ALL INIDA INSURANCE EMPLOYEES' ASSOCIATION

LIC BUILDING SECRETARIAT ROAD HYDERABAD 500063

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To all the Zonal/Divisional/Regional Units

Dear Comrades,

MOODY'S RATING ACTION IS OF LITTLE CONSEQUENCE

The Moody's Investor Services has downgraded the foreign currency insurance financial strength rating of LIC to Baa3 from Baa2. The rating outlook is stable. The rating action has no real consequence or impact on the standing or functioning of LIC. The LIC continues to be the premier financial institution lighting lamps of hopes in millions of houses across India. It enjoys the trust of more than 350 million individual and group policyholders making LIC the largest insurer in the world in terms of customer base. The interests of these millions of policyholders would remain absolutely safe in LIC.

The rating rationale of the agency is too frivolous to say the least. The LIC is downgraded because it is 100 percent owned by Indian government and according to Moody's, the absence of a strong foreign ownership is its weakness. The other reasons advanced are that LIC's business depends on domestic economy and all its premiums are generated in India. The rating agency is also unhappy that LIC invests heavily in government bonds and securities and has significant investments in public sector undertakings. In addition, the government guarantees all of LIC's policy liabilities including associated declared bonuses as prescribed in LIC Act. Moody's argue that LIC's credit strength is very much closely linked to India's Sovereign rating and this justifies the insurer's current ratings.

The Moody's is engaged in revising the ratings of financial institutions where ratings are higher than the rating of the government. Prior to this action, LIC had a higher rating than the government. Even the cursory scrutiny of the reasons advanced for downgrade suggests that the agency's rating action reflects the deep disappointment and frustration of the international finance capital. The finance capital has been demanding the privatization of LIC, allowing foreign investments in this successful institution and withdrawal of the sovereign guarantee on its policies. These efforts were frustrated through the massive campaign of AIIEA and the Indian government was forced to back down on the pernicious clauses brought to amend the LIC Amendment Act. The Indian Parliament exhibited total confidence in LIC and advised the government not to disturb the functioning and character of this fine institution. It appears that the rating action of Moody's could perhaps be another devious effort to revive the campaign for privatization of LIC and to seek a greater role for the foreign capital to access and control the domestic savings.

Moody's rating action cannot be seen in isolation from its rating of India. The Moody's had recently downgraded India. The Moody's gave the reasons for downgrading India as: (1) Indian economy has slowed down and showing signs of weakness; (2) the government has not been able to pursue reforms especially in the financial sector; and (3) the government lacks fiscal discipline. The rating agency has threatened, if India does not take corrective steps soon, Investments in India would be downgraded to junk category.

There is no dispute that Indian economy is going through a difficult period. But the diagnosis of Moody's is different from what the Indian working class feels is the problem of the national economy. The working class rightly believes that the reform process itself is the problem. The neo-liberal policies that created conditions for unimaginable concentration of wealth denied the vast majority of people access to the market. The growth during the reforms period has been unequal and fruits of development by-passed overwhelming sections of the Indian society. Unemployment and under-employment has been the feature of growth under neo-liberalism. The working class firmly believes that If the Indian economy has to progress in the real sense, the government must seriously re-visit neo-liberalism and initiate measures that would increase the purchasing capacity and enable better living conditions for the people. As against this, the Moody's say that the problem of the Indian economy is the growing fiscal deficit and the government must undertake austerity measures to cut this deficit. It is not difficult to understand that the suggestion to cut subsidies to the poor, greater privatization of the public assets and further liberalization of the financial sector are all the demands raised by the international finance capital. The Indian big business and vested interests are advising the government to take the rating downgrade as a warning signal and move ahead with the reform process. Today despite all the problems, Indian economy has been growing at a faster rate than most of the developed countries and its balance of payment position and public debt as a percent of the GDP is much more comfortable than a large number of European economies. Therefore, the nervousness of the Indian ruling classes to the rating downgrade by Moody's and S&P is surprising. Perhaps they see in this, an opportunity to force all political parties of the bourgeoisie to unite and push the process of reforms forward.

The campaign against LIC gained momentum after its investment in the ONGC and the public sector banks. The LIC makes investments after careful research taking into account its need to match its assets and long term liabilities. ONGC is a great long term bet being in the field of energy. In fact, responding to a query in the Rajya Sabha on 8th May 2012 , Minister of State for Finance Shri Namo Narain Meena said that LIC had invested Rs 20,493.60 crore in ONGC till March 31, 2012, which is now valued at Rs 21,752.91 crore. There seems to be no justification in criticizing LIC's decision to invest in public sector banks. These sound investment decisions are being criticized to malign the LIC.

With an asset base of over 14 lakh crore and a record of best claim settlement in the world, the policyholders of LIC have nothing to fear from the ratings of Moody's. Whatever may be the efforts of the detractors, the LIC would continue to enjoy the overwhelming support of the insuring public and its employees will spare no efforts to defend the industry and interests of the policyholders

Comradely yours,

General Secretary.