistency	Value		Number of insurer	Percentage (%)
	Low	High		
Below 50%	43.99%	43.99%	01	11.11
70% - 75%	70.31%	74.34%	03	33.33
75% - 80%	75.60%	75.77%	04	44.45
80% - 85%	-	-	-	-
85% - 90%	87.65%	87.65%	01	11.11
		Total	**09**	**100.00**

1(one) insurer attained 87.65% renewal persistency, 4(four) insurers' attained 75.60% to 75.77% renewal persistency, 3(three) insurers' have attained 70.31% to 74.34% renewal persistency and 1(one) insurer attained 43.99% renewal persistency. The renewal persistency of the insurers in Bangladesh is not so standard like outside the countries. In India, it was above 95%.

4.2.5 Investment return

Investment return is also another factor, which affects the surplus/ profit of life insurers. When the valuation of assets and liabilities of insurer made, the investment return is considered. Higher return indicates the high volume of surplus and ultimate result is high rate of policy bonus and high rate of shareholders' dividend. When investment return indicates low, the surplus also be low and policy bonus and dividend rate would have been low.

The investment return of the insurers discussed (from 2010-2014) also calculated and found as under:

Table-6: Investment Return of insurers'

Investment return		Number of insurers
From	**To**	
6%	7%	01
7%	8%	01
8%	9%	02
9%	10%	03
10%	11%	02
	Total	**09**

Through investment 1 (one) insurer earned 6% - 7% return, 1 (one) insurer earned 7% - 8% return, 2 (two) insurers' earned 8% - 9% return, 3 (three) insurers' earned 9% -10% return and 2(two) insurers' earned 10% - 11% return. However, the average rate of return is very much satisfactory. It is also opined from the analysis of investment return that, although the expenses ratio, renewal persistency ratio are very much unfavorable yet the incremental of investment return shall recover the loss and a good surplus may be obtained.

4.2.6 Yield on life fund

Every insurer has to be needed to invest its life fund in full amount. However, in some cases the full amount of life fund may not invested. Some funds also invested for replacement of assets for smooth operation of the company for earning the return. Further, some investments also made in some non-productive sources. For this reason, actual return from investment attained to some extent of lower amount than its targeted amount of return due to improper sources of investments. Therefore, the Actuaries calculate the yield on life fund for maintaining proper reserve for calculating its actual return on life assurance fund. Calculation of yield on life fund is most prudent method, for the Actuaries while they want to evaluate assets and liabilities.

4.2.7 Death Claim expenses ratio

Death claim expense is also another factor for affecting the surplus /profit of an insurer. The researcher worked out the average death claim expenses ratio on the first year premium earned for the 5(five) years under discussion. Statistics tabulated as under:

Table-7: Death Claim expenses ratio of insurers'

Name of insurers'	Claim ratio (%)	Nature	No. of insurers	%
1.Rupali Life Insurance Co. Ltd	4.14			
2.Meghna Life Insurance Co. Ltd	3.96			
3.Fareast Islami Life Insurance Co. Ltd	2.86	Reasonable	4	44.44
4.Prime Islami Life Insurance Co. Ltd	3.47			
5.National Life Insurance Co. Ltd	7.80	A bit higher	2	22.22
6.Popular Life Insurance Co. Ltd	7.33			
7.Delta Life Insurance Co. Ltd	19.50			
8.Pragati Life Insurance Co. Ltd	23.08	Unreasonable	2	22.22
9.Sandhani Life Insurance Co. Ltd	80.60	Abnormal	1	11.11
Total			**9**	**100.00**

The researcher found that, 4(four) insurers have the reasonable death claim ratio. Further, 2 (two) insurers have a little bit higher death claim expenses ratio. Another 2 (two) insurers have un expectable claim expenses ratio. One insurer has an abnormal claim expenses ratio which is 80.60% is very much high. It means that, the underwriting decision taken for the acceptance of life insurance policies not done prudently.

4.2.8 Allowable management expenses ratio

Allowable management expenses ratio is also a main factor, which can affect the policy bonus and dividend for shareholders. Allowable expenses is a system of combat the expenses of insurers. When expenses be high, the life fund reduces as well as the policy bonus and shareholders dividend reduces. When expenses be low, the life fund increases as well as surplus be increased and ultimate result is increase of policy bonus and dividend for shareholders.

The researcher gone through an analysis on allowable management expenses. Observed that, no insurer was able to keep up their expenses within the allowable limit for the 5 years from 2010 to 2014. Only one insurer able to keep the expenses within the allowable limit for the year 2010 and for the year 2014, which were 0.06% and 1.20% favorable based on the allowable expenses limit.

However, a statistics for total actual expenses, allowable expenses, deviations in million taka and in % (percentage) for the 5 (five) years are given below:

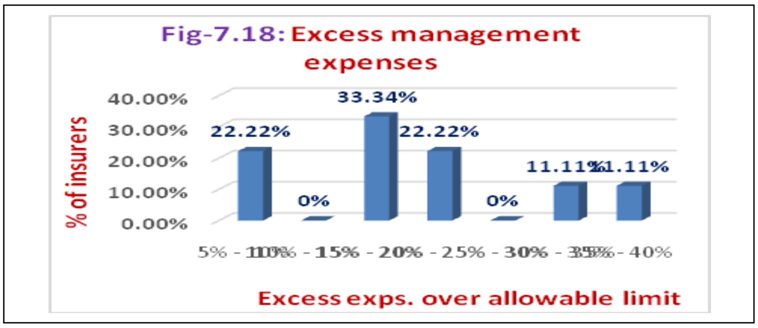
Table-8: Actual management expenses and Allowable management expenses ratio of insurers'

Name of the insurer	Actual expenses for 5 years	Allowable expenses for 5 years	Fav./ (unfav.) in million taka	Fav./ (unfav.) in %
Rupali life insurance co. ltd	3,669.72	3,177.00	(492.72)	(15.51%)
Delta life insurance co. ltd	7,811.33	7,377.27	(474.06)	(6.46%)
National life insurance co. ltd	11,864.47	10,246.76	(1,617.71)	(15.79%)
Sandhani life insurance co. ltd	5,578.12	4,214.33	(1,363.79)	(32.36%)
Meghna life insurance co. ltd	8,208.88	7,518.18	(690.71)	(9.19%)
Fareast life insurance co. ltd	12,247.26	10,248.85	(1,998.41)	(19.50%)

Popular life insurance co. ltd	13,010.84	11,266.72	(1,744.12)	(15.48%)
Pragati life insurance co. ltd	4,413.87	3,157.87	(1,256.00)	(39.77%)
Prime islami life insurance co. ltd	3,942.09	3,237.50	(704.59)	(21.76%)

Table- 9: Excess expenditure over allowable limit

Excess expenditures over allowable limit	Number of insurers	%
5%- 10%	02	22.22
10%-15%	0	0
15%-20%	03	33.34
20%-25%	02	22.22
25%-30%	0	0
30%-35%	01	11.11
35%-40%	01	11.11
Total	**09**	**100.00**



In the above table, 22.22% insurers' spent 5% to 10% over the allowable limit of expenses, 33.34% insurers' spent 15% to 20% over the allowable limit, 22.22% insurers' spent 20% to 25% over the allowable limit, 11.11% insurers' spent 30% to 35% over the allowable limit and 11.11% insurers' spent 35% to 40% over the allowable limit of expenses.

4.2.9 Investment in various avenues violating the rules of section 27 (1), 27(2), 27(3) of Insurance Act 1938, section 41 of Insurance Act- 2010 and rules 10(A) of Insurance Rules 1958.

Every insurer has to abide by the rules at the time of investments of its life fund. However, practically most of the insurers' have invested their life fund violating the existing rules regarding the life insurance fund investments. The avenues where the insurers' have violated the rules stated below:

Table- 10: Shortfall of investment as a total of life fund

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Rupali Life Insurance Co. Ltd	(5.97)	(13.56)	(7.24)	(4.99)	(1.69)
2.	Delta Life Insurance Co. Ltd	(8.71)	(7.33)	(5.26)	(0.31)	Complied
3.	National Life Insurance Co. Ltd	(0.47)	(0.68)	(2.44)	(1.38)	Complied
4.	Sandhani Life Insurance Co. Ltd	Complied	Complied	Complied	Complied	Complied
5.	Meghna Life Insurance Co. Ltd	(9.62)	(17.18)	(16.88)	(16.35)	(18.32)
6.	Fareast Islami Life Insurance Co. Ltd	(11.23)	Complied	Complied	Complied	Complied
7.	Popular Life Insurance Co. Ltd	(13.05)	(11.67)	(11.65)	(11.46)	(9.91)
8.	Pragati Life Insurance Co. Ltd	(20.24)	(22.98)	(23.31)	(19.82)	(15.71)
9.	Prime Islami Life Insurance Co. Ltd	(10.09)	(9.83)	(7.59)	(7.49)	(6.64)

Only one insurer has no deficit of its total investments. One insurer has deficit for one year (2010), two insurers' have deficit for 4 years and balance 6 insurers' have deficit for all the years' (5 years) under discussion.

Table- 11: Shortfall of investment in govt. securities (30%)

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Rupali Life Insurance Co. Ltd	(7.60)	(4.49)	(0.33)	Complied	Complied
2.	Delta Life Insurance Co. Ltd	(0.39)	(1.11)	Complied	Complied	Complied
3.	National Life Insurance Co. Ltd	(5.44)	(0.68)	(2.44)	(2.37)	(2.08)
4.	Sandhani Life Insurance Co. Ltd	(0.44)	Complied	Complied	(0.53)	Complied
5.	Meghna Life Insurance Co. Ltd	(5.26)	(5.21)	(2.90)	(1.85)	(1.25)
6.	Fareast Islami Life Insurance Co. Ltd	(28.68)	(29.67)	(29.71)	(29.94)	(29.95)
7.	Popular Life Insurance Co. Ltd	(12.64)	(9.98)	(7.53)	(0.40)	Complied
8.	Pragati Life Insurance Co. Ltd	(4.87)	(2.53)	(3.28)	Complied	Complied
9.	Prime Islami Life Insurance Co. Ltd	(11.24)	(10.46)	(16.46)	(25.42)	(28.24)

The researcher found from the above that, all the insurers' under discussion failed to comply with the section 27(2) (i) of Insurance Act 1938 regarding the investment of their life fund in govt. securities. One insurer only for one year, 2 insurers' only for 2 years and 2 insurers' only for 3 years able to comply with the rules regarding cited above.

Table- 12: Shortfall of investment in approved securities (70%)

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Rupali Life Insurance Co. Ltd	Complied	(9.07)	(6.91)	(6.17)	(2.28)
2.	Delta Life Insurance Co. Ltd	(8.32)	(6.22)	(7.11)	(1.54)	Complied
3.	Meghna Life Insurance Co. Ltd	(4.36)	(11.97)	(13.98)	(14.50)	(17.07)
4.	Popular Life Insurance Co. Ltd	(0.41)	(1.69)	(4.12)	(11.06)	(18.59)
5.	Pragati Life Insurance Co. Ltd	(15.37)	(20.45)	(20.03)	(23.22)	(26.71)

Found that, 5 insurers' under discussion failed to comply with the investment of its balance assets (70% of investable amount) as mentioned in the section 27(2) (ii) of Insurance Act 1938.

Table- 13: Excess investment made in immovable properties

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Rupali Life Insurance Co. Ltd	1.03	Complied	1.17	0.69	1.75
2.	Sandhani Life Insurance Co. Ltd	4.18	1.87	1.02	0.23	0.02

3.	Fareast Islami Life Insurance Co. Ltd	Complied	10.14	13.53	9.03	14.23
4.	Popular Life Insurance Co. Ltd	10.33	4.99	1.83	Complied	Complied

4 (four) insurers' failed to comply with the investment of balance assets in immovable properties as per rules 10A (1) (g) of Insurance Rules 1958. From the analysis the researcher was in the opinion that, investment in immovable property is non-income performing investment avenue.

Table- 14: Excess investment made in Capital market (Shares, Debentures)

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Delta Life Insurance Co. Ltd	1.01	Complied	0.31	3.10	12.50
2.	Pragati Life Insurance Co. Ltd	10.92	Complied	Complied	Complied	Complied
3.	Prime Islami Life Insurance Co. Ltd	Complied	Complied	1.00	Complied	Complied

6 (six) insurers complied the limit of investment in capital market (Shares and debentures). 2 (two) insurer could not comply for one year and one insurer complied only for one year.

Table- 15: Excess investment made in deposits in schedule bank and financial institution

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Rupali Life Insurance Co. Ltd	1.33	Complied	0.38	2.50	5.09
2.	Delta Life Insurance Co. Ltd	Complied	2.61	Complied	Complied	Complied
3.	National Life Insurance Co. Ltd	29.69	29.48	27.17	22.91	24.22
4.	Sandhani Life Insurance Co. Ltd	8.55	0.84	3.88	5.43	1.40
5.	Meghna Life Insurance Co. Ltd	18.33	12.17	8.66	7.71	6.00
6.	Fareast Islami Life Insurance Co. Ltd	34.39	43.29	43.71	34.79	44.08
7.	Popular Life Insurance Co. Ltd	3.12	8.91	9.29	1.13	Complied
8.	Pragati Life Insurance Co. Ltd	Complied	Complied	2.46	Complied	Complied
9.	Prime Islami Life Insurance Co. Ltd	2.22	Complied	8.23	14.14	18.42

All the insurers under discussion invested their life fund in the deposits in a schedule bank and financial institution violating the rules 10A (1) (i) of Insurance Rules 1958, introduced vide SRO no. 289-Ain/2004 dated 10 October 2004.

Table- 16: Excess investment made in other avenues

Sl	Name of the insurer	2010 in %	2011 in %	2012 in %	2013 in %	2014 in %
1.	Sandhani Life Insurance Co. Ltd	Complied	Complied	0.15	Complied	Complied
2.	Prime Islami Life Insurance Co. Ltd	9.95	6.93	4.98	Complied	12.64

The above 2(two) insurers' have failed to comply the rules regarding the investment in other avenues.

5. THE RESULT OF THE INTERVIEW DISCUSSED AS UNDER

The researcher took interview of 198 respondents of the following categories who are the stakeholders and some are directly involved with the service of the insurance industries in the relevant departments/ sections:

Table- 17: Classification of total number of respondents

Sl	Respondents	Number of respondents
1.	Chief Executive Officer	09
2.	Chief Financial Officer	09
3.	Chief Investment Officer	09
4.	Company Secretary	09
5.	Share Officer	09
6.	Head of Claims	09
7.	Chief Underwriter	09
8.	Policyholder	45
9.	Shareholder	45
10.	Sponsor	45
Total Number of Respondents		**198**

Table-18: Respondents' opinion regarding investment ratio (30: 70) in govt. and other avenues

Respondents	Yes	No	Total	Yes (%)	No (%)
Chief Executive Officer	8	1	9	88.89	11.11
Chief Financial Officer	7	2	9	77.78	22.22
Chief Investment Officer	5	4	9	55.56	44.44
Total	**20**	**7**	**27**	**74.07**	**25.93**

Here, 74.07% respondent agreed and 25.93% respondents dis-agreed that as per section 41 of Insurance Act 2010 and as per section 27 of Insurance Act 1938, minimum 30% of the investable amount should be invested in govt. securities and balance 70% investable amount (assets) should be invested in other various manner are sufficient.

Table-19: Respondents' response regarding inclusion of govt. development project in govt. Investment Avenue

Respondents	Yes	No	Total	Yes (%)	No (%)
Chief Executive Officer	9	0	9	100	0
Chief Financial Officer	7	2	9	77.78	22.22
Chief Investment Officer	8	1	9	88.89	11.11

Total	**24**	**3**	**27**	**88.89**	**11.11**

The researcher found that, there is no avenues for investment of life insurance fund in govt. structural development projects, which is required to inclusion in the investment rules of life insurance fund. 88.89% respondents agreed with the proposal and 11.11% dis-agreed with the proposal.

Table-20: Respondents' opinion regarding present ceiling of investment in Mutual Fund

Respondents	Yes	No	Total	Yes (%)	No (%)
hief Executive Officer	8	1	9	88.89	11.11
Chief Financial Officer	6	3	9	66.67	33.33
Chief Investment Officer	7	2	9	77.78	22.22
Total	**21**	**6**	**27**	**77.78**	**22.22**

77.78% respondents were agreed with the proposal that, maximum 30% of balance assets required to invest in Mutual Fund and Unit Fund as approved by the Bangladesh Securities and Exchange Commission are sufficient.

Table-21: Respondents' opinion regarding limit of investment in Shares & Debentures

Respondents	Yes	No	Total	Yes (%)	No (%)
hief Executive Officer	7	2	9	77.78	22.22
Chief Financial Officer	5	4	9	56.56	44.44
Chief Investment Officer	8	1	9	88.89	11.11
Total	**20**	**7**	**27**	**74.07**	**25.93**

74.07% respondent opined that, 30% of balance assets be invested in Shares, Debentures or other securities are very much sufficient and 25.93% respondents were dis-agreed with the opinion.

Table-22: Respondents' opinion regarding limit of investment in immovable property

Respondents	Yes	No	Total	Yes (%)	No (%)
Chief Executive Officer	7	2	9	77.78	22.22
Chief Financial Officer	6	3	9	66.67	33.33
Chief Investment Officer	6	3	9	66.67	33.33
Total	**19**	**8**	**27**	**70.37**	**29.63**

70.37% respondents opined that, investments in immovable property (maximum 20%) of balance assets are sufficient and 29.63% respondents disagreed with the opinion.

Table-23: Respondents' opinion regarding changes the limit of investment as deposits in Bank & Leasing

Respondents	Yes	No	Total	Yes (%)	No (%)
hief Executive Officer	8	1	9	88.89	11.11
Chief Financial Office	8	1	9	88.89	11.11
Chief Investment Officer	6	3	9	66.67	33.33
Total	**22**	**5**	**27**	**81.48**	**18.52**

81.48% respondents agreed that, limit fixed by the regulations for investment in deposits in a Schedule bank or Leasing Company (maximum 50%) of balance assets required to revise. And 18.52% respondents' were disagreed with the opinion.

Table-24: Respondents' opinion regarding changes the limit of investment in Other sources

Respondents	Yes	No	Total	Yes (%)	No (%)
Chief Executive Officer	7	2	9	77.78	22.22
Chief Financial Officer	9	0	9	100	0
Chief Investment Officer	9	0	9	100	0
Total	**25**	**2**	**27**	**92.59**	**7.41**

59% respondents agreed that, the limit fixed by the regulations for investments in other source, maximum 7.5% of balance assets required to revise and 7.41% dis-agreed with the opinion.

Table-25: Respondents' reflection of excess management expenses on policy bonus

Respondents	Yes	No	Total	Yes (%)	No (%)
Chief Executive Officer	8	1	9	88.89	11.11
Chief Financial Officer	7	2	9	77.78	22.22
Chief Investment Officer	8	1	9	88.89	11.11
Total	**23**	**4**	**27**	**85.19**	**14.81**

5.19% respondents commented- excess management expenses reducing the notional benefit / policy bonus for the policyholders of the insurers and 14.81% respondents disagreed with the opinion.

Table-26: Respondents opinion for impact on dividend due to excess management expenses

Respondents	Yes	No	Total	Yes (%)	No (%)
Chief Executive Officer	7	2	9	77.78	22.22
Chief Financial Officer	8	1	9	88.89	11.11
Company Secretary	8	1	9	88.89	11.11
Share Officer	7	2	9	77.78	22.22
Shareholders	45	0	45	100	0
Sponsors	45	0	45	100	0
Total	**120**	**6**	**126**	**95.24**	**4.76**

95.24% respondents in the opinion that, excess management expenses reducing the dividend for the shareholders as well as the policy bonus for policyholders and only 4.76% respondents did not agree with the opinion.

Table-27: Highest policy bonus offered life insurer

Respondents	First generation life insurer	Second generation life insurer	Third generation life insurer	Fourth generation life insurer	Total
Chief Executive Officer	8	1	0	0	9
Chief Financial Officer	7	2	0	0	9
Policy Holders	39	6	0	0	45
Total	**54**	**9**	**0**	**0**	**63**
%	**85.71%**	**14.29%**	**0**	**0**	**100**

85.71% respondents' opine that, First Generation Company giving the highest policy bonus and 14.29% respondents opine that, Second Generation Company giving highest policy bonus.

6. FINDINGS

Findings based on financial and other information of primary & secondary data and interview from the respondents:

1. Here, 74.07% respondents agreed that as per section 41 of Insurance Act 2010 and as per section 27(2)(1) and 27(2)(2) of Insurance Act 1938, provision made, minimum 30% of the investable amount should be invested in govt. securities and balance 70% investable amount (assets) should be invested in other various manner are sufficient.
2. Only 11.1% life insurers were able to keep and 88.9% insurers failed to keep the 30% investment in govt. securities, which was mandatory for the life insurers as per Investment guidelines of Insurance Rules- 1958. One insurer only for one year, 2 insurers' only for 2 years and 2 insurers' only for 3 years able to comply with the rules regarding cited above.
3. It was found that, there is no avenues for investment of life insurance fund in govt. structural development projects in the existing insurance laws, which is required to include in the investment avenues framed in the govt. securities.
4. Only 44.4% life insurers were able to keep and 55.6% insurers failed to keep the 70% investment in other approved investments, which was mandatory as mentioned in the section 27(2) (ii) of Insurance Act 1938 due to excess management expenses beyond the allowable limit
5. Most of the companies spent as operational expenses about 45% to 55% premium they earned and balance 45% to 55% invested. Further observed that, more than 50% fund invested in bank in a term deposit. Present rate of return in banking deposits is 5% to 6%. Therefore, it is very tuff to recover 50% expenses as profit by investing at so low rate of return. However, it may be recovered by investing life fund in the capital market.
6. 4 (four) insurers' failed to comply with the investment of balance assets in immovable properties as per rules 10A (1) (g) of Insurance Rules 1958. Investment in immovable property is non-income performing investment avenue. No interest or rental received from the source of immovable properties. However, a big volume of fund invested in this avenue. For an instance, some insurers' invested up to 28.23% of its investable fund for purchase of immovable property.
7. The rate of return is very much satisfactory. Through investment two insurer earned 10% to 11% return, three insurers' earned 9% to 10% return, two insurers' earned 8% to 9% return, one insurer earned 7% to 8% return and one insurer earned 6% to 7% return.
8. All the insurers under discussion invested their life fund in the deposits in a schedule bank violating the rules 10A (1) (i) of Insurance Rules 1958, introduced vide SRO no. 289-Ain/2004 dated 10 October 2004. However, investment for income from deposits in bank and financial institutions was the last source of income for the insurers.
9. 81.48% respondents agreed that, limit fixed by the regulations for investment in deposits in a Schedule bank or Leasing Company (maximum 50%) of balance assets required to revise.
10. 92.59% respondents agreed that, the limit fixed by the regulations for investments in other source, maximum 7.5% of balance assets required to revise.
11. Most of the life insurers having the expenses over their allowable limit and this limit exceed 11% to 70.86% in all around the 5 years (2010 to 2014).
12. Cause of so high management expenses was several times increasing of present living cost and business cost (Salary, Office set out cost, Fuel cost, Renewal registration fees, Corporate tax etc.). Nevertheless, the limit has not yet changed between the years 1938 to year 2014.
13. Excess management expenses reducing the dividend to shareholders and policy bonus for the policyholders of the insurers.
14. The allowable limit of management expenses set by the law should have been changed and to be re-set based on the current market price and market scenario.
15. Growth of premium results the increase of life fund of which ultimate result is higher surplus and higher policy bonus and dividend.
16. The renewal persistency of insurers' of our country is not so good. One insurer attained 87.65% renewal persistency, four insurers' attained 75.60% to 75.77% persistency, three insurers' attained 70.31% to 74.34% renewal persistency and one insurer attained 43.99% persistency.
17. Although the expenses ratio, renewal persistency ratios are unfavourable, due to incremental of investment return, the loss would have to be sustained and a good surplus may be obtained.
18. The life fund investment can increase by combating renewal expenses ratio.
19. It was also found that, 4(four) insurers' have the reasonable death claim ratio, which was 2.86% to 4.14%. 2(two) insurers' have a little bit higher death claim expenses ratio which was 7.33% to 7.80%. 2(two) insurers have un-expectable claim expenses ratio which was 19.50% to 23.08% and 1(one) insurer has an abnormal claim expenses ratio, which was 80.60%.
20. There is a scope for increasing volume of life insurance fund by extending insurance coverage through marketing new insurance products.

21. It was found that, 11.11% policyholders were highly satisfied with the policy bonus, 41.26% policyholders were satisfied, 30.17% policyholders were moderately satisfied and 11.11% policyholders expressed their dissatisfaction with the policy bonus they received.
22. From the above discussion, it was found that the First Generation Company giving the highest policy bonus.

7. CONCLUSION

7.1 Fund investment practiced by life insurers' in Bangladesh

Every insurer has to follow the rules at the time of investments of its life fund. However, practically most of the insurers' have invested their life fund violating the existing rules regarding the investment of life insurance fund and more or less these are the regular practice of the operators of insurance industries in Bangladesh. After analyzing, the researcher investigates some points on fund investment practices by the insurers' in Bangladesh, quoted as under:

1. Found from the result that, most of the insurers have a deficit of its total investment of life fund. Only one company has no deficit in overall investments and one company has deficit only for the year 2010. It happened due to excessive management expenditures over the allowable limit.
2. It was found that, all the insurers' under discussion failed to comply with the section 27(2)(1) of Insurance Act 1938 regarding the investment of their life fund in govt. securities. Also observed that, one insurer only for one year, 2 insurers' only for 2 years and 2 insurers' only for 3 years able to comply with the rules regarding cited above.
3. Also found that, 5 insurers' under discussion failed to comply with the investment of its balance assets (70% of investable amount) as mentioned in the section 27(2) (ii) of Insurance Act 1938 and non-compliance happened due to shortfall of fund available for investments. The main reason for fund shortfall was excess management expenses beyond the allowable limit.
4. 4 (four) insurers' failed to comply with the investment of balance assets in immovable properties as per rules 10A (1) (g) of Insurance Rules 1958. From the analysis, the researcher was in the opinion that, investment in immovable property is non-income performing investment avenue. No interest or rental received from the source of immovable properties. Yet a big volume of fund invested in this avenue. Note that, some insurers' invested up to 28.23% of its investable amount of fund for purchase of immovable property.
5. Some insurers' have violated the rules regarding the investment in capital market, as per rules 10A (1) (e) of Insurance Rules 1958. However, the source of investment in capital market is very much lucrative and this has encouraged some insurers to invest their fund in the shares and debentures of various listed stocks. However, so far except a few big insurers, the small insurers are shying away from the secondary market. This is also due to lack of logical climate in the stock markets.
6. All the insurers under discussion invested their life fund in the deposits in a schedule bank violating the rules 10A (1) (i) of Insurance Rules 1958, introduced vide SRO no. 289-Ain/2004 dated 10 October 2004. However, investment for income from deposits was the last source of income for the insurers'.
7. Investment of life insurance fund can augmented through complying provisions of section 62(i) of Insurance Act 2010, section 40B(1) of Insurance Act 1938 and rules 39 of Insurance Rules 1958 regarding management expenses.
8. Most of the companies spent as operational expenses about 45% to 55% premium they earned and balance 45% to 55% invested. Further observed that, more than 50% fund invested in bank in a term deposit. Present rate of return in banking deposits is 5% to 6%. Therefore, it is very tuff to recover 50% expenses as profit by investing at so low rate of return. However, it may be recovered by investing life fund in the capital market.
9. The life fund investment can increase by combating renewal expenses ratio.
10. There is a scope for increasing volume of life insurance fund by extending insurance coverage through marketing new insurance products.
11. Life insurance fund could quickly accumulate if management expenses would be minimize and maintain within the limit of management expenses as per insurance law. In course of investigation, the researcher found that, many insurer incurred excessive expenses beyond their allowable limit.
12. Most of the insurers' have appointed excess work force in supervisory level (employer of agent) violating the regulatory guidelines. Due to appointment of excess employees in supervisory level, the salary and allowances paid in excess, which may minimize complying the regulatory guidelines regarding the appointment of work force in supervisory levels.
13. The companies engaged in life insurance business, facing difficulties to sustain for incremental costs. These costs are for management and sometimes loss from dues or pilferage. The unethical activities of the life insurance personnel created desert in the sector. The policyholders are paying their premium regularly but not deposited into company's bank account or not deposited with in stipulated time. As a result, a bad impression has created on the life insurance business in Bangladesh.
14. Imbalanced and improper fund management observed from the above. More return may earn by proper utilization and investment of life insurance fund.

7.2 Impact on stakeholders by the present fund investment practiced in Bangladesh

The present practices of investment of life insurance fund affect the stakeholders' as under:

1) Policyholders or their nominees affected by the ways of-

- i) Due to non-deposit of money by the field employees of the insurer exclusively or with in the stipulated time, the policyholders or their nominees do not receive the survival benefit, Paid-up value, maturity claims and death claims properly and timely.
- ii) Present management expenses for the insurers' incurred is very high. For this reason, investment volume also reduces as well as investment return also low. As a result, the surplus be low and the policy bonus be low.
- iii) Due to high volume of management expenses of the insurers, the excess expensed amount not be recover by the present investment practice. Therefore, surplus will reduce as well as policy bonus will reduce. The policyholders do not get their policy bonus at their expected level.

2) The outside stakeholders' may affect-

By improper present investment practices of life insurance fund, it may occur the loss. Knowing this, the outside stakeholders may not interest to continue their business with the insurer due to loose of reputation.

3) The directors, Sponsors and the shareholders may affect-

The above categories stakeholders' do not get their dividend as per their expectation.

4) Employees may affect-

By not receiving their present benefit in time, even future benefit also.

5) Agents and employer of agents may also affect-

By losing their present benefit as well as future expected benefit also.

8. RECOMMENDATIONS

Based on the objectives and main findings of the study, it is important for management of life insurers' to stay focus and institute pragmatic measures and strategies to help manage the investments of the life insurers to produce maximum returns to stakeholders. In this wise therefore, the following recommendations put forward for consideration:

1. Present investment scope is limited. Regulations should have revised and scope should expanded.
2. Strengthening the supervision by IDRA of insurance companies' solvency is very much required.
3. Innovative premium payment channel should be introduced. Regarding this, credit cards, b-Kash, electronic fund transfer system, e banking, and collection point etc. system should have introduced.
4. Rate of premium to be increased.
5. Mortality table should have revised.
6. Unethical activities of marketing personnel should prohibited by making laws and IDRA should take necessary action.
7. Investment in Bangladesh Sanchaya Patra and Defence Savings Certificates may include in the category of govt. securities.
8. In case of investment in bonds, long-term bonds should be choosing.
9. Steps should take for growth of new business.
10. To quick accumulation of life insurance fund, management expenses should be keep at a minimum.
11. Increase of renewal premium and renewal persistency should have been required. The insurer who have failed to keep up the renewal persistency at a minimum level (set by the IDRA) be imposed financial punishment.
12. Investment return should increase by efficient fund management.
13. Merchant banking operations may permit to all life insurers.
14. Investment in Derivatives should be added in the investment avenues.
15. New avenues for investment in the areas of leasing, health, mortgages, public utilities, venture capital fund, manufacturing unit, money market, education sector and health sector, as other countries should be introduced and enhanced.
16. Investment in community and affordable housing investment should introduce.
17. Green Investment Avenue should be added for investment.
18. Investment in infrastructure development should introduce.
19. Municipal bonds should introduce in the market.
20. Steps should take to keep the management expenses within the allowable limit, the commission and administrative expenses should made cartel and implemented.
21. The present allowable limit of management expenses set by the rules to be changed and to be re-set based on the current market price and market scenario.
22. Investment Avenue should be explored in Govt. structural development project as investment in govt. securities. If needed, the related laws should be amended.
23. Investment limit in deposits in a schedule bank or financial institution should be re-fixed and limit be reduced.
24. Tax-free bond may issue by the govt. as avenues for investment in govt. securities.
25. Investment in subsidiaries may include in the avenue of other sources.
26. Reduce income tax for life insurers' by the National Board of Revenue.
27. Death claims to be investigating properly for its genuineness. Claims expenses to be minimize. In this regard, the Underwriter should have to take decisions prudently.
28. Limit for investment in other sources be revised and be increased.
29. The guidelines for IDRA for different tiers and designation for agents and employer of agents should follow. If any insurer appoint any supervisor violating the above guidelines, should be identified and penalty be imposed.
30. Like bank and other financial institutions, provision for renewal fees should be relieved.
31. Life insurance funds should substantially be place in the long-term investments rather than short-term investments. Provisions should include in the laws.
32. Investment should be made in all avenues simultaneously and in this regard, minimum limit and maximum limit should be earmarked, failing which penalty should have imposed.

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