

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

**Report No.:** PIDISDSC15291

**Date Prepared/Updated:** 25-Mar-2016

**I. BASIC INFORMATION**

**A. Basic Project Data**

<b>Country:</b>	Bangladesh	<b>Project ID:</b>	P156823
		<b>Parent Project ID (if any):</b>	
<b>Project Name:</b>	Bangladesh Insurance and Private Pension Market Development Project (P156823)		
<b>Region:</b>	SOUTH ASIA		
<b>Estimated Appraisal Date:</b>	04-Apr-2016	<b>Estimated Board Date:</b>	16-Jun-2016
<b>Practice Area (Lead):</b>	Finance & Markets	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	Non-compulsory pensions and insurance (100%)		
<b>Theme(s):</b>	Other Financial Sector Development (40%), Other social protection and risk management (20%), Regulation and competition policy (40%)		
<b>Borrower(s):</b>	PEOPLE'S REPUBLIC OF BANGLADESH		
<b>Implementing Agency:</b>	Insurance Development and Regulatory Authority (IDRA)		
<b>Financing (in USD Million)</b>			
	<b>Financing Source</b>	<b>Amount</b>	
	BORROWER/RECIPIENT	20.00	
	International Development Association (IDA)	80.00	
	Total Project Cost	100.00	
<b>Environmental Category:</b>	C - Not Required		
<b>Concept Review Decision:</b>	Track II - The review did authorize the preparation to continue		
<b>Is this a Repeater project?</b>	No		
<b>Other Decision (as needed):</b>			

## B. Introduction and Context

### Country Context

Over the past 20 years, Bangladesh has made significant gains in economic growth, development and poverty reduction. Bangladesh's per capita gross national income (GNI) grew more than tenfold from around US\$100 in 1972 to US\$1,314 in 2015. Average annual gross domestic product (GDP) growth has risen steadily 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 recession, and natural disasters.

Generally prudent management of fiscal and monetary policy, and the resultant macroeconomic stability Bangladesh has enjoyed over the past decade, has served it well in its quest for higher growth. Bangladesh has received favorable ratings from international agencies like Moody's and Standard and Poor's, reflecting its good track record in macro-economic management. Inflation was contained well below double-digits most of the time. The Systematic Country Diagnostic (SCD) also notes that Bangladesh is the only country in South Asia with positive public savings. In addition, the overall budget deficit has been financed through prudent external borrowing that has kept the effective interest rate on public debt at less than five percent. Recourse to monetary financing of deficit has been used as a very short-term measure that has typically been quickly reversed. The public debt-to-GDP ratio declined throughout the last decade. Since adopting the floating exchange rate regime in 2003, the Bangladesh Bank has followed a market-based exchange-rate policy that ensured smoothing out exchange-rate volatility and building up foreign exchange reserves. Monetary policy allowed monetary aggregates to expand in line with growth in demand for credit in the private sector and price stability.

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.

Building a strong and diverse financial sector that can cater to the needs of the growing economy is one of the essential ingredients in meeting Bangladesh's long-term development goals as well as supporting short- to medium-term growth. Bangladesh will need to develop a financial sector that is stable, inclusive, and capable of providing efficient financial intermediation to the productive sectors of the economy, facilitating capital accumulation and investment to generate faster growth and ensuring these developments can benefit citizens through better pension coverage and better insurance protection for their assets and saving products for their future. Well-functioning financial institutions and markets contribute to growth, shared prosperity, and poverty alleviation through multiple channels. Financial institutions and markets play a fundamental role in the build-up of essential infrastructure such as roads, power plants, schools, hospitals, and houses that boost growth, jobs, productivity, and the welfare of the population. Finance also generates growth and jobs by allocating scarce resources efficiently and allowing dynamic firms to start, grow, and innovate, while weeding out the weaker ones. Finance also helps people manage their resources, expand their opportunities, and improve their living standards: manage their payments and savings more safely and at a lower cost, including remittances and retirement savings, smooth consumption, access better housing, health care and education, start a small business, and protect themselves from shocks through insurance products.

Finance is also pro-poor by leveling the playing field, and making connections less relevant.

### **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 63 percent of total assets as of June 30, 2013, the capital market has 34 percent and the insurance sector has only has 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 599 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 70.8 percent in June 2013. 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 this remains an unfinished agenda. Improving further the health of the financial sector and maintaining financial sector stability, increasing access to finance and making new products available to households and firms remain significant challenges. The Bank is engaged deeply in that regard and is providing support for building market infrastructure, strengthening banking supervision, enhancing access to financial services for households – through a variety of instruments including several financing engagements and knowledge services including through a proposed Programmatic Approach.

A key remaining agenda is the development of the insurance and pensions sectors. For Bangladesh, as also globally, better insurance and pension sectors aid financial sector diversification in addition to helping individuals, families, and organizations in expanding options for managing risks and investments. 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. Further, as contractual savings institutions, insurance companies and pension funds help mobilize small but long term contributions from households and firms which can then be invested into financing infrastructure projects which otherwise face acute funding constraints in many emerging markets. It is also important to note that if not well regulated and supervised, these sectors can result in crises that affect the entire financial sector – as evidenced in the 2008 global financial crisis. Lastly, a well-developed financial system will have a variety of financial institutions and instruments. Other things being equal, the greater the choices of financial institutions and products, the more efficient the system and the greater its contribution to economic development. Contractual savings institutions, such as life insurers and private pension funds, can be especially important financial intermediaries including through their longer-term liabilities and stable cash flows that are ideal sources of long-term finance for government and businesses. Insurance and pension sectors, thus, remain important for the role they play in diversifying the financial sector and reducing the dependency on the banking sector, which recent

experiences show is a desirable direction to mitigate risks for the financial sector and the economy at large that arise from over-dependence on banking.

### Insurance

In Bangladesh, the case for the development of the insurance sector is strong given that the country is highly exposed to a variety of risks and yet insurance penetration is insignificant. While there has been some growth in the insurance sector, this remains very limited and overall the insurance sector is still a small component of the financial system. The total assets amounted to 3 percent of GDP while industry premiums (life and non-life) were only 0.94 percent of GDP in 2012 even after having increased for the past five years. According to a background report for the upcoming Bangladesh government's Seventh Five Year Plan 2015- 2020, the vast majority of people in Bangladesh across product segments (life and non-life) remain underserved by the insurance market, though the two state owned insurance companies have a better outreach than the others. The low insurance penetration in Bangladesh 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% of GDP) and although this had risen by 2012 to US\$7 per capita, this still represented only 0.94 percent of GDP. This compares with 1.15 percent of GDP in Sri Lanka, 3.46 percent of GDP in India and a high of 4.51 percent of GDP in Malaysia.

As captured in a recent diagnostic undertaken by the Bank, this low 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 healthcare 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 the insurance sector to be able to respond adequately, several key constraints that underlie the low penetration and inadequate sector development need to be addressed – these are discussed below:

a. Inadequate regulatory/supervisory capacity and framework has adversely affected the development of the insurance sector. Globally it is well understood that good regulation and supervision is a foundation for the development of effective insurance markets - without it markets simply fail to develop and grow adequately. This is exemplified in the case of Bangladesh where despite the large number of insurance companies that are operating (77 in all), the outreach of insurance remains very low. Inadequate and low entry barriers (including low capital requirements) and lax licensing standards has led to fragmentation and have allowed many companies with weak quality and capacity to get licensed, even though some operate more as brokers and agents rather than full insurance companies.

Another problem emanating from inadequate regulations, is that the two state owned companies which are the second and seventh largest insurance companies in the country, are exempt from some regulatory requirements such as the insurance regulator, IDRA's "fit and proper requirements" for management – this anomaly leads to inefficiencies as well as governance issues.

On supervision and enforcement, IDRA's lack of capacity has meant that even the inadequately low minimum capital requirements have not been complied with by all companies. Other

illustrations exemplifying IDRA's weak capacity include the fact that the new solvency rules are yet to be published by IDRA as per the Insurance Act of 2010; so inadequate solvency margins continue to be calculated based on the Insurance Act of 1938. Further, of the 50 rules and regulations to be enacted by IDRA to enforce the provisions of the 2010 Insurance Act, only 11 have so far been approved and implemented.

Overall, IDRA business processes are not adequate and the required policies, guidelines, and manuals (including a manual for on-site inspection of insurance companies, effective off-site monitoring, and early warning indicators) do not exist. IDRA also suffers from a shortage of qualified staff which in addition are not sufficiently trained and needs an upgrade of its supervisory framework including its information technology system and support to enhance its human resources and overall capacity.

b. A consequence of the weak regulations resulting in the proliferation of many insurance companies without adequate credentials, is that trust in the insurance sector is modest at best. The presence of many, but weak insurance companies, means that on average, there is inappropriate risk transfer and management in the insurance sector, claims management is inefficient and transparency and reporting are weak. In addition, public awareness and knowledge of insurance remains low as on average these companies invest very little in marketing and IDRA's efforts on consumer literacy have been limited. All this of course also negatively impacts overall trust in the sector, thereby, adversely impacting even some of the better managed/more capable companies.

c. Another key constraining factor is the lack of skills and key market infrastructure. Given the lack of quality training institutions, the sector at large (regulator, insurance companies including the two state owned firms and consumers) suffer from capacity constraints to develop/understand insurance. A shortage of qualified staff and technical capacity in various fields such as insurance underwriting, actuaries, and marketing insurance products is a key problem. A key institution that could have contributed to addressing these constraints as well as help build public awareness and trust is the Bangladesh Insurance Academy (BIA), the national level insurance training and education provider in the country. BIA remains at an embryonic stage and not yet capable of meeting the demand for insurance professionals including actuaries and claims/loss adjusters. While BIA has been set up as a public entity to offer basic, comprehensive and field based training courses on life and non-life insurance, as well as deliver certificates, its training facilities are poor and it lacks regular faculty members. BIA has not been able either to contribute to market data infrastructure which the sector urgently needs. The country has insufficient mortality and morbidity tables which partly contributes to improper risk based premium calculation and adversely impacts even those companies that have good credentials. Overall, strengthening the capacity of BIA and IDRA on these counts is crucial to build the insurance sector capacity, increase public awareness and trust, improve knowledge for market participants and build market data infrastructure.

d. While the range of product offerings are wide, these are beset with issues in part related to lack of market data infrastructure and weak supervisory capacity. For now the most growing business line for non-life insurance companies in Bangladesh is property insurance (38 percent of the total non-life premium) which covers – construction, fire, natural hazards, index-based flood insurance, marine and transit and motor as well as compulsory motor third party liability (MTPL). Most insurance products that are available in Bangladesh suffer lack of quality in terms of price and coverage in large part explained by lack of market data infrastructure and inadequate regulatory capacity. For instance, separate earthquake policies are not issued; instead, cover is provided for earthquake fire and shock by endorsement to a fire policy. Due to lack of data, the Bangladesh Insurance Association along with the insurance academy cannot develop a valid program for motor and natural hazard insurance. And due to lack of enforcement, efficient

distribution network, risk based premium calculation the penetration ratio even in compulsory MTPL insurance is around 70 per cent. Group private medical insurance (PMI) is becoming popular more than individual insurance but there are problems of fraudulent claims.

The life insurance sector is growing with a big lapse ratio – one of the highest lapse rates in the world. In large part this is on account of policies being sold to people with limited incomes who then realize that they cannot afford the payments; inadequate supervisory capacity and lack of awareness has contributed to this situation. IDRA revealed in January 2015 that, based on figures reported by the life insurance companies, between 60 and 70 percent of policies lapse by the end of their first year in force.

e. Lastly, overall development of the insurance sector is also hampered by the two state owned insurance companies, while slowly improving performance, continue to operate much below capacity and are unable to play a proactive role in market development. Shadharan Bima Corporation (SBC) and Jiban Bima Corporation (JBC) offer non-life and life insurance respectively. SBC also operates as the reinsurer for all private non-life companies, which in addition of not being good practice also raises issues of unfair competition (see Attachment 1). The outreach and size of these two companies are significant. While being the second and seventh largest insurance companies in the country, SBC and JBC have an extensive semi-urban and rural footprint through large network of branches. Hence, these two companies, which are exclusively used by Government for their insurance needs, are in an ideal position to play a market leading role in increasing the insurance penetration in these areas but also more broadly. However, the corporations struggle to do so due to a lack of technical capacity of their management and staff, limited use of information technology, outdated premium calculation methods, ineffective risk management systems and distribution network policies, leading to a modest long term solvency. Increasing efficiency in these areas will result in more effective integration of the branch IT network, better underwriting and claims management, better quality and variety of products and services and ultimately, an increase in the number of policy holders.

The Government of Bangladesh (GoB) recognizes the importance of developing insurance markets to enhance availability and outreach of risk mitigation products and development of a diverse financial sector capable of intermediating long term funds. GoB's vision for financial sector strengthening and deepening as outlined in the draft seventh five year plan includes the development of the insurance and pensions sectors. It sees this as part of an unfinished reform agenda of the financial sector which started with the restructuring of state-owned banks, gathered momentum in the 1990s and 2000s, still continues today and extends to the insurance and pension sectors. In addressing this objective, GOB seeks the Bank's support through the proposed project to prioritize efforts to build IDRA's and BIA's capacity and market infrastructure and strengthen the state owned insurance companies – including separating the reinsurance role from one of the state owned insurance companies – so that they can contribute better to market development. GoB recognizes that the development of the insurance sector cannot happen without addressing these foundational issues and sees the requested Bank's support as crucial to lay a good foundation for building the insurance sector. It hopes that by supporting these priorities, the project will contribute to the development of a sound insurance sector with reliable price, coverage and efficient claim payments and perhaps a more consolidated but stronger sector that will result in improvement in life, health and property coverage/insurance products and raise the level of trust among policy holders. More broadly, GoB also hopes that the Bank project will contribute to implementation of its National Insurance Policy (June 2014) that aims to improve the awareness of insurance and its benefits, enhance the skills base of the industry, reduce the problems related to insurance and built up trust eventually.

## 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 dis-advantaged 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 is part of the National Social Security Strategy (NSSS) which proposes a comprehensive pension program for all categories of workers. This would include a 3-tier program consisting of: (i) an old age allowance for the current destitute old that is funded through fiscal transfers, (ii) an integrated pension program (comprising of 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 Government intends to achieve program objective (iii) by establishing a new, comprehensive pension program for all categories of workers including the presently excluded informal sector workforce and has requested the Bank's support on this part of its program. The proposed project will only focus on the voluntary private pension and will not deal with the other areas of social security reform program as per government request. While narrowly focusing on voluntary private pensions, the activities in the proposed project will help complement other efforts under the GoB strategy. Coordination will be crucial with the World Bank social protection and labor team's technical assistance program that is considering activities on how to improve old-age income security coverage for low income populations via social pensions or matching contributions. The activities in the project will also complement a comprehensive study requested by the Government to be undertaken with the technical assistance of the Public Financial Management (PFM) team of the Bank to assess Government's liability, fiscal risk and determine the reforms needed to streamline the public pensions and other non-funded provident funds. It is hoped that project activities will act as a catalyst for an entry point for future public

pension reform, including the civil service pension scheme and the old age allowance that is presently paid to 2.5 million elderly people.

Expanding coverage within the nearly 90 percent of the Bangladeshi population that is excluded from formal pension arrangements will create a pool of assets over time. The potential aggregate long-term savings from this population could be of business interest to banks, fund managers and insurers who may play a key role in creating a mass market for retirement savings and in delivering such a pension product. However, these assets will only help long term retirement income and investment if the system is designed properly from the outset. The experience of India in introducing the NPS private pension scheme between 2000 and 2005 offers very useful lessons on what can be done. The India experience shows that it is possible to achieve high standards of governance and asset security with low costs for pension savers with often very small and erratic pension contributions. In Bangladesh, the pension scheme could take advantage of better infrastructure for micro and mobile payments as well as build on the experience gained in Kenya on using the M-PESA platform to encourage savings – as well as the experience within Bangladesh of savings from institutions like Grameen Bank. (See Attachment for more details).

As per the 2010 IDRA Act, the insurance regulator also has the mandate to regulate pensions. Up to now, IDRA did not exercise that power and would need significant capacity building (see Component 1). Simply putting in regulations and supervisory capacity is not enough however to actually achieve the vision of increasing coverage of secure, low cost pensions. Without developing infrastructure for low-cost distribution that delivers the benefits of economies of scale directly to the end-user, the voluntary pension market will remain small and ineffective as in many countries globally. Moreover, building the infrastructure will enable future reforms of the public sector pensions – using the Indian or Malaysian examples which show you can have both formal and informal pensions delivered on the same platform, but with different market segmentation and distribution arrangements, to the benefit of both.

### **Relationship to CAS/CPS/CPF**

The operation is well grounded in the Country Assistance Strategy (CAS) for Bangladesh (IDA/R2010-0232/4; IFC/R2010-0248/4) discussed by the Board on July 8, 2010, and the CAS Progress Report's (CASPR, FY11–15 - IDA/R2013-0299; IFC/R2013-0388) endorsed by the Board on January 14, 2014 that focus on accelerated, sustainable, and inclusive growth. Specifically, the project contributes to achieving the second CASPR pillar on accelerated growth through the greater availability of a diverse set of financial products and instruments to reach untapped populations and the strengthened capacity of the financial sector to fund sustainable economic growth in the future. Empirical research generally finds good evidence of a causal relationship between insurance sector development and economic growth. The sector helps pool risk and reduces the impact of large losses on firms and households—with a beneficial impact on output, investment, innovation, and competition. As financial intermediaries with long investment horizons, life insurance companies can contribute to the provision of long-term finance and more effective risk management. The project will also contribute to pillar four of the CASPR: strengthening governance through better transparency and accessibility of financial services, including improved security, governance and adoption of information, communication and telecom (ICT) infrastructure for digitization of processes, transactions and controls in government

The project is also in line with the draft Country Partnership Framework (CPF) for Bangladesh. It addresses Focus Area 1: Accelerate Growth, one of the three Focus Areas identified in the draft CPF which sets the WBG's objectives in Bangladesh from FY16-FY20, through strengthening the

capacity of the insurance and pension regulator and companies, as it helps improve financial sector stability and expand financial intermediation. The draft CPF notes how underdeveloped insurance and pensions markets have limited sources of long-term financing which create impediments to financing the country's deteriorating infrastructure and to creating jobs. As the project aims to create well-functioning insurance and pensions markets, it will directly help achieve this objective. The planned activities complement those undertaken under the Financial Sector Support Project (FSSP) as well as the forthcoming project on state-owned banks. The project also complements technical assistance to GoB being provided by the Social Protection as well as the PFM teams of the Bank.

Overall the project contributes to building a stronger financial sector and through facilitating improved financial intermediation promotes inclusive growth, thereby contributing to the World Bank Group's twin goals of ending extreme poverty by 2030 and boosting the incomes of the bottom 40 percent. Support to develop the insurance and pensions markets enables enhanced access to financial services beyond credit and enhances opportunities for risk mitigation and income smoothing mechanisms for underserved populations even while developing sustainable avenues for long term financing resources so critical to address crippling infrastructure gaps in various sectors including energy, transport, etc. Increasing the coverage and adequacy of retirement income will be critical for poverty reduction in Bangladesh. This will help relieve pressure on social welfare systems, reserving government resources for essential social security and other worthwhile purposes, and allowing individuals to tailor their security programs to their own preferences.

### **C. Proposed Development Objective(s)**

#### **Proposed Development Objective(s) (From PCN)**

23. The proposed project development objective is to build the capacity of key market players to increase the outreach of the insurance and private pension markets in Bangladesh. This will be achieved through strengthening the capacity of the regulator, modernizing and strengthening the operations of the state-owned insurance companies, and developing a new voluntary private pension scheme in Bangladesh.

#### **Key Results (From PCN)**

17. The key results indicators are as follows:
  - i. Capacity of IDRA to regulate and supervise the insurance and pension markets is enhanced
  - ii. Number of micro-insurance accounts increases
  - iii. Number of adults contributing to a private pension account increases

### **D. Concept Description**

The proposed Project will include the following four components: (i) Support to modernize and improve the capacity of the insurance and pension regulator; (ii) Support to modernize the state-owned insurance companies; (iii) Support to develop a private pension market; (iv) and Support for project coordination, implementation and monitoring.

Component 1. Support to Improve the Capacity of IDRA, the Insurance and Pensions regulator

This component will strengthen the capacity of IDRA to regulate and supervise the insurance and 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 (including new hires under the project) and management to increase their capacity to formulate rules, regulations and guidelines. The project will also provide support to strengthen the BIA to establish a reliable resource in Bangladesh to increase the availability of professionals, improve data infrastructure and advance the knowledge (e.g. updated mortality tables) in the sector and undertake enhanced efforts at improving awareness in the public at large.

Strengthening IDRA's capacity to effectively discharge its responsibilities in both developing and regulating the proposed pension sector, designing the architecture and monitoring will require a separate, dedicated pensions division (see Attachment for details). So the project will assist IDRA to set up and strengthen the capacity of a dedicated pensions division. As highlighted above this builds on the experience from India and other countries (noting that in India a Pension Regulator the PFRDA had to be created from scratch as part of the overall reforms).

#### Component 2. Support to Modernize the State-Owned Insurance Companies

This component will assist with modernizing and strengthening the capacity of the two state-owned insurance companies to enable them to operate on a commercial basis and thus contribute better to the development of the insurance sector in Bangladesh.

Project activities will focus on modernization and capacity building of Shadharan Bima Corporation (SBC) and Jiban Bima Corporation (JBC) through an upgrade and automation of their systems including data, IT systems, and business and financial practices, organizational restructuring to improve transparency and efficiency, and set up better corporate governance. The project will also support the establishment of a new SBC-reinsurance. That would include capital injection to help meet minimum capital requirement to set up the new company in addition to training of qualified staff and management, and other investments to make the company operational and well performing. A review of the Insurance Act will also be undertaken to determine whether modifications of the Act will be required to bring SBC and JBC fully under the supervision of IDRA, splitting SBC in two entities: a primary insurer and an independent separate reinsurer; and allowing efficient distribution of insurance products including through banks and other financial institutions as well as digital channels for low cost offers.

#### Component 3. Support for Development of a Private Pension Market

This component will help Government in establishing a private voluntary pension scheme for all citizens.

Proposed Project activities will include support to the pension division of IDRA to prepare necessary regulatory framework as well as market infrastructure for the establishment of a private pension scheme. IDRA Act 2010 already empowers the Insurance Regulator to regulate pensions and no new legislation is thus required to launch the proposed private pensions market. Also, as a majority of potential pension sector intermediaries are already well regulated by Bangladesh Bank or SEC or MRA, IDRA will face a lower regulatory burden in supervising pension sector service

providers. Setting up the market infrastructure will involve the identification of fund managers, payments (banking, mobile payments, branchless banking outlets), nationwide distribution and access (through banks, microfinance institutions, other third-party distributors) and record-keeping by the depository established by the central bank or the securities depository. A proposal to have the pension fund managed by a trust has been discussed with the authorities (see Attachment). This and other design features will be confirmed during project preparation.

The approach is modeled on the creation of the New Pension Scheme in India between 2000 and 2005. A similar five year period is needed for this project, split between the development and implementation phase. If only the regulations and supervision are addressed under the project, impact of the intervention is likely to be low. The full market infrastructure is needed to ensure that low cost but efficient and secure pensions are accessible to individuals. A report on proposed implementation plans (to be confirmed during project preparation) recommends a phased implementation approach. Stage One would focus on system development and roll-out and pilot testing in phase two. Sequencing of activities under this component will require that a review of social security arrangements and savings products that exist in Bangladesh be undertaken to inform product design before the new private pension instrument is offered.

#### Component 4. Support for Project Coordination, Implementation and Monitoring

This component will help develop a strong monitoring and evaluation (M&E) system to be used by the Project Implementation Unit (PIU) and other stakeholders to assess progress in implementation. It will include 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, RTI compliance, and citizen feedback, as well as other governance issues relevant to the project. The PIU will require that additional staff, included consultants be recruited to manage and monitor project activities.

## II. SAFEGUARDS

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

DHAKA, BANGLADESH

### B. Borrower's Institutional Capacity for Safeguard Policies

NA

### C. Environmental and Social Safeguards Specialists on the Team

Sabah Moyeen (GSU06)

### D. 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	

### **E. Safeguard Preparation Plan**

#### **1. Tentative target date for preparing the PAD Stage ISDS**

15-Dec-2015

#### **2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.**

Not applicable

### **III. Contact point**

#### **World Bank**

Contact: Korotoumou Ouattara

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#### **Borrower/Client/Recipient**

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**V. Approval**

Task Team Leader(s):	Name: Korotoumou Ouattara,Serap Gonulal	
<b><i>Approved By</i></b>		
Safeguards Advisor:	Name: Maged Mahmoud Hamed (SA)	Date: 29-Mar-2016
Practice Manager/ Manager:	Name: Niraj Verma (PMGR)	Date: 29-Mar-2016
Country Director:	Name: Rajashree S. Paralkar (CD)	Date: 06-Apr-2016

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.