

ALL INIDA INSURANCE EMPLOYEES' ASSOCIATION

LIC BUILDING SECRETARIAT ROAD HYDERABAD 500063

Cir. No.9/2012

21st June 2012

To all the Zonal/Divisional/Regional Units

Dear Comrades,

FOR STRENGTHENING THE PSU GENERAL INSURANCE COMPANIES CONSOLIDATION IS THE ANSWER

The four public sector general insurance companies recorded their best ever performance after nationalization in the financial year 2011-2012. They mopped up a combined Gross Direct Premium Income of Rs.30560.74 crore recording an unprecedented growth of 21.5 percent over the previous year. These companies earned a combined net profit of Rs.1152.02 crore as against a loss of Rs.161.75 crore in the earlier financial year despite the heavy provisioning requirements in the motor third party liability segment. The public sector has retained the market dominance with a share of 58.46 percent.

This impressive performance has been achieved in the most difficult situation. The economies across the globe are still struggling to meet the enormous challenges thrown by the worst crisis comparable only to the great depression of the 1930s. The economic crisis and the slow-down in the businesses across the world severely impacted and continue to impact the non-life insurance industry both in the developed as well as emerging markets. In the circumstances the global non-life insurance industry recorded a very sluggish growth. The financial year 2011-2012 also witnessed the worst performance by the Indian economy in the past one decade. The GDP figures are constantly being revised. The revised estimates put the growth rate at 6.4% for the year 2011-2012 compared to the earlier projection of 8.5 percent. The economic downtrend has impacted both the businesses and the jobs. Household savings have taken a big hit due to unprecedented inflation and financial savings have considerably declined impacting the capital formation. Investments in businesses have declined. Under these circumstances the performance of the public sector general insurance industry has been quite remarkable.

Despite this excellent performance in the most adverse conditions, the Finance Minister in the recent meeting with Heads of the Public Sector insurance companies expressed unhappiness over the failure of these companies to register underwriting profits. The public sector companies have also come under criticism over the fact that the claim payments and operating expenses together constitute a very high percentage of the premium. It must be said that underwriting losses are not peculiar to India; it is the worldwide experience in the present times. However, it is also a fact that underwriting losses in India increased after de-tariffing due to strong price competition. Health and motor segments constitute 75 percent of incurred claims. There is no disagreement that there is an urgent need to price the product based on risk and to put in place a structured compensation in motor third party claims. This requires a proper pricing mechanism and risk evaluation. It also demands a re-look at the government policies relating to insurance industry and the regulatory framework of the IRDA.

It must be said here that in the recent period non-life insurance industry in many developed economies has been working at costs much above that of the Indian public sector.

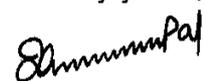
According to the latest OECD Report, 19 member countries of OECD recorded a combined ratio (claims +operating expenses) of more than 100 percent in 2010. The same report says that Japan had a combined ratio of 174.6% and France 119.6%. It must also be noted that the increasing costs in the Indian public sector are due to the claim performance especially in motor third party and health segments and not due to the productivity levels of the employees. The employee productivity levels have tremendously gone up and today less numbers of employees are documenting increasing number of policies.

The Finance Minister is absolutely right when he speaks about the unhealthy competition among the companies resulting in increasing costs. It makes no sense for four government owned companies to do the same business undercutting each other in a competitive environment. The experience of LIC clearly suggest that a single monolithic Corporation is better suited to meet both the challenges of the competition as also serve the social objectives of the government. Thus the situation can be remedied by merging these four companies and creating a single corporation on the lines of LIC. Such a move will eliminate unhealthy competition within the public sector, reduce costs, increase efficiency and enable further growth and expansion. The financial synergy of a consolidated organization will increase the risk retention capacity saving costs on re-insurance. The single Corporation will also be in a position to leverage the collective strengths of the companies by harnessing the skilled manpower.

The non-life insurance penetration at present is low due to historical and cultural reasons. Effective steps should be taken immediately to increase the levels of penetration and make available the insurance products to the huge rural populace at affordable cost. A merged entity is capable of more easily performing this task compared to the four separate companies competing with each other. It is pertinent to note that the merits of such a move were recognized by the Parliamentary Committee on Public Undertakings which recommended the merger of these four companies into a single Corporation. Unfortunately, the government is yet to act on this recommendation. The coming period will witness mergers and amalgamations in the private sector. The IRDA has already finalized the rules and regulations for mergers and amalgamations in the industry. The government, therefore, should take immediate steps to merge the four companies without much delay.

Another factor that is creating uncertainty and disquiet in the industry and in the work force is the government moves to privatise GIC and the four companies. It is argued that such a move will help the public sector companies to tap the capital markets to raise resources required for expansion. This is unnecessary and harmful to the national interests. The GIC and the four companies are adequately capitalized. There do not seem to be any need for infusion of additional capital at present for expanding their areas of operation. However in case of need, the GIC and the four companies are capable of raising the resources through internal generation. It is a known fact that the public sector insurance companies have built up huge reserves and have a large asset base. Prudence demands that the government should drop the moves to privatise these companies through the enactment of Insurance Laws (Amendment) Bill 2008 and take immediate steps to merge the four companies and create a single corporation. Such move will be in the best interest of the Nation.

Comradely yours,



General Secretary.