University of Global Village

Department of Business Administration

Course Title: Banking & Insurance

Course Code: 0412-311	**Credit: 03**
Semester End Exam (SEE) Hours : 03	**CIE Marks : 90** **SEE Marks : 60**

❖ **Course Learning Outcomes: At the end of the Course, the Student will be able to-**

CLO1	To understand the fundamental concepts of banking and insurance.
CLO2	To analyze the operations of banks and the principles of insurance.
CLO3	To explore the regulatory framework governing banking and insurance industries.
CLO4	To Analyze nature and types of risk in Insurance
CLO5	To analyze the types of insurance

❖ **Course Plan Specifying content, Teaching Times and CLOs**

SL	Topics	Hrs.	CLOs
1	**Introduction to Banking**	5	CLO1
2	**Banking Operations**	7	CLO3
3	**Banking Regulations and Risk Management**	7	CLO3
4	**Introduction to Insurance**	5	CLO1
5	**The Nature of Risk**	6	CLO4
6	**Life Insurance**	7	CLO5
7	**Fire Insurance**	5	CLO5

Course plan specifying content, CLOs, teaching learning and assessment strategy mapped with CLOs:

Week	Topics	Teaching Learning Strategy	Assessment Strategy	Corresponding CLOs
1	**Introduction of Bank and Banking** Definition of bank, Banking,	▪ Lecture ▪ Discussion	▪ Quiz ▪ Written Exam ▪ Assignment	CLO1

	Functions of Banks, Types of Banks, Ancestors of Banks, Importance of Banks.			
2	**Banks Competition** Competitors of Bank, Limitations of Bank, Operational limitations, customer centric Limitations, Regulatory challenges	▪ Lecture ▪ Discussion	▪ Quiz ▪ Written Exam ▪ Presentation	▪ CLO1
3	**Banking Operations** Concept of Deposit Mobilization, Importance of Deposit Mobilization, Types of deposit, Demand deposit, current accounts and Saving accounts	▪ Lecture ▪ Discussion	▪ Quiz ▪ Assignment ▪ Oral Test	▪ CLO 2
4	**Term Deposits** Fixed Deposit, Recurring deposit, Current VS Fixed deposit, Formalities of opening Bank , Formalities of closing Bank Accounts	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Quiz ▪ Written Exam ▪ Assignment	▪ CLO 2
5	**Bank Loans and Advances** Definition of Bank Loans and Advances, differentiate Bank Loans and Advances, types of Bank loans including Personal, Home, Auto and Students loans. Procedures of Bank Loans	▪ Lecture ▪ Discussion ▪	▪ Quiz ▪ Written Exam ▪ Assignment	▪ CLO2
6	**Banking Regulations** Concept of Banking Regulations, Key objectives of Banking regulations, Regulatory Bodies, Key Regulatory Frameworks	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ Quiz ▪ Written Exam ▪ Assignment	▪ CLO3
7	**Basel Accord** BASEL I, Key Features of BASEL I Capital Adequacy, Risk Weighted Assets, Tired Capital Structure, BASEL II Key Feature of BASEL II.	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ Quiz ▪ Written Exam ▪ Question and Answer (Oral)	▪ CLO3
8	**Risk Management in Banking** Risk Management Definition, Key Risks in Banking,	▪ Lecture ▪ Discussion ▪ Problem	▪ Quiz ▪ Written Exam Assignment	▪ CLO3

	Components of risk management, Tools of risk Management and challenges of risk management.	Solving ▪		
9	**Introduction To Insurance:** Concept, Origin and evolution of insurance, definition of insurance, Key terms used insurance, How it works?	▪ Lecture ▪ Discussion	▪ Quiz ▪ Written Exam	▪ CLO1
10	**Types of Insurance:** Life insurance, Health Insurance, Fire insurance, Auto Insurance, Marine Insurance and Principle of Insurance.	▪ Lecture ▪ Discussion	▪ Quiz ▪ Written Exam ▪ Oral Test	▪ CLO1
11	**The Nature of Risk in Insurance** Meaning of Risk, Risk vs. Uncertainty, Types of risks, Pure risks, Speculative Risks, elements of insurable risk	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Quiz ▪ Written Exam ▪ Oral Test ▪	▪ CLO4
12	**Handing of Risks** Method of handling risks, concepts of perils and types of perils, concept of hazard, Types of hazard, Peril vs hazard	▪ Lecture ▪ Discussion	▪ Quiz ▪ Written Exam ▪ Demonstration ▪ Assignment	▪ CLO4
13	**Life Insurance:** Life insurance, purpose of life insurance, types of life insurance, Term life insurance, whole life insurance, Endowment policy, Group Life insurance	▪ Lecture ▪ Discussion	▪ Quiz ▪ Written Exam ▪ Demonstration Assignment	▪ CLO5
14	**Life insurance and Financial Planning** Role of life insurance, key components of a life insurance contract, Factors influencing life insurance premium	▪ Lecture ▪ Discussion	▪ Quiz ▪ Class test ▪ Demonstration	▪ CLO5
15	**Claiming Procedure of Life Insurance policy** Discussion on claiming procedure, Key Challenges of life insurance and Current trend of life insurance policy in BD	▪ Lecture ▪ Discussion	▪ Assignment Question and Answer (Oral)	▪ CLO5
16	**Fire Insurance**	▪ Lecture	▪ Assignment	▪ CLO5

	Concept of fire insurance, Principles of Fire insurance, Types of Fire insurance; Specific policy, comprehensive policy, Floating policy, Valued policy,	▪ Discussion	Question and Answer (Oral)	
17	**Fire Insurance Practice in BD** Procedure for taking fire insurance policy, Advantages of fire insurance, exclusion in fire insurance, fire insurance practice in BD, Types of fire insurance policy in BD. Challenges of Fire insurance policy	▪ Lecture ▪ Discussion	▪ Assignment Question and Answer (Oral)	CLO5

Assessment and Evaluation

1) **Assessment Strategy:** Group Discussion, Class tests, Case Study, Term Paper, Presentation.

2) **Marks distribution:**

   a) **Continuous Assessment:**

- Class attendance is mandatory. Absent of 70% classes; disqualify the student for final examination only authority recommendation will be accepted with highly reasonable causes.
- Late submission of assignments is not allowed. Late submission of assignments will be only taken with highly reasonable causes and 20% mark will be deducted.
- To pass this course student will have to appear mid-term and final examination.

   b) **Summative:**

CIE- Continuous Internal Evaluation (45 Marks)

Bloom's Category Marks (out of 90)	**Quiz** (15)	**Assignments** (15)	**Attendance** (15)	**Mid Term Examination** (45)
Remember	05			10
Understand	05			05
Apply	05			10
Analyze		05		05
Evaluate	05	05		10
Create		05		05

SEE- Semester End Examination (60 Marks)

Bloom's Category	Test
Remember	10
Understand	10
Apply	10
Analyze	10
Evaluate	10
Create	10

Grading Policy: University of Global Village

Marks	Grade	Grade Point	Remarks
80 - 100%	A+	4.00	Outstanding
75 - 79%	A	3.75	Excellent
70 - 74%	A-	3.50	Very Good
65 -69%	B+	3.25	Good
60 - 64%	B	3.00	Satisfactory
55 - 59%	B-	2.75	Above Average
50 - 54%	C+	2.50	Average
45 - 49%	C	2.25	Below Average
40 - 44%	D	2.00	Pass
0 - 39%	F	0.00	Fail

3) Make-up Procedures: Dates for exams will be strictly followed. No makeup exam (Normal case), for exceptional case university rules and regulation should be followed.

Text Books:

1. Theory and Practices of Banking by Dr. Muhammad Kamruzzaman
2. Insurance and Risk Management by Dr. Muhammad Kamruzzaman
3. Principles and Practices of Banking by Macmillan
4. Sethi& Bhatia: Elements of Banking and Insurance, PHI, 2006

Reference Books:

4. Sundaram and Varsheney: Banking theory law and practice, 2008
5. Mithani& Gordon: Financial Services: Banking and Insurance, Himalaya , 5th Edition
6. Vasant Desai, Jain: Financial Services: Banking and Insurance, Himalaya , 2008

Chapter 1 & 2

Introduction to Bank and Banking

Chapter Objectives

- Understand the concept of banking and its fundamental role in the economy.
- Trace the ancestors of banking systems and institutions.
- Differentiate between various types of banks, including commercial, investment, central, and cooperative banks.
- Analyze the limitations of Bank.

DEFINITION OF BANK

According to the **Oxford Dictionary**, "Bank is an establishment for the custody of money, which it pays out on customer's order.

A bank is a financial intermediary, a dealer in loans and debts"

Functions of Bank

- **Acceptance of Deposits**: Banks accept deposits from the public in various forms, such as savings accounts, current accounts, and fixed deposits.
- **Lending**: Banks provide loans and advances to individuals, businesses, and governments for various purposes, such as personal needs, business expansion, and infrastructure development.
- **Facilitating Payments**: Banks enable smooth financial transactions through checks, online transfers, credit and debit cards, and mobile banking.
- **Money Creation**: By lending a portion of their deposits, banks help in the creation of money in the economy.

Functions of Bank

- **Providing Financial Advice**: Banks offer investment advice, wealth management, and financial planning services.
- **Foreign Exchange Services**: Banks facilitate international trade by providing foreign exchange services and currency conversion.

Types of Banks

- **Commercial Banks**:
  Provide a wide range of financial services to individuals, businesses, and governments. Examples: HSBC, Citibank.
- **Central Banks**:
  Regulate the banking system, issue currency, and control monetary policy. Example: Federal Reserve, Bangladesh Bank.
- **Investment Banks**:
  Specialize in financial markets, including underwriting, mergers, and acquisitions. Example: Goldman Sachs.
- **Cooperative Banks**:
  Operate on a not-for-profit basis to serve their members.

Types of Banks

- **Development Banks**:
  Focus on funding large-scale development projects, often in infrastructure and industry.
- **Microfinance Institutions**:
  Provide financial services to low-income individuals or those without access to traditional banking.

Importance of Banking

- **Mobilization of Savings:** Banks mobilizes savings then channeled into productive investments, fueling economic growth.
- **Provision of Credit:** Banks provide loans and credit to individuals, businesses, and governments. This financial support helps in the expansion of industries
- **Facilitating Trade and Commerce: Banks** enable smooth domestic and international trade by offering services like letters of credit, trade financing, and foreign exchange facilities.
- **Capital Formation:** By collecting small savings and pooling them into a large capital base, banks contribute to the development of large-scale industries, infrastructure projects, and public services.

Importance of Banking

- **Employment Generation:** The banking sector itself is a major source of employment and indirectly supports job creation by providing funds for industries, startups, and agriculture.
- **Monetary Policy Implementation:** Banks act as intermediaries in implementing a country's monetary policy. They regulate the supply of money and credit, helping maintain price stability and economic equilibrium.

Ancestors of Banks

The Goldsmiths

- From the very ancient periods the Goldsmiths, used to act as custodians of the surplus funds of the general people of the society
- On receipt of money they used to issue receipts and on return of money they used to take acknowledgements. Later on, these receipts were treated deposit slip and cheque respectively.

The Money-Lenders

- The Money-Lenders (Mahajan) also used to keep surplus money of the people and refund those in case of need.
- Later, they took it as a profession. They used to pay interest to the depositors and earn interest on loans. They also used to take security, mortgage against loan

Ancestor of Banks

Businessmen

- From the ancient periods the Business people were trustworthy to the general people. They were honest ,faithful and solvent.
- As a result, general people used to deposit money to them for the safety and security of fund. In course of time they were involved in money-lending business. The businessmen of seven-hills of Rome were world-famous.

Competitors of Banks

- **Credit Unions:** Offer similar deposit and loan products, often with lower fees.
- **Fintech Companies:** Provide digital payment solutions, loans, and savings platforms.
- **Microfinance Institutions:** Cater to low-income individuals with small loans and financial services.
- **Shadow Banking Entities:** Include money market funds, hedge funds, and other non-regulated entities offering credit-like services.
- **Insurance Companies:** Competing for savings and investment products.
- **Real Estate Firms:** Offering alternative investment opportunities

Limitations of Banks

- **Operational Limitations**
- **Risk of Financial Crisis:** Banks are vulnerable to liquidity crises and market downturns, which can lead to financial instability.
- **Limited Accessibility:** Not all areas, especially rural and underdeveloped regions, have adequate banking infrastructure.
- **Complex Processes:** Lengthy and bureaucratic procedures can delay services like loan approvals and account opening.
- **Fraud and Cybersecurity Threats:** Increased digitization exposes banks to risks of hacking, data breaches, and online fraud.

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Limitations of Banks

- **Regulatory and Compliance Issues**
- **Strict Regulations:** Compliance with government and international regulations can limit banks' flexibility in offering innovative products.
- **Capital Requirements:** Banks must maintain a certain level of capital, which can restrict their ability to lend freely.
- **Interest Rate Caps:** Some jurisdictions impose limits on the interest rates banks can charge, affecting profitability.

Limitations of Banks

- **. Customer-Centric Challenges**
- **High Fees:** Transaction charges, account maintenance fees, and penalties can discourage customers.
- **Limited Personalization:** Banks often struggle to tailor their products and services to meet the diverse needs of customers.
- **Exclusion of Low-Income Groups:** Due to strict documentation and creditworthiness criteria, banks may exclude low-income individuals and small businesses from accessing credit

Thank You

Week 3, 4 & 5

Chapter 2: Banking Operations

Concept of Deposit Mobilization

- **Deposit mobilization** refers to the process by which financial institutions, such as banks, encourage and collect funds from the public in the form of deposits.
- These deposits can be savings accounts, fixed deposits, current accounts, or recurring deposits.
- The funds collected are then utilized by the financial institution for lending and investment purposes to earn profits.

Importance of Deposit Mobilization

- **Source of Capital for Banks:** By mobilizing deposits, banks gain the capital necessary to provide loans and offer other financial services.
- **Liquidity Management:** A robust deposit base ensures that banks have sufficient liquidity to meet their obligations, maintain stability, and manage any financial stress effectively.
- **Encourages Savings Culture:** It promotes a habit of saving among individuals. It provides a secure and rewarding platform for people to park their surplus funds.

Importance of Deposit Mobilization

- **Expansion of Financial Services:** A strong deposit base enables banks to expand their branch network and offer diverse financial products, reaching unbanked and underbanked populations.
- **Building Customer Relationships:** Mobilizing deposits fosters closer relationships with customers. Banks use attractive schemes and personalized services to retain existing customers and attract new ones, enhancing their market reputation.

Types of Bank Deposits

- **1. Demand Deposits**

These deposits are repayable on demand without any prior notice. They are suitable for individuals and businesses that need frequent access to their funds.

- **Examples:**
  - **Savings Account:** Allows individuals to earn interest on their deposits while providing easy access to funds. Interest rates are generally lower compared to fixed deposits.
  - **Current Account:** Primarily used by businesses and organizations for daily transactions. These accounts typically do not earn interest.

Types of Bank Deposits

2. Time Deposits (Term Deposits)

- Time deposits are funds deposited for a fixed period, during which withdrawals are restricted. These deposits earn a higher rate of interest compared to demand deposits.
- **Examples:**
  - **Fixed Deposit (FD):** A lump sum is deposited for a predetermined tenure, earning a fixed interest rate.
  - **Recurring Deposit (RD):** A specific amount is deposited periodically (e.g., monthly) for a fixed tenure, earning interest.

Current Accounts

Current Account

A demand deposit and Bank is obliged to pay the money on Demand

Features

- No Limit of Transactions.
- Need to maintain minimum balance.
- Overdraft and Short term borrowing facility.
- No restriction on deposit made.
- No Interest Paid.

Objectives

- Enable the businessman to conduct their business.

Savings Account

Saving Account

An Interest –bearing account used for saving purpose

Features

- Limit of withdrawals.
- Need to maintain minimum balance.
- Overdraft and Short term borrowing facility.
- No restriction on deposit made.
- Small Interest Paid.

Objective

- .To Promote saving habit among common people.

Fixed Accounts

Fixed Account → An Interest –bearing account used for Particular Fixed Period.

Features

- Amount can be deposit only once.
- Withdrawals are not allowed.
- Paid higher interest rate .
- Deposited period 1-12 years.
- Interest is tax deductible income.

Objective

- .Enable individual to earn higher rate of interest .
- Locking up the money for a particular period.

Recurring accounts

Recurring Account

An Interest –bearing account used for Particular Fixed Period.

Features

- Payments are scheduled and processed automatically
- Fixed amounts at regular intervals help in financial planning.
- Withdrawals with penalty.

Objective

- .Enable individual to earn higher rate of interest .
- Locking up the money for a particular period.

Differences VS Current and Savings Accounts

	Current Account	Savings
Purpose	Used for day-to-day transactions in your business or personal life.	Used to save for short to medium term.
Suitability	Businessman	Job holders
Interest rates	No interest is provided	average interest rate for traditional banks is 4%.
Transaction limit	No limit	restricted number of daily transactions.
Minimum Balance	Lower	Comparatively higher

Formalities of Opening a Bank Account

- Decide the type of Bank Account.
- Choice Bank and Meet its Bank Officers.
- Fill up Bank Account Opening Form.
- Gives References for Opening accounts .
- Submit Account Opening Form and Documents.
- Verify Bank Account Opening Form.
- Initial Amount placement

Formalities of Closing a Bank Account

1. Ask for Account Closure.
2. Fill up Bank account closure Form.
3. Choose the method of receiving your balance .
4. Manage few documents required .
5. Keep photocopies of the documents.
6. Submit Bank Account closure Form with the required documents.

Bank Loans and Advances

Bank Loan: A loan is a sum of money lent by a bank to a borrower, typically with a fixed repayment schedule, interest rates, and a specific duration.

Bank Advance: An advance is a short-term credit facility provided by the bank, often on an overdraft basis, to allow businesses or individuals to meet immediate financial needs.

Bank Loan Vs. Advances

Aspect	Bank Loan	Advance
Purpose	Used for specific long-term purposes such as purchasing property, machinery, or other capital assets.	Used to meet short-term financial needs like operational expenses or working capital
Repayment Period	Typically More than 1 year	Less than 1 Year
Security	Often secured by collateral	May or may not secured by collateral
Interest rate	Higher	Lower
Approval Process	Complicated	Faster and efficient
Examples	Car loans, Home loans	Overdrafts, working capital advances.

Types of Bank Loans

- **Personal Loans**: Unsecured loans typically used for personal expenses such as debt consolidation, medical bills, or home improvement. No collateral is required.
- **Home Loans (Mortgages)**: Loans used to purchase or refinance a home. These are secured loans, meaning the house itself serves as collateral.
- **Auto Loans**: Secured loans used to purchase a vehicle. The car itself acts as collateral for the loan.
- **Student Loans**: Loans provided to students to help pay for tuition, books, and living expenses while attending college or university. These can be federal or private loans.

Types of Bank Loans

- **Business Loans**: Loans granted to businesses for a variety of purposes, including expansion, purchasing equipment, or covering operational costs. These can be secured or unsecured.
- **Home Equity Loans**: Loans that allow homeowners to borrow against the equity in their property. These loans are secured by the value of the home

Procedures of taking a bank Loan

1. **Determine Loan Type and Amount**:
- Decide what type of loan you need (personal, business, home, etc.).
- Determine the loan amount and the purpose for borrowing.

2. **Check Your Credit Score**:
- Check your credit score to understand your standing and ensure there are no errors.

3. **Research Lenders**:
- Compare interest rates, loan terms, fees, and eligibility requirements across different banks or financial institutions.

Procedures of taking a bank Loan

4. **Prepare Documentation**:

- Banks will require various documents, which may include: Proof of identity (e.g., passport, driver's license), Proof of income.

5. Submit Application:

- Fill out the loan application form, providing all required details about your financial status, the loan amount, and the purpose of the loan and Submit the application along with the necessary documents.

6. Review Terms and Conditions:

- The bank will assess your eligibility and may offer terms for the loan (interest rate, repayment period, etc.).

Procedures of taking a bank Loan

.6. Loan Approval and Agreement:

- If the loan is approved, the bank will provide you with a loan agreement outlining the terms and conditions. Read the agreement carefully and, if everything is acceptable, sign the contract.

7. Loan Disbursement:

- Once the loan is approved and the agreement is signed, the bank will disburse the loan amount either as a lump sum or in installments, depending on the loan type.

Procedures of taking a bank Loan

.8. **Repayment**:

- Begin repaying the loan as per the agreed schedule, including interest and any other fees.

9. **Loan Closure**:

- Once the loan is fully repaid, obtain a closure certificate from the bank stating that the loan has been paid off and the account is closed.

Thanks

Week 6, 7 & 8

Chapter 3: Banking Regulations and Risk Management

Chapter Objectives

- Understand the Need for Banking Regulations
- Overview of Key Banking Regulations
- Explore the Concept of Risk in Banking
- Analyze the Role of Risk Management in Banks
- Explore Risk Mitigation Tools and Techniques

Concept of Banking Regulations

Banking regulations are laws and rules enacted to oversee and govern the operations, stability, and accountability of financial institutions to-

- Ensure financial stability.
- Protect depositors.
- Prevent financial crises.
- Promote fair competition in the financial sector

Key Objectives of Banking Regulations

- **Systemic Risk Mitigation**: Prevent the collapse of the financial system due to interconnected risks.
- **Consumer Protection**: Safeguard the interests of depositors and borrowers.
- **Market Integrity**: Ensure transparency and fairness in financial transactions.
- **Encouraging Economic Growth**: Foster an environment for sustainable economic growth through sound financial practices

Regulatory Bodies

- **Global Level**:
  - Basel Committee on Banking Supervision (BCBS).
  - International Monetary Fund (IMF).
  - Financial Action Task Force (FATF).
- **National Level**:
  - Example: Federal Reserve (USA), Bank of England (UK), Bangladesh Bank (Bangladesh)

Key Regulatory Frameworks

- **Basel Accords**:
  - Basel I, II, III (focus on capital adequacy, risk management, and liquidity).
- **Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)**:
  - Regulations to track and prevent illegal financial activities.
- **Consumer Protection Laws**:
  - Disclosure requirements and interest rate limits.

BASEL I

- **Basel I** refers to the first set of international banking regulations established by the Basel Committee on Banking Supervision (BCBS) in 1988.
- These regulations were developed to standardize and strengthen the international banking system, focusing on ensuring that banks maintain sufficient capital to cover their risks.

Key Feature of Basel I

- **Capital Adequacy Requirements**: Banks were required to maintain a minimum capital adequacy ratio (CAR) of **8%** of their risk-weighted assets (RWAs). This requirement aimed to ensure that banks have enough capital to absorb potential losses and maintain stability.
- **Risk-Weighted Assets (RWA)**: Basel I introduced the concept of categorizing assets based on their risk levels. Different risk weights were assigned to various asset classes, ranging from **0% (e.g., government bonds)** to **100% (e.g., corporate loans)**.

Key Feature of Basel I

- **Tiered Capital Structure**: Basel I divided capital into-
    - Tier 1 capital includes equity capital and disclosed reserves, which are the most secure and readily available to absorb losses.
    - Tier 2 capital includes subordinated debt and hybrid instruments, which are less secure but still available to cushion losses.
- **Focus on Credit Risk**:
- Basel I primarily addressed credit risk, i.e., the risk of loss from borrowers failing to meet their obligations.
- Other risks, like operational and market risks, were not fully addressed under Basel I.

BASEL II

- Basel II, introduced in 2004 by the Basel Committee on Banking Supervision, aimed to enhance the stability and soundness of the financial system by refining the regulatory framework established under Basel I. Its key features are as follows-

Key Feature of Basel II

Three-Pillar Approach

- **Pillar 1: Minimum Capital Requirements**
  - Establishes a framework to determine the minimum capital banks must hold to cover three types of risks:
    - **Credit Risk:** Using standardized, internal ratings-based (IRB), or advanced IRB approaches.
    - **Market Risk:** Based on standardized or internal models.
    - **Operational Risk:** Introduced as a new category, measured using Basic Indicator, Standardized, or Advanced Measurement approaches.

Key Feature of Basel II

- **Pillar 2: Supervisory Review Process**: Encourages regulators to evaluate a bank's risk management framework and ensure that the bank maintains sufficient capital beyond the minimum requirements to cover all risks, including those not fully addressed under Pillar 1, such as liquidity and reputational risks.
- **Pillar 3: Market Discipline**: Promotes transparency and public disclosure by requiring banks to provide information on their risk exposure, risk assessment processes, and capital adequacy. This allows market participants to assess a bank's stability and risk profile

Risk Management in Banking

- Risk management is the process of identifying, assessing, and mitigating risks faced by a bank.
- A comprehensive approach that identifies, assess and mitigate risks that banks face on a daily basis, such as financial transactions, data privacy, anti-money laundering (AML) regulations, and customer protection laws through tools and controls to manage risks.

Key Risks in Banking

- **Credit Risk**: The risk of a borrower defaulting on a loan.
- **Market Risk**: Risks arising from fluctuations in market prices, such as interest rates or foreign exchange rates.
- **Operational Risk**: Risks from internal processes, systems, or external events (e.g., cyberattacks).
- **Liquidity Risk**: The risk of being unable to meet short-term financial obligations.
- **Reputational Risk**: Risks to a bank's public image, which can lead to loss of business or legal action.

Components of Risk Management

- **Risk Identification: Recognizing** potential risks across all operations.
- **Risk Assessment: Measuring** the potential impact of identified risks.
- **Risk Mitigation: Strategies** include diversifying portfolios, setting credit limits, and implementing strong internal controls.
- **Risk Monitoring: Continuously** reviewing and updating risk strategies.
- **Reporting: Communicating** risk status to stakeholders.

Tools of Risk Management in Banks

1. **Risk Identification Tools**

- **Checklists**: To identify potential risks based on historical data and expert input.
- **SWOT Analysis**: Assessing strengths, weaknesses, opportunities, and threats.

2. **Risk Measurement Tools:**

- **Value at Risk (VaR)**: Estimates potential losses within a given time frame.

3. **Risk Mitigation Tools:**

- **Insurance Policies**: Transferring specific risks to insurers.
- **Collateral Management**: Securing loans with adequate collateral.

Tools of Risk Management in Banks

4. Risk Monitoring Tools:

- **Dashboards and Reports**: Real-time monitoring of key risk indicators (KRIs).
- **Early Warning Systems**: Alerts for deviations from risk tolerance levels.

Challenges in Risk Management

- **Frequent Changes in Regulations**: Banks must adapt to continually evolving regulatory requirements, such as Basel III and anti-money laundering (AML) rules. This requires significant resources and time.
- **Cross-Border Regulations**: For banks operating internationally, differing regulations in various jurisdictions add complexity to compliance.
- **Loan Defaults**: Accurately assessing the creditworthiness of borrowers is challenging, especially during economic downturns.
- **Emerging Risks**: New types of credit risks arise from digital lending and fintech partnerships.

Challenges in Risk Management

- **Volatile Financial Markets**: Fluctuations in interest rates, foreign exchange rates, and commodity prices can have a significant impact on a bank's profitability.
- **Fraudulent Activities**: Internal and external fraud continues to be a significant concern.

Thanks

Week 9 & 10

Chapter 4: Introduction to Insurance

Chapter Outline

- Explain what insurance is, its purpose, and how it functions as a risk management tool.
- Identify and describe the various types of insurance, including life, health, auto, property, and liability insurance.
- Recognize the basic principles of insurance, such as risk pooling, indemnity, insurable interest, and subrogation.
- Discuss how insurance contributes to the stability and growth of the economy, particularly in terms of risk mitigation and financial protection.

Concept of Insurance

- Insurance is a financial arrangement that provides protection against financial loss or risk by transferring the risk to an insurance company.
- **Emery, Finnerty, and Stowe (2007)**: "Insurance is a mechanism for managing risk, where individuals or organizations pay premiums in exchange for financial protection against specific losses or events.“

History of Insurance

- **Ancient Times**: The concept of insurance began with the Babylonians around 1750 BC, who introduced the "Code of Hammurabi," which included a form of insurance for merchants. They practiced risk-sharing through trade associations that pooled resources to protect traders from loss.
- **Medieval Period**: In the 14th century, marine insurance emerged in Italy, particularly in Genoa and Venice, to protect against the risks of sea voyages.. Fire insurance also began in London in the 17th century, after the Great Fire of London (1666) destroyed much of the city.
- **18th Century**: Life insurance began to take shape in London with the establishment of the **Amicable Society for a Perpetual Assurance Office** in 1706 The first modern insurance company, **Lloyd's of London**, was founded in the late 17th century, creating the foundation for both marine and general insurance.

History of Insurance

- **19th Century**: The Industrial Revolution led to an increase in the need for insurance as factories, transportation, and large-scale businesses grew.
- The first casualty insurance company was founded in the U.S. in the 19th century, focusing on coverage for injuries and losses due to accidents.
- **20th Century to Present**: Insurance expanded globally, with more specialized types such as health, auto, and property insurance becoming widespread.
- The industry has continued to evolve with advancements in technology, such as data analytics and digital platforms, offering more personalized and accessible insurance solutions.

Key Terminology

- **Policyholder**: The person or entity that owns the insurance policy.
- **Insurer**: The company that provides insurance coverage.
- **Premium**: The amount of money paid by the policyholder to the insurer, typically on a monthly, quarterly, or annual basis.
- **Deductible**: The amount the policyholder must pay out-of-pocket before the insurance company begins to pay for a claim.

Key Terminology

- **Claim**: A request made to the insurer for payment due to a covered loss.
- **Coverage**: The amount and types of protection provided by an insurance policy.
- **Beneficiary**: The person or entity designated to receive the benefits from the insurance policy.

How Insurance Works

- **Choose an Insurance Policy**

Based on your life, property, or business, you decide which type of insurance you need (e.g., health, life, auto, property) and select.

- **Application and Underwriting**

You fill out an application with personal details, risk factors, and coverage preferences. The insurance company reviews your application. They evaluate risks (e.g., age, health, driving history) to determine your eligibility and premium costs.

- **Premium Payment**

After underwriting approval, you pay regular premiums (monthly, quarterly, or annually) to maintain the policy. The premium is the amount you pay for the coverage.

How Insurance Works

- **Policy Activation:**

Once the insurer accepts the application and you pay the first premium, you get the insurance policy document detailing coverage, exclusions, and terms.

- **Filing a Claim**

If a covered event happens (e.g., car accident, illness), you notify the insurance company and file a claim. Submit required evidence (photos, medical records, police reports, etc.) to support the claim.

- **Claim Assessment**

The insurer reviews your claim to verify the event, assess damage, and determine if it is covered under your policy.

How Insurance Works

- **Claim Settlement**

The insurer decides whether to approve or deny the claim based on the policy terms. If approved, the insurer compensates you according to the terms of the policy, either by paying for damages or providing reimbursement (minus any deductible or policy limits).

- **Policy Renewal**

Before the policy expires, the insurer sends you a renewal notice to keep the coverage active. You can either renew the policy as is, adjust the coverage, or cancel it if no longer needed.

Importance of Insurance

- **Risk Management**:. It offers financial coverage in case of unexpected events like accidents, health issues, property damage, or loss of income.
- **Financial Security**: Insurance provides a safety net that ensures financial stability in challenging times.
- **Peace of Mind**: Having insurance allows people to live more comfortably, knowing they have financial support in case something goes wrong.
- **Encourages Savings**: Some types of insurance, like life insurance or annuities, can act as a forced savings plan, helping individuals build wealth over time while also offering protection.

Importance of Insurance

- **Supports Recovery**: Insurance helps people and businesses recover from losses
- **Business Continuity**: For businesses, insurance is crucial for ensuring continuity. It protects against risks like theft, damage, or legal claims that could disrupt operations.
- **Promotes Economic Stability**: By pooling risks among many individuals or businesses, insurance contributes to the overall stability of the economy.

Types of Insurance

- **Life Insurance:**Provides a lump sum payment to beneficiaries upon the policyholder's death.
- Types: Term Life, Whole Life, Universal Life.
- **Health Insurance:**Covers medical expenses for illnesses, injuries, and other health-related issues.
- Types: Private health insurance, Public health insurance (e.g., Medicaid, Medicare).
- **Auto Insurance:**Covers damages to vehicles and injuries caused by accidents.
- Types: Liability, Collision, Comprehensive.

Types of Insurance

- **Homeowners Insurance:**Protects against risks related to homes, including damages from fire, theft, or natural disasters.
- Types: Homeowners, Renters, Condo insurance.
- **Business Insurance:**Covers various risks for businesses, including property, liability, and employee-related risks.
- Types: General Liability, Workers' Compensation, Business Interruption.
- **Travel Insurance:**Covers unforeseen events like trip cancellations, lost baggage, or medical emergencies during travel.

Principles of Insurance

- **Utmost Good Faith (Uberrimae Fidei)**: Both parties, the insurer and the insured, must disclose all material facts honestly and fully.
- **Insurable Interest**: The insured must have a legitimate financial interest in the subject matter of the insurance, meaning they would suffer a financial loss if the insured event occurs.
- **Indemnity**: Insurance aims to restore the insured to the same financial position they were in before the loss, without providing a profit.

Principles of Insurance

- **Contribution**: If an insured item is covered by multiple insurance policies, each insurer will contribute to the compensation in proportion to their liability.
- **Subrogation**: After paying a claim, the insurer has the right to pursue any third parties responsible for the loss, recovering the compensation paid to the insured.
- **Loss Minimization**: The insured must take reasonable steps to prevent or minimize the loss or damage to the insured property.

Thanks

Week 11 & 12

Chapter 5: The Nature of Risk in Insurance

Chapter Objectives

- Understand the meaning of risk
- Differentiate and relate between risk, uncertainty, and probability.
- Understand Risk Distinguished from Peril and Hazard.
- Identify the different types of risks.
- Distinguish between Peril and hazards.

Meaning of Risk

- The word risk is used in many different ways. It can refer to general uncertainty, doubt, an insured object, or chance of loss.
- Williams and Heinz define risk as the variation in the outcomes that could occur over a specified period in a given situation.
- If only one outcome is possible, the variation and hence the risk is 0. If many outcomes are possible, the risk is not 0. The greater the variation is the greater the risk.

Risk Versus Uncertainty

BASIS FOR COMPARISON	RISK	UNCERTAINTY
Meaning	The probability of winning or losing something worthy is known as risk.	Uncertainty implies a situation where the future events are not known.
Ascertainment	It can be measured	It cannot be measured.
Outcome	Chances of outcomes are known.	The outcome is unknown.
Control	Controllable	Uncontrollable
Minimization	Yes	No
Probabilities	Assigned	Not assigned

Types of Risk in Insurance

Pure Risk: when there is only the chance of a loss occurring this is known as pure risks. Example: damage of your property due to fire or flood.

Speculative Risk: When there is chance of either gain or loss. Example: fluctuation in the price of your property or share.

Classification of Pure Risk

Personal Risk: There are some losses such as loss of income, mental or physical suffering etc. which have a direct impact on people. Therefore the risk of premature death, sickness, disability, unemployment and even dependent old age are put in this category of Personal risk.

Property Risk: The possibility of loss to an asset such as damage to a building due to fire or damage to a vehicle in an accident or theft of vehicle. These sort of risks fill in the category of Property Risk.

Liability Risk: This is the risk of becoming legally bound to compensate or to pay for damage to the person or property of others

Elements of Insurable Risk

For a risk to be insurable, it must meet the following criteria:

- **Definable and Measurable**: The loss should be quantifiable in monetary terms.
- **Accidental and Unintentional**: The loss must be unforeseen and unintended.
- **Large Number of Exposure Units**: The law of large numbers must apply to predict losses accurately.
- **Affordable Premium**: The cost of insurance must be reasonable compared to the risk covered.
- **No Catastrophic Losses**: Risks involving widespread, catastrophic losses are generally uninsurable.

Methods of Handling Risk

1. **Risk Avoidance**: Completely eliminating exposure to risk (e.g., not driving to avoid accidents).
2. **Risk Retention**: Accepting and dealing with the risk (e.g., setting aside funds for self-insurance).
3. **Risk Transfer**: Shifting risk to another party (e.g., purchasing insurance).
4. **Risk Reduction**: Minimizing the likelihood or impact of risks (e.g., installing fire alarms).
5. **Risk Sharing**: Distributing risks among multiple parties (e.g., reinsurance).

Concept of Perils

- A Peril is defined as " the direst cause of a loss" .
- People are surrounded by potential loss because the environment is filled with a lot of perils such as collision, theft, accidents ….. etc".
- Examples of Peril: I) If your car is damaged in a collision with another car, the <u>collision</u> is the peril or direct cause of loss.
- If your book is stolen then the <u>theft</u> is peril.

Types of Peril

- **Natural Perils**: These perils are also called Act of God perils, and there is little that mankind can do to stop them, he can only learn to live with them and devise means to lessen the negative impact. Example: Flood, earthquake etc.
- **Man made Perils**: the manmade perils cause loss, these are an outcome of our society and are the violent actions and unethical practices of people. Example: Thefts, accidents, Strikes etc.
- **Economic Peril**: The third category of Perils or cause of Risk is economic in nature and the examples of this type of Risk are Depression, Inflation, Local fluctuations and the instability of Industrial firms.

Concept of Hazard

- A hazard is defined as "a condition that creates or increases the chance of loss due to a particular peril".
- In other words, hazards are the underlying factors, which increase the probability of occurrence of loss
- For example, Poor car brakes are a hazard making loss due to the collision peril more likely.

Perils Vs Hazard

Aspect	Peril	Hazard
Definition	The actual event or cause of loss or damage.	A condition or situation that increases the likelihood or severity of a loss.
Example	ire, theft, flood, earthquake, accident.	Slippery floors, faulty wiring, careless behavior, poor maintenance
Fiocus	Direct cause of loss	Factors contributing the possibility of peril
Nature	Specific	Broad conditions and circumstance
Role of Insurance	Covverd by insurnace plocity	Used to take undereritting decisions.

Types of Hazard

- **Physical Hazards:** These are tangible, physical conditions that increase the risk of loss.
- **Examples**: Faulty wiring that increases the risk of fire. Slippery floors that can lead to accidents. Poorly maintained machinery in a factory.

Moral Hazards

- These arise from the dishonesty or unethical behavior of the insured. It occurs when an individual deliberately acts in a way that increases the chance of a loss, knowing they are insured.

Examples: Filing fraudulent claims. Intentionally damaging property to collect insurance money.

Types of Hazard

- **Morale Hazards:** These are related to an insured's careless attitude or indifference towards loss because they are protected by insurance.
- **Examples**: Leaving doors unlocked or valuables unsecured, Driving recklessly because auto insurance covers damages.
- **Legal Hazards:** These hazards arise from the legal environment, laws, or regulations that can increase the frequency or severity of losses.
- **Examples**: Changes in liability laws that make it easier to sue. Increased costs due to legal actions or compliance requirements.

Thanks

Week 13, 14 & 15

Chapter 6: Life Insurance

Chapter Objectives

By the end of this chapter, students will be able to

- Understand the concept and principles of life insurance.
- Describe the role of life insurance in financial planning and risk management.
- Explain key types such as Term Life, Whole Life, Universal Life, and Endowment policies.
- Understand the Components of a Life Insurance Policy:
- Discuss the Claims Settlement Process:

Concept of Life Insurance

- Life insurance is a contract where the insurer agrees to pay a specific sum of money to the nominee/beneficiary upon the death of the policyholder or after a specified period, in exchange for regular premium payments.
- Life insurance is a mechanism by which an individual substitutes a small certain loss (premium) for a large uncertain loss (financial hardship due to death)."

Purpose of Life Insurance

- **Financial Security for Dependents**

Life insurance ensures that family members or dependents receive financial support to cover living expenses, education, or other essential needs if the insured person passes away.

- **Income Replacement**

It replaces lost income, helping the family maintain their standard of living in the absence of the primary earner.

- **Debt Repayment**

It can be used to pay off debts like mortgages, loans, or credit card balances, preventing the financial burden from falling on the family.

Purpose of Life Insurance

- **Future Financial Goals**

Life insurance can fund long-term goals such as children's education, marriage expenses, or retirement savings.

- **Peace of Mind**

It offers reassurance that loved ones will be taken care of financially in case of an unexpected event.

- **Estate Planning**

Life insurance proceeds can help manage and transfer wealth to beneficiaries efficiently, often providing tax advantages.

Types of Life Insurance

- **Term Life Insurance**
  - Pure protection plan.
  - Provides coverage for a specific term (e.g., 10, 20, or 30 years).
  - No maturity benefits.
  - Cheapest form of life insurance.
- *Example: A 20-year term policy of $100,000 will pay the nominee if the policyholder dies within the term.*
- **Whole Life Insurance**
  - Coverage for the entire lifetime of the policyholder.
  - Includes maturity benefits and death benefits.
  - Higher premium compared to term insurance.
- *Example: A policy with lifetime coverage and payout upon the death of the insured.*

Types of Life Insurance

Endowment Policy

- Combines insurance with savings.
- Pays a lump sum on maturity or death of the policyholder.
- Suitable for long-term savings goals.
- *Example: An endowment policy maturing after 20 years paying both the sum assured and accrued bonuses.*

Group Life Insurance

- Single policy covering a group of individuals.
- Common for employees in organizations.

Role of life insurance in financial planning

Financial Protection for Family

- Life insurance provides a safety net for dependents in case of the policyholder's death.
- Helps maintain lifestyle and meet immediate financial obligations like loans, debts, and daily expenses.

Wealth Creation

- Certain life insurance plans, like **unit-linked insurance plans (ULIPs)** or **endowment policies**, combine insurance with investment.
- Policyholders can build long-term wealth through disciplined savings over the policy term.

Role of life insurance in financial planning

Risk Management

- Life insurance helps manage financial risks by providing guaranteed payouts to beneficiaries.
- Critical illness and disability riders offer added protection against unforeseen health risks.

Retirement Planning

- Life insurance products like annuity plans and pension plans provide regular income post-retirement.
- Ensures financial independence during retirement years

Key Components of a Life Insurance Contract

- **Proposal Form:** Application form submitted by the policyholder.
- **Underwriting:** The process of evaluating risks and determining premiums.
- **Policy Document:** Legal contract stating the terms, conditions, and benefits.
- **Premium Payment:** Mode and frequency of payments (monthly, quarterly, annually).
- **Claim Settlement:** Process of receiving the payout after policyholder's death or maturity.

Factors Influencing Life Insurance Premiums

Age

- Age is one of the most significant determinants.
- Younger individuals pay lower premiums because they are considered lower risk.

Gender

- Women generally pay lower premiums since they tend to have longer life expectancies compared to men.

Health Condition

- Current health status (medical history, pre-existing conditions, etc.) significantly affects premiums.
- A medical exam or health questionnaire may be required.

Family Medical History

- A history of hereditary diseases (e.g., diabetes, cancer) can lead to higher premiums.

Factors Influencing Life Insurance Premiums

.**Lifestyle Habits**

- Smoking, drinking, or drug use increases premiums due to associated health risks.

Occupation

- Risky professions (e.g., construction, mining, or firefighting) typically have higher premiums.

Hobbies and Activities

- High-risk activities like skydiving, scuba diving, or racing can result in higher premiums.

Policy Type

- **Term insurance** has lower premiums compared to whole or endowment plans due to limited coverage duration.
- Premiums also vary with **riders** (e.g., accidental death or critical illness riders).

Claiming Procedure of a life insurance policy

Step 1: Inform the Insurance Company

- Notify the insurance company as soon as possible after the policyholder's death..
- Provide details like the **policy number**, name of the policyholder, and date of death.

Step 2: Gather Required Documents

- **Death Certificate** (issued by local authority/municipality), **Original Policy Document**
- **Claimant's Identity Proof** (e.g., Aadhar card, passport, or voter ID)
- **Claimant's Address Proof**
- **Relationship Proof** with the deceased (if needed)
- **Medical Certificate** (if the death was due to illness)
- **Bank Details** (cancelled cheque or bank passbook)
- **FIR/Police Report** and Post-mortem Report (in case of unnatural death, like an accident or suicide)

Claiming Procedure of a life insurance policy

Fill Out the Claim Form

- Obtain the **claim form** (can be downloaded online or collected from the insurance office).
- Provide accurate details, including:
  - Policy number
  - Name of the policyholder
  - Cause of death
  - Claimant details and relationship with the deceased

Submit the Documents

- Submit the filled-out claim form along with all the required documents to the insurance company.
- Ensure everything is **accurate and complete** to avoid delays

Claiming Procedure of a life insurance policy

Verification by the Insurance Company

- The insurance company will verify the claim details and submitted documents.
- In case of natural death, the process is straightforward.
- For accidental or suspicious deaths, the insurer may investigate further.

Settlement of Claim

- Once verification is completed, the insurance company will **approve** the claim and transfer the **sum assured** to the claimant's bank account.
- If any discrepancies are found, the company will raise queries or reject the claim.

Key Challenges of Life Insurance

Low Awareness and Understanding

- Many people lack knowledge about the importance of life insurance or its benefits.
- Misconceptions such as "it's only for the elderly" or "it's too expensive" prevent adoption.

Affordability and Premium Costs

- For individuals with lower incomes, paying regular premiums can be financially challenging.
- High costs of comprehensive policies discourage customers.

Complexity of Products

- Policies often come with technical terms and hidden clauses that confuse customers.
- Complicated paperwork or unclear processes delay decision-making.

Key Challenges of Life Insurance

Mismanagement & Fraud: Instances of unethical practices and mismanagement in some companies create challenges.

Economic Instability: Inflation and economic uncertainties affect customers' ability to maintain long-term policies.

Current Trends of Life insurance in BD

- **Digitalization**: Companies are adopting digital tools for premium collection, policy issuance, and claims settlement. Mobile financial services (MFS) like **bKash** and **Nagad** make premium payments convenient.
- **Microinsurance**: Products targeting low-income populations are gaining traction, making life insurance accessible to rural and underserved communities.
- **Product Diversification**: Insurers are introducing customized policies, such as education insurance, savings-linked life insurance, and term insurance plans

THANKS

Week 16 & 17

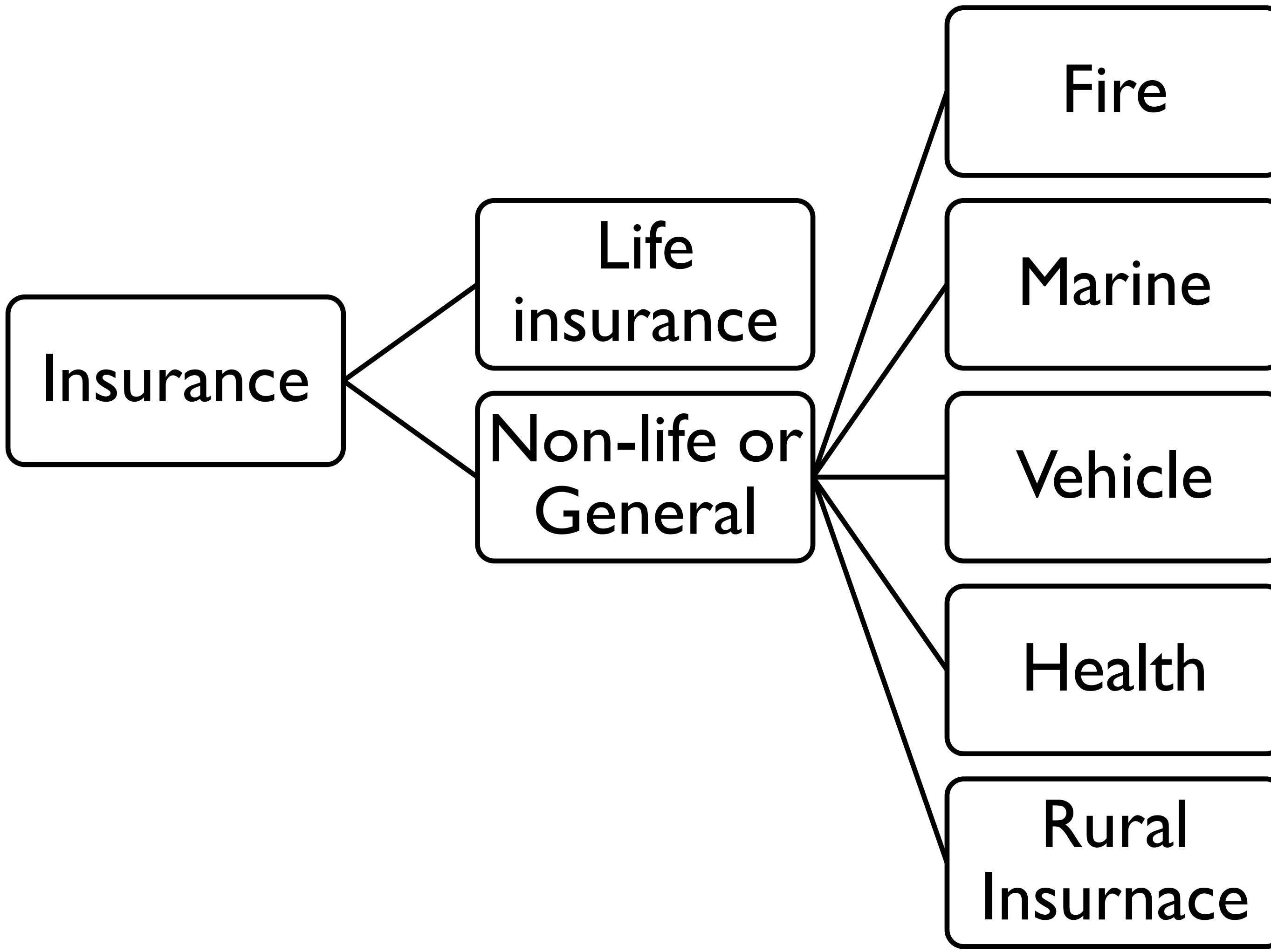
Chapter 7: Fire Insurance

Chapter Outlines

At the end of this lesson, you will be able to:

- Explain the meaning of fire insurance
- Buy the fire insurance policy
- Settle the claim under fire insurance
- Explore the practice of fire insurance in Bangladesh.
- Identy what is not covered under fire insurance

Basic Types of Insurance



Concept of Fire Insurance

- **Definition**: Fire insurance is a contract whereby the insurer agrees to compensate the insured for any loss or damage caused by fire within a specified period in exchange for a premium.
- **Purpose:** To provide financial protection against loss or damage caused by fire.

Concept of Fire Insurance

The following are the items which can be burnt/ damaged through fire:

- Buildings
- Electrical installation in buildings
- Contents of buildings such as machinery, plant and equipment's, accessories, etc.
- Goods (raw materials, in–process, semi–finished, finished, packing materials, etc.) in factories, godowns etc..
- Goods in the open
- Furniture, fixture and fittings
- Pipelines (including contents) located inside or outside the compound, etc.

The owner of abovementioned properties can insure against fire damage through fire insurance policy which provides

Principles of Fire Insurance

- **Offer & Acceptance** : It is a prerequisite to any contract. Similarly, the property will be insured under fire insurance policy after the offer is accepted by the insurance company. Example: A proposal submitted to the insurance company along with premium on 1/1/2011 but the insurance company accepted the proposal on 15/1/2011. The risk is covered from 15/1/2011 and any loss prior to this date will not be covered under fire insurance.
- 2) **Payment of Premium**: An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonored then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938. (Details under insurance legislation Module)..

Principles of Fire Insurance

- **Utmost Good Faith (Uberrima Fides)**: The insured must disclose all material facts accurately.
- **Insurable Interest**: The insured must have a legal and financial interest in the subject matter.
- **Indemnity**: Compensation is limited to the actual loss to avoid profit from insurance.
- **Proximate Cause**: The damage must result directly from fire or related causes mentioned in the policy.
- **Subrogation**: After compensation, the insurer gains the legal rights to claim against third parties responsible for the loss.
- **Contribution**: If multiple policies cover the same risk, all insurers share the liability proportionally.

Types of Fire Insurance Policies

- **Specific Policy**: Covers a specified sum assured for specific property.
- **Comprehensive Policy**: Covers multiple risks, including fire and allied perils.
- **Floating Policy**: Ideal for businesses with stocks at multiple locations.
- **Valued Policy**: The insured and insurer agree on the value of the property beforehand.
- **Reinstatement Policy**: Compensation is based on the replacement cost of the property, not the depreciated value.
- **Consequential Loss Policy**: Covers indirect losses like loss of profit due to fire.

Types of Fire Insurance Policies

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Procedure for Taking Fire Insurance

- **Proposal Form Submission**: Complete and submit the application form.
- **Risk Assessment**: The insurer evaluates the risk level and property value through inspection
- **Premium Determination**: The premium is calculated based on risk factors.
- **Policy Issuance**: The insurer issues the policy document after payment.

Procedures for Claim Settlement

- Notify the Insurer: Report the incident immediately.
- Submit Claim Form: Fill out and submit the required claim form.
- Inspection and Investigation: The insurer inspects the site and verifies the claim.
- Loss Assessment: A loss adjuster evaluates the extent of damage.
- Settlement: The insurer compensates the insured based on the terms of the policy.

Advantages of Fire Insurance

- Financial protection against fire-related losses.
- Business continuity by minimizing economic disruptions.
- Encourages better risk management and fire safety practices.
- Provides peace of mind to property owners.

Exclusions in Fire Insurance

- Loss, destruction or damage caused by war, and associated perils.
- Loss, destruction or damage directly or indirectly caused to the insured property by nuclear peril.
- Loss, destruction or damage caused to the insured property by pollution or contamination.
- Loss, destruction or damage to any electrical and / or electronic machine, apparatus, fixture or fitting (excluding fans and electrical wiring in dwellings) arising from or occasioned by over-running, excessive pressure, short circuiting, arcing, self-heating or leakage of electricity from whatever cause (lightning included).
- Loss caused by Intentionally.
- Earthquake: It is not covered under the fire policy but by paying additional premium, the earthquake can be covered.

Fire Insurance Practice in BD

Legal Framework

- Governed by the **Insurance Act of 2010** and regulated by the **Insurance Development and Regulatory Authority (IDRA)**.
- Complies with international insurance principles while aligning with local economic needs.
- Types of fire insurance policies are underwritten by general insurance companies in Bangladesh.

Types of Fire Insurance Policies in Bangladesh

- **Standard Fire Insurance Policy**:
  Covers losses caused by fire, lightning, or explosion of domestic appliances.
- **Special Perils Policies**:
  Extended coverage for perils such as floods, riots, or earthquakes.
- **Valued and Floating Policies**: **Valued Policy**: Pre-agreed value for property.
- **Floating Policy**: Ideal for businesses with goods at multiple locations.
- **Comprehensive Policies**: Cover additional risks like theft or accidental damage alongside fire coverage.

Challenges in Fire Insurance Practice

- **Low Awareness**: Many businesses lack knowledge about fire insurance benefits.
- **Underinsurance Issues**: Insufficient coverage results in partial claims.
- **Delayed Claim Settlements**: Bureaucracy and inefficiency slow down the process.
- **Risk Assessment Gaps**: Lack of advanced technologies for proper risk analysis.
- **Fraudulent Claims**: Fake or exaggerated claims burden the system.

Thanks