

# ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION

Cir.No.10/2010

14th March 2010

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

Dear Comrades,

## LIC Act (Amendment) Bill 2009

The Life Insurance Corporation Act (Amendment) Bill 2009 was introduced in the Lok Sabha on 31<sup>st</sup> July 2009 despite popular opposition. The LIC employees registered their protest through a very successful walk out strike called by the AIIEA on August 2, 2009. The Bill was referred to the Standing Committee on September 9, 2009. AIIEA wrote to the Standing Committee on 26<sup>th</sup> September 2009 seeking an opportunity to appear before the Committee. Simultaneously AIIEA intensified the campaign against the proposed amendments to LIC Act and requested the Committee to carefully scrutinize these amendments as they would impact the most successful financial institution. The cadres of the AIIEA met more than 400 Members of Parliament to explain our views on the issue. AIIEA cadres also met the Members of the Standing Committee including the Chairman in their constituencies requesting them to appreciate the reasons of our opposition. The Standing Committee vide its letter dated 13<sup>th</sup> January 2010 asked AIIEA to appear before it and also submit a memorandum. AIIEA immediately submitted the memorandum. Thereafter, AIIEA was invited to depose before the Committee for oral submission on January 22, 2010. The President and General Secretary of AIIEA deposed before the Committee and effectively placed our views on the subject.

The LIC Act (Amendment) Bill 2009 proposed the following amendments:

1. Hike the capital from Rs.5 Crore to Rs.100 Crore and further increase whenever required through a notification;
2. Change the pattern of distribution of surplus. The present distribution pattern of 95% to the policyholders and 5% to the government to be altered to 90% for the policyholders and 10% to the government
3. Provide sovereign guarantee selectively from the present 100% government guarantee on the policy amount and the bonuses;
4. Take away the powers to open branches and divisions from the Zonal Manager and give more powers to the IRDA on these issues; and
5. Change the existing legal provisions relating to the terms and conditions of service of LIC Agents.

The views of the AIIEA on all these issues are well known. They were forcefully articulated both in the written submissions and the oral submissions made on 22nd January, 2010.

The Standing Committee after exhaustive consultations finalized the Report in its meeting held on March 10, 2010. Thereafter, the Chairman of the Standing Committee has presented the Report to the Lok Sabha on 12 March 2010. The Report was also laid in Rajya Sabha on the same day. The Standing Committee in its Report observed that "examination of the Bill brought to light certain key issues which mainly relate to the possible adverse or negative implications of the amendment proposals on the business prospects of LIC as well as on the policyholders' interest. **The Committee feel constrained to note that the negative implications that the amendment proposals would have on the functioning of LIC do not seem to have been examined and assessed adequately by the Government before moving them in the Bill under consideration.** (Emphasis ours). The Committee recommended consideration of the Bill taking into accounts the observations and modifications suggested by them.

The Committee recommended the raising of the capital of LIC from Rs.5 crore to Rs.100 crore. But it also noted the concerns expressed about the possibility of future disinvestment and therefore, the Committee suggested that **“any further raise in the capital in excess of Rs.100 crore, if and when required, may be provided by the Central Government through appropriations made by Parliament by moving an amendment to this effect in the Principal Act governing LIC”**. This clearly means that any change in the equity pattern of LIC cannot be through an executive order but has to have the parliamentary approval. This suggestion is a big setback for the Government’s plans for privatization and is a very big achievement of our struggle.

The Committee disagreed with the amendment changing the pattern of distribution of surplus. The Committee has recommended that **“the existing percentage of distributable surplus to the policyholders i.e. 95% be retained, and of the balance, a fixed percentage as may be decided by the Government apportioned to the reserve fund the purpose of which should be spelt out by the Government, and the balance remaining thereafter paid as dividend to the Government”**. (Emphasis ours).

On the issue of sovereign guarantee, the Committee has suggested **“as sovereign guarantee is key to LIC’s pre-eminent position in life insurance business, the Committee are of the considered view that this stature bestowed on LIC by Parliament should not be diluted in any manner under the pretext of providing a level playing field in the insurance sector”**. The Committee further added that **“at this juncture of the development of our country, rather than dis-incentivising the future growth and prospects of LIC, the Government must re-order its priorities by incentivizing LIC to mobilize more resources for developmental activities, particularly in the crucial infrastructure sector”**.

The Committee considered the clause intended to do away with the power of LIC in expanding its branch network and vest this power with the IRDA. **“The Committee do not find merit in the proposed amendment as this might have the negative effect of limiting the future branch network expansion of LIC and thereby the growth of the Corporation’s business”**. The Committee recommended that while broad guidelines issued by IRDA for opening of branches are made applicable to LIC, the Corporation should continue to retain the power of opening new branches.

The Committee also did not agree with the amendment intended to do away with the existing system of the Central Government framing the rules with regards to the terms and conditions of service of agents of the LIC. The Committee was **“of the view that it would be preferable to continue with the existing legal provisions relating to the terms and conditions of service of LIC agents”**.

The Report of the Standing Committee has vindicated the stand of the AIIEA. We expect that the Government would accept the suggestions and recommendations of the Committee in the best traditions of democracy. But our experience suggests that the Government may not stick to democratic norms when it is inconvenient for them. Therefore, we need to keep our vigilance and continue our campaign against the further liberalization of insurance sector without any let up.

**We congratulate the insurance employees on this very significant advancement registered by their movement.**

With greetings,

Comradely yours,



General Secretary