





















## DIRECTORS' REPORT

with opportunities for capacity building. The fundamental objective of risk management is to preserve assets and earning power from potential loss or destruction.

The role of risk management in the operation of an insurance company, especially in the case of non-life insurance organizations, is of immense importance. This is because enterprises prefer to transfer their risk to the insurer as a risk management mechanism, which is part of their overall risk management strategy. The insurer must manage the acquired risks competently to operate their business profitably, even after adequately settling claims, thereby retaining customer confidence as a trusted insurer. This presents the operational challenge for risk management on the part of a non-life insurance company, such as Republic Insurance Company.

### **Business Risk:**

RICL manages its business risks arising from various underwriting policies through underwriting professionals at the branch level, with the assistance of IDRA guidelines. The Company has decentralized its underwriting functions and delegated powers to its zonal offices and branches, enabling them to render prompt, efficient, and effective services to clients. Risks associated with policies are assessed by underwriting officers of the respective branch for underwriting policies up to a specific limit of the sum insured. Beyond this limit, risk assessment of different policies is conducted by the internal Risk Inspection Team.

### **Insurance Risk:**

RICL mitigates this risk with the assistance of its experienced professionals, who conduct pre-insurance surveys of large and complex risks. Risk management ensures a proper understanding of the right level of risk acceptance, risk control, and risk-related expenditure. RICL also takes reinsurance coverage from SBC.

### **Human Resource Risk:**

We recognize that the insurance industry in Bangladesh needs to transform. Lack of frequent training from developed nations results in an information gap and underdevelopment of the sector.

To retain its position as the market leader, RICL needs to recruit employees with relevant qualifications. Not only that, the company needs to arrange proper training both inside and outside the country for its staff. It will help the company to cope with the latest business trend in the industry and also enable the corporation to introduce new products. All of these are expected to boost the company's business.

### **Market Risk:**

The insurance sector in Bangladesh has immense potential. The industry is likely to flourish as the country moves towards becoming a middle-income country. The government plans to expand the insurance facility to include more people. For all these reasons, the industry is very lucrative. The number of insurance companies is increasing daily. Competition among insurance companies is increasing day by day, which may significantly affect the profitability of the company.

Despite increased competition, RICL enables it to maintain positive revenue growth. Also, high entry and exit barriers in the industry provide comfort to the existing companies in the market against the threat of new entrants

### **Regulatory Risk:**

Previously, insurance companies were regulated by the Insurance Act of 1938; this act was replaced by the 'Insurance Act 2010'. The preceding act was introduced to regulate the insurance industry more strictly, protect the policyholders' interests, and establish fair and healthy competition within the industry. The government also established the Insurance Development Regulatory Authority (IDRA) as a regulatory body of the industry. IDRA closely monitors the industry and proposes draft regulations to design a more effective regulatory system. At present regulatory requirements has been introduced to make the market more reliable and uniform such as regulation on claim settlement to protect the right of policy holder and insurance companies are required to set up a special fund named as "Policyholders' Protection Fund"; For further enhancing the solvency position, paid up capital for non-life insurance companies have been raised every year. As per the circular issued by IDRA, agents will be paid a commission at a maximum rate of 15%. RICL has complied with the rules, regulations, Circulars, and directives currently introduced by IDRA.

### **Interest Risk:**

The Volatility of the money market has a significant influence over the interest rate structure of funds held by RICL. Income from FDR accounts is a substantial portion of total income. Income from fixed and other deposits may decrease due to a reduction in the interest rate of commercial banks.

To mitigate interest rate exposure, the company can invest in mutual funds to secure its revenue and also generate capital gains. However, this source also has its drawbacks. If the overall capital market position falls, then the performance of the mutual fund will also decline. Thus, the Company should concentrate on its core business.

## Internal Control Risk:

Internal control risk arises from non-compliance with rules and regulations, which ultimately hurts overall business performance.

The Company's internal control system has been designed to provide directors with reasonable assurance that assets are safeguarded against unauthorized use. The Company has placed a rigorous internal control system. However, maintaining an effective internal control system is a continuous process. Therefore, management should routinely check whether the internal control system is adequate and relevant to the company's current operational process; failure to do so could disrupt operations and hamper overall profitability.

## Liquidity Risk:

Liquidity is the risk that a firm, although solvent, either does not have sufficient financial resources available to meet its obligations as they fall due or can secure them only at an excessive cost. The major liquidity risk confronting the company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and the maturity of investment securities. Liquidity risk also refers to the ability to buy and sell investments quickly and easily. This is a function of the size of RICL holdings relative to the availability of counterparties willing to buy or sell these holdings at any given time. RICL sets a limit on the minimum portion of maturing funds available to meet such calls to cover claims at unexpected levels of demand.

## DISCLOSURE OF RISK REPORTING

Republic Insurance Company Limited (RICL) though cannot eliminate risks of its clientele, but through its experience of efficient risk management practice, endeavours to set forth its commitment to help its clients in loss minimization or provide advisory support for loss prevention and thus makes the client to manage a better risk to insure as well. A properly customized design of a risk management system for any enterprise necessitates complete disclosure of risk reporting, risk identification, risk control, and risk financing matters.

The basic risk-specific information that needs to be gathered and recorded is:

01. Disclosure of risk in respect of the date and time of occurrence of the incident, along with its corresponding extent of loss;
02. An internal enquiry report that identifies the possible cause of such an incident, measures taken to control the loss, regular safety compliance and maintenance records, etc. - all of which must be documented so that proactive measures for loss prevention can be prescribed.

It is also imperative for an enterprise to ensure all environmental safety compliances, and the enterprise must not be responsible for any casualties due to any default or negligence in the construction and maintenance of its factory or office premises.

Disclosures relating to Risk reporting ensure the proper identification of physical hazards based on risk factors, analysis of appropriate measures to control risks, and, last but not least, to decide on the extent of risk financing. RICL, through its expert professionals, imparts awareness to clients on achieving the objectives of analyzing risk factors associated with various activities, observing how risks can impact the decision-making process, and how operational risks can be managed effectively by arranging adequate insurance protection.

Transparency is key to the existing risk management system that RICL always encourages its clients to maintain; risk reporting and disclosure ensure such transparency. It helps keep records to aid in proper risk inspection and thus arrange for adequate insurance protection, providing further advisory support for better risk management.

RICL thus ensures and encourages proper risk management of its clients, which benefits them by saving resources. The clients' time, assets, property, income, and people - all are valuable resources that can be saved if fewer claims occur. Proper risk management also ensures protecting the reputation and public image of the clientele, preventing or reducing legal liability and increasing the stability of operations; it creates awareness in protecting people from harmful events, and thereby protecting the environment by enhancing competence and efficiency by reducing liabilities, and also assisting in clearly defining insurance needs. Our concerted efforts thus help control the overall manufacturing and business environment. After all, following a loss, the economic consequences are mitigated through the mechanism of Insurance; However, we can never fully compensate for the effects of the loss on human beings, society, the country, and the world at large.

## AUDITORS OPINION

### Basis for Qualified Opinion:

**Opinion 01:** According to the company's records, Sadharan Bima Corporation (SBC) reports a balance of Tk. 486,363,396 in receivables and Tk. 46,947,525 in payables. We have received confirmation from SBC regarding a payable amounting to BDT 587,999,899. Although the company has partially reconciled the payable balance, it has not supplied supporting documentation to substantiate this reconciliation. Regarding receivables, we did not receive any confirmation from SBC.

**Explanation:** The Company has been arranging reinsur-

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ance business with Sadharan Bima Corporation since 2000. According to our company's books of accounts, the payable figure to Sadharan Bima Corporation is shown as Tk. 4,69,47,525.00 only. Our external Auditors, Rahman Mostafa Alam & Co. Chartered Accountants, have carried out the Audit of our company's accounts for the year ended December 31, 2024. In the financial Accounts, they have given a qualified opinion that the payable amount to Sadharan Bima Corporation is Tk. 58,79,99,899/-, which differs from our payable amount to Sadharan Bima Corporation. In this regard, they have written a letter to SBC and requested confirmation of the said figure. SBC confirmed the figure receivable from RICL, but the amount receivable by RICL from SBC was not mentioned in their letter. A reconciliation statement with supporting documents regarding the matter was explained to our external Auditor.

**Opinion 02:** By Section 2(10) of the Bangladesh Labour Act, 2006, organizations are required to recognize gratuity expenses equivalent to 45 days' wages for each year of service for employees who have completed more than 10 years of service. Unfortunately, the organization has failed to fulfill this obligation. While the company has provisioned for the basic salary of the most recent month within this year's gratuity calculation, it has not sufficiently addressed the shortfall in recognizing past service costs, as the current basic salary surpasses that of prior years.

**Explanation:** As per the approved policy regarding gratuity provision by the Board of Directors, dated January 3, 2013, the Company is making a provision/paying as employees' gratuity fund equivalent to 30 days' wages for each year of service for employees who have completed more than 10 years of service. In light of the auditors' observation, the matter shall be forwarded to the Board Meeting.

**Opinion 03:** According to IFRS 9, Paragraphs 5.5, the lifetime expected credit loss of deposit clearing and short deposits aggregating Tk. Seven million nine hundred eighty-nine thousand seven hundred eighteen should be recognized in the Profit and Loss Account as a loss immediately. However, as per the board of directors' resolution, the Company intends to write it off over the next seven years, and the financial statements reflect this approach.

**Explanation:** According to the Board of Directors' resolution, the said balance is being written off over 7 (seven) years. The written-off process is continuing into the current year as well. As of March 31, 2025, the balance is reduced to Tk. 75,90,231. The matter shall be resolved gradually.

### **Emphasis of Matter (EM):**

The External Auditors draw attention to the following financial statement issue, but our opinion is not modified in respect of this issue:

**EM 01:** According to the Insurance Act 2010, section 21, schedule 1, a Non-Life Insurance company's sponsors and directors must hold 60% of the total paid-up capital. However, the company's sponsors and directors hold 40.48% instead of 60%. (Ref: note no. 3).

**Explanation:** Since the registration date (18/05/2000) of the company, the board of directors and the sponsor of the company have jointly held 100% of the company's shares. However, due to the regulatory obligation of IDRA, the company floated its shares through an IPO in 2009, and the directors' and sponsors' shareholding was reduced to 40.48% after the post-IPO issue. The requirement for a 60% shareholding by the company's directors and sponsors came into effect in 2010. We have yet to increase our directors' and sponsors' holding to 60%.

**EM 02:** The company has made a WPPF provision since 2014 and requires disbursing amounts to the Workers' Participation Fund, Workers' Welfare Fund, and Workers' Welfare Foundation Fund in the required 80:10:10 ratio according to Section 234 of the Bangladesh Labor Act, 2006. According to labor law, the WPPF balances must be disbursed within nine months of the end of the year. Still, it has not disbursed any amounts as instructed by the BIA letter, reference BIA-3(58)/2023, dated July 12, 2023, which is disclosed in note no. 10.

**Explanation:** The Company is making provision for WPPF as per Section 234 of the Bangladesh Labour Act, 2006, in accordance with the prudence approach of the ICAB/IASB Conceptual Framework. However, distribution is delayed due to a management decision, as per the Bangladesh Insurance Association, vide letter no. BIA-3(58)/2023, dated July 12, 2023, has applied, with the recommendation of IDRA, to renounce the insurance companies from the making provision of WPPF as per Section 234 of the Bangladesh Labour Act, 2006. The decision in this regard is currently being processed.

**EM 03:** Note No. 12(a) of the financial statements describes the Deed of Trust of the Gratuity Fund as required by the labor law, which is in process.

**Explanation:** The registration of the truth deed is undetermined.

**EM 04:** Note 21 states that three FDRs are liens with IDRA as part of the company's paid-up capital, in line with IDRA directive (Ref: ৫৩.০৩.০০০০.০৫১.৪৮.০০২.২৪.৯৩ dated 28.07.2024).

**Explanation:** As part of the regulatory requirement of IDRA, the mentioned FDRs were linked with IDRA, which is the primary regulatory authority of Bangladesh to regulate insurance companies.

**EM 05:** Annexure A indicates that the mutation process

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for land valued at BDT 6,238,556 is currently underway.

**Explanation:** The mutation of land situated at the Basundhara Baridhara Project, Dhaka, Plot # 3906/H and 4009/H, Block P, is in progress.

**EM 06:** Note No. 13 of the financial statements, which describes the unclaimed dividend dedicated accounts balance and payment status.

**Explanation:** The shortfall of dividends was subsequently deposited in the designated bank account for dividend payment.

### FUTURE PROSPECTS

The non-life insurance sector in Bangladesh has undergone significant transformations in recent years, reflecting the country's dynamic economic landscape. In Bangladesh, marine insurance is considered the lifeguard for the non-life insurance business. Marine insurance is heavily dependent on imports, which have been continuously disrupted by political unrest; however, the market is expected to improve in the future.

The non-life insurance market continues to be extremely overcrowded compared to developing countries, including our neighbors. The general insurance industry underwent significant changes in 2023. The pandemic has accelerated the industry's digital transformation, leading to increased demand for new insurance products and services. The Insurance Development and Regulatory Authority (IDRA) has introduced several reforms during this financial year to expand the insurance market and increase insurance penetration, including the endorsement of Bancassurance and the issuance of Corporate Governance Guidelines for Insurance companies.

It is a matter of optimism that the Insurance Development and Regulatory Authority (IDRA) has rightly identified the obstacles in the insurance industry and is trying to resolve those problems. Notable steps already taken include the prohibition on undertaking risk with a premium rate lower than the tariff rate and stopping the practice of issuing insurance documents without receiving a premium. Insurance Companies and the Bangladesh Insurance Association (BIA) have come forward to implement the steps adopted by IDRA with sincerity. By this, insurance companies are benefiting and advancing gradually

toward prosperity. We are strengthening our marketing and other departments within the Company to substantially increase our gross premium income by adhering to the rules and regulations of IDRA. We hope to generate higher returns for shareholders' investments in the years to come.

### CONCLUSION

The Board of Directors of the Company takes this opportunity to express its gratitude to the shareholders, valued clients, patrons, and well-wishers for their appreciation and continued support and cooperation. The Company is indebted to its clients, shareholders, the Government Authorities, particularly the Ministry of Finance, the Ministry of Commerce, the Insurance Development & Regulatory Authority, Registrar of Joint Stock Companies & Firms, Bangladesh Securities and Exchange Commission, Dhaka Stock Exchange PLC., Chattogram Stock Exchange PLC., Central Depository Bangladesh Limited (CDBL), Sadharan Bima Corporation, Bangladesh Bank, Commercial Banks, Bangladesh Insurance Association and Bangladesh Insurance Forum for their continued

support towards the growth of the Company. The Board of Directors also expresses its deep appreciation to management and all staff members who were called upon to face significant challenges while maintaining the highest standards of service to our clients. We thank everyone for their performance.

We will continue to solicit the support, cooperation, and valuable advice of all stakeholders of the Company in the years to come.

May Allah bless us all. Allah Hafez

On behalf of the Board of Directors



**(S.M Shafiul Hoque)**  
Vice Chairman