

ALL INDIA INSURANCE EMPLOYEES ASSOCIATION

COMMITTEE ON REFORMS IN INSURANCE SECTOR

AIIEA'S RESPONSE TO THE QUESTIONNAIRE



ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION

BHARAT INSURANCE BUILDING (ANNEXE), 93 MOUNT ROAD, MADRAS 600 002

PRESIDENT:
CHANDRASEKHAR BOSE
GENERAL SECRETARY:
N. M. BUNDARAM

Dear Comrade,

With the new Economic Policy in its fast track, spate of reform measures are being announced by the Government of India, the guiding hand being the World Bank and IMF. In the wake of Narasimham Committee recommendations which seek to change the face of the banking industry much to the satisfaction of the ruling classes, the reforms in the financial sector now seek to invade the insurance industry. Following the Finance Minister's announcement in the Budget speech, the Committee on Reforms in this industry led by Sri R.N. Malhotra, former Governor of RBI is going round the country eliciting views of different sections of the people.

The Committee's job, it seems, has already been cut out as various policy pronouncements of the Government indicate. With the banking industry getting opened up for privatisation, the insurance industry is being brought in the line for which there is a need for recommendatory exercise. That process is on now.

The AIIEA and its Standing Committee have been given a set of questionnaire by the Committee, sans anything on industrial relations, seeking our views on various aspects pertaining to Life and General sectors. The coming pages will reveal not only the heavily loaded questions in tune with the Government's thinking but also our studied response to the same.

It confirms the worst apprehensions we had that reforms in this industry could be a cloak for implementation of privatisation programme. In a few months time, the entire game would be clear.

Here it should be understood, that our campaign against privatisation assumes new dimension. It should reach all sections of the people as the entire issue is bound to come for a public debate. The contents of our replies should be studied, explained and disseminated not only among the employees but among the people so that a powerful mass movement is built up against the Government's attempt to privatise the insurance industry.

This material, taken through different forms of campaign, should help all the units to broaden the platform of struggle against the new economic policies including its scheme of privatisation of public sector industries. It is a formidable task, yet it has to be carried out in all intensity without any respite.

With greetings,

Yours comradely,

MADRAS
JUNE 14, 1993.

GENERAL SECRETARY.

THE TERMS OF REFERENCE OF THE COMMITTEE ARE AS FOLLOWS:

- i) Examination of the structure of the insurance industry as it has evolved within the existing framework and an assessment of its strengths and weaknesses, the objective being provision of a wide reach of insurance services and a variety on insurance products with a high quality of service to the people.
- ii) recommendation of changes in the structure of the insurance industry and in the general policy framework for creating an efficient and viable insurance industry which would provide a high quality of service and a variety of insurance products and which would also be an effective instrument for mobilising financial resources for development. The changes that are taking place in other parts of the financial system and in the economy have to be kept in mind;
- iii) making suggestion which would help to improve the functioning of the Life Insurance Corporation and General Insurance Corporation in the changing economic environment;
- iv) review of the present structure of regulation and supervision of the insurance sector and the need for strengthening and modernising the regulatory system to meet the requirement of the changing economic environment;
- v) review of the role and functioning of surveyors, intermediaries and other ancillaries of the insurance sector and make appropriate recommendations;
- vi) recommendations for the long term good health and development of the insurance sector, and the changes required in legislation.

LIC'S CORPORATE OBJECTIVES:

- ★ Spread life insurance and provide life insurance protection to the masses at a reasonable cost.
- ★ Mobilise people's savings through insurance-linked savings schemes.
- ★ Invest the funds to serve the best interests of both the policyholders and the nation.
- ★ Conduct business with maximum economy, remembering always that the money belongs to the policyholders.
- ★ Act as trustees of the policyholders and protect their individual and collective interests.
- ★ Innovate and adapt to meet the changing life insurance needs of the community.
- ★ Involve all the people working in the Corporation to ensure efficient and courteous service to the insured public.
- ★ Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through dedicated service to achieve the corporate objectives.

OBJECTIVES OF NATIONALISING THE GENERAL INSURANCE

- ★ To spread the benefits of general insurance all over the country instead of allowing it to be confined to the urban market.
- ★ to foster orderly growth of general insurance business on the basis of sound under-writing principles and techniques at economic cost to the insuring public.
- ★ to serve better the needs of the economy by securing the development of general insurance business in the best interests of the community; and -
- ★ to ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment.



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BHARAT INSURANCE BUILDING (ANNEXE), 93 MOUNT ROAD, MADRAS 600 002

PRESIDENT:
CHANDRASEKHAR BOSE
GENERAL SECRETARY:
N. M. BUNDARAM

June 9, 1993.

Shri R.N. Malhotra,
Chairman,
Committee on Reforms in Insurance Sector,
Insurance Division,
Lok Nayak Bhavan, 3rd Floor, Khan Market,
NEW DELHI - 110 003.

Camp at Madras

Dear Sir,

Re: Answer to the questionnaire

We are happy to send our response to the questionnaire sent to us, pertaining to the General Insurance Corporation of India and the Life Insurance Corporation of India.

Besides the aspects covered by the questionnaire, there are certain other points on which we would like to present our views to the Committee. We may kindly be permitted to do so a little later. In the meantime there are two specific points on which we would like to present our views immediately.

One relates to the question of collective bargaining rights under the Industrial Disputes Act, 1947 which has been denied to LIC and GIC employees, for the former through enactment of LIC (Amendment) Act, 1981 and for the latter by a distorted interpretation of the General Insurance Business (Nationalisation) Act, 1972. Though discussions do take place between the managements and the unions, settlements under the Industrial Disputes Act, 1947 are not allowed. Instead, service conditions are determined through issue of notifications by the government. This practice is discriminatory to the insurance employees. When other sections of the employees and workers are being extended the right of collective bargaining there is no justification to deny this to insurance employees. This has led to a situation where apart from denial of right to conclude settlements, points agreed upon in discussions get diluted or distorted to the detriment of employees' interests, making the process of discussion itself meaningless. Secondly a situation has

so developed where even on minor matters the managements would have to run to the government to get clearance. Sometime this results in abdication of responsibility in matters Personnel by the managements or usurpation of the normal functions of the managements by the government. The power vested with the government in this respect is arbitrary, unchartered and lacking in guidelines and therefore grossly discriminatory. In a situation when so much is being talked in the name of autonomy and such other rights and responsibilities of PSUs, there is no justification to continue to deny collective bargaining right to the LIC & GIC employees. This should be restored immediately so as to impart meaning and substance to whatever dialogue and interaction that takes place between trade unions and the managements.

The other aspect is the question of recognition of trade union. Insurance is the only industry where trade union recognition, a basic right of the workers, is being denied for long. This issue is being evaded by the managements and the government deliberately. This is too is discriminatory and denial of the basic right of the worker to be represented by a union of their choice. By a process of secret ballot or any other mutually agreed way, verification of members of different trade unions should be made and recognition granted to the majority union and the representative union, without delay. Any talk of participatory management would be meaningless without the basic right of recognition.

Due to paucity of time, we could not meet the Committee and make our oral submissions as desired on June 5, 1993 and June 8, 1993 (for our General Insurance Standing Committee) at Bombay, we had submitted a letter to you on June 4, 1993, requesting to be excused and further requesting opportunity to be given sometime in the middle of June 1993, during the Committee's sitting in New Delhi. We request you to grant us time as requested.

We are sure our submissions would receive the Committee's earnest consideration.

 Thanking you.

Yours faithfully,
N.M. Sundaram
GENERAL SECRETARY.

VIEWES SUBMITTED

By the

ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION
BHARATH INSURANCE BUILDING ANNEXE,
93, MOUNT ROAD, MADRAS - 600 002.

To the

COMMITTEE ON REFORMS IN INSURANCE SECTOR
GOVERNMENT OF INDIA
INSURANCE DIVISION
LOK NAYAK BHAVAN, 3RD FLOOR, KHAN MARKET,
NEW DELHI - 110 003.

QUESTIONNAIRE ON GENERAL INSURANCE

Q.1: How far have the objective of nationalising the general insurance industry been achieved?

A: Since nationalisation, GIC has made attempts to spread insurance business to rural areas which was not the case in the private set up. Introduction of such business as Crop insurance, insurance of Cattle, Fishery, Poultry, Failed Wells, Agricultural pumpset, etc., has also contributed to spread of the business in the rural areas. It may be noted that in respect of Crop insurance the technical expertise and administration are being managed by the GIC. The profile given along with the questionnaire itself indicates in clear terms that the objectives of nationalising the general insurance business have been greatly fulfilled. This process can further be speeded up by opening of more offices in the rural areas with powers to take decisions locally as well as by introducing more innovative insurance covers suited to specific needs of the rural population and economy. It may also be stressed that the drive for rural business is heavily dependant on the profits in the urban areas. Any reform which would weaken GIC in the public sector in the name of competition and privatisation would seriously affect the spread of business in the rural areas.

By and large sound underwriting principles and techniques at economic cost to the insuring public have been followed by the GIC and its subsidiaries. However, in specific areas of general insurance business especially in Motor insurance, underwriting losses have been pronounced, but in recent years these have been considerably reduced.

There can be no doubt that despite certain shortcomings, the GIC has fulfilled the objectives substantially in serving better the needs of the economy by developing its business in the best interest of the community.

The aspect of concentration of wealth to the common detriment, is no doubt of specific importance to be targeted by GIC as a nationalised financial institution. However, the objectives in this regard cannot be realised by GIC alone. It has to function in tandem with other financial institutions including nationalised banks and LIC. That was why it was decided at the initial stages of planned economic development itself that the public sector, particularly the financial institutions, should occupy 'commanding heights of the economy'. Therefore, any proposal to weaken the public sector financial institutions including GIC and to relegate them from this commanding heights of the economy would act to the detriment of the important objectives. The social and economic disparities caused by centuries of backwardness have to be eradicated swiftly. As otherwise, the imbalances would lead to social tensions. There is, therefore, need to strengthen the public sector financial institutions including GIC so that they act as the lever by which concentration of wealth to the common detriment is eradicated and social and economic equality are brought about.

Q.2: Though over the years organisation of four subsidiary companies of GIC and the volume and variety of general insurance business have expanded, the spread of insurance awareness/consciousness remains low. How can this situation be improved?

A: Spread of insurance awareness/consciousness cannot be said to be low. However, it is certainly inadequate considering the possibilities that have arisen with the development of the economy in different spheres. This situation cannot be improved through marketing efforts alone. Under the present dispensation, with the existence of four companies selling the same products competing with one another, there is dissipation of efforts and great deal of working at cross purposes. This should be eliminated by merging all the four companies under one umbrella functioning under overall policy guidelines of the GIC and the social objectives but with sufficient initiative and autonomy in day-to-day functioning, in furtherance of the objective.

R & D efforts would also be required to assess the causes for inadequate awareness of insurance among different segments of the economy and the population. General Insurance business, by its very nature, depends on the extent to which the individual or the corporate body concerned is willing to go in for insurance. Frequently, there is a thinking of under-valuing properties/risk in order to save cost on premium. Therefore, on the basis of a survey and R & D effort, the government should come forward with appropriate legislation for compulsory comprehensive insurance, besides motivating through publicity about the overall advantages of securing adequate insurance cover. Insurances such as Householders' Comprehensive and Shop-keepers' All-Risks are to be popularised further to reach out to insurance consciousness of majority of populace. More rural representatives should be appointed for spreading insurance exclusively in rural areas.

Q.3: The functions of the GIC have been enunciated in the General Insurance Business (Nationalisation) Act, 1972. These include aiding, assisting and advising the subsidiary

companies in the matter of standards of conduct and sound practice, rendering efficient customer service, controlling expenses, helping in investment of funds, and issuing direction in the conduct of general insurance business.

- (a) Is it necessary for GIC to continue as a holding company to perform these functions or is it time that the subsidiary companies be allowed to operate entirely on their own? What are the pros and cons of making such change?
- b) Should GIC continue only as a re-insurance corporation?

A: (a) It is necessary for GIC to be made as a monolithic set-up amalgamating unto itself the four subsidiary companies. The GIC, in such a set up, would have all the functions of a holding company and would be concentrating on spread of general insurance business introducing new and innovative schemes to meet specific needs of the insuring public. We can also have an organisation pattern like the LIC with Zonal set-ups in specific areas for intensive development of business. We are certainly opposed to the subsidiaries being allowed to operate on their own which would make them top-heavy involving them in unending competition which would amount to a war of attrition and lead to unethical practices and divert the efforts of the companies away from the avowed social objectives.

(b) It is our considered view that GIC should not continue as a re-insurance corporation. The GIC should be reorganised as mentioned above as a single monolithic corporation.

Q.4: What is the level of customer satisfaction? What factors if any you feel are hindering better service? What are your suggestions for the improvement of customer service?

A: Customer satisfaction is fairly good. Ever since nationalisation, the GIC and its subsidiaries have given attention to this aspect and succeeded in considerable measure in its efforts. Be it issue of receipts, cover notes, other documentations, settlement of claims, responding to enquiries, the performance of nationalised GIC has certainly been above the performance during the period of the private sector. It is not merely a question of analysing published statistics to appreciate this fact; it is reflected in the actual experience in the market.

No servicing organisation can claim to have attained a point of saturation in meeting the customer needs. The more the spread of insurance and its awareness, the more varied would be the customer needs; more the diversification of the strata of customers, greater and newer demands would be forthcoming and these challenges have to be met. In this respect also, to keep pace with customers' increasingly changing expectations, market research has to be undertaken and organisational responses should be developed commensurately. The more the decentralisation of powers and functions with actual decision making process shifted to actual points of contact with the public, the better will be for servicing. Sending of renewal

notice would add up to satisfaction of the customer and hence GIC should restore the practice.

A conducive atmosphere should also be created for the employees at all levels to give out their best. The AIEEA is committed to constantly motivating the employees towards improvement of customer service. Unfortunately, the trade union is not being encouraged to play its legitimate role in this regard.

Q.5: The four subsidiary companies compete with each other for general insurance business. Has this competition resulted in better customer service?

A: We have already stated some of the harmful effects of four subsidiaries of GIC competing with one another. Competition might be claimed to have helped customer service in the sense that the companies vie with one another to satisfy the customer at all cost just to retain business. This, as already stated, has resulted in unethical practices. Customer service and satisfaction does not mean satisfying his whim and unreasonable demand. This way, a bigger client can be encouraged to understate a risk or overstate a claim and get away with it. This sort of situation often gets exploited by bigger clients and the ordinary customers remain stranded having to share the burden.

Q.6: What are your general perceptions of the performance of the general insurance industry in the nationalised set up in respect of:

- (a) technical skills;
- (b) keeping abreast of development in other parts of the world;
- (c) integrity in dealings.

A: (a) Technical skills have certainly improved since nationalisation and can be said to have permeated the entire workforce rather than remaining exclusive preserve of those at managerial levels. Apart from practical skills due to diversification of business and decentralisation of powers and functioning to the extent it has taken place, technical skills have certainly improved. Apart from this, the employees take to insurance studies in large numbers improving the theoretical base of skills. With more incentive to pursue the studies, the skills can be further expanded. It is also pertinent to note that many foreign companies have employed skilled personnel trained by GIC.

(b) The GIC has held its own as a premier general insurance industry in an economy which has vastly expanded over the years and is continuing to develop despite constraints and difficulties. The newer needs of insurance peculiar to Indian climate have been identified and attempts made to satisfy these needs. In this sense as well as in the sense of overall performance, the GIC has no doubt kept abreast with developments in other parts of the world. It is a modern and forward looking general insurance industry in the nationalised sector. This is, however, a continuous process of development which can be maintained only if the industry grows from strength to strength

and keep abreast with developments in the field in other parts of the world. To do this it is not necessary to open the Indian market to multinational insurance companies. It may be noted that only after having monitored the developments abroad where many foreign companies faced continuing loss, the GIC has successfully reduced the underwriting loss during recent years.

- (c) We have not fully understood the scope of the question. However, we will try to answer it from different angles. If it refers to general level of corruption, we may assert that corruption is not a common feature in the industry. If it is meant to suggest openness in dealings, we regret to say that the very process of competition between the four subsidiaries has more of negative influence, such as under-cutting of business, pampering of big policy holders and settlement of claims just to retain the business unmindful of the integrity of the claim, etc. These are bad practices which should be eschewed. As already said, these negative features could be eschewed by avoiding unhealthy competition by bringing together the four subsidiaries.

Q.7: Has the general insurance industry been adequately interacting with the concerned associations of individuals, business and industry (such as Chambers of Commerce and Industry, Local Trade Associations, Associations of Doctors, Transporters, Policyholders, Consumer Bodies and such other interested groups), and whether such interaction has been meaningful?

A: We can only comment on interaction with policyholders and consumer bodies. The policyholders have not been in a position to form themselves into representative bodies.

Wherever such bodies have been formed, they have remained the exclusive preserves of influential and powerful individuals or groups and not the ordinary rung of policyholders. The GIC should associate itself in formation of policyholders councils at different levels by involving policyholders belonging to different strata. As otherwise, vested interests would claim to represent the community of policyholders as a whole with its adverse consequences for the industry.

The consumer movement is of recent origin in our country and here again, rapport could not be said to have been created with such bodies wherever they exist. Apart from the need for meaningful interaction with the consumer bodies, it needs to be noted whether these consumer bodies, truly speaking, represent genuine consumer interests or are bodies formed with the intention of securing the interest of specific interest groups. Our Association would be willing to cooperate with the GIC in formation of such bodies and developing interaction with them in the overall interests of all concerned.

Q.8: The Tariff Advisory Committee (TAC), set up under the Insurance Act, determines the rates and terms for general insurance business for most classes of business. Some of the major covers whose rates, terms and conditions are determined by the TAC are Fire, Marine Hull and Cargo, Motor, Workmen's Compensation, Public

Liability, Personal Accident, etc. What has been your experience as consumer in respect of adequacy of risk coverage, and in fairness of rates and terms and interpretation thereof?

A: The question does not refer to us. However, as a trade union, we may emphasise the need for the Tariff Advisory Committee to be retained as part of GIC and made to function as a regulatory body to ensure discipline in fixing rates and for eschewing unethical practices. The TAC, if allowed to function objectively and fairly on the basis of actual experience, can actively serve consumer interests also. It should be ensured that proper statistical returns are furnished to TAC on each type of insurance for scientific rating.

Q.9: At present, 70% of annual accretions of funds from general insurance business is required to be invested in Government and Government-guaranteed Securities and in such other socially-oriented sectors as may be directed by the Government. Only 30% of annual accretions of funds is available for investment in the market sectors. To the extent that rate of interest on Government paper is below the market level, the return from these investments will be less and hence have a concomitant effect on profitability. Having regard to the fact that solidity of an insurance company is very vital and that liquidity of funds to make very large claims is an essential requirement specially in regard to the general insurance business and for which Government or Government-guaranteed securities are eminently suited, does this investment pattern of GIC in your opinion need review? What are your suggestions?

A: The GIC with its social objectives, will have to necessarily invest in government-guaranteed securities and other socially-oriented sectors. However, there is need for the government to fix a rate higher than the rate of interest available on government securities, keeping in view the needs of business interests. The government may float special bonds from time to time at rates equivalent to the normal lending rates of banks so that those aspects of profitability through more realistic returns, social orientation as well as security of investments, are satisfactorily met.

Q.10: What has been your experience, if any, with settlement of claims? How should the differences between the insurer and the insured be settled without taking recourse to courts of law? Do you think an institution like Ombudsman would help?

A: The record of settlement of claims, especially in the nationalised sector, has been much more satisfactory than it was ever in the private sector where claims were not settled for the common place insured and were over-settled in respect of rich and influential sections of the insured. As regards disputes, we may stress that the objective should be to create conditions from inception of the contract itself so that occasions for disputes are minimised. At the time of introduction of business itself, care should be taken to ensure that there is no room for such things which would lead to litigation. An independent institution exclusively for general insurance in our view, can be a better remedy than the consumer forums.

Q.11: Have Consumer Forums played a positive role in ensuring greater consumer satisfaction ?

A: The consumer forums no doubt have played a certain degree of positive role in ensuring greater consumer satisfaction and by making the GIC more conscious of fulfilling the genuine consumer needs. But there have been instances where consumer forums have tended to play a partisan role on the basis of the dictum that 'consumer is always right' rather than on the facts of the case. Though ordinarily this dictum would apply in the matter of insurance business also as in any other business, there is the special aspect of what the insurer and the insured reveal or not reveal about the risk covered, which is material and which is often ignored. Insurance business is governed by the dictum of '**uberrima fides**'.

Q.12: Motor accidents result in large claim pay outs due to death and injury to the third parties. The aggregate claims paid exceed the premium collected, and the gap is increasing. In particular, the level of compensation for death and injury has been steadily going up. What are your suggestions for improving this situation ?

A: The underwriting loss in respect of motor business, no doubt, is due to increasing third party liabilities. The normal method of meeting this position would be to increase the rate of premium in tune with experience of claims of earlier years and the prevailing levels of compensation for death and injury. This is what obviously a private insurer would do. How can the normal business practice be a taboo for the nationalised industry alone ?

Bad road conditions in India contribute to accidents to great extent and the consequent increase in insurance claims. Government should take appropriate measures to improve road conditions.

Enacting a law for structured compensation for personal injuries and death (Also see Answer to Q.13) would reduce the high cost of litigation and the concomitant factors.

The Government should also come forward to set apart a part of the excise duty levied on Petroleum products for providing compensation (as a social security measure) to the families of accident victims.

Q.13: What has been your experience, if any, with Motor Accident Claims Tribunal (MACT) in settlement of claims and payment of compensation for the dependents of accident victims? Has the Lok Adalat System provided meaningful relief to the claimant? What improvements would you suggest in the present arrangements for bringing more cases before Lok Adalat for early settlement of claims pending before MACT ?

A: This is certainly a serious problem to be remedied. One method could be to enact a legislation more or less on the lines of Workmen's Compensation Act with some liberalised provision as demanded by the trade union movement. In so doing, the minimum needs of the family of the accident victim irrespective

of whether he/she is unemployed or with very little means should be taken into account with appropriate weightage for earning potential and other relevant factors. This would by and large provide a satisfactory solution to the problem and also avoid delay in settlement of claims.

Q.14: The Insurance Act provides for grant of licence by the Controller of Insurance to surveyors in respect of general insurance business. A surveyor should be a graduate in Engineering or a Chartered Accountant or a Cost Accountant or qualified Actuary or diploma holder in insurance or he should possess such other qualification as may be prescribed. The licence is automatically granted, if eligibility criteria are satisfied. It is valid for a period of five years and is renewable. There are at present about 38000 licensed surveyors. They get their fees from the concerned insurance company which engages them for their services.

- (a) What are your general perceptions about surveyors, particularly in respect of their technical skills, integrity in dealings, and fairness and promptness in assessment of loss?
- (b) Do you have any suggestions for improving the effectiveness of the institution of surveyors and their professional performance?
- (c) There is an impression that the present licensing system has in practice detracted the insurance companies from engaging surveyors of appropriate qualifications and expertise on various loss assessment assignments. Further, in more liberalised environment, should the present licensing system continue or should it be abolished and the empanelment and assignment of qualified surveyors left entirely to the insurers?

A: (a) While technical skills of surveyors cannot be called into question, on the basis of experience, it cannot be said that fairness and promptness in assessment of loss has been there. By 'fairness' we mean fairness to both the industry and the customer, i.e., objectivity in assessment of the loss by the surveyor. The degree of fairness has unfortunately varied with the status of the customer, the industry being at the receiving end in such cases. Promptness has also suffered on the same count.

- (b) While improvement in this regard is certainly required, in our view, this can come about by the GIC itself exercising some control over the surveyors through its guidelines and regulatory provisions. In so doing, care should be taken to ensure objectivity and fairness to the customer also irrespective of his status.
- (c) Our answer to question 14(b) itself suggests that the right of employment of qualified surveyors should be left entirely to the GIC. This naturally assumes that General Insurance Industry should and would remain in the public sector.

Q.15: Agents and Development officers are instruments through whom general insurance business is procured. The Development Officers are paid employees of GIC. In

additions to their pay and allowances and other service benefits they receive various cash and material incentives for business procurement such as facilities of telephone and conveyance and liberal cash allowances. Having regard to the fact that (general) insurance is mandatory on motor third party and on ventures supported by institutional finance and therefore, on which little procurement effort is involved, would you suggest review of the Scheme of incentives? If yes, what are your suggestions in this regard?

A: The Scheme of incentives should not be withdrawn as insurance continues to be sold. However, the Development Officers and Agents should be trained and motivated to give full facts regarding the nature of insurance cover to the customer as well as ascertain the full details with regard to risk to be covered by the insurer. The practice of securing business for business-sake without ascertaining the full facts should be eliminated.

Q.16: Do you think further computerisation and modernisation of the operations of GIC are necessary to provide better and cost-effective service to the customers?

A: Certain level of computerisation and modernisation is already existing in the GIC. The utilisation of these measures should be balanced with responsibility of the industry to create job opportunities. The latter is also an important social objective of any industry which is often relegated to the background. In GIC, despite development, recruitment has virtually dried up. This is an unfortunate situation. What could be done by utilisation of skilled man power which is abundant should not be given to computers. The essence of human resource development is development of skills and motivation of man power at all levels. General Insurance being a servicing industry and decentralisation of powers and functions being of utmost necessity to improve customer satisfaction, development of human resources rather than capital intensive methods would be more useful.

Q.17: To serve a large and growing number of customers in the country and outside it is considered necessary that there should be technology upgradation in the form of modernisation of equipments and computerisation. Have the trade unions, in your view, played a positive role in this area?

A: The trade union certainly has a positive approach to the question of modernisation. But it cannot be an abstract and doctrinaire proposition that only through upgradation of technology in the form of modernisation and computerisation, the customers could be effectively serviced. As already stated, there has to be a balanced approach and no unilateral decision in regard to mechanisation should be taken by the management as is being done at present. The need for providing employment opportunities in the process of growth of the industry should also not be neglected.

Q.18: There is an impression that the public sector service organisations including insurance have concentrated their attention to their own service benefits rather than to improve upon customer service and growth in business. What are your reactions in regard to the insurance sector?

A: This is a misconception assiduously projected by the opponents of public sector. Private sector per se cannot be said to be more efficient than the public sector. In assessing the public sector performance, particularly of a servicing organisation like GIC, an overall assessment should be made rather than particularising this or the other aspect to project a bad image of the public sector industry. There is the need to assess the role of the public sector in fulfilling the social objectives set from time to time by the government on behalf of the society which cannot always be computed in terms of profit and loss. The United Nations Development Programme (UNDP), in a report (Economic Times dated May 10, 1993), has cautioned against indiscriminate privatisation and spreading the belief that public sector is always inefficient and that the private sector has always succeeded. The UNDP has also cautioned the member countries to assess the consequences of privatisation in regard to decision-making powers of national governments according to their own socio-economic needs and the damage that could be caused to sovereignty of countries.

There are several instances where public sector has operated in virgin areas, gone through teething troubles and provided the wherewithal of development at enormously subsidised cost. Power, steel and such other infrastructural facilities are areas where Indian public sector has succeeded in laying down the basis for economic advancement of the country. The private sector has also benefited by this in considerable measure. This apart, whatever employment has generated is mainly in the public sector. The private sector, though has grown in size, has not developed employment opportunities; in fact aggregate employment has come down in private sector. There are more private sector units which are sick. The government itself points out the inefficiency of the private sector units on several counts as one of the important causes for not being able to enlarge our exports.

We may state certain examples. BHEL has won international awards in respect of quality of boilers manufactured by it for power generation. Despite this, it is being starved for orders and multinationals are preferred. In the field of power generation, multinational operators are being invited with guarantee of 16% return on investment, whereas NTPC is not given any such guarantee and is therefore being discriminated against. This kind of a discrimination can be cited in respect of every sector. When in the name of liberalisation such discriminations are practised and no level ground comparisons can be made, what is the justification in talking about competition?

In regard to insurance sector, we can certainly assert that public sector insurance, both General and Life, has achieved a degree of around growth and efficiency unmatched not only by the erstwhile private insurance companies but also by the multinational insurance companies. We may make pointed reference to the bleak situation in which several reputed multinational insurers have been placed because of their unethical business practices, speculative investments and other factors. Even the great Lloyds of London is reported to be in the red. This question, therefore, requires to be studied in greater depth. No facile conclusion

in favour of privatisation and competition should be reached particularly when actual experiences point to the contrary.

Q.19: At present Government of India has 100% ownership of GIC and, through GIC 100% ownership of the four subsidiary companies. This has implications upon the manner in which the nationalised general insurance industry functions. Would it be desirable, in your view, for the Government to disinvest a part of its holding in GIC and likewise for the GIC to disinvest a part of its holding in the companies? The extent of disinvestment may be indicated if it is advocated. Please also indicate as to how in your view a capital restructuring brought about by disinvestment would lead to the corporate restructuring and with what effects?

A: We have already indicated in our reply to question 18 that we are opposed to privatisation in any form. Disinvestment is but a method of privatisation. We are opposed to it. Such disinvestment would only result in weakening of the General Insurance Industry. The positive results of nationalisation would be to be eliminated and the evils of the private set up which brought about nationalisation in the first instance with set social objectives, would be allowed to reappear and grow without any tangible benefit to the customers, industry and the economy.

Q.20: There is growing competition in several sectors of the financial market, particularly in the banking sector, mutual funds, merchant banking etc. In this context, would it be advisable to make the insurance sector more competitive by permitting the private sector also to enter into general insurance business?

A: We have already commented on the pernicious effects of competition. We may emphasise that competition per se does not deal about efficiency. Competition, particularly in the manner suggested, is no remedy to the problems faced by the industry. The remedy in fact is worse than the disease. For example, underwriting loss, in our view, is directly attributable to unethical competition. The banking sector too cannot be said to have benefited by this type of competition. It has only helped to foster the spirit of the gambling, in a manner of speaking, on the part of investors in the name of entrepreneurship. The recent bank scam is an example of what 'no-holds barred' competition would do. The confidence of the investors has been greatly eroded and even the share market is yet to look up. Mutual Funds have not performed as well as they did in the period of share market boom. Banking sector as a whole has suffered. For example, referring to the so-called bad debts, the newspapers commented that though the RBI guidelines provide for guarantee by the Company Directors to the loan secured, this was seldom invoked by the banks on the plea that business would be transferred to some other bank. This is just one example of the evil effects of competition. We can multiply the examples. We are certainly opposed to private sector entering the general insurance business. There is no justification for the same viewed on the basis of private sector's past performance in the insurance industry nor is there justification from the point of view of present situation and needs.

Q.21: If a competitive environment is to be promoted, it would be essential to have strict criteria which must be satisfied before new companies are allowed to transact insurance business: for instance, they must have adequate capital and sound managements. What are your suggestions in this behalf?

A: The period before nationalisation has shown that there is no such thing as 'strict criteria' which must be satisfied by private insurance companies. Adequate capital and sound managements are vague expressions. The performance of the private companies before nationalisation, we repeat, is a pointer, as also the performance of many of the multinational companies in advanced capitalist countries which are facing serious crisis. Despite law, strict criteria and established traditions, they have fallen on bad ways.

Q.22: Consequent on the nationalisation of insurance business and the assumption of overall supervision by the Government the role of the Controller of Insurance has suffered large erosion. A competitive insurance would however require the establishment of strong regulatory and supervisory arrangements. This could either be an organisation headed by a controller of commissioner of Insurance, or a Board consisting of several members possessing relevant experience, expertise and standing. The Regulatory Authority would have the powers to grant registrations/licences/permissions to transact general insurance business sector. What in your view should be the form and role of the Regulatory and Supervisory Authority and how autonomous should it be vis-a-vis the Government.

A: We are opposed to private industry entering the field of insurance in India and as such we are not able to appreciate the necessity of such regulatory and supervisory authority as Controller of Insurance. The law can be suitably amended to ensure whatever reforms are necessary to bring about greater development of general insurance industry eradicating all the defects presently noticeable. This should be, as already stated accompanied with autonomy for GIC and devolution of powers and functions to lower levels.

Q.23: In a competitive environment, is it necessary to continue the institution of Tariff Advisory Committee? If yes, what should be its composition, and should it be attached to the Regulatory Authority?

A: We have already commented on the need for Tariff Advisory Committee in the nationalised set up as a part of GIC and we want to emphasise further that competition is already existing between offices, development officers and agents.

Q.24: The GIC provides socially oriented insurance such as Rural and Non-Traditions Insurance which especially cover economically weaker sections of the society. Most of these Schemes are funded by the Government and are substantially Government supported.

(a) Whether the scope and coverage of these schemes is adequate to serve the broad purpose of taking insurance to the weaker sections of the society?

(b) If a competitive environment in insurance industry is promoted:

- (i) Should Social Security Schemes be entrusted to a separate body, financed by Government funds and by contributions from other insurance companies;
or
- (ii) Should Social SCHEMES continue to be the responsibility of the GIC which could in addition to present sources of financing be entitled to contributions from other insurance companies?

A: It may be reiterated that rural and non-traditional insurance for providing insurance cover to economically weaker sections of the society, though some of them are being funded by the government and are substantially supported by it, are being strongly backed by technical expertise and administration provided by the GIC. In the event of privatisation, the private companies cannot be expected to support any such socially oriented insurance, let alone expanding it, which is necessary.

- (a) There is certainly need to expand the scope and coverage of this insurance to economically weaker sections of the society, which can be done only under the aegis of the nationalised sector. The private industry, as in the past, would totally ignore these sections in order to maintain the profit levels for which they would skim the surface in the urban areas to take out the cream without any social-orientation at all.
- (b) (i) In a so-called competitive atmosphere, which pre-supposes entry of private insurers, the industry would totally neglect social security schemes as there would be competition only in profit making. Any creation of a separate body for this purpose would not be able to survive as the government would find it difficult to bring such schemes without the backing of the strength of the nationalised sector. No private insurance company could be compelled to contribute to social security schemes, as such restrictive provisions would not be accepted by both indigenous private insurers as well as multinational insurers. For example, in the banking industry, though there is a stipulation that 15% of investment should be done with social orientation, the multinational banks, as admitted by the RBI and the government, have failed to do so. The government is unable to do anything about it.
- (ii) Social security scheme should continue to be the responsibility of GIC, with GIC retaining its monopoly character of transacting general insurance business in India. No private insurer can be persuaded to subsidise social security schemes as private insurance companies are motivated by profits and nothing else; not even provision of insurance cover is an objective for them. The question of social security would be last in their agenda.

For and on behalf of
ALL INDIA INSURANCE EMPLOYEES ASSOCIATION

N.M. SUNDARAM
GENERAL SECRETARY.

VIEWES SUBMITTED

By the

ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION
BHARATH INSURANCE BUILDING ANNEXE,
93, MOUNT ROAD, MADRAS - 600 002.

To the

COMMITTEE ON REFORMS IN INSURANCE SECTOR
GOVERNMENT OF INDIA
INSURANCE DIVISION
LOK NAYAK BHAVAN, 3RD FLOOR, KHAN MARKET,
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QUESTIONNAIRE ON LIFE INSURANCE

Q.1: How far have the objectives of nationalising the Life Insurance Industry been achieved? What measures would you suggest for faster and wider expansion of life insurance business?

A: Three main objectives of nationalising Life Insurance Industry have been identified. The first and foremost is the need to spread life insurance business and awareness in the rural areas to cater to the needs of the population as a whole. During the private regime, the rural areas were deliberately neglected and whatever business was forthcoming was from the urban areas only, rural business being not cost effective. After nationalisation of Life Insurance Industry and formation of LIC, it had been possible for the nationalised Life Insurance Corporation to spread into the rural areas in a determined and planned manner so much so, during the year 1991-92 as much as 40% of the business secured has come from the rural areas. Thus, one of the foremost objectives of nationalisation has been fulfilled in a considerable measure though much more remains to be done in this regard.

The second objective, viz., mobilisation of people's savings for national development has also been greatly fulfilled as the published statistics would reveal. Be it collection of premium income or other incomes, accretion to the Life Fund or the investments over the years, the performance of the LIC is such as to satisfy this aspect of the objective of nationalisation, viz., mobilisation of funds and utilisation for national development. From a mere Rs.88.65 crores in 1957, the premium income has increased to as much as Rs.6,959.91 crores in 1991-92. The Life Fund has increased from Rs.410.40 crores in 1957 to Rs.34,691.39 crores in 1992. The invested funds of the LIC have also shown corresponding increase to Rs.32,261.73 crores at the end of 1992, the bulk of the investments being in socially purposive areas. Thus, it can be safely said that the second objective of mobilising people's savings effectively and investing it for national development has been eminently fulfilled.

As for the third objective of providing satisfactory service to the policyholders catering to their diverse needs, the LIC can be said to have succeeded in substantial measure in this area too. As regards the question of spreading the gospel of Life Insurance which is an important aspect, the statistics reveal that as against 9.41 lakhs of policies in 1957 covering a sum assured of Rs.336.67 crores, the number of policies has increased to as high a figure as 99.58 lakhs in 1993 covering a sum assured of Rs.35,913.73 crores. This is apart from the Group Insurance cover that has been introduced since formation of LIC. As regards the percentage of insurable population covered, it has increased from 9.78% in 1971 to 22.11% in 1992. What is of particular interest is the fact that weaker sections of the population are being increasingly covered by life insurance.

It has been appropriately stated that a satisfied customer does not talk of his happiness, the dissatisfied customers most often make it a point to complain. But one cannot take shelter under this general premise. The LIC has to satisfy the genuine requirements of all policyholders in the ultimate analysis. In this respect, with legitimate pride, the LIC can claim to have done exceedingly well. The number of complaints per 1000 policies which was 1.47 in 1970 has come down to 0.15 in 1992. Issue of premium receipts, settlement of claims, settlement of loans, quotation of surrender value are some of the areas of day-to-day interaction with the policyholders. The ratio of outstanding claims to claims reported which was as low as 5.50% by amount and 3.25% by number of policies as at 31st March, 1992, is an important yardstick of measuring LIC's satisfactory performance. Whereas maturity claims are settled on or before the due dates as far as possible by post-dated cheques, 72% of the death claims get settled within 75 days of intimation. Even in respect of the claims on which there has been some delay in settlement, this has been mainly due to certain technical reasons of nominations not being made, change in addresses not being intimated and certain legal formalities not being fulfilled by the claimants concerned and not due to any delay on the part of the LIC. However, care should always be taken that investigation process is expedited so that claim settlement is not delayed. Even in respect of delays because of technical requirements, it should be possible for the LIC to ensure that even at the time of introduction of business, the nomination is properly recorded and the policyholders are periodically motivated to intimate change in addresses. LIC can also have a machinery to follow up the legal requirements to be submitted for settlement of claims.

As against the laudable achievement of LIC in regard to claim settlement, it would be useful to recapitulate what the private insurers did during the pre-nationalisation days in the so called competitive atmosphere which is supposed to stimulate all into a constant state of super efficiency. The percentage of outstanding claims to claims intimated (by amount) in respect of some of the leading private insurance companies are given below for the year 1954 (just two years before nationalisation)

Oriental	:	36.48 per cent
Bombay Mutual	:	42.47 per cent
Bombay Life	:	49.87 per cent
Empire of India	:	53.27 per cent
Hindustan Co-op.	:	54.31 per cent
New India	:	59.41 per cent
National	:	74.70 per cent

Compare this with the drastically reduced 5.5 per cent registered by LIC. Should anyone still talk about privatisation? The performance index of multinational insurance companies is no better than the private Indian insurance companies. The performance of LIC is a record for the entire industry in the world in this vital area of customer service.

Q.2: LIC has a vast branch network and a large sales force all over the country. At present the overall coverage of insurable population stands at an approximate figure of 22.11%. What changes if any, you consider necessary for better service in the life insurance field? Do you consider that the range and design of the life insurance policies adequately cater to the needs of the people? Do you find them sufficiently attractive?

A: The percentage of population covered by Life Insurance is much higher than what it has been during the private set up. However, much more needs to be done in this regard. The only way spread of life insurance to greater section of the population can be ensured is by opening of more offices in the remote areas with powers and functions to service immediate needs. There is need for effective decentralisation. Though decentralisation has taken place, there is a continuing tendency to look up to the higher tiers of the organisation for guidance and decision. This should be avoided by appropriate training and motivation.

The range and design of life insurance policies certainly are not adequate to cater to the specific needs of different sections of the people. Much more requires to be done in this regard. Though newer policies have been introduced, these have not been sufficiently innovative, in our opinion. Market research has to be undertaken to find out the exact package of needs of the insuring public in different strata of the society. This way, business can be increased and coverage of larger section of the population meeting their specific requirements, can be achieved.

Q.3: At present, not less than 75% of annual accretions from individual life insurance business is required to be invested in Government and Government-guaranteed Securities and in such other socially-oriented sectors as may be directed by the Government. Only upto 25% of the annual accretion is available for loans to policyholders, the corporate sector and for investment in market sector. Rate of interest on Government Paper is below the market level which has effect on premium and bonus. Having regard to the requirement of solidity of insurance companies and considering the fact that Government or Government-guaranteed

Securities are the least vulnerable investments, and the policyholders expectation of returns from their policies, does the above investment pattern need review? What are your suggestions in this regard?

A: The investment pattern certainly needs to be reviewed and liberalised in considerable measure. It is true, socially purposive investment calls for investment in government sector or as per the pattern regulated by the government. This does not mean that the return on investment should not be commensurate with market realities and aspirations of the policyholders. This aspect has been gone into by earlier Committees appointed by the government, particularly the Era Chezhan Committee. The Era Chezhan Committee had recommended that the government should give up its share of the divisible surplus which should be utilised for providing insurance cover to weaker sections of the population. Some kind of subsidy in insurance was contemplated by this recommendation. However, this was not accepted by the government. This should be considered. We would also suggest government issuing a special bond for the investible funds of the LIC providing for a much higher rate than what is earned at present. The rate should be commensurate with normal lending rate of the nationalised banks. This way, sufficient return would be there for the LIC on its investment and the policyholders also would be benefited. Another method which we strongly recommend is a liberalised approach to valuation processes, particularly in the matter of assumption of mortality experience which has also been showing a favourable trend. Though the return to policyholders by way of bonus declared over the years has increased considerably, it is possible to further increase bonus to policyholders by securing better return on investments as well as by liberalising the valuation process.

Q.4: What are your views about the attractiveness of life insurance policies vis-a-vis other instruments of savings? What are your suggestions for improving the returns on such savings?

A: The attractiveness of life insurance policies suffered vis-a-vis other instruments of savings particularly in recent years. However, it must be emphasised that the main attraction of life insurance is the risk cover that is provided which is not given by other medium of savings. This does not mean that returns to policyholders should not improve and life insurance policies should not be made much more attractive. In fact this is an urgent area where the LIC should give its utmost and expeditious attention. We have already suggested how without impairing the social orientation of nationalised Life Insurance Industry the returns on investments could be improved. We have also, in answer to the previous question, emphasised the need for liberalised valuation process which would give better returns to policyholders.

Q.5: (a) There is a view that LIC has become too large an organisation having 7 Zonal Offices, 93 Divisional Offices, 1900 Branch Offices. The LIC has tried to tackle the problem of size by large scale delegation of powers to Branch

Offices which now issue and service life policies and settle claims in respect thereof. Are you satisfied with the quality of service of the Branches?

- (b) Do you think that LIC would become too unwieldy for efficient functioning considering the desirable future growth of business?
- (c) Do you consider that there is need for bringing in a measure of competition even within the public sector?

A: (a) We do not agree that LIC has become too large an organisation because of the number of offices spread throughout the country. The organisation can only be as big as the country itself. In fact, despite this large organisation, LIC has so far succeeded in covering insurable population to the extent of 22.11%. Even this much could be done because of nationalisation only. This achievement should be greatly improved upon. This could be done, in our opinion, by expanding the organisation further by increasing the number of branches particularly in the rural areas with adequate powers and functions.

We are certainly satisfied with the quality of service through the branches. But certain lacunae in functioning have been noticed which require to be remedied. Old habits die hard: As per this maxim, branches with sufficient powers and functions often tend to look to the higher tiers of the organisation particularly the Divisional Offices for guidance and instructions in areas where it could by itself take the decision. Conversely, the Divisional Offices and the higher tiers, which have over the years developed the habit of empire building tend to interfere in the day-to-day functioning of the branches which, far from helping matters, have cramped the functioning of offices leading to unavoidable delays in servicing the policyholders.

- (b) We do not think that LIC would become too unwieldy for efficient functioning considering the desirable future growth of business. As has already been pointed out, the problem of expansion of life insurance business has been tackled by LIC quite satisfactorily by splitting up its different tiers of the organisation, viz., Zonal and Divisional Offices and through opening of more and more branch offices. This process should continue in a judicious way by undertaking a market and viability survey from time to time. Trade Union should also be consulted in the matter of opening of new offices as they have a considerable field experience which could be tapped by the LIC.
- (c) We do not consider the need for bringing any outside competition even within the public sector. The question implies splitting up of LIC into different Corporations competing with one another. This would not be necessary. Far from improving efficiency and strengthening the Life Insurance Industry in the public sector, it would only lead to unethical competition, top-heaviness in administration, increase in expenses and lead to general weakening of the industry in the public sector. The recommendations of the Era Chezhian Committee in this regard which were sought to be implemented was given up after considering in depth the pros and cons of it

through appointment of a Parliamentary Committee to go into this aspect. Though the Bill for splitting the LIC into five Corporations had already been introduced in Parliament at that time, this measure was rightly dropped. There is no use of attempting to revive the process as this would only be injurious to the interest of the industry. There is already competition within the LIC, in the sense of competition between zones, divisions, branches and also within the branches as between Development Officers and agents. No more competition is required. Besides this, LIC is compelled to compete with other modes of savings such as Bank deposits, Mutual Funds, Unit Trust and even the share market in the context of the assiduously cultivated 'equity culture' despite pitfalls. In spite of all this competition, LIC has held its own. We do not believe that any further competition is required. In fact there is need to strengthen the LIC in the manner suggested already, so that it could effectively meet these challenges and grow further, satisfying specific needs of the insuring community and the economy at large.

Q.6: At present Government of India has 100% ownership of LIC, which has implications for the manner in which it functions. Would it be desirable in your view for Government to disinvest a part of its holding, as is being done in many other public sector Corporations? The extent of disinvestment may be indicated if it is advocated.

A: It must be remembered that the equity base of LIC is very narrow being as low as Rs.5 crores invested long time back in the year 1956. As against this, the government has already taken back as its 5% share of the divisible surplus to the extent of Rs.546 crores upto the end of March, 1992. Last year alone (1991-92), the LIC paid back to the government Rs.104.62 crores by way of its share of the divisible surplus, constituting a staggering 2100% return on investment. With this narrow capital base, LIC has succeeded in building up a Life Fund of Rs.34,691.39 crores by the end of March 1992. Apart from this, the LIC has been contributing to the exchequer by way of income tax. Last year alone i.e., 1991-92, LIC contributed to the exchequer as much as Rs.359.52 crores (Rs.104.62 crores by way of dividend and Rs.254.90 crores by way of tax). Apart from this, the LIC is owning enormous assets in other forms too, including real estate assets, whose market value is staggering. Any attempt at disinvestment of its holding would amount to a 'give away' to the private sector which has not acquitted itself too well before the period of nationalisation of Life Insurance industry. We are totally opposed to disinvestment in any manner.

Q.7: There is a view that agents do not pay adequate attention to servicing their clients after the first premium has been secured, even though they get a commission on subsequent premia. What is your assessment of the role and functioning of agents in life insurance business?

A: The agents should be motivated and trained to pay adequate attention to servicing their clients after the first premium has been secured. This would greatly help in improving the servicing to policyholders.

Q.8: At present life insurance business is secured through agents who are supervised by Development Officers. The Development Officers are paid employees of LIC who also get other benefits such as incentives for business procured and facilities of telephone, conveyance, entertainment etc., related to the volume of business. The Assistant Branch Manager (Sales) in Branch Office supervises the work of Development Officers. A little over 40% of the total expenses of management is spent by way of commission. Do you suggest any change in this three-tier set up, viz. Agent - Development Officer - Assistant Branch Manager (Sales) - in the interest of economy and efficiency?

A: It must be remembered that Life Insurance continues to be sold in India. The development organisation comprising the Development Officers and agents functioning under the supervision of Assistant Branch Manager (Sales) and Branch Managers, in Branch Offices form a necessary part of the task of spreading Life Insurance business in the country. The expenses on telephone, conveyance therefore are necessary part of the development of Life Insurance business. This should not be grudged. However, there could be different opinion as regards incentives, entertainment and such other expenses which could be reviewed objectively and changes made commensurate with actual requirements of development of Life Insurance on healthy lines.

Q.9: Do you think further computerisation and modernisation of the operations of LIC are necessary to provide better and cost-effective services to the customers?

A: In LIC at present, in different offices, there are total number of 768 microprocessors. LIC is one of the industries where objective utilisation of modernisation techniques are adopted without jeopardising job security or job opportunities. Certain jobs which cannot be done manually have been identified and given to the microprocessors and such other machines. Side by side LIC has also been pursuing the correct policy of recruiting additional man power to carry out those jobs which could be done efficiently through manual process. Towards this end, the LIC has also given importance to theoretical and practical training and building up of skills of its workforce. This judicious mix of man power and machine power together has contributed to the present level of efficiency, besides helping LIC to fulfil its social obligation of providing increasing job opportunities to the youth of the country. It must be stressed here that this balance of utilisation of manual labour and modernisation has been adopted by the LIC with the cooperation of the trade union. If it has functioned efficiently thus far, there is absolutely no reason why this should be disturbed. Further requirements if any, could also be discussed mutually without resorting to unilateral measures and always keeping in mind that servicing for the community's welfare cannot at any stage ignore the vital aspect of generation of employment opportunities particularly in a country like India.

Q.10: There is an impression that the public sector service organizations including insurance have concentrated their attention to their own service benefits rather than to improve upon customer service and growth in business. What are your reactions in this regard?

A: This impression is deliberately created in public mind by interested parties. This is far from the truth. We have already seen how customer service and growth in business have improved over the years since nationalisation. The saga of nationalised Life Insurance in India has been one of constantly improving upon earlier successes. What is more important to be noted is the fact that this growth in business, improvement in customer service, the mopping up of increasing premium, increase in the Life Fund, increase in investible resources, contributions by way of dividend and tax to the exchequer in increasing measure over the years have all been achieved only with the whole-hearted cooperation of the employees. LIC has not only generated more and more resources over the years in the process producing much needed finance capital for development of the economy, but it has achieved it at reducing cost ratio. In the profile that is given as annexure to the questionnaire, the overall expense ratio has been given. Even this has been showing a constantly downward trend. From 31.8% in the year 1955, it has come down to 22.27% in 1992. The renewal expense ratio which is the true indicator of the health of the industry, for which reason statutory limitation on this had been fixed by the Insurance Act as early as in 1938 as 15%, has been showing a constantly downward trend and by the end of March 1992 it was as low as 3.42%. Another indicator testifying to the economic performance of the LIC and therefore of the employees is the fact that the share of the wage bill including all benefits to all sections of the employees of the total income, which was 9.2% in the year 1979-80 has come down drastically to 6.24% by the end of March 1992. On the contrary, the per capita policies serviced per employee (Class III) has increased sharply from 290 in 1957 to 776 in 1992. Both these parameters point to constantly increasing productivity levels achieved by the employees, belying all propaganda against them.

It is therefore, incorrect to say that LIC has concentrated its attention on the service benefits to its employees rather than to improve customer service and growth in business. On the contrary, LIC has been mopping up and accumulating increasing finance capital in a capital hungry market at a faster pace and what is more, at decreasing cost ratio with benefits for the employees as a percentage of the total income also showing sharply decreasing trend. In addition, it must be remembered that the enormity of the rate of accumulation of finance capital is matched by another important factor, viz., low return on investments. In other words, LIC has been producing more capital and providing it cheaper for investment.

Q.11: There is growing competition in several sectors of the financial market, particularly in the banking sector, mutual funds, merchant banking etc. In this context, would it be advisable to make the insurance sector more competitive by permitting the private sector also to enter into life insurance business?

A: LIC has registered this much of progress in a competitive environment provided through other mediums of savings such as the banking sector, mutual funds, merchant banking, etc., in the finance market and what is more, held its own. LIC's success has its own special features and its performance indicators clearly show that it has functioned much more efficiently than many other sectors. Though further improvement is necessary and possible, it does not certainly need the prop of competition through entry of the private sector whose performance at any rate during the pre-nationalisation days has been less than creditable.

Q.12: If a competitive environment is to be promoted, it would be essential to have strict criteria which must be satisfied before new companies are allowed to transact insurance business: for instance, they must have adequate capital and sound managements. What are your suggestions in this behalf?

A: We are fundamentally against any competitive environment to be injected. What competition is required and essential is already existing within LIC as between different offices and as between different Development Officers and agents. Nothing further is required. Not only private insurers in India but also the multinational insurers throughout the world have not performed creditably including in recent years as published information would reveal. The state of affairs of the multinational insurance companies in the advanced capitalist countries is far from encouraging and to permit them any foothold in Indian market would be a national folly. There is no possibility of any fruitful reciprocal arrangement too. Insurance laws in advanced industrial countries particularly the US are far too stringent to permit any Indian company or for that matter LIC to establish a foothold and develop its business. What they want is a big share of the increasing and lucrative Indian market in our country and that too utilising the vast agency network developed over the years without any effort on their part. This should not be allowed. After LIC has mobilised this kind of business, accumulated this extent of premium income and achieved this level of surpluses with such narrow capital base as Rs.5 crores, would it be prudent to allow its control, control of these vast resources to get into the hands of the private sector or multinational insurance companies which would operate only for their personal profit and never for the social interest?

Q.13: Consequent on the nationalisation of insurance business and the assumption of overall supervision by the Government, the role of the Controller of Insurance has suffered large erosion, a competitive insurance industry would however require the establishment of strong regulatory and supervisory arrangement. This could either be an organisation headed by a Controller of Insurance, or a Board consisting of several member possessing relevant experience, expertise and standing. The Regulatory Authority would have the powers to grant registrations/licences/permissions to transact life insurance business and to supervise the functioning of the life insurance sector. What in your view should be the form and role of the Regulatory Authority and how autonomous should it be vis-a-vis the Government?

A: We have already expressed our strong opposition to private sector entering the field of Life Insurance industry in the country. Therefore, the answer to this question, we believe, is not required.

Q.14: The LIC provides Social Security Group Schemes which cover Tendu leaf collectors, handloom and khadi weavers, primary milk producers, urban poor, beedi workers, landless agricultural labourers and other approved groups under Integrated Rural Development Programmes. Most of these Schemes are funded by the Government and are substantially Government supported.

(a) Whether the scope and coverage of these Schemes is adequate to serve the broad purpose of taking insurance to the weaker sections of the society?

(b) If a competitive environment in insurance industry is promoted:

(i) Should Social Security Schemes be entrusted to a separate body, financed by Government funds and by contributions from other insurance companies; or

(ii) Should Social SCHEMES continue to be responsibility of the LIC which could in addition to present sources of financing be entitled to contributions from other insurance companies?

A: (a) The coverage of the shemes is certainly not commensurate considering the needs. It must be remembered that LIC, in providing the technical expertise and the administrative facilities in servicing the schemes, is in a way subsidising these schemes. Subsidisation of these schemes has also been provided by LIC in the manner it has increasingly funded the exchequer through increasing tax payments as well as through increasing share of the divisible surplus year to year and its investments.

(b) Such social schemes should continue to be the responsibility of LIC which should be strengthened by introducing new schemes and by expanding the coverage and scope of existing schemes. This could be achieved only by strengthening the LIC and making it more capable of meeting its avowed social objectives.

For and on behalf of
ALL INDIA INSURANCE EMPLOYEES ASSOCIATION

MADRAS

N.M. SUNDARAM

JUNE 9, 1993.

GENERAL SECRETARY.

On the eve of LIC's birth, Jawaharlal Nehru, the then Prime Minister, said, **“Life Insurance becomes one of the major State Undertakings in India. Its objectives will be to serve the individual as well as the State. The profit motive goes out of it and the service motive becomes much more dominant.”**

Mr. C.D. Deshmukh, the then Finance Minister, said, **“Insurance is an essential service which a welfare state must make available to its people. It is a measure conceived in a genuine spirit of service to the people.**

On the eve of the 1984 election, the then Finance Minister, Mr. C.D. Deshmukh, the then Finance Minister, said, "Insurance is an essential service which a welfare state must make available to its people. It is a measure conceived in a genuine spirit of service to the people. The profit motive goes out of it and the service becomes a public utility."

★ RESIST PRIVATISATION

Mr. C.D. Deshmukh, the then Finance Minister, said, "Insurance is an essential service which a welfare state must make available to its people. It is a measure conceived in a genuine spirit of service to the people."

★ MOBILISE PUBLIC OPINION