

EAST CENTRAL ZONE INSURANCE EMPLOYEES' ASSOCIATION

Jeevan Deep Buildings (1st Floor), Exhibition Road, Patna-800001

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To All Members

19th January 2011: 55th Anniversary of Nationalisation of Life Insurance

With the decision of the then Union Government five and a half decades ago, on 19th January 1956, to take over the management of life insurance business in India, commenced a new chapter in the saga of planned economic development of our country. "When the All India Radio announced that the Finance Minister Shri C.D. Deshmukh would broadcast to the nation at 8.30 P.M. that day, nobody had any idea of what he was going to talk about. Most people thought that he would be talking on the problems of Bombay State Reorganisation, a burning topic of the day. But they heard him say:

"This afternoon the government have promulgated an ordinance regarding life insurance. All life insurance companies, Indian as well as foreign, doing business in India came under Government management and control. This is the first and preparatory step towards the nationalization of life insurance. It will be followed by the more elaborate action called for, and it is proposed to place before the next session of the Parliament a Bill for the Nationalisation of this important sector of insurance business.

Explaining the rationale of the action, he said: *The Planning Commission, in order to organize the credit system of the country, envisaged the need of the involvement of the whole mechanism of finance such as the banking system, insurance, the stock exchange and other institutions connected with investment, for it is only thus that the process of mobilizing savings and utilizing them to the best advantage becomes socially purposive....Nationalisation of life insurance is a further step (after the nationalization of Imperial Bank) in the direction of more effective mobilization of the people's savings. With a second plan in the offing, involving an accelerated rate of investments and development, the widening and deepening of all possible channels of public savings has become more than ever necessary. Of this process, the nationalization of insurance is a vital part.I may, indeed, with justice claim that we have done so with the certainty of the approval of the public and after full examination of the views expressed by the interest involved, for this matter has become the subject of public debate and discussion for several months past....We have, in spite of them, come to the conclusion that nationalization of life insurance is essential for implementation of our Plan and therefore, required in public interest."* (Source: Tryst with Trust)

The Ordinance provided for the transfer of the control of 154 Indian insurers, 16 non Indian insurers and 75 provident societies. The momentous decision to nationalize life insurance business through the promulgation of an ordinance was necessitated by the loot, plunder and malfeasance of the private insurance companies, Indian as well as foreign. One financial journal had this to say- "Some businessmen were in the habit of speculation in shares with the aid of insurance companies under their control. The practice of these persons has been to buy or sell shares first without telling the brokers in whose name the contracts are to be made. If the transaction resulted in profit, it was recovered in their name. If however, it resulted in a loss, it was entered in the name of the insurance company." Such was the scale of the loot and plunder that during the decade 1945-55, 25 insurance companies had to face closure. Another 25 companies had to leave insurance business itself. Of the others that continued to linger on, 75 companies could not declare any bonus in the financial year 1953-54. The fraud amounting to Rs. 2 crore 75 lakh in Seth Ramkrishna Dalmia owned Bharat Insurance Company in January 1956 proved to be the proverbial last straw. Commenting on this, Dr. Deshmukh has noted in his diary: "This was a heaven sent opportunity for achieving the nationalization of life insurance that H.M.Patel and I had been working on during the previous months. We were ready to nationalize with every detail worked out including orders to our officers to travel and take over as soon as the ordinance was issued."

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The Government decision to nationalize life insurance through the promulgation of an ordinance was kept a well guarded secret lest the vested interests should raise a hue and cry and transfer the funds to their private accounts. But all hell broke loose soon after the ordinance was promulgated. The unholy alliance of corrupt politicians and fraudulent businessmen cried foul and termed the promulgation of the ordinance as an assault on Indian democracy! The All India Insurance Employees' Association (AIIEA), on the other hand, sent a telegraphic message to the Finance Minister on January 20, 1956 and congratulated him and assured full co-operation of the employees.

The Life Insurance Corporation (LIC) came into being on September 1, 1956. Ever since its formation, the LIC has truly lived up to its lofty motto "Yogakshemam Vahamyaham" providing security to the policy holders and mobilizing the hard earned savings of the people for national development. During the chequered history of over 50 years, the performance of LIC has been truly exemplary and it has been growing from strength to strength in terms of customer base, agency network, branch office network etc. LIC has played a very commendable role in spreading life insurance among the masses and mobilization of people's money for people's welfare. A decade of competition notwithstanding, LIC continues to be the frontrunner in the industry in terms of market share. In terms of number of policies and First Premium Income LIC has retained a market share of 73% and 65% respectively in 2009-10. LIC has earned a total income of Rs. 2,98,721.55 crore in the financial year 2009-10 and its Assets have grown to a whopping Rs. 11,52,057.21 crore. LIC has provided for a solvency margin of 154%, which is Rs. 46,718 crore as at 31 March 2010. It has been established beyond any shred of doubt that trust is the most valuable asset of LIC. As against this, the performance of the private sector insurance companies has been rather dismal. During 2009-10, out of the 22 private life insurance companies, only seven could register some profit while the others sustained losses. According to figures released by the IRDA, the cumulative losses of the life insurance industry as on March 31, 2010 stood at Rs. 20,143 crore.

In spite of the fact that public sector LIC has been an unmitigated success story, there have been repeated attempts to meddle with this situation. The Government seems to be in a tearing hurry to push through the Insurance Laws (Amendment) Bill 2008 and LIC Act (Amendment) Bill 2009 with an intention to privatise the successful public sector insurance companies and bring in more FDI in insurance. Insurance giants like the AIG had to be bailed out by the US government and billions of dollars of tax payers' money had to be pumped in to save them. Like the private insurance companies of pre-nationalisation days, AIG used policy holder money and debt to invest like an investment bank. When a lot of its assets turned worthless, AIG could not be let go because that would have systemic implications. The alternative was nationalization. Nationalization involved pumping tax payers' money!

While inaugurating the Thrissur division of LIC on November 27, 2010 the Union Finance Minister Shri Pranab Mukherjee said: "LIC is very strong and stable organization....LIC is one of the success stories of the country's Public Sector." One fails to understand as to why the same Finance Minister and his Government are desperate to destroy this success story in the public sector, unmindful of the disastrous consequences of liberalization elsewhere in the world. It is in this context that the Diamond Jubilee Year 22nd General Conference of the AIIEA has given a call to observe 19th January 2011 as PROTECT NATIONALISED INSURANCE DAY. We call upon our units to hold Press Meets during the day, hold Candle light Processions, organize Human Chain Programmes or any other suitable programme to commemorate the occasion. Units are requested to send a detailed reportage to ECZIEA headquarters in this regard.

Wishing You a Very Happy and Purposeful New Year 2011

With Revolutionary Greetings,

Comradely Yours



General Secretary