ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION

LIC BUILDING SECRETARIAT ROAD HYDERABAD

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To all the Zonal/Divisional/State/Regional Units:

Dear Comrades,

FDI HIKE IN INSURANCE HARMFUL TO NATIONAL ECONOMY

At a time when governments across the world are desperately seeking measures to tackle the crisis ignited by global financial meltdown, the decision to further liberalise the insurance sector defies all logic. It looks that the failure of neo-liberalism has failed to diminish the faith of UPA government and through this move it is reassuring the international capital that it remains committed to the neo-liberal policies. But this move if allowed to go through would seriously harm the industry which plays a very important role in the development of our economy by mobilizing resources for long term investment and would eventually prove very harmful to the national economy as a whole.

The Finance Minister has said that two separate Bills would be introduced in the coming session of parliament to pave way for implementation of the second generation reforms in the insurance sector. One Bill would seek amendments to the Insurance Regulatory and Development Authority (IRDA) Act, General Insurance Business Nationalisation Act (GIBNA) and Insurance Act 1938. This Bill would be introduced in the Rajya Sabha. The second bill to amend the LIC Act 1956 would be introduced in the Lok Sabha. This amendment would seek to raise the capital of LIC from the present Rs.5 crore to Rs.100 crore. The Finance Minister has been arguing that these amendments are necessary to remove certain archaic provisions in the insurance laws and to bring the laws in tune with the requirement of the modern times. But an analysis of the provisions the government is seeking to amend clearly makes the actions and motives of the government suspect. The government in reality is aiming to privatize the public sector insurance industry and give greater space and power to the foreign capital to gain access and control over our domestic savings.

The seeds of privatisation

The insurance sector was opened to private participation after the enactment of IRDA Act in 1999. This sector was opened up on the basis of the recommendations of Malhotra Committee. In the year 1993 the Congress Government headed by Shri P.V. Narasimha Rao appointed a committee under the Chairmanship of Shri R.N. Malhotra, former Governor of RBI, to recommend reforms in the insurance sector. This committee completed its work in a record time and handed over the report in 1994 to Shri Manmohan Singh, the then Finance Minister. The recommendations were tailor-made and had accommodated the interests of both the Indian private and the foreign capital. **The main recommendations of this Committee were aimed at opening the insurance sector to private participation, allow the foreign multinational companies to operate in partnership with the Indian companies, raise the capital of LIC and general insurance companies to Rs.100 crore and disinvest 50% of the equity of these companies.**

These recommendations were opposed and criticized by wide sections of the people. On the initiative of the All India Insurance Employees' Association (AIIEA) 15.4 million people petitioned the parliament against opening up of the insurance sector. But the NDA government in utter disregard to the sentiments and reservations of such large sections of the population went ahead to open the sector to private and foreign capital. But the massive opposition did succeed in forcing the government to place a ceiling of 26% on foreign equity but gave them a national presence unlike many other developing countries. This campaign did not allow the government to tinker with the capital structure of LIC and GIC and it was forced to commit that LIC and GIC would remain in the public sector and no attempts would be made to privatize them as recommended by Malhotra Committee.

In the last 8 years a large number of private companies have started operating in the insurance sector. Except a few, all of them are running their businesses in partnership with major global insurance companies. The total capital employed by these private companies as at 31.3.2007 was Rs.9625.28 crore and the contribution of the foreign partners in this has been Rs.2174.28 crore. Despite so many big companies in business, they could not succeed in breaking the dominance of the public sector in the insurance sector. **With a market share of 65% in the new premiums and 82% in the total premium, the LIC continues to dominate the life insurance market in India. The total number of in-force individual policies in the country (of all life insurance companies together) are 25.93 crore as at 31.3.2008. LIC enjoys the support of over 90 percent of these total policyholders. The four public sector general insurance companies too retained their domination in the general insurance business.**

When the Indian partners are big industrial and financial houses why the need for increase in FDI

The comprehensive legislation that the government has decided to introduce in Rajya Sabha would seek amendments to three existing laws according to knowledgeable sources. The amendment to IRDA Act would enable hike in FDI limits to 49 percent. The government is justifying this move on the ground that insurance is a capital intensive business and the Indian partners are capital constrained and hiking the FDI limits would attract more capital for expansion of business activities. This argument is simply untenable as the Indian partners are big industrial and financial houses with enormous resources at their command and they have already spread their business activities to every part of the country. The manner in which these industrial and financial houses went on an acquisition spree of foreign entities requiring huge resources falsifies this argument. The government had claimed at the time of opening the sector that foreign partners would bring a substantial chunk of their global premium funds into Indian infrastructure. The experience of the last 8 years proved that these companies did not bring any part of their global premium funds into India making the claim of the government absolutely false. Secondly there is some shift in the policy assumption on the role of FDI in an economy.

Foreign Capital wants a bigger share in its control of Indian savings

The foreign capital was never happy with the ceiling placed on the levels of its participation. The global finance capital has been exerting pressure to remove all restrictions on capital and total freedom to operate in India. The Finance Minister announced in the budget of 2004 that FDI limits would be raised to 49 percent. He could not succeed in doing this due to the stiff resistance put up by the Left parties and the agitations and struggles of the AIIEA. Now that the government is no longer dependent on the Left parties for its survival, it has decided to go ahead with the second generation reforms in the financial sector. The Banking Regulations Amendment Bill and Pension Fund Regulatory and Development Authority (PFRDA) Bill are pending for consideration and adoption in the Parliament. The government has unilaterally and undemocratically decided to invest a portion of PF savings of the workers in the stock market. Along with these, it wants to push ahead with further reforms in the insurance sector to accommodate the interests of Indian and foreign capital.

Domestic savings key to economic growth

The Indian government had embraced the idea advanced by the Washington Consensus that FDI would play the most important role in the growth of our economy and therefore it took many desperate steps to attract the FDI into India. The World Bank and many Governments supported a Commission to study the impact of the neo-liberal policies on the economies across the world. Known as Commission on Growth and Development headed by Nobel Laureate Michael Spence and with Montek Singh Ahluwalia as one of the members, it came out with an elaborate report. The space limitation does not permit a discussion on all the findings of this report. Suffice it to say that the Report remains faithful to no-liberalism but suggests certain changes in view of the growing anger of the people across the globe against the massive inequalities and deprivations promoted by neo-liberalism.

Commenting on the FDI, the Commission observed that **"our view is that foreign saving is an imperfect substitute for domestic saving, including public saving to finance the investment a booming economy requires".** This clearly indicates a significant shift in the views of the Washington Consensus itself on this issue. Such a critical observation would have been made only after a detailed study of the role of FDI especially in the emerging economies. **Today with the financial markets in turmoil there is a general agreement that State must make large investments and create jobs to reduce the impact of crisis. For that the State must control and have access to the domestic savings. The FDI hike in insurance would act contrary to this.** It would enable the foreign capital with very little investments to gain control and access to our large domestic savings. Such a move would spell disaster for the Indian economy.

Government proposes to amend GIBNA to allow disinvestment

In the last few years, the government has taken several steps to implement the Malhotra Committee recommendations in the general insurance. It delinked the four subsidiary companies from the GIC and enhanced the capital of these four companies to a minimum of Rs.100 crore each. The total capital of the four companies now stands at Rs.550 crore. Amending the General Insurance Business Nationalisation Act now is to facilitate the four companies to divest a portion of the government holding through initial public offering (IPO) on the untenable plea that they need additional capital for their expansion. This exactly is what the Malhotra Committee had recommended. The four general insurance companies have performed extremely well in the competitive market despite the hostility of the Regulator and the policies of the government. For the year 2007-08, these companies earned profits of Rs.2794 crore and paid a dividend amounting to Rs.449.49 crore to the government. **These four companies have assets worth Rs.78198 Crore and they have maintained Reserves and Surplus worth Rs.13253.51 crore. With such massive financial strengths, they do not have to approach the market for capital requirement.** They have the capacity to raise the resources required internally. Privatising these companies that have played an important role in economy would be a setback to the nation building efforts.

Moves to allow premiums to be invested outside India

The private insurers have also been campaigning that the Indian markets do not have instruments that meet the long term requirements of a life insurance company and therefore, they may be permitted to invest a portion of the insurance funds outside the country. The government appears to have accepted this demand and is seeking to amend the Insurance Act to change the norms of investment of insurance funds. **This would result in the outflow of insurance funds when our country needs massive investments in social and infrastructure sectors. This measure would also result in policyholders' funds being used for speculative activities and would harm the interests of both the policyholders and the nation.**

It is not increase in FDI alone, the foreign capital is eyeing the giant LIC itself

The legislation government is contemplating to introduce in the Lok Sabha to amend the LIC Act 1956 seeks to increase the capital of LIC from Rs.5 crore to Rs.100 crore. The government is justifying this amendment on the ground that IRDA Act stipulates a minimum capital of Rs.100 crore for an insurance company and that LIC has to conform to this requirement. **On the face of it, this amendment is seen as an innocuous attempt to strengthen the capital base of LIC. But the true intentions behind this amendment become clear when seen in the light of the recommendations of the Malhotra Committee. This committee had recommended divesting 50% of the government holding.** Therefore, the decision to hike the capital of LIC in the absence of any real need makes this move suspect. Today, the LIC has emerged as the biggest and finest financial institution of our country. Its contribution to the nation building efforts is massive and is acknowledged even by its adversaries. The LIC with 24 crore policyholders is the largest life insurer in the world in terms of the number of policies it serves and the claims it settles.

If today India has a better insurance penetration compared with many developed countries, it is because of the spectacular performance of LIC. The life insurance premium as a percentage of the national GDP in India is 4.1%. This compares favourably even with the United States. The LIC has assets worth Rs.8.04 lakh crores. These assets are 1.17 lakh crore more than its liabilities. **It is pertinent to note that the total assets of the life insurance industry according to Life Insurance Council are Rs.8.47 lakh core as at 31.3.2008 out of which LIC has assets worth Rs. 8.04 lakh crores. This once again demonstrates the dominance of LIC.** There could hardly be any other company in this country with such massive financial strengths. The LIC is also the biggest single lender of the government borrowings. Therefore increasing the capital by a mere Rs.95 crore is not to strengthen this eminently successful institution but a step towards its privatisation. Privatisation of such a national institution can only be termed anti-national.

Foreign Insurance Companies in crisis

Today the financial crisis has impacted the insurance industry in United States, Europe and Japan. The AIG failed in a spectacular fashion. The US government had to rescue it with a massive bail out package of $85 billion. The bail-out package has now exceeded $150 billion and nobody still knows where the bottom is. The MetLife and New York Life have been seeking aid from the Federal Reserve. According to Bloomberg "the largest insurers in U.S and Bermuda have posted more than $80 billion in write-downs on mortgage-related holdings as subprime home borrowers fail to repay their debts". However, knowledgeable sources say that the losses are grossly under-assessed. The UK Prudential and Aviva are severely capital constrained. Fortis had to be taken over by the government of Belgium and others. ING and Argon have been provided with bail-out packages by the Dutch Government. Allianz of Germany and Generali of Italy have suffered huge losses. The Fitch rating has a negative outlook for the entire insurance industry in United States, Europe and Japan. The prospects of growth in the next 18 to 24 months are very dismal for the insurance industry with the economies of Europe and United States in recession. All the companies named above are having business operations in India. At a time when they are capital constrained and struggling to remain afloat, the UPA government has proposed to allow them greater space and access to our domestic savings through the hike of FDI limits to 49 percent.

In fact what the Government and the Regulator must do now is to look at the books of private insurers seriously especially when the shareholders as well as the policyholders' investments would have been seriously eroded with the plunge in the stock markets. Unfortunately rather than doing this, both the Government and the Regulator have come in the open defending these companies. The IRDA seems to have forgotten that its job is to protect the interests of the policyholders rather than the insurers.

Therefore, the proposed legislations seeking to further liberalise and open up insurance sector are against our national interests as also the interests of the policyholders. There is wide opposition to this move. The Left parties have decided to oppose these legislations. When our delegations met the people's representatives, a number of MPs irrespective of party affiliations have voiced their concern and many of them have either written to the Finance Minister or have promised to write. The insurance employees organized under AIIEA have decided on a series of strike actions and massive public contact program to mobilize opinion against these legislations. The government should realize its folly and stop all attempts to further liberalise the insurance sector.

Comradely yours,

General Secretary.