

LOK SABHA

**THE SELECT COMMITTEE ON THE
LIFE INSURANCE CORPORATION
BILL, 1956**

EVIDENCE



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI
*April, 1956.***

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III. The Bombay Life Underwriters' Association, Bombay.	2-4-56	} 16-30
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THE SELECT COMMITTEE ON THE LIFE INSURANCE
CORPORATION BILL, 1956

Minutes of Evidence taken before the Select Committee on the Life
Insurance Corporation Bill, 1956

Monday the 2nd April, 1956 at 9-30 A. M.

PRESENT

Shri Balvantray Gopaljee Mehta—*Chairman.*

MEMBERS

Shri Syamnandan Sahaya

Shri S. K. Patil

Shri Shriraman Narayan

Shri C. P. Matthen

Shri Feroze Gandhi

Shri Radhelal Vyas

Shri Raichand Bhai N. Shah

Shri S. R. Telkikar

Shri T. N. Singh

Shri Tekur Subrahmanyam

Pandit Krishna Chandra Sharma

Shri M. D. Joshi

Shrimati Sushama Sen

Shri S. R. Rane

Shri V. B. Gandhi

Shri B. R. Bhagat

Shri Sadhan Chandra Gupta

Shri K. Ananda Nambiar

Shri K. S. Raghavachari

Shri G. D. Somani

Shri R. Velayudhan

Shri M. C. Shah, Minister of Revenue and Civil Expenditure was also present.

DRAFTSMAN

Shri G. R. Rajagopaul, *Additional Secretary and Chief Draftsman, Ministry of Law.*

REPRESENTATIVES OF MINISTRIES AND OTHER OFFICERS

Shri H. M. Patel, *Secretary, Department of Economic Affairs, Ministry of Finance.*

SECRETARIAT

Shri N. N. Mallya—*Deputy Secretary.*

Shri P. K. Patnaik—*Under Secretary.*

WITNESSES EXAMINED

I. The Hindusthan Co-operative Insurance Field-Workers Association, Calcutta.

Spokesman:

Shri S. B. Chanda.

II. The Insurance Underwriters Association of India, Calcutta.

Spokesmen:

Shri S. S. Ali.

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III. The Bombay Life Underwriters Association, Bombay.

Spokesman:

Shri R. N. Chopra.

I. Hindusthan Co-operative Insurance Field-
Workers Association, Calcutta.

Spokesman:

Shri S. B. Chanda.

(Witness was called in and he took his seat)

Chairman: What is your membership?

Shri Chanda: I cannot say. I shall check up.

Chairman: Is it an all-India body or is it confined to any region?

Shri Chanda: It is confined to several branches of this particular company.

Chairman: Are these branches spread all over India? Or is it confined more or less to any particular area?

Shri Chanda: Before the Ordinance, practically, it was confined only to the Head Office for about a decade though some of the people from the branches are members. But after the Ordinance was issued, we are receiving applications from different branch offices and they are forming Zonal Committees. By now we have got one Zonal Committee at Lucknow and another at Patna. Others have not formed Zonal Committees yet.

Chairman: Have you sent your Memorandum to the Office here?

Shri Chanda: Yes.

Chairman: That has been circulated to members. Now have you any further point except what you have written down in the Memorandum?

Shri Chanda: As a matter of fact, our memorandum contains everything. But the one thing we have to impress upon the Committee is that in between the date of issue of the Ordinance and the actual taking over by the Corporation the services of salaried personnel, field personnel particularly, and other employees should not be terminated. After the Corporation is established let there be a Pay and Service Commission so that that particular body can judge the merits or otherwise of the workers. In between these periods there have been some terminations of services as we have been reported. This is not a matter particularly confined to Hindusthan Co-operative Insurance. As you will find from the Memorandum, we have not cited anything on behalf of that association.

Chairman: Are there many instances in which services were terminated?

Shri Chanda: Yes, there are a good number of cases in respect of different companies.

Chairman: Could you give us a few illustrations—a few names—where the services of permanent employees have been terminated? Could you send us such a list?

Shri Chanda: Yes. On Saturday we have submitted such names to Mr.

Patel, Finance Secretary and we have referred to some cases also. If you want an exhaustive list of cases, then we shall ask for some time so that we can collect data and submit it.

Chairman: Whatever information you possess at present, you can send it on just as a sample so that we can know what exactly is happening, and you can pass on whenever you get additional data. We need not wait for the list. The Committee's work will go on.

Are you not satisfied with the provisions made in the Bill for the employees?

Shri Chanda: Not exactly. They have not made any room for the ex-employees in general. There is a provision which says that after the Corporation is formed, their services will be transferred to the Corporation and power is given to the Corporation to reduce their pay and in terminated cases to give them compensation equivalent to three months' remuneration. There is also provision for a shorter notice, i.e., say, one month's notice. It is not generally the custom of any mercantile firm to send away a man without giving him at least one month's salary as gratuity for each year of his service plus the leave say he has got to his credit. That is so as far as the Corporation is concerned. We also want a Pay and Services Commission. We feel that the Corporation will function as the Board of Directors of a Company. If every power is given to them, there will be scope for anomalies. So, we propose that a Pay and Service Commission should be established and that will probably satisfy all categories of workers.

Chairman: I should like to know if there will not be some cases in which there might be rather exorbitant terms given to some people which may not be really the purpose of progress of insurance. There might be some such cases at the top where possibly it might be necessary to revise the terms. You just conceive of such a situation.

Shri Chanda: I think there are very many instances of favouritism, nepotism and supersession and we have referred to these matters. These are not matters peculiar to Hindusthan Co-operative Co. They are prevailing in other Insurance Companies also and we want that those cases should be regularised.

Chairman: For that purpose some authority shall have to vest in the Corporation to see that unreasonable or irrational things are revised. Such an authority shall have to be vested—not an authority to be used for the purpose of disturbing the reasonable cases and bringing about any harm to people who are doing good work. But if there is any extraordinary or unusual case where, as I suggested, there might be a case for reduction, some authority has to be vested in the Corporation. I suppose you agree with this?

Shri Chanda: Yes, I agree. I was only suggesting an amendment that the authority of the Corporation will act according to the advices of the Pay and Service Commission.

Chairman: Now with regard to the Commission that you have suggested, supposing the Corporation appoints a Board specially for the purpose of dealing with the question of services. The Board has nothing to do with the executive work. Supposing some such machinery is devised by the Corporation to deal with the question of services in conformity with certain basic principles, supposing some such machinery is created, will that be satisfactory?

Shri Chanda: I could not follow you.

Chairman: I was saying if the Corporation appoints or creates a certain body which deals with the question of service on certain principles and certain directives which are laid down, but which body has nothing to do with the executive action, will that be satisfactory?

Shri Chanda: That will definitely satisfy us if that is an independent body and if people who were connected

with insurance companies and who were responsible for malpractices, favouritism and nepotism are not on that body.

Shri S. K. Patil: You have suggested the appointment of some kind of a Commission. What sort of Commission do you want? Do you want a Commission set up permanently to look after the service conditions or a Commission which meets in the beginning and examine the cases, lays down general conditions, etc.? What is the type of Commission that you envisage?

Shri Chanda: We have suggested that a permanent Pay and Service Commission must be there, because in future also, they will have to recommend appointments, etc. So, if possible, it would be better if there is a permanent Pay and Service Commission.

Shri S. K. Patil: You want a permanent Pay and Service Commission. But there are Corporations of this Government and they have got a large number of employees. Now do you mean to say that for Corporations, there should be permanent Pay and Service Commissions sitting all the year round in order to govern the conditions of service, pay, etc.? Is that feasible? Is that necessary to do such a thing?

Shri Chanda: We only wanted.....

Shri S. K. Patil: I will make myself clear. Wouldn't it suffice if some kind of examination of cases, service condition, etc., is done in the beginning and things straightened, so that they continue, rather than have a permanent sort of Pay and Service Commission sitting from day to day having no work to do, because it becomes an administrative work once the conditions are laid down? Would that not be enough?

Shri Chanda: Just after the fixation, there will arise occasions regarding appointments and also recommending promotions in suitable cases. That is why we suggested that—if possible, there should be a permanent Commission.

Shri S. R. Rane: You have gone through Clause 10(1). That lays down that the employees shall hold office by the same tenure, at the same remuneration and upon the same terms and conditions and with the same rights and privileges, etc. The sub-clause says "Notwithstanding anything contained in sub-section (1) or in any contract of service, the Central Government may, for the purpose of rationalising the pay scales of employees of insurers..... alter the terms of service of the employees as to their remuneration in such manner as it thinks fit..... etc." Don't you think that this provision will meet what you have said? Besides, you have stated that there was nepotism, favouritism, etc. Do you want that this Pay and Service Commission should go into that question?

Shri Chanda: There is a lot of discontent prevailing among the workers, not now, but for the last so many years against these private insurers and so it is a case of fresh study and we feel that the Corporation should check up the entire method before condemning somebody or promoting somebody.

Shri S. R. Rane: You feel that whatever has been done by the Companies should also be looked into.

Shri Chanda: Yes. That is our submission.

Shri S. R. Rane: What is the total number of employees, that is field workers, etc., in the insurance field?

Shri Chanda: So far as salaried field workers are concerned, no definite picture can be given, but my idea is that there will be as many as 15,000 workers.

Shri Tekur Subrahmanyam: From your experience or information regarding the structure of field set-up, do you think salary basis is better or commission basis is better?

Shri Chanda: That probably cannot be answered straightaway, because salary basis at some level is better

and commission basis at some level is better.

Shri Tekur Subrahmanyam: You can distinguish between the two and say which is better?

Shri Chanda: I cannot say it exactly, but so far as I know, in the majority of cases, the business is contributed mostly by the salaried workers. Agents have been in the second front and the main responsibility for procuring business lies on the shoulders of the salaried field staff, because they have some commitments regarding fulfilment of quotas.

Shri Tekur Subrahmanyam: You suggest that these field workers working on salary and commission basis should be absorbed and integrated subject to some minimum conditions. Can you indicate briefly what the minimum conditions should be?

Shri Chanda: We suggested two categories of agents, the part-timer and the whole-timer. We suggested the retention of part-time agents who are efficient, fixing some stipulations, say, Rs. 50,000. They have not to discharge any necessary service. Simultaneously we suggested that the whole-time agents must have an initial opening of Rs. 225 as quantum of security. Out of this he will be given Rs. 125 for discharging necessary services, like, the collection of premiums, submission of health declaration, claims settlements, attending to various reports, etc., and another Rs. 100 which will be adjusted towards earnings against future commissions.

Shri M. D. Joshi: On page 2 of your representation, you say under "Malpractices and Irregularities": "As regards salaried field staff there existed irregularities which were lately growing more and more, assuming alarming proportions." Can you indicate some of these? What were the irregularities that have assumed alarming proportions?

Shri Chanda: At the time of appointment, the Manager or the Branch Manager of the Companies knew it perfectly well that in a particular zone

there is scope for only 5 persons, but they did not hesitate to appoint 100 persons for procuring business. They knew definitely that a majority of them will not come out successful. But whatever they could get in between the period, they felt that that will serve their purpose. In all these things there were irregularities and taking advantage of the unemployment situation of the country, they spoiled the career of thousands of people. Rather, they have thrown them into streets. If you study carefully the previous history of life insurance management, you will be convinced.

So far as the irregularities are concerned, if the management wanted to pay any particular man Rs. 1,000 or Rs. 2,000, they were at liberty to do so and by a process of official manipulation, that is, by tagging to that particular man, say, 100 agents and 20 Inspectors the business of these persons was shown as if it was the achievement of that particular person and thereby he was rewarded with that amount.

Shri M. D. Joshi: On page 4, you suggest that Rs. 225 should be fixed as monthly allowance. What is the basis for this figure? How did you arrive at this figure? In paragraph (f) you say "preferably in the form of fixed monthly allowance of Rs. 225". How did you arrive at this figure?

Shri Chanda: Our basis is that every agent whether part-time or whole-time must be restricted to a particular area, say, two villages or three villages and an Inspector over a thana or two. That agent will be nursing this particular area independently and nobody else will interfere in his business and snatch away his business. So he must have some business there. If he organises the area properly and if the Government helps him with facility for propaganda, etc., there will be good business. Moreover, Rs. 225, we suggested, for his whole-time service because apart from collection of proposals, he will have to collect premia, make propaganda work, then serve

the old policy holders and also attend to claims settlements and make enquiries.

Shri M. D. Joshi: Over and above this Rs. 225, you envisage some monthly income by way of agency commission. What is the quantum of agency commission that you envisage?

Shri Chanda: We wanted Rs. 125 for obligatory service and Rs. 100 to be advanced which will be adjusted from his earnings from time to time. Rs. 125 will be paid to him for giving obligatory service and Rs. 100 will be advanced month to month which will be adjusted later on.

Chairman: I think we are going into the details which have nothing to do with policy matters. I think we need not go into the details.

Shri M. D. Joshi: I want to know why you want to abolish the Chief Agencies and Special Agencies.

Shri Chanda: That is for obvious reasons; supposing 35 per cent. is given to agents, 50 per cent. is given to special agents and 65 per cent. is given to Chief agents, the man getting the highest remuneration is in an advantageous position to enhance business than the man placed with poor resources at his command.

Moreover, if these two classes are allowed to function, the malpractices arising out of rebate may not stop. That is why we suggest regarding the abolition of these two classes of workers.

Shri T. N. Singh: You have advocated the retention of the part-time and whole-time field workers under the new set-up. Don't you think that in any organisation which is to be run as a State undertaking the system of part-time workers will be worthwhile in the long run?

Shri Chanda: No, we suggested part-time only for agents. But the field workers cannot be part-time workers. They should be whole-time workers.

Shri T. N. Singh: What is your objection to the field workers working on commission basis as at present instead of all of them being absorbed as salaried workers especially when the cost ratio may be less if they are on commission basis?

Shri Chanda: I think the question of costs should not be the only concern of the Government because if the Government is going to provide employment under the Second Five Year Plan, insurance will offer a good scope for that. Moreover, how can we ask a man to go on doing insurance business without guaranteeing him that he will have a minimum standard of living? And the exploitation made by the private insurers, I think, will not be continued by the Government which is out to establish a socialistic pattern of society.

Shri T. N. Singh: In other words, you do not want business considerations to have the necessary importance in the running of this Corporation.

Shri Chanda: That is far from my mind. Rather, I feel that if in the Corporation security is given to all categories of workers, the business will definitely increase because the workers will treat this concern as their own and they will do their best to increase the output of the business.

Shri T. N. Singh: I will go to another point. In your memorandum you have admitted that irregularities and malpractices have been observed more in the case of the salaried field staff than in the case of agents and special agents. Your Memorandum reads:

"On analysis, it would appear that as regards Agents and Special Agents working on commission, there was neither scope, nor practice of much irregularity apart from illegal rebating.

As regards salaried field staff there existed irregularities which were lately growing more and more assuming alarming proportions."

With that admission how do you justify the point that the checks, controls and restrictions that are envisaged in this Bill in regard to the salaried staff should not be there? You have got a number of suggestions for favouring them with all kinds of protection. How do you justify that?

Shri Chanda: I am sorry, I am not clear about the point raised.

Shri T. N. Singh: In your suggestions you want a number of protections to be given to the field salaried staff—a Pay Commission or Tribunal for regularisation of service conditions and all that—and you also want the elimination of one class which had not committed so many irregularities. You yourself have admitted that more irregularities are committed by these people. Then how can one justify the relaxation of controls and restrictions and other protective measures provided in the Bill?

Shri Chanda: So far as our memorandum is concerned, we have not justified the elimination of any class. We have suggested that if special agents and chief agents are to go for the best interests of the industry, they should be absorbed in the Corporation by their being offered alternative appointments.

Shri M. C. Shah: Alternative appointment to whom? To the special agent?

Shri Chanda: Yes. They may be absorbed as inspectors or agents.

Shri M. C. Shah: On what basis?

Shri Chanda: On salary basis. They may be appointed on commission basis as agents. I think they should be given some option.

Shri T. N. Singh: Another question that I wanted to ask is about expense ratio. You have stated:

"The much publicised reduction of expense ratio by slashing out income of individual field forces and the consequent widespread apprehension in the field forces of all level with a sense of uncertain-

ty and instability has only caused a paralysing effect on the entire producing machinery."

This gives the impression that any attempt by Government to reduce working costs creates apprehension not only among you but also on the public that all kinds of things will happen. I find it is stated that nationalisation has created more confidence among the people to take policies. Now how do you reconcile this?

Shri Chanda: The apprehension of the several categories of field workers is there on the basis of the statement of the Finance Minister made on the floor of the House with regard to the hierarchy of Salaried supervisory field staff. There is an apprehension that after nationalisation probably many of them may have to suffer many things. Not only that. Immediately so many people are suffering from day to day. Some inspectors, probably, are not getting their salary regularly, and also the *pro-rata* workers.

Shri T. N. Singh: Could you tell us what will be the average income of the more successful salaried staff who also get commission, partly salary and partly commission? What will be the salary of such staff, say ranging from Rs. 400 to Rs. 2,000 or what?

Shri Chanda: We have given a suggestion that it should start from Rs. 350—and rise upto Rs. 1,200.

Shri T. N. Singh: What is the present position?

Shri Chanda: At present probably the salaried field staff are getting a maximum of Rs. 1,500 or Rs. 1,700.

Shri T. N. Singh: Plus commission also?

Shri Chanda: No.

Shri T. N. Singh: What will be the income of those who get commission?

Shri Chanda: So far as special agents and agents are concerned they do not earn much. In some cases they

do make money but they can be counted on the fingers. Most of them are earning from Rs. 500 to Rs. 800 a year.

Shri T. N. Singh: We were told that some of them were earning incomes ranging from Rs. 3,000 to Rs. 8,000.

Shri Chanda: That will be one in ten thousand. They will not present much difficulty because they will be very few.

Shri T. N. Singh: Suppose you advocate that part time commission as well as salary basis may be continued, then some people will get very high incomes and there may be objection in our socialistic pattern of society, as you have said just now.

Shri Chanda: Yes. As a matter of fact we have a suggestion that individual initiative should not find such scope. One man might be able to earn Rs. 20,000 monthly, but that will not be possible if you restrict him to a particular area. In a zonal unit it will not be possible for him to earn so much.

Shri T. N. Singh: Regarding the zonal board you suggest that salaried field staff, office employees etc., should be represented on the zonal board. That is your suggestion with regard to the amendment to clause 19. Now would it be desirable for the very people whose work is to be supervised by the Board to be represented in the Board almost entirely?

Shri Chanda: We have suggested that these employees may also be represented along with other interests. We have simply asked to add this. The first paragraph will be there. This is only an addition that these people should also be represented. That is not an entirely new thing.

Shri T. N. Singh: What proportion of representation would you like in that case?

Shri Chanda: We would like to have one man of each category of workers in the Zonal Committee.

Shri Radhelal Vyas: Apart from absorbing the present field workers who are on salaried or on commission basis, would it not be desirable to appoint new entrants only if they have passed some examinations in insurance business? What is your opinion on this point?

Shri Chanda: My opinion is that without providing scope to the existing personnel it will not be fair now to introduce men from outside straightway.

Shri Radhelal Vyas: My question is this. Of course, provision should be made for the present field staff and workers. But whenever new staff is to be appointed, is it not desirable that some test or passing of some examination concerning insurance should be made compulsory before appointment?

Shri Chanda: Oh, yes. That is good for the best interests of the industry itself.

Shri Radhelal Vyas: In some of the States like Mysore, Travancore-Cochin, Madhya Bharat and Hyderabad insurance is made compulsory to the State employees. What have you to say on the point that there should be two sections of the Corporation, one dealing with the State employees and the other dealing with non-State employees? In the case of the State employees reduced premia may be charged from them and agencies etc., may be altogether done away with in their case. What have you to say about it? Will it not benefit the employees?

Chairman: Is this question not beyond the purview of the memorandum?

Shri Radhelal Vyas: But he is an expert in the line.

Chairman: If he has anything to say it is all right. Otherwise he has to answer on certain fixed points.

Shri Radhelal Vyas: You have suggested the abolition of the chief

agents. Could you suggest any alternative employment for them in the new set-up?

Shri Chanda: Yes. They may be appointed as inspectors. Some of them whose performance is not so good may be appointed as agents and others as inspectors and the more efficient of them may be appointed as Divisional Managers or even Asst. Branch Managers.

Shri Velayudhan: You have stated something in your memorandum about agents. Is it your opinion that the terms and conditions entered into prior to the nationalisation should be kept in as it is for the agents? I am not mentioning about the special agents or chief agents or anything like that. I am only referring to agents. Are you of the opinion that the terms and conditions entered into earlier, that is, prior to nationalisation should be maintained in the case of agents?

Shri Chanda: So far as agents are concerned, we are pleading that their rights and privileges under the Insurance Act should be maintained, particularly those in sections 40 and 44 of the Insurance Act.

Shri Velayudhan: About the special and chief agents you said that there are certain groups and other things. But from the reports of the insurance companies we understand that these chief agents have turned out a very huge business and that there are a lot of field workers, inspectors and others. What will you advise for these people? Are they to continue in the new set-up or should they be discharged? How will you protect the interests of these people?

Shri Chanda: If there is a complete re-orientation and change of outlook, I think the special agents and chief agents cannot function as such, because I have already stated that if you allow a class of workers a higher rate of commission and better privileges, for obvious reasons, the majority of the lowest strata of workers—I mean the agents—cannot compete with them. For example if the special agents unfortunately allow

as rebate 35% and retain 15% the position of the agents becomes hopeless. As a matter of fact, so far as the agency commission is concerned, probably it is known to everybody that whatever earning they do, these special agents or chief agents or agents really do not earn the whole amount but they take it in some way and return it to the policy-holders in some other way. In most of the cases things are taking place like this. If you are to remedy this, you will have to bring in uniform terms of payment. Otherwise, rebates cannot be checked. The Inspectors should be strictly advised that if they find anybody offering rebate, their agency should be liable for termination.

Shri Velayudhan: Is it not a fact that these chief agents committed certain irregularities because of the compulsion and force of circumstances arising from the management itself? If in the new set-up we find the need for them, is it not better to retain the special agents and the chief agents?

Shri Chanda: It is not quite clear.

Shri M. C. Shah: I am afraid this is not a question which he can be asked. What is he going to say? He is representing the field workers. He is not an expert on all these matters. About the field workers he can be asked, as he is here to safeguard the interests of the field workers. All these questions we can ask to some of the experts when they come before us.

Shri Velayudhan: I think the Minister has not perhaps read the memorandum submitted by him.

Shri M. C. Shah: We must use our discretion.

Chairman: We must confine ourselves to the memorandum and also the representative character of the witness. He represents the field workers. Whatever questions we may raise regarding field workers, he is an authority. We have to finish within a measurable time.

Shri Velayudhan: In page 2 of the memorandum, all these things are included.

Chairman: Is he an authority on those points? We want an evidence about field workers from him.

Shri Velayudhan: Let us know whether he is an authority on these points. That is why I put those questions.

Shrimati Sushama Sen: Don't you think you would be satisfied if, as has been suggested, there should be a Commission which will go into the questions in your memorandum and decide as to the chief agents and other field workers? Don't you think that if an impartial committee or commission is appointed, that would satisfy your demands?

Shri Chanda: Yes. We heartily welcome it provided the *status quo* of the salaried field workers is maintained till the report of the Commission is out.

Shrimati Sushama Sen: I believe there is a general disagreement with clause 10, sub-clause 2. If this is amended and the rules are laid down, will the field workers get satisfaction?

Shri Chanda: We have brought in two amendments. In line 8 of sub-clause (2) we want the words "in such manner as it thinks fit" to be deleted and the words "on the advice of the Pay and Service Commission" inserted. In line 11-12 of that sub-clause, we want the words "unless the contract of service with such employee provides for a shorter notice of termination" to be deleted and the words "and a gratuity of one month's salary in respect of each year of service of the employee together with an equivalent cash payment against leave at his credit" to be inserted.

Shri Telkikar: Can you give us some idea about the work turned out by agents—the chief agents etc. on commission basis and the Inspectors etc. on salaried basis—and what is the proportion of work turned out by these categories.

Shri Chanda: I am not sure whether any data is being maintained by the Controller of Insurance showing the respective performances of agents, special agents, chief agents and Inspectors. I am afraid whether I should venture to give any reply without knowing this definitely.

Shri Telkikar: Can you give any idea about the remuneration paid to the agents under the chief agents and the agents under the Inspectors on salaried basis?

Shri Chanda: Would you kindly explain the point?

Shri Telkikar: You have got these two systems. Remuneration is paid to them as commission in one case and as salary in another case. I want to know the whole expenditure on these two systems.

Shri Chanda: If these two things are adopted simultaneously, I think the proposed Corporation will lead us nowhere. That we shall have to decide. It should be commission all through or on the basis of salary only. By taking *via media* or combining these two systems, I think, better services cannot be obtained.

Shri Telkikar: I would like to know whether it is a fact that in the system of commission basis there are lesser lapses than in the other system?

Shri Chanda: I am afraid if anybody tells like this, he should take into consideration the work in the proportion of the achievements of these special agents or chief agents compared to the performance of the salaried field workers. If I do a business of one lakh and 5% lapses, it may be a credit to me, but if one is supposed to do 10 crores and the lapses become high, in the later case the line of comparison between these two cannot be brought in. If you exploit a vast field, you are supposed to meet with various problems. Moreover, I told you that there have been malpractices in the past.

Shri Nambiar: You have stated in your memorandum that the expediency for terminating the services of

many of the field workers of reducing their salaries and emoluments has caused much harm to the procurement of business. Can you substantiate it by giving some more facts and can you say whether it was done on a large scale?

Chairman: That question has already been answered.

Shri Nambiar: In your memorandum you have also stated that in certain cases the Custodians had to reduce the staff or reduce the emoluments. In those cases what compensation do you expect for the staff who have been affected? Do you expect any compensation or do you say that all of them should be taken back to work whether there is necessity or not?

Shri Chanda: As a matter of fact, we do not feel and we do not like to say that Government which is out to establish a socialist pattern of society will be terminating the job of even a single person. But as a measure of precaution, we have suggested that for termination he must receive compensation for the period of service he worked, that is gratuity of one month's salary against each year of service plus cash equivalent against leave at his credit. But we think that this contingency will not arise and we have come here to present to you the case and ask you for such conditions for us that nobody is disturbed. We have come here to place before you the fact that given suitable opportunities, the employees who have wholeheartedly supported nationalisation—whether in the office or in the field organisation—will try their utmost to make a success of the scheme though we are sure that designing persons are there who want to disturb the *status quo* and who want definitely that the nationalisation scheme does not come to any success. We think the Custodians who were erstwhile Managers of different companies and who were—at least some of them of course—responsible for violations of the insurance code or the insurance laws in broad daylight, have been selected as Custodians. They want to show to the Gov-

ernment that they are capable enough and they want to go on with their unhealthy scheme. At the same time, they want to unnerve the workers and want to show that "Under nationalisation, their future is not better than it had been under private insurers." So, my proposition is this. A healthy condition for work should be created. Casual termination here and there will not be...

Chairman: You are going on repeating the same thing.

Shri Chanda: I am sorry. I shall not repeat.

Shri Nambiar: You have suggested a guaranteed remuneration of Rs. 125 plus Rs. 100 for certain categories and Rs. 350 for Inspectors. Am I right?

Shri Chanda: Rs. 350 to Rs. 1200 for Inspectors, and for the agents a minimum of Rs. 225 raising the amount if they do more work.

Shri Nambiar: How and why have you suggested this figure? Why should it not have been Rs. 425 or Rs. 525?

Shri Chanda: If they are given start at Rs. 350 and go up to Rs. 1200, that will cover it.

Shri Nambiar: You mean to say that Rs. 350 must be the starting pay.

Shri Chanda: This minimum is very necessary. The Inspector has got so many commitments. He has got to entertain people and he must have that minimum standard. Otherwise he cannot represent nicely.

Shri Sadhan Gupta: You say that there is a scheme for rationalisation in clause 10 sub-clause (2) of the Bill. Regarding that I want to ask you a question. You have complained that that scheme does not provide for gratuity. Do you not think that a provision for gratuity to the field staff whose services are being terminated, because they will have to go out of this line altogether in view of the monopoly, would be fair in view of the provision in the Bill that shareholders should be compensated on the basis of the supposition that they will not

be able to earn in the future what they are earning today?

Shri Chanda: The point is not quite clear.

Shri Sadhan Gupta: There is a principle laid down on which compensation is proposed in the Bill for shareholders. Don't you think that the same principle should apply to field staff whose services are being terminated and suitable gratuity should therefore be paid to them because they will also no longer be able to have their insurance business?

Shri Chanda: Certainly we want that benefit for the workers. But I have come here before you with the idea that the persons whose services have already been terminated after the issue of the Ordinance should come in and then there will be no scope for any termination and every such person will be provided with services in accordance with his qualifications, etc. But supposing the shareholders are given compensation, the workers, after termination, should get compensation by way of gratuity or otherwise. That is just the minimum consideration they want.

Shri Sadhan Gupta: As far as the Pay and Service Commission are concerned, there has been a suggestion that they might be appointed by the Corporation itself. Do you think that if the Corporation itself appoints the Pay and Service Commission, such Commission would not very much command the confidence of the workers? Because the Corporation itself is a party to the whole thing and under the scheme of the Bill, the Corporation is practically not a representative body but a body nominated by the Government.

Shri Chanda: If the composition of the Corporation is on the line suggested by us, it is all right. We have said in the Memorandum as follows:—

"Substitute the clause by the following:—

The Corporation shall consist of 15 Members of whom three will represent the Parliament, three will represent the Policy-holders,

[Shri Chanda]

one each to represent the registered associations of the Actuaries, the Salaried Field Workers, the Office Employees, the Agents, the Medical men and the Central Government shall appoint four members, one of them as Chairman. The procedure of election or nomination shall be determined by the Central Government from time to time to ensure the democratic character of the Corporation consistent with relative efficiency. On the expiry of two years from the date of appointment one-third of the members shall retire by rotation".

Supposing a Corporation of that nature comes into being, then I think the workers will have nothing to grudge.

Shri Sadhan Gupta: Another question I want to put to you is regarding the organisers. I think there is a very considerable phenomenon or dummy organisers in the life insurance business, that is to say, dummy organisers and dummy agents also. That is to say, people in whom they are interested and for whom they want to provide something are made organisers. There are dummy agents also. In some cases their salaries are not interfered with even though they do not bring in sufficient business. Don't you think that this kind of organisers should be liquidated as soon as possible?

Shri Chanda: We have probably somewhere suggested that spurious appointments and *binami* appointments of inspectors, etc. should go and that they should not find any scope under the Corporation.

Shri Sadhan Gupta: Lastly, you have said that there should be some sort of examination in case of future appointments of field staff. Don't you think that if you have to have such an examination, there should be adequate training facilities also provided, because otherwise there would be no basis on which such examinations could be held?

Shri Chanda: So far as examination is concerned, we never suggested that only the field workers should come within the scope of examination. I think from administrative heads down-wards to people who draw Rs. 300 all should come under the purview of the examination and they should be given opportunities according to their efficiency and qualifications they possess. No matter, they might be drawing a salary of Rs. 3,000 or Rs. 5,000, still they must be brought under this.

Shri Sadhan Gupta: Don't you think that in order to make the scheme of examination a success, some of the training facilities—say insurance schools or some such institutions should be run either by the Corporation or the Government?

Shri Chanda: That is what we expect. I think that these things will come automatically. After all, without training men how can the Corporation attain its objectives? We have not stated that. That is a simple thing and that should come by the nature of the thing we are having in view.

Shri G. D. Somani: You have said on page 5 of your Memorandum that the Corporation should be pre-eminently conducted on business principle in its approach as well as in its different sphere of activity. I do not know if you are aware of the general impression in informed quarters in the country that most of the statutory corporations at present operating are functioning more or less as Departments of the Government. In view of that impression, would you like to suggest any particular aspects about the working of the Corporation so that it may not result in the same manner as if the Corporation will again function as a Department of Government?

Shri M. C. Shah: It is your assumption.

Shri G. D. Somani: The Estimates Committee of the House said that all

the statutory corporations are at present functioning as more or less Departments of the Government. That is the conclusion of the Estimates Committee of the House.

Shri Chanda: There might be darkness in the past. But I think the Select Committee, or whoever it may be, will not be guided by the past darkness. Let us try to have some better view of the future and I think the position of the Corporation as suggested by us will be quite capable of coping with the situation.

Shri G. D. Somani: About the composition of the Corporation, you want on the one hand that it should function on business lines. Don't you think, for that purpose, it is imperatively necessary that business people with experience about industries and talents are unavoidable and they should be included in the set-up of this organisation?

Shri Chanda: We are fed up with the experience of those gentlemen. The more they are kept out of the picture the better it is for the country as a whole.

Shri G. D. Somani: Don't you agree that the advance of this industry is mainly due to the business people who were running it efficiently?

Shri Chanda: They did not, as a matter of fact, run it as a public industry. That was exclusively a private industry for their own benefit. The less we talk about it the better it is.

Shri G. D. Somani: Then you say that, so far as your reading of the conduct of business by Government is concerned, between the date of issue of the Ordinance and now, there were instances of reduction of emoluments, etc.....

Shri Chanda: That is because the private insurers are actively associated or are misleading Government. That is why we have come now before the Committee.

Shri G. D. Somani: You have said something about the premium rates being revised. Don't you think it is

a hasty step without proper assessment of the situation?

Shri Chanda: Our point of view is this: If the premium goes down by Rs. 5 we have no objection. If it is announced that it will be reduced, then it is difficult to underwrite business because people will be awaiting this reduction.....

Shri M. C. Shah: Are you not aware that already in the Finance Minister's announcement it has been mentioned that there will be no reduction of premium in the near future?

Shri Chanda: Yes, Sir, but our memorandum is prior to that date.

Shri G. D. Somani: Do you realise the fact that since the insurance business will now be functioning on a monopoly basis there will be great scope for reduction of field staff? What measures will you suggest to avoid reduction of expense ratio by retrenchment of staff and other measures?

Shri Chanda: These are the arguments generally advanced by the private insurers because by putting forward this expense ratio and actuarial valuations and other things, they want to create a condition so that Government go back to their decision and they are allowed to rob the people in their usual way. As a matter of fact, the actuarial valuation of the private insurers will be quite different from the valuation of the Corporation which commends the entire business of the country. The interest earning and the expenditures will be entirely different from those of the competitive concerns who did not care for the sentiments of the workers and who did not care for the sentiments of the shareholders even the sentiments of the policy-holders; they misused their powers and manipulated matters. So, we distinctly differ. What will be the future of the Corporation is yet to be seen.

Shri Syamnandan Sahaya: You have suggested on page 5 of your Memorandum, item (k), that Chief Agency and Special Agency should

[Shri Syamnandan Sahaya]

be abolished and that they be absorbed in the new set-up in accordance with their merit. Are you of the opinion that the Chief Agency or the Special Agency system from the point of view of (a) expense ratio, (b) larger business and (c) less lapses of policies has been in any way worse, or in certain matters, better?

Shri Chanda: I have been telling about the future. We were not considering about the past.

Shri Syamnandan Sahaya: Please do not generalise. We want some information from you. The world moves on the past. You cannot ignore the past. Is it your view that the abolition of Chief Agency or Special Agency will result in less cost, less lapses and more business? That is the point. Of course, we shall consider what should be done about the past.

Shri Chanda: I have already told you that the Department of Controller of Insurance has not given us any data regarding the cost and incidence of lapses in Special Agency and Chief Agency. How can I jump to conclusions without knowing the data fully?

Chairman: You have only to say that you do not know. You say "Yes" or "No". If you know the answer, you say it; otherwise say "I don't know".

Shri Syamnandan Sahaya: There is another point I want to ask. Supposing all of them are not absorbed, would you suggest any compensation to be paid to them?

Shri Chanda: Certainly. They have to be given some compensation.

Shri Syamnandan Sahaya: The other thing you said was with regard to the Service Commission. Supposing a Service Commission is set up at present with a view to find out who should be retained and who should not be retained. After that, there need not be any permanent Commission. There may be a Tribunal, for instance, to consider cases of appeal. In the

beginning, the Commission will go into all the cases and make definite recommendations. After the Commission's work is finished, as Mr. Patil suggested, would you like to have a kind of a Tribunal which will hear appeals and decided matters? Would that meet your point of view?

Shri Chanda: Yes. I have already suggested that the scope of the Tribunal should be extended so far as the employees' grievances are concerned.

Shri Feroze Gandhi: You have suggested that an examination be held for the purpose of selecting agents. Would you have any objection if for the purpose of weeding out of the present agents those who are bogus agents, a Board is appointed to do this selection and carry out this weeding out of all the bogus agents?

Shri Chanda: I have no objection.

Shri Feroze Gandhi: Would you agree that if a Board like this is appointed for the purpose of weeding out all those useless and bogus agents, it would serve the purpose?

Shri Chanda: Yes. Such a Board should be appointed.

Shri Feroze Gandhi: If such a Board were to find that out of the present 70,000 agents, there are, say, 10,000 who are bogus ones, would you say that these people also should be compensated?

Shri Chanda: So far as these people are concerned, they will be getting the privileges under the Insurance Act. They will be getting the hereditary renewal commission.

Shri Feroze Gandhi: Some may be on salary.

Shri Chanda: No agents are on salary.

Shri Feroze Gandhi: Now about the future set-up of agents, special agents or whatever it is, would you agree that before a certificate is given to an agent by the Corporation this agent or special agent, or whatever you like to call him in the future set-up, should pay cash security? You suggested a

salary of Rs. 125 plus Rs. 100 as part of the Commission which will be adjusted later. To protect the Corporation as well as the policy-holders in future, do you think it would be necessary or it would be a good thing to take a cash security from the agent before a licence is issued to him? It might be, say, 3 times or 5 times of his monthly salary.

Shri Chanda: So far as I know about the agents, 90 per cent of them will not be in a position to pay cash security even to the extent of Rs. 200. If it is necessary, I think a Fidelity Bond will serve the purpose.

Shri Feroze Gandhi: That is all right.

Pandit K. C. Sharma: After the consolidation of the business and coming under one management, do you envisage, or not, that the services of a lot of people would be terminated? Do you expect that everybody in the business will get employment in the new set-up?

Shri Chanda: I am sorry I have not followed your point.

Pandit K. C. Sharma: It is like this. Suppose you have not got your lunch now, do you expect that in the night you will take double the quantity? So once the business is consolidated and comes under one management, it naturally follows that some people have to go out. They cannot all be employed.

Suppose, as it is likely to happen, services of surplus staff are to be terminated. What do you expect? Don't you cling to the contractual clause? That is, whatever are the obligations of the employer will be met by the new set-up of employers. Why should you expect anything more?

Shri Chanda: I cannot exactly follow you.

Pandit K. C. Sharma: My question is that if a man is employed by the Company, he executes an agreement.

In that agreement there is a clause about the termination of services. What I mean to point out is that after his services are terminated in the new set-up, he will be entitled to only so much as is the obligation of the previous employer in lieu of the termination notice.

Shri Chanda: The agreements are drawn up by those who are in power and the man who seeks employment has no other alternative but to accept it. So I think when these agreements are transferred to the Corporation, they will revise the nature of the contracts and they will be given all possible relief which has been refused by the previous employer.

Pandit K. C. Sharma: Beyond the Agreement, you want something?

Shri Chanda: Those agreements drawn up by companies are for the benefit of the employer and not in the interest of the employee. So people had to accept it not because of love or respect for the agreement, but they had no other alternative but to accept it when sufficient scope for employment does not exist elsewhere.

Pandit K. C. Sharma: That is to say in regard to remuneration, you also want human consideration.

Shri Chanda: Yes. From the point of view of socialist pattern of society, one is supposed to receive some human consideration.

Shri Matthen: You suggested the appointment of a Pay and Service Commission and Mr. Patil pointed out that there might be no work except in the initial stages. Would it serve your purpose if a Pay and Service Commission is appointed not only for the Insurance Corporation, but for all the public corporations, like the Sindhri, DVS, etc.?

Shri Chanda: That is not within my scope to suggest such a Commission to all the Corporations.

Shri Matthen: I think Mr. Somani asked you about the Chief Agents and Special Agents. You said that you

[Shri Matthen]

have not got the data. Suppose the data is that the Chief Agents and Special Agents are cheaper, more efficient and there are less defaults. Do you recommend your suggestion that they must be abolished? Am I clear to you? In their memorandum they alleged that they are cheaper, they are more efficient and there are less defaults. If that is true, would you recommend that they should be abolished?

Shri Chanda: Yes. Still in the matter of bringing uniformity, we suggest the same thing, because I have already said that one class of worker getting 65% another 50%, another 35%.....

Shri Matthen: Please answer my question. My question is if what they allege is found to be correct, do you want them to be abolished?

Shri Namblar: If whatever the Chief Agents said were true, that they cost less, they do more business, etc., do you want them to continue? That is the question.

Shri Chanda: It is exactly like a proposition if the private insurers come and suggest that the industry may be managed by them in a cheaper way and so there should not be any nationalisation.

Shri Matthen: That is all right. There is one point more. The malpractices of these proprietary companies in the private sector were mainly responsible for nationalisation. I want to know what was the record of the mutual companies when compared with the proprietary companies. You come from a mutual company.

Shri Chanda: I do not come from a mutual company. It is the shareholders' company.

Shri Matthen: Were these mutual companies better than the proprietary or shareholders' companies in the matter of management, less malpractices or corruption?

Shri Chanda: I have already submitted that malpractices were prevalent in all companies, but it varied as

a matter of degrees. So far as I think, malpractices in mutual companies were much less than in proprietary concerns.

Shri Matthen: If I remember correct, you said profit should not be the main consideration in the administration of this Corporation. But you have stated more than on one occasion in your Memorandum that the Corporation should be run on a business like way. How do you reconcile the two?

Shri Chanda: By saying "business-like" we have simply stated that services to the policy-holders and to the agents and other persons should be given quickly—efficient service.

Chairman: Have you anything else to say?

Shri Chanda: No.

(Witness then withdrew.)

II. Insurance Underwriters' Association of India, Calcutta.

Spokesmen:

(1) Shri S. S. Ali.

(2) Shri Ajoy Ray Chowdhury.

III. Bombay Life Underwriters' Association, Bombay.

Spokesman:

Shri R. N. Chopra.

(Witnesses were called in and they took their seats.)

Chairman: Both of you have submitted your memorandum. Besides what you have submitted in the memorandum that you have presented to us, have you any fresh points to make?

Shri R. N. Chopra: After we have submitted our memorandum dated the 12th March certain things have happened which make it necessary to take some of your time. So far as agents are concerned, orders have been issued affecting their jobs, not only for the new entrants which you can appreciate, but for the existing effective agents also. For instance, the Bombay Life have issued a letter to all their existing agents. Suppose a man has

run into the 60th year and he has established business over a period of years, and now, because of age or sickness or other reasons, has kept away. Now they are going to say that there should be Rs. 40,000 business per year on ten different lives. It will be very unfair to change the terms of the existing agents, particularly in the light of the assurance given on the floor of the House by the hon. Mr. Deshmukh on the 19th of March.

Chairman: Suppose there is a machinery to hear appeals with regard to any such cases provided in the Bill. Will that satisfy you?

Shri R. N. Chopra: That alone will not satisfy us because, as you are aware, there is a section, section 44 of the Insurance Act, which is our *Magna carta*. This came to us after very long struggle in 1950. It came into force on the 1st January, 1951 (Act XLVII of 1950), Insurance (Amendment) Act.

Chairman: Do you mean to suggest that there should be no change whatsoever, whatever happens? Is that the stand you take?

Shri R. N. Chopra: We will only say even the Constitution, probably article 19, permits reasonable modifications. So, if the modifications are reasonable then it is all right. For instance, supposing, as has been usual in this industry, an agent was called upon to do two or three nominal cases that will probably be correct. But to ask a man that he must do Rs. 40,000 on ten different Life Companies is unjust. In bigger cities it may be possible.

Chairman: Have you followed my question? There are certain orders, as you say, passed to the detriment of certain category of persons. Supposing the Bill provides for some machinery to hear appeals in all such cases?

Shri R. N. Chopra: That will be nice.

Chairman: That goes into the question and looks into the matter of hardships or whatever is there. Will that meet your point?

Shri R. N. Chopra: That will, to a very great extent, meet our point. But I would be a little more precise on that point. According to the Government—the Finance Minister—agents are not employees and all contracts between them and the insurers will stand transferred immediately before the appointed day to the Corporation. That is what he meant by that although he did not say it in so many words. Our rights are covered by section 8. If you before the appointed day take away our rights then you are blowing hot and cold because immediately before the appointed day itself these rights are not existing.

Chairman: What do you mean by “you”. We are looking into the matter. We have not done anything.

Shri R. N. Chopra: You are our protector.

Chairman: You can say “Government”. This is Parliament.

Shri R. N. Chopra: What I mean is: Parliament is the Protector of the citizens. Therefore we have to come to you because things are being done in a great hurry without looking into every aspect.

Chairman: What is the suggestion?

Shri R. N. Chopra: There is one suggestion which I want the Government to consider carefully. All the existing agents should be given a letter that their services are being transferred to the Corporation and that no agent's appointment will be cancelled during the two months.

Chairman: Whether the Corporation wants to retain them or not, no previous action should be taken with regard to such matters?

Shri R. N. Chorpra: Exactly.

Chairman: Supposing it is necessary in the interest of the insurance work itself that some action should be taken because of the circumstances which might be before them. Supposing the Custodian has to take some action. Then, if we provide a machinery to hear the cases and go into the matter

[Chairman]

and decide on merit, if there is some machinery for that, will that suffice?

Shri R. N. Chopra: That will satisfy us, but not to the extent that we wish.

Chairman: Not hundred per cent?

Shri R. N. Chopra: No.

Shri S. S. Ali: If sections 40 to 44 are incorporated in the new Act and if there is a machinery to hear appeals that will be there, we will be perfectly satisfied.

Shri R. N. Chopra: We understand there is a move that the special agents should be eliminated. Only last week orders were issued from here to all principal offices of Custodians terminating the services of these special agents all over India. They are about 5,000—to be exact, of the order of 4,800 and odd. To deprive 5,000 families who are gainfully and lawfully employed in a very social service all of a sudden without giving them any alternative employment will be unfair to them.

Chairman: Do you know of cases in which terms of the contract are changed or modified before the expiry of the term of the contract?

Shri R. N. Chopra: I do not follow.

Chairman: There must be some period for a contract. The period has expired. If the period has expired, then the terms might be changed in the ordinary course. But are there instances in which the terms are changed or modified before the expiry of the contract, namely, before the contract period?

Shri R. N. Chopra: The services of special agents are going to be terminated.

Chairman: With regard to the agents are there any instances in which the terms of the contract are sought to be modified or changed before the expiry of the term?

Shri R. N. Chopra: Yes. Both of agents and special agents.

Chairman: Then you can quote certain instances and you can send them to us afterwards.

Shri R. N. Chopra: I have got the circular of the New India here. Bombay Life also received it this week.

Chairman: You can give it to the office.

Shri Feroze Gandhi: Whose services have been terminated?

Shri R. N. Chopra: The services are being terminated so far as special agents are concerned. Orders have been issued that they should be terminated.

Shri Feroze Gandhi: Their services are going to be terminated?

Shri R. N. Chopra: Yes. So far as agents are concerned, their services are going to be terminated. This circular has effect all over India. As a matter of fact there is a fantastic word used by the new India Custodian. First he says "I am, therefore, happy to state that your appointment continues to remain in force". They say "while you should welcome nationalisation and be prepared to shoulder the burden" and that sort of thing. It also refers to the share of the agents (it is addressed to the agents). But on page 2, paragraph 2, it says "if your appointment as agent calls for a notice for alteration of the condition of their terms, please treat this letter as such notice." This is really very fantastic. This is really a very problematic provision. By a stroke of the pen 20,000 or more people are affected.

Chairman: You have made your point.

Shri R. N. Chopra: We were talking about agents. These people are lawfully and gainfully employed.

Shri Feroze Gandhi: By whom are they protected?

Shri R. N. Chopra: By section 44 of the Insurance Act.

Shri Feroze Gandhi: What are these Underwriters? Are they chief agents?

What is the Underwriters' Association?

Shri R. N. Chopra: Selling life insurance is called underwriting. We do not represent chief agents. We represent agents, and special agents working only on commission basis.

Chairman: You represent agents and special agents working on commission basis?

Shri R. N. Chopra: Yes. That means, we hold no brief for chief agents. I hope we are clear on that point.

Pandit K. C. Sharma: How does your organisation differ from the chief agents? How do you differ from ordinary agents?

Shri R. N. Chopra: The Chief Agent under the Insurance Act is a person who is assigned an area exclusively, and that area under the Insurance Act shall not be less than a geographical district. As a matter of fact, Chief Agents usually have a province or a State for themselves. They may have two States but not less than a district.

Pandit K. C. Sharma: What does the Chief Agent do?

Shri R. N. Chopra: He usually runs a sort of parallel branch. If there is no branch, the smaller companies used to have chief agencies and they fixed their expenses.

Pandit K. C. Sharma: On the basis of certain commission, the Chief Agent appoints other agents under him. There is no salary. Parallel to this organisation there is a branch system.

Shri R. N. Chopra: Not in that district.

Pandit K. C. Sharma: There is such a thing as branch system. There may be a branch of other companies. There is another thing called the Chief Agency system.

Shri R. N. Chopra: We do not come into this picture at all.

Pandit K. C. Sharma: Do you belong to the branch system?

Shri R. N. Chopra: I will make myself clear. We represent the agents, the lowest rung of the ladder, and the next higher rung of the ladder, the special agents. We do not represent the Chief Agents. As a matter of fact, our stand is this, that according to the Insurance Act, as it stands and the various codes of conduct evolved from time to time, there should be only one middle man between the branch and the agent. That is the ideal position. But, unfortunately smaller insurance companies and even bigger ones excepting the few who strictly follow the law, (like the Oriental and a few other foreign companies), with a view to compete with each other, introduce more than one middle man. They name that differently as Organising Secretary or Organising Inspector and so on.

Pandit K. C. Sharma: Are you such a group?

Shri R. N. Chopra: No. We are running down such a system, you may look at our memorandum. We have suggested "payment by results." We have stated in our memorandum that recently among the dock workers the Government of India has introduced a system of payment by results which is the only fool proof system. So, we want payment by results. We get under the law a maximum of 15%. We do not want 16%. I represent the Norwich Union and Mr. Ali represents Sun Life. The position is this. I am talking of the best of companies like the Oriental and the foreign companies. These companies were not contravening the law and they were not giving more than 15%. Even that 15% was available only in stages. The 15% was actually available only for business of Rs. 3 lakhs. That system is a fool proof system. We have just looked at the Year Book, and with your permission, I shall just give some idea of the lapse ratio from the

[Shri R. N. Chopra]

year 1951 as shown in the Government Blue Book:

	<i>Ratio</i>
Hindusthan Co-operative Insurance (for four years)	130%
Oriental	.. 89%
New India	.. 129%
Sun Life	.. 18%
Norwich Union—the oldest British concern in the world	.. 32%
It is 18% and 22% for those last mentioned companies because they have no paid system.	

Chairman: You want to maintain that system by which agents are paid on the results they produce rather than having salaried persons who are provided berths comfortably whether the results are there or not. You would like people to be paid according to what they produce.

Shri R. N. Chopra: So far as the rural areas are concerned, you have got to have the Inspectors. So far as smaller towns are concerned also, you have got to have these Inspectors because you expect some service from them. In bigger towns, specially of 5 lakhs and over, you cannot at this stage, until you have known where you stand, scrape that system. That will be against your own interests. Give a trial to both the systems and in rural areas have the Inspectors. But it will be in the interests of the Corporation and also in the interests of the nation to run the parallel show at a fixed cost of 15%. Government, like the Oriental and the British companies, will execute the deal. There won't be Organising Secretaries or Organising Inspectors. I told the Finance Secretary in Bombay: "When you are going to execute, there will be no malpractices. You will be the executor."

Shri S. S. Ali: I have asked in the memorandum of the Calcutta Under-Writers' Association permission to write business on foreign lives. In

clause 25 I have asked for a special proviso to the effect:

"That this will not prevent life insurance or annuity policies being taken out in a non-Indian currency on the life of a non-Indian national, temporarily resident in India, with an Insurer incorporated outside India."

There is a very large population of Europeans in India with whom we do a profitable business. If we do not do that business, it will go to insurers in their countries. That means loss to us.

Chairman: You want to confine your business to foreigners. Do you want Indians also to be insured in foreign companies?

Shri S. S. Ali: The Corporation wants the exclusive right to do business on Indian lives. That we cannot interfere with. But the Corporation policies will not be suitable to foreigners. When a policy-holder is transferred outside the country, his policy cannot also be transferred with the result that he has to surrender his policy or make it into a paid-up one, which is naturally a loss to him. In order to sell policies to them, we have to deal with foreign insurers and in a foreign currency, and we have asked for your permission for that. This is being done to a very great extent even now. But we cannot do so unless we get approval from the Government.

Chairman: You would like that to be confined to the foreigners and that only the foreigners in this country should be insured. Is that what you want?

Shri Feroze Gandhi: Would that mean that foreign companies will be allowed to establish their offices in India?

Shri S. S. Ali: They won't have offices.

Shri Feroze Gandhi: They would be insuring the lives of foreigners. Will

they be entitled to have their offices in India?

Shri S. S. Ali: It will be convenient if permission is given. The other difficulty is that we have to establish direct connection with foreign insurers and this is very difficult. Very few companies want to do business in a country where they cannot supervise the business.

Shri M. C. Shah: What do you want us to provide for? Here under clause 25 monopoly is taken over by the Government. Any life insurance business, if it has to be put through, must be put through this corporation. Even a foreigner can insure. If a foreigner wants to insure his life in the Corporation, there is no objection. If he is in India, why should he be given any other facilities except through this Corporation? Why should we give him extra facilities

Shri S. S. Ali: The only difficulty is that most of these foreigners stay in India only for a short time. Most of them then leave this country either to go back to their own countries or to other countries, long before their policies mature. Under the present system we transfer the policy to the particular branch in the country he is going to.

Shri M. C. Shah: Because foreign insurance companies are working in India, they get their policies in foreign currency. We do not propose to have such insurance policies after the Corporation is formed.

Shri S. S. Ali: The Corporation will not have them.

Shri M. C. Shah: If suppose they stay here for a year or two and if they propose to take policies with the Corporation, they can do so. Whenever the conditions are fulfilled, they can get back the money. Why should we take these policies here and then again transfer them to those foreign companies?

Shri S. S. Ali: An Insurance policy is a long-term contract. A man may be here for five years and then he may go back to the United Kingdom. How will he maintain that policy?

Shri M. C. Shah: If he has got a policy, then there are branch offices where he can pay his premium. Suppose he has got a policy, he can arrange to get the premium paid here.

Shri S. S. Ali: If the Corporation is prepared to establish service branches outside the country, then it may be feasible.

Chairman: Is there anything in the Bill which prevents you from acting as agents for foreign companies or foreigners in India? There is nothing like that. So far as the Corporation is concerned, supposing the Corporation.....

Shri M. C. Shah: I will make it clear that no agents will be allowed to take insurance policies in foreign companies. None will be allowed.

Chairman: As I said, so far as the Corporation is concerned, when the Corporation is established it will look into the difficulties that you envisage and if it establishes branches elsewhere, then there would be no difficulty.

Shri S. S. Ali: I do not think the Corporation as a Government concern can have branches in other countries. It is all right for private companies to have branches.

Chairman: There might be some concerns coming to Government and they might be continued in some form.

Shri S. S. Ali: There is no arrangement possible.

Shri V. B. Gandhi: In order to meet the difficulty raised by the Minister, can you not conceive of any arrangement where the Corporation can have arrangements of nominal agencies with foreign companies established who can pick up this business and pass it on through the Corporation? Nobody else can act as agents in India except this Corporation.

Shri S. S. Ali: We will be very pleased to do so. But the Corporation will not do it.

Shri V. B. Gandhi: Suppose the Corporation is willing to do it. Then, would you suggest some suitable amendments?

Shri S. S. Ali: I will be very pleased to do that.

Shri V. B. Gandhi: I think the amendment you have now suggested makes it possible for business to be done on foreign lives entirely independent of the Corporation. I would like you to consider this: If you cannot possibly suggest some amendment by which the Corporation can accept nominal agency arrangement for foreign companies, you would then be booking this through the Corporation.

Shri S. S. Ali: We would be very pleased to do it. I have not been able to find a suitable solution. But if the Government will do something whereby a foreigner can take a policy in a foreign currency through the Corporation and arrange for service of that policy abroad, should the man be transferred outside, we would be delighted. We want nothing more.

Shri V. B. Gandhi: Whereby the responsibility of servicing that policy would be automatically transferred to the parent company.

Shri M. C. Shah: May I make the position clear? According to clause 25, as it stands, none will be in a position to take life insurance policy from any person in India, whether he be an Indian national or non-Indian. If he wants to insure, he can insure only with the Corporation, unless that person directly insures with the companies outside India. That is a different thing and we cannot stop this. Suppose they insure themselves with the Corporation, then the only question of difficulty will be regarding the servicing. Premiums have to be paid and claims have to be made. Those are the arrangements that can be thought of by the Corporation if there

are people—non-Indians—who get themselves insured by the Corporation.

Shri Matthen: That is why he has suggested the amendment.

Shri M. C. Shah: The amendment is not necessary. Life insurance business is a monopoly.

Shri S. S. Ali: You are perfectly right in demanding this arrangement. This is not a business in India for the purpose of the Act. But why should you deprive us, the agents, of the little money that we can make by doing it ourselves?

Shri M. C. Shah: That means we are discriminating. Suppose they will...

Shri Matthen: No discrimination.

Shri M. C. Shah: But then those agents will take the life insurance of non-Indian nationals.

Shri S. S. Ali: What is wrong with that?

Shri M. C. Shah: That means we will allow those foreign insurance companies to appoint agents here. Then, we will have to scrutinise and find out whether they are Indians or non-Indians.

Shri Syamnandan Sahaya: What objection could there be if an Indian national gets some money from a foreign country? You are going to get your commission. Make the point clear.

Chairman: I think the point is clear. Anything else?

Shri R. N. Chopra: I may point out one technical difficulty. A special agent in India gets a certificate for working in India for 12 months. Some certificates were issued even last month. They are being renewed. Now the position is this: A man holds a certificate for 12 months, let us say, till March, 1957. But you are acting in just a contrary manner. You are giving him a licence for 12 months

and you are at the same time asking him not to work. This is just like an Advocate saying 'you issue me a licence for one year and tell me I cannot work'.

Shri M. C. Shah: That is before nationalisation.

Shri R. N. Chopra: They are being renewed every day.

Shri M. C. Shah: What is it that you want now?

Shri R. N. Chopra: What we want to point out is that this is an anomaly whereby a special agent has been permitted by the Controller to work for 12 months, let us say from today onwards. Now you pass an order to stop him from working whereas the Controller is allowing him to extend the period of 12 months. This is very anomalous.

Shri Syamnandan Sahaya: You have adopted both systems, that is, special agency system and commission agency system. What is your experience? Is the commission agency system less costly and the business is larger and the renewals are claimed and the policy is not easily lapsed?

Shri R. N. Chopra: You have asked me two questions: One is, you ask me which is cheaper. Coming to that, as I stated in the beginning, special agents get only 15 per cent. That is the maximum. But an Inspector gets his salary plus travelling allowance plus provident fund benefits. Usually, excepting the Oriental where it is 17½ to 20 per cent, in smaller companies Inspector's cost is from 25% to 35%. It is much cheaper to have special agents on a fixed percentage. Your second point is about lapses. The only two companies which are only working on special agency system are Sun Life of Canada and Norwich Union and the lapses are 6 per cent. and 8 per cent. respectively.

In the Sun Life of Canada, according to their system, there is the Branch Manager and below him are agents. There is no intermediary in between. Now, I am giving you some

figures. For the last three years their Calcutta Branch has done business for Rs. 2 crores a year on an average. The number of agents working under the branch is 120 or 150. It means, production per agent comes to Rs. 1,500,000 or Rs. 1,75,000. Agents' commission is over Rs. 6,000 a year and lapse ratio is 5 to 6% on Indian business—that is 90 per cent. of business is Indian business as against 30% in the best of Indian companies, Oriental. Lapse ratio in New India is about 40 per cent. and in Metropolitan about 57 per cent.

The system employed by the Sun Life of Canada is the system employed throughout America. There is no intermediary between the Branch Manager and the agents. They do not employ too many agents. They train them and there is no question of *binami* agents. As average Indian agent earns about Rs. 300 a year, that is about Rs. 25 a month, whereas an agent in the Sun Life of Canada earns about Rs. 550 a month. You can see the difference. So, before you introduce a system or a new set-up, you should study this as well as the policy conditions.

Here is something I should like to mention. The surrender value guaranteed in a policy of the Corporation for Rs. 10,000 Endowment 20 years after 5 years, is Rs. 600. Now, in the Sun Life of Canada, on the same policy at the end of 5 years, the surrender value is about Rs. 1,700. So you see to what extent the public are subjected to loss.

Shri Syamnandan Sahaya: Is the premium the same?

Shri S. S. Ali: The difference is only about Rs. 2 or 3 per 1000. Now see the difference. In one case, the amount is Rs. 600. On the same policy, in another case, it is Rs. 1,700. If you are foisting upon the public a policy contract without going into the merits of different types of policies that, I do not think, is right. Before you decide as to what policy the State should offer to the public,

[Shri S. S. Ali]

there should be a Committee to study as to which should be the right type of policy. It is our experience that almost 82 per cent. policies have to be borrowed against or surrendered, or converted into paid-up policies before maturity. This is Indian business and in this when there is such a difference in surrender value—one is Rs. 600 while the other is Rs. 1,700—you can see how the public are being subjected to heavy loss on account of the absurd policy conditions. This is the system in the whole of America. There should be a proper enquiry committee to go into this matter. The State policy is absolutely out of date. In America and Canada, there is no salaried appointment. There are agents and Branch Managers. Why should we not have that system here? There should be a proper enquiry committee to go into this matter.

Shri R. N. Chopra: There is an impression that the agents by *binami* transactions are earning large sums of money. I would in this connection invite your attention to page 68 of the latest Year Book. There, you will find that the agents' commission came upto—both Indian and foreign companies—Rs. 3,79,00,000 and the number of agents comes to 2,80,000. Now, even assuming that ladies are about 1/3 of this, that is if you take out 80,000, and another one lakh is also *binamidars*. If you work out, you will find that the total commission earned by an Indian agent comes to Rs. 380 per year. Now, even if you include the renewal commission, the incidence on the Government will be so small but you will be protecting about 2 lakhs of families without having to pay much.

Shri M. C. Shah: What is your point?

Shri R. N. Chopra: What I say is that section 44 should be maintained.

Shri M. C. Shah: That section is in regard to renewals.

Shri R. N. Chopra: It gives hereditary renewals and other rights to the agents after a certain period. Your point is that section 44 should apply to the agents in the Corporation also?

Shri R. N. Chopra: Yes, it should continue to apply to them.

Shri Matthen: You said the system followed in America and Canada is better than here. But India's conditions are quite different from America or Canada. India is a poor country. I do not think the agency arrangement like yours, where payment is made only on the business turned out, will enable people to exploit the potential of small rural areas.

Shri S. S. Ali: I cannot say about the rural areas, because I have no experience of them. We applied the same system in India as applied in Canada and America and the average earning of the agent was over Rs. 500.

Shri Matthen: I agree with you. My point is in the rural area a man may not get worthwhile remunera—a definite answer to that.

Shri S. S. Ali: I cannot give you a definite answer to that.

Shri T. N. Singh: I was out. I wanted to know one thing. Is it the contention of the witnesses that these special agents and the salaried agents should continue side by side as a parallel system of organisation or do they expect one of these to replace the other? I could not follow the last remark. Is it contended that the special agents should be there and others should be eliminated?

Chairman: Both will work: one in certain fields and the other in certain fields. They say that the special agency system is more profitable and is maintained in advanced countries.

Shri T. N. Singh: Do they want both the systems?

Chairman: Within specified areas, each will work.

Shri T. N. Singh: There will be demarcation of areas exclusively for each?

Shri Matthen: Like rural and urban areas.

Shri Sadhan Gupta: A comparison was made on the score of efficiency between Indian and foreign companies on the ground firstly that foreign companies had less lapse as they work under special agencies and secondly they give more surrender value. These two points were emphasised with a view to show that this system of agencies on commission is superior. Now don't you think that there is a fallacy in your argument that this higher lapse ratio in Indian companies is due firstly to the mad rush for getting more business to show inflated figures on account of competition and secondly the lapse is due to the fact that the business they get is inferior compared to the business the foreign companies book, because the foreign companies go in for policies of higher value and the policy-holders are better able to keep up their policies than the policy-holders of lower value.

Shri S. S. Ali: The high lapse ratio is due primary to bad business done for competitive purposes. I do not want to decry anybody's methods, but some of the stories I have heard from people who are themselves organizers show that they have to finish a certain amount of business at the end of the year, otherwise their salaried appointment goes. I shall give you the experience of one particular man. He said: "About the end of the year, I go and get about 200 application forms signed, 200 medical forms signed on which one month's premium is to be paid. The doctor gets Rs. 8, he pays the premium of Rs. 4 and he is quite happy over the other Rs. 4. The doctor never sees the cases. At the end of the year the business is put

through". So this agent gets credit of Rs. 2 lakhs or Rs. 3 lakhs of business. The 2nd month's premium is not paid and the policy lapses. One month's premium is paid by the doctor, but he still gets Rs. 4 per case and he is quite happy. It is not inferior business or superior business. There is no man who is so mad that he will take a policy and let it lapse after one month. At the end of the year, 60 per cent. or 50 per cent. lapses can be explained only by the mad rush without any ethics, without any system behind and without anything behind it at all. It is difficult to sell a policy, but it is more difficult to get rid of it. Nobody would want to get rid of a policy after one month.

Shri Sadhan Gupta: You would agree that when the Corporation is established, there may not be that competition, and mad rush for business which makes companies grab at any kind of business and also of showing bogus business with a view to inflate the amount of new business for propaganda purposes. Also, under the Corporation even if the appointments were to be made on salaried basis, this kind of evil would be very much less.

Shri S. S. Ali: I quite agree. Once the Corporation takes over, this mad rush for business and publicity will disappear and the quality of business will be better and the lapse ratios will improve.

Shri Matthen: What about the volume of business?

Shri S. S. Ali: This present volume is absolutely bogus. If you see that the volume of business is Rs. 40 crores, on the first of next month, Rs. 20 crores disappear. It is not Rs. 40 crores. This is bogus business.

In the future set-up, there is no reason why business should not improve. More people are getting into employment; national income is rising and the people have become more insurance-conscious.

Shri Matthen: The spirit of competition also goes.

Shri S. S. Ali: It is one factor. The removal of competition is a very disconcerting factor, but that can be offset to a certain extent by creating competition between branches or zones. A circular letter could be issued showing the production of business by agents. I have found that the spirit of competition in people was such that once you try to show what one man has achieved over another, the other man does almost anything to come up to that level. You have to develop a new system of competition.

Shri Sadhan Gupta: There should be competition in the field.

Shri S. S. Ali: Competition can be created.

Shri Matthen: How can you create competition in the field except by rebate in premium, bonus, etc.?

Shri S. S. Ali: People do not buy policies just because rebate is there. I have no good word for rebating. That can be stopped to a very great extent by adopting a system of administration where everybody is known and companies refuse to accept net premium cheques.

Shri Sadhan Gupta: The last point I want to ask is about underwriting foreign business. You will agree that the best course would be if the business was booked by the Corporation and if the Corporation could have an arrangement in foreign countries to transfer that business and to pay claims in foreign currencies. Isn't it? That would be the best thing.

Shri S. S. Ali: That would be quite a good arrangement, but there will be difficulty. I will tell you one thing. Any kind of State organisation is good inside the State and not outside.

Chairman: There might be extra arrangements made.

Shri S. S. Ali: If you can make, I will be very grateful.

Chairman: Some method could be devised. Instead of the Corporation doing the business by itself, it can do it through some agency.

Shri Sadhan Gupta: Suppose the Corporation does not succeed in doing it. In that case, the difficulty arises that for payment of premia you may have to send out currency from here to foreign countries and some difficulty with exchange control might arise. Would it satisfy you if it was provided that if the Corporation has no such arrangement, then the foreign business may be booked in foreign currency on foreign lives, but the premium will have to be paid there and nothing will be sent out as premium from here?

Shri S. S. Ali: That would be the second best. As a matter of fact, the Companies can even now demand premium in the currency of the policy, but the Exchange Control now allows premia to be paid in Indian rupee. That has not been changed. Probably, the Exchange Control is sufficiently strong not to bother about these small remittances. If that part is left to the Exchange Control, it will be perfectly all right. If the Exchange Control thinks that more money is going out than is desirable, it will automatically stop it. It will any time have the power to stop premia being paid in rupee currency.

Shri Sadhan Gupta: Don't you think that it will cause dislocation?

Shri S. S. Ali: Now we are doing it. Tomorrow the Exchange Control can say that you will not pay in rupee. It can stop it immediately. If you insist that the premium be paid in foreign currency, even that would be some help because even then it will be possible to do some business. Here we are doing two things. Firstly, we are depriving ourselves the little income from abroad. Secondly, we are denying

insurance facilities to foreigners who are usefully employed here. These foreigners are very insurance-conscious. They have the same relationship with fathers, children, widows, etc., as we have, and to deprive them of insurance facilities, does not seem to be compatible with our socialistic outlook on life.

Chairman: Have you anything special to say, Mr. Ray Chowdhury?

Shri Ray Chowdhury: I want to submit on the point as to how business can be expanded and how competition can be inculcated in the new set-up as referred to by one of the Hon'ble Members here. In the previous set-up, under the statutory recognition, there were agents, special agents and chief agents, under the Act of 1938. There was another system of Branch, Inspectors, etc., who were the creation of insurers. From practical experience, it has been found that the commission system is more economical and it enables to ensure speedy expansion of business and the man on commission will give better service, because he can earn commission only if the premium continues. So, the quality of business automatically improves. On the other hand, the quality of business that a salaried man gives is poor and as a result the business suffers. If a broad analysis is made of the first point the average lapse ratio on both non-Indian and Indian lives cases, in the case of non-Indian companies on four years average will be 18 per cent. and not exceeding 28 per cent. An average non-Indian company which works on commission basis has got a much lower lapse ratio, whereas salaried system gives higher lapsation.

Chairman: Would you make any distinction between certain areas where salaried employees might be more profitable?

Shri Ray Chowdhury: Salaried appointment as has been pointed out, in respect of rural areas under Indian

conditions is essential for the expansion of the business in the future set-up. The salary-system under the Indian conditions will have to be continued under branch system as adopted by the existing insurer. The parallel system under commission basis to inculcate the spirit of competition within the set-up of one Corporation should be allowed to continue. Agent is the common factor in any set-up. The organisational side is for developing business and the agency for procurement of business. There were mal-practices and things were not carried properly. Now if there is a co-ordinated committee by having the representatives of the Government, Members of Parliament and the business interests, particularly those who work in the field we can thrash out a scheme whereby the people who are on commission basis could be allowed to continue as a parallel to those who are in the salaried block at least till 1960. That is the best course which can foster the growth of business in the future set-up.

Shri T. N. Singh: We will be making certain commitments straightway and we have made certain commitments. After 1960, we cannot compromise all our commitments. So that system will also have to continue. It is not open for anyone to finish one or two other systems after 1960, as you say.

Shri Ray Chowdhury: I am talking only as applicable to commission people and not applicable to salaried people. If the commission people are found playing their role for the nation's good, be they are agents, special agents or chief agents, found working economically, found bringing faster growth of business, found more advantageous, they should at least be retained upto 1960. The result of work between Salaried and Commission system should be reviewed after 1960.

Shri S. K. Patil: Chief agents also?

Shri Ray Chowdhury: Yes, I am not talking of chief agents although I am a chief agent myself. This will be dealt separately by chief agents.

Shri T. N. Singh: Another point you made about competition. Whereas competition is desirable in certain instances, competition has also led to abuses. It is very difficult to say whether it is good. You say this competition would be healthy. I find competition would be unhealthy also. So, to draw the line and to decide as to whether competition should be allowed or should not be allowed is a difficult matter and I suppose you will agree with me on that point.

Shri Ray Chowdhury: This is a perfectly relevant question. Everybody will work under one Corporation and there will be sufficient penalty clauses for any misuse in the field of competition. There should be a committee of experts, a co-ordinate committee, where all the interests will put their heads together and decide how best this unhealthiness can be eliminated.

Another point which is relevant is clause 12. It is a very simple clause. The face value of the policy should be maintained and there should not be any apprehension on this matter in the market later. In the expansion of business in the rural area it will have a favourable psychological effect. We want to have a programme of rural expansion and suppose a man had taken a 20 years' policy and he is now told that instead of Rs. 1000 he will get Rs. 750. It will have a very bad psychological effect on the rural area. So in the Insurance Corporation Bill we have requested to drop this clause altogether. That is the main objective. The capital of the Corporation should pay the shortage.

Shri M. C. Shah: That is to be omitted altogether?

Shri Ray Chowdhury: Yes. Page 9, clause 12, because we feel that rural business would be affected very badly and the adverse psychological effect will be there. It will hamper our expansion programme in rural areas in the future.

Shri Matthen: What is the proportion of the rural business as compared to the urban business?

Shri Ray Chowdhury: There is no accurate statistics for quite a number of years.

Shri M. C. Shah: You want just to drop clause 12. Suppose there is a company which is insolvent and even today they cannot pay the liabilities. Do you mean to say that those life policies, though there are not enough assets to meet the liabilities, should continue? Is that the idea?

Shri Ray Chowdhury: The face value should be there.

Shri M. C. Shah: There are certain companies which are practically in an insolvent condition today. It may be under liquidation if the business of that company was not taken over by the Government. Then there are certain policies. On maturing of those policies the company was not in a position to pay face value. Still you think that the Corporation should take over all the responsibilities and liabilities as they stand on the face value of the policy? Is that your suggestion?

Shri Ray Chowdhury: Exactly so. The insurance company in the initial stage may be very weak, but later on they might have paid.

Shri M. C. Shah: I can just mention so many companies which are in existence for more than 20 years. Still they are absolutely insolvent. Are you advocating that they may not be reduced or do you want to drop the whole clause?

Shri Ray Chowdhury: Whether it is to be dropped or not it is for the Select Committee members to decide. But if the face value is honoured there will be better expansion of business and it will create a favourable psychological feeling in the rural areas and make insurance popular amongst rural people.

Shri S. K. Patil: We have been talking of the lapsed issues during the last four years and the figures were quoted for the last four years. In a comparable period before these four years was the percentage ever so high?

Shri R. N. Chopra: The actual figures.....

Shri S. K. Patil: I do not want the actual figures. I just want an idea. Is it not a fact that because certain companies have reduced their premia rates during this period of four years it was advantageous for people to lapse the policy of one and then go into another and this larger proportion may be due to that?

Shri R. N. Chopra: This is paid up value. We are talking of lapses.

Shri S. K. Patil: You have proposed somewhere about the constitution of the boards and suggested that there should be three representatives of the field workers. Now, apart from your opinion, have the field workers got a corporate existence through which they can send their representatives?

Shri R. N. Chopra: We have got an institution.

Shri S. K. Patil: There are so many associations. Is it feasible for any Parliament to take advantage of these hundreds and thousands of associations in order that this thing could be achieved?

Shri S. S. Ali: There are only about half a dozen out of which three or four are very prominent. The Finance Ministry knows about it. The Controller of Insurance can do this.

Shri S. K. Patil: You have also referred to some delegates authority that we are trying to have in the Bill. What is the delegated authority?

Shri R. N. Chopra: I will answer that. I have mentioned about the doctrine of delegated legislation. Under clause 34 of the Bill it is stated that after the appointed day the Corporation should decide what sections of the Insurance Act will apply to it

and whether those sections will apply as such in the existing form or in a modified form. We are particularly worried about our own rights incorporated in it. There are other sections which, we think, probably have got to be lifted and incorporated. Of course, Government will naturally be lifting them. But what we say is that so far as our rights are concerned, they are incorporated in half a dozen sections between sections 40 and 44. They should be bodily lifted.

Shri M. C. Shah: In clause 34 we are specifically mentioning certain sections of the Insurance Act which shall apply to the Corporation with residuary powers also to the Government to apply other sections, if necessary. You want to have a positive statement from the Government as to which sections shall apply to the Corporation. That is your point, if I understood you correctly.

Shri R. N. Chopra: Yes, we have given an additional memorandum.

Shri M. C. Shah: The point is that there ought to be a positive statement in section 34 that certain sections of the Insurance Act shall apply with residuary powers to the Government to further apply other sections, when necessary. Is that your point?

Shri R. N. Chopra: Yes.

Shri M. D. Joshi: In the printed memorandum you say that a member of this Association should be one of the 15 members of the Corporation. Is that in addition to the three members?

Shri S. S. Ali: Out of the 15 members we suggested that five members should be from Parliament because we have great faith in Parliament and we know it will act with justice and fairness. Out of the total 15, three members should be from the insurance field workers.

Shri M. D. Joshi: That is, these three are also included in the 15 members.

Shri S. S. Ali: Yes.

Shri V. B. Gandhi: Could you just give us some kind of an idea of the volume of business you are doing in non-Indian life at present? Just a rough idea will do.

Shri S. S. Ali: I am not very sure of the figures for the two or three years. But it will be something like 60 to 70 lakhs rupees. It will not be more than a crore of rupees.

Shri T. N. Singh: If one were to see the figures relating to lapses in the insurance field one will find that the favourable impression given by the special agents was due to the fact that there are some who are working in very efficient foreign concerns and it is because of them that the others, in whose cases the prices are high, have been given this average. But supposing we are excluding those foreign concerns, what will be the percentage of lapses in the case of those agents who are working in some of the other companies?

Shri S. S. Ali: Besides the foreign companies, there are now-a-days salaried men.

Shri T. N. Singh: There are certain special agents in other concerns also. They are obliged to canvass business, and their average of lapses may probably be the same as the lapses in respect of the salaried people. That point I would like to be clarified.

Shri Rai Chaudhuri: It is true that a large percentage of the special agents are taken in Indian insurance companies but unfortunately the application of code of conduct was not good and effective. There should have been only one chain between branch and agent. Unfortunately special

agent was absorbed in the salary chain. The cost of the special agents was included in the total cost of the salaried men. The average cost can be ascertained easily by an enquiry from the Custodians. It is roughly about 30 per cent of 1st year's premium. Mostly special agency system as handled in an Indian company was placed under an Inspector. As was we cannot find out the differential statistics from the Year Book. So we have to take the cost factor and lapse factor on broad lines.

Shri M. C. Shah: You have said something about clause 24, clause 12 and clause 25. Is there any other clause where you would like to have any other amendment?

Chairman: They have given some more amendments already.

Shri M. C. Shah: I am sorry I did not know that.

Chairman: Shall we meet in the afternoon? The difficulty is going to be this. The batch of witnesses who are to appear tomorrow has already been fixed. There are others who are waiting here and it will be difficult to fit them in. There will be some sort of time lag in our time table. If you don't mind, we may call those who are already here.

Shri Joshi: I suggest we should adjourn.

Chairman: We meet at 9 A.M. tomorrow.

(Witnesses then withdrew).

(The Committee then adjourned)

THE SELECT COMMITTEE ON THE LIFE INSURANCE CORPORATION
BILL, 1956

Minutes of Evidence taken before the Select Committee on the life insurance Corporation Bill, 1956.

Tuesday, the 3rd April, 1956 at 9 A. M.

PRESENT

Shri Balvantray Gopaljee Mehta—*Chairman*

MEMBERS

Shri S. K. Patil	Shrimati Sushama Sen
Shri C. P. Matthen	Shri S. R. Rane
Shri Feroze Gandhi	Shri V. B. Gandhi
Shri Raichand Bhai N. Shah	Shri B. R. Bhagat
Shri S. R. Telkikar	Shri Sadhan Chandra Gupta
Shri T. N. Singh	Shri K. Ananda Nambiar
Shri Tekur Subrahmanyam	Shri K. S. Raghavachari
Pandit Krishna Chandra Sharma	Shri G. D. Somani
Shri R. R. Morarka	Shri R. Velayudhan
Shri M. D. Joshi	
Shri M. C. Shah, Minister of Revenue and Civil Expenditure was also present.	

DRAFTSMAN

Shri V. N. Bhatia, *Deputy Draftsman, Ministry of Law.*

REPRESENTATIVES OF MINISTRIES AND OTHER OFFICERS

Shri B. K. Kaul, *Joint Secretary, Ministry of Finance.*

SECRETARIAT

Shri P. K. Patnaik—*Under Secretary.*

WITNESSES EXAMINED

I. *The Federation of Indian Chambers of Commerce and Industry, New Delhi*

Spokesmen:

Shri Lakshmiapat Singhanian
Shri Kamalnayan Bajaj
Shri Madan Mohan Ruia.

II. *The All India Federation of Life Insurance Officers' Association, New Delhi*

Spokesmen:

Shri G. S. Agarwala
 Shri Mangal Dass
 Shri P. K. Kunte
 Shri G. K. Roy.

III. *The All India Insurance Employees' Association, Calcutta*

Spokesmen:

Shri Rajni Patel
 Shri Chandrasekhar Bose
 Shri M. R. Paranjpe.

IV. *The Insurance Club, Patna*

Spokesman:

Shri B. Sahay.

I. *Federation of Indian Chambers of Commerce and Industry, New Delhi.*

Spokesmen:

- (1) Shri Lakshmiapat Singhanla
- (2) Shri Kamalnayan Bajaj
- (3) Shri Madan Mohan Rula

(Witnesses were called in and they took their seats)

Chairman: You have submitted a Memorandum and you have stated therein that the proposed Insurance Corporation should be run according to the best principles. That is the suggestion you have made. Now, having enunciated the principle, you have also stated that retrenchment of staff should not take place. It is rather difficult to reconcile the two. If it is necessary in the interest of

business to have some retrenchment, should that not be done?

Shri Lakshmiapat Singhanla: Actually, when you are feeling that the business is going to enlarge, the necessity of retrenchment may not arise at all.

Chairman: That is correct. There may not be any necessity. But supposing there is and if we are going to adhere to business principles, we can not avoid retrenchment. It may not be necessary at all in view of the very many plans for expansion.

Shri Lakshmiapat Singhanla: The whole difficulty will arise if you start retrenching staff.

Chairman: I do not think there will be an inclination on the part of anybody to retrench. I was only suggesting that the enunciation of these two principles is rather contradictory.

Shri LakshmiPat Singhania: If economy is to be effected and if retrenchment in the staff is to be made, it has to be according to business principles.

Chairman: It is stated that in a number of companies there is allocation to the shareholders between 6 and 7½ per cent in recent years. What are those companies?

Shri LakshmiPat Singhania: The whole of this can be divided into three parts—one is partly-life insurance, the second, composite companies, and the third, those companies which have more capital than the compensation worked out. If you take only partly-life companies then only 11 companies.....

Shri M. C. Shah: We are nationalising life insurance only.

Shri LakshmiPat Singhania: But in the composite insurance company you are taking the life insurance.

Shri M. C. Shah: Only the life part would be nationalised.

Shri LakshmiPat Singhania: Therefore, the allocation has to be taken into consideration for life business alone.

Shri M. C. Shah: You are referring to the compensation clause.

Shri LakshmiPat Singhania: That is how I understood the question that is put to me. I am only referring to the life compensation is concerned, this we are not referring at all. As far as life compensation is concerned, this allocation is of the surplus which occurred during the last valuation.

Shri M. C. Shah: With regard to the scope of compensation that has been enunciated in the Bill we propose to have some amendments.

Shri LakshmiPat Singhania: Our suggestion is with regard to that.

Chairman: Could you mention the names of a few companies which have

allocated between 6 and 7½ per cent? You can send a note afterwards.

Shri LakshmiPat Singhania: Yes.

Chairman: You have been suggesting a zonal office in each major town in the country.

Shri LakshmiPat Singhania: We have not suggested zonal office. We have suggested different Corporations.

Chairman: Apart from Corporations, we are on the point of zonal offices. In the Bill there are five cities which have been mentioned as the headquarters of zones. It seems that you have been suggesting there should be a zonal office in almost every big town.

Shri LakshmiPat Singhania: Yes, that also we have suggested if you do not accept the first principle.

Chairman: Is that an alternative?

Shri LakshmiPat Singhania: Yes.

Chairman: First you say there should be more corporations than one—something like half a dozen corporations.

Shri LakshmiPat Singhania: May not be half a dozen but more than one.

Shri M. C. Shah: In what way?

Shri LakshmiPat Singhania: Independent corporations in each zone and the whole of the country. Suppose there are Corporations A, B, C, and D. Each Corporation should be based on competitive lines and they should be allowed to operate in the whole of the country.

Chairman: What do you mean by competition? Should they be free to charge different rates?

Shri LakshmiPat Singhania: No. Not at all. The rates will be fixed. The investment policy will be fixed. Other general policies laid down by the Government will be fixed.

Chairman: Then what will be the competition?

Shri Lakshmiapat Singhania: There will be the competition of securing business, securing quality business, getting more and more business from each zone.

Chairman: Will areas be allotted to each zone or will they work all over the country?

Shri Lakshmiapat Singhania: Our suggestion is not to restrict the area. Our suggestion is to allow free working all over the country competing with each other.

Chairman: So, there will be five or six zones, whatever number is fixed by the Government. You want each one of them to be free to compete with each other.

Shri Lakshmiapat Singhania: Our first suggestion is to have more corporations than one. Suppose, for instance, there are four corporations. Those corporations should work independently all over the country. They will open branches of offices all over the country.

If that suggestion is not accepted, then the second suggestion is about zones. We understand that for the time being the Government have got an idea to start with four zones. In that case four zones would be too small if you have one corporation. Therefore we were suggesting more zones, at least one in each city or something like that.

Chairman: So, this is only an alternative?

Shri Lakshmiapat Singhania: Yes.

Shri T. N. Singh: In each zone there will be one corporation only and there will be no corporation other than that. Is that the idea? The first alternative is to have four corporations all over the country?

Chairman: They accept the one corporation idea. But having accepted that they say "not 4 or 5 zones, but many more".

Shri T. N. Singh: There will be 3 or 4 zones under one corporation and another 3 or 4 zones under another corporation.

Chairman: There will be only one corporation, as is suggested in the Bill. Now we insist on having one corporation only. Then they say: let there be 4 or 5 zonal headquarters, many more in every town.

Pandit K. C. Sharma: That depends upon the experience gained on the working.

Shri Lakshmiapat Singhania: After all, your idea is to take this to every corner of the country, especially to the villages. If you are going to confine yourself to the four zones, Bombay, Calcutta, Madras and Delhi, then probably that idea is not going to materialise.

Pandit K. C. Sharma: There is nothing like a last word in business. As we proceed we will extend it.

Shri Lakshmiapat Singhania: At the moment, as you know, all these companies are having so many offices and headquarters in different parts of the country. If one had to depend on a far off zone it will not be conducive to efficiency. Supposing all the business from Bihar, Orissa and Assam has to come to the Calcutta zone then the business will not be much.

Shri M. C. Shah: For efficiency in service you want more zones. Supposing there are four zones and then sub-zones and sub-divisions. Then will it be sufficient?

Shri Lakshmiapat Singhania: We do not feel so.

Shri M. C. Shah: By zones you mean independent zones?

Shri Lakshmiapat Singhania: Yes, independent zones. Otherwise they have to go from one place to another and keep on going from State to State till they reach the final zone and get all the answers.

Shri M. C. Shah: These zones will be more or less autonomous. They will have no interference whatsoever from the Centre with regard to the day-to-day administration like servicing, giving loans etc. They will be within the purview of the Boards of these zonal headquarters. Suppose there are sub-zones and sub-divisions. Do you still think that there should be more zones?

Shri LakshmiPat Singhania: Each zone will have an independent board. But still we want that those boards should be distributed more widely than before. That is the idea.

Shri M. C. Shah: You want to delegate more and more powers in the day-to-day administration. If that is given, then there is no objection. Is that so?

Shri LakshmiPat Singhania: Yes.

Chairman: With regard to this idea of having more than one corporation, I would like to understand how you would like the integration to take place. There are 160 companies or so.

Shri LakshmiPat Singhania: 154.

Chairman: They will have to be amalgamated. The idea is that they all will be amalgamated under one corporation, as is in the Bill now. You say that it should not be one but many more corporations. What is your idea of integrating all of them under one Corporation? If, as you say, there should be four or five corporations, how are they to be integrated as between the various corporations? How will the process start?

Shri LakshmiPat Singhania: That will not be difficult. What we understood from the hon. Finance Minister's speech was—I am only talking of the past policies and not about the future—that there are good companies as well as bad companies and the policyholders who were enjoying benefits in a better company should not be deprived of their benefits and the policyholders of bad companies who

were not getting bonus and all that should not get those benefits.

Shri M. C. Shah: May I correct one misapprehension? What the Finance Minister has stated is with regard to the policies that were in force before the 19th January 1956.

Shri LakshmiPat Singhania: I am only referring to that. I am only talking of the past business, that is, policies which were in force on the 19th January 1956, when they were taken over by the Custodians. I am not talking of the future business.

There are two methods. You take the valuation of each company and work out their surplus and mark it X. You give that an index number. When I suggest index number, it means, suppose the surplus in one company is taken as 100, then another company having better surplus may be marked 110, and another still better 120, 150 and so on. Any surplus which is available in future will be distributed according to the index number of those policies which were in force on the 19th January 1956. Therefore, there will be no difficulty. You can mark the surpluses of the different companies within the zones and within the different corporations and any corporation which is having the index of 120 will have to distribute 120 bonus for those policies which were in force. If the same corporation is also taking the index number of 100, then they will distribute 100 to that company. Therefore, we do not feel there will be any difficulty in allocating business between the four corporations if that idea is accepted.

Shri M. C. Shah: That is about past business.

Shri LakshmiPat Singhania: I am talking of the past business.

Shri M. C. Shah: In future there will be only one corporation.

Chairman: What is your suggestion?

Shri LakshmiPat Singhania: If there are four independent corporations then

the question of competition will come in.

Chairman: The competition is not there with regard to the investment or the rates. So it will be with regard to the management.

Shri LakshmiPat Singhania: In the management of securing business.

Chairman: And the method of canvassing and so on.

Shri LakshmiPat Singhania: There is the question of services rendered.

Chairman: Is there not some possibility of under-cutting of rates or other similar malpractices?

Shri LakshmiPat Singhania: May I respectfully submit that as far as the cutting of rates is concerned that goes out of the question because the rates are fixed? They are all going to be prescribed by the Government.

Chairman: What about commission agents?

Shri LakshmiPat Singhania: As far as the malpractices committed by the agents are concerned, even if it is one corporation there will be hundreds and thousands of agents working under that corporation and then there is the question of personal gain for those individual agents who are going to work. Only to secure their own business, even today in the present set-up they can adopt such practices which will give them better gains. After all, they are going to get a certain commission. Thus if you can check, there should be no difficulty in having four independent Corporations.

Shri M. C. Shah: Don't you think that now when there is monopoly business, anybody who wants to take his life insurance policy will have to go to the Corporation and the Corporation alone? The rates of premium will be the same, the conditions and terms of the policies will be the same. Don't you think that there cannot be any competition between two or three or four Corporations even if they are allowed to have it?

Shri LakshmiPat Singhania: If you are going to confine yourselves to only one Corporation, it is going to work as a monopoly business. If it is going to work as a monopoly business, my submission is that it is not going to be healthy in course of time. It may be all right for some time. But what I wish to point out is that you have to look also to the future, with the cheapest cost and better service. The main object of our submission is this: If we are to surrender competition, then the possibility of better service will not be there. After all, it is not a question of monetary gain, but it is a question of rendering more service to the public. If a man is to travel in the railway, he has to travel in the Indian Government Railways. If any man has to insure, he has to go to this Corporation. In that case, that healthy competition will not be there.

Chairman: How will you differentiate between one Corporation and another?

Shri LakshmiPat Singhania: That will not be difficult. You may name them differently assign different and distinctive appellations.

Chairman: Should the number be a dozen or half a dozen?

Shri T. N. Singh: One question, Sir, "Services" in the context where there are competing companies has some connotation. I would like to know what he means by saying "service to the future policyholders" in the context of nationalisation. What differential services should we have?

Chairman: What difference can there be as between one Corporation and another?

Shri T. N. Singh: I want to have the definition of the word "services". May I request that this may be answered?

Shri LakshmiPat Singhania: By "services" I mean all kinds of services right through from the date when a customer is approached for signing a proposal for 20 or 25 years till he is paid back the insured amount on the date of maturity. Between these dates

[Shri Lakshmipat Singhania]

there are so many occasions for service starting from the medical examination, filling up of the form of insurance, then giving the insured all the facilities for payment of the premium, quarterly, monthly and so on. Then there is the grant of loans—many policyholders go in for loans—and clarifying any of the doubts raised by policyholders and so on. In some of the companies, if the policyholder writes today he does not get a reply for five months, and that is not going to be a good service.

Shri T. N. Singh: I thought it was only in Government. Is it so in the insurance companies also?

Shri Matthen: You have suggested separate autonomous Corporations which should compete with each other. The other corporations would be at liberty to conduct their business and declare their own bonuses.

Shri Lakshmipat Singhania: They should be allowed to do so. They can declare a better bonus.

Shri Matthen: If another corporation works better and proposes a reduction in premium, would you like to give them the liberty of reducing the premium?

Shri Lakshmipat Singhania: That is a question which has to be decided in future by Government. After all, Government is going to introduce four or five Corporations.

Shri Matthen: Before giving your suggestion for independent Corporations, I think you have taken into consideration this question whether they can reduce their premium, even if it is by Re. 1/-. Should they not be given the liberty to do this?

Shri Lakshmipat Singhania: There should be no objection to that.

Shri G. D. Somani: Suppose a suggestion was made to you that the management of the different Corporations should be different—one is to be purely and predominantly official, a second in the private sector with those

who were managing the industry before nationalisation, and then a third set-up of management by other people, do you think that that will lead to better competition? I am just enquiring whether from the point of view of competition, if there are to be different Boards consisting of different sets of people, that will lead to some better competition in view of the restrictions so far as the general policy of the Corporation is concerned. Naturally they will have to be more or less on the same lines.

Shri Lakshmipat Singhania: I will suggest that if different Boards are constituted by the different managements, there is no question about the possibility of better service; for in that case there will be competition for service. After all, people should render service not only from the monetary point of view but also from the point of view of community service. In your present Corporation, you are suggesting a Board of non-officials. There it is not clear, but you are going to take certain non-officials on the Boards to guide and advise. Therefore, if you are going to make a Corporation with different managements, and leave it only in the hands of certain people who have experience in the insurance business, naturally it will be seen who is conducting better business. This will also help in creating an incentive for the other Corporations to render competitive service. Therefore, it will be a good idea if Government consider handing over Corporations of that nature, with fundamental controls in their hands. By fundamental controls, I mean to refer to investment policy, policy for fixing premiums and so on. If working facilities are offered and left over to an independent Board, there will be scope for a better and healthy competition.

Chairman: You do not now concede that a number of Corporations, if they are established, should have definite territorial spheres?

Shri Lakshmipat Singhania: Certainly the main purpose is keen competition.

Chairman: So, you want it for all-India purposes?

Shri LakshmiPat Singhania: The zonal corporation is as good as an all-India corporation.

Chairman: If the corporations are going to be more than one, as you suggest, they have to be for all-India purposes. Are you clear about that?

Shri LakshmiPat Singhania: I am very clear about that. Otherwise, there is no use of having separate Corporations.

Chairman: What about co-ordination?

Shri LakshmiPat Singhania: Co-ordination will not be difficult.

Chairman: How will you effect it?

Shri LakshmiPat Singhania: There can be some central body.

Chairman: Whom should this central body consist of?

Shri LakshmiPat Singhania: It should consist of officials and non-officials, something like the Railway Board at the Centre. The railways are not competing with each other in any zone, but they are having their policies governed by Railway Board. The railways all over India are working under the guidance of that Board. This is only an example. The difference is that the railways are working in each zone and they are not competing with each other in any zone.

Pandit K. C. Sharma: Can you suggest any other example anywhere of competition in the same area? I understand your point regarding securing business on a larger scale, but do you know of any country where competition is allowed in the way you suggest?

Chairman: Where there are two spheres.

Shri LakshmiPat Singhania: At the moment, in France, and I think also in Yugoslavia, they are working on similar lines.

Shri M. C. Shah: In France, the State also is an insurer along with

private insurers. Here the difference is that there is to be only one insurer. Those who want to insure in this country should and can go only to one Corporation and one corporation alone. Have you got any instance where you have a Government insurance and the scheme that you are now advocating?

Shri LakshmiPat Singhania: As far as other countries are concerned, there is nothing like monopolising of insurance business by one body. At the same time, why we have suggested that scheme, if I may be permitted to say so, is for greater safety for the future. This is going to be a very big show and naturally you should not convert it into a departmental affair. That is our suggestion.

Shri M. C. Shah: It can be departmental only if it is going to be a part of Government. It is going to be a Corporation and an autonomous body. Then how do you just compare it with France where the Government is in the insurance field along with the private insurers?

Shri LakshmiPat Singhania: The main point remains that if it is a monopolised business and if it remains under one Corporation, gradually the shape of that business, in my humble submission, would be a monopolised business.

Shri M. C. Shah: It will be a monopolised business. The intention is that the insurance business will be an independent monopoly of the Government to be run through an autonomous Corporation.

Shri Kamalnayan Bajaj: As far as the ownership is concerned, there may be a monopoly. But as far as the services are concerned, there should be some competition. As far as life insurance is concerned, it is something like salesmanship. If there is only one Corporation, then if at all an agent will approach me, he will come to me, speak something and go away. If there are four or five Corporations, five or six or even more agents will

[Shri Kamalnayan Bajaj]
 come to me and they will all try to persuade me and explain to me.

Shri M. C. Shah: Today the position is that one agent will go and talk to A and another will then go and talk to him about the success of his company. They will say this company is solvent or the other company is insolvent or half-solvent and so on. Hereafter, that will not be the position.

Shri Kamalnayan Bajaj: Certain arguments will not be there. But they would certainly say: "If you insure with us, our doctor will go to your place; your ladies will be examined in your place itself; in the other companies you will have to go to their office." Even for meeting the claims, they will say: "We are very prompt; you see our records." Like that, this kind of education for insurance will be spread, because more than one agent will be approaching every client. In salesmanship the goods are produced and sold in different branches though they are of the same industry. Because they sell in the different branches, the sale may not be double or treble, but if they sell 100 units if there is only one branch, it will be at least 150 or 125 though not 200 if sold in different branches. That is how they enunciate the competition of goods by putting their goods in different branches. The same goods have to be put out in the market in seven or even ten different branches though they are goods produced by one factory.

Pandit K. C. Sharma: Is it in the same area?

Shri Kamalnayan Bajaj: The whole country. I will give you a practical example. Take the electrical side. I am in collaboration with Philips, G.E.C., and Crumptions. They are all European concerns and we are the Indian partners. There are nearly 13 branches and the products of the factory are being put in the Indian market. There are additional advantages. I do not want to take much time but I think it should be examined. It is a technical matter

which can be fully examined. If the products are sold only by one branch then there is a limitation because after all the contacts of an individual agent are limited. Individual influence is limited. If you duplicate it, though you do not get hundred per cent. increase, certainly you get something more; that is a point that should be remembered.

Shri V. B. Gandhi: You contemplate that there will be so many corporations working in the same territory. Also you grant that the premia and all other conditions will be the same for all those corporations. Then the only difference will be in the services that each one of these corporations give. Thus far, we are convinced that such an arrangement will perhaps provide an element of competition. But then there is one snag, viz. there will be duplication of services. Now you have to convince this Committee that this extra cost on account of duplication of services will be justified by the results that may come by competition. I think I have made myself clear. The snag is that there will be duplication of services. Now you have to prove to this Committee that the extra cost involved in this duplication will be justified by the good that may come out of competition.

Shri LakshmiPat Singhania: You are perfectly right. There will be duplication of services no doubt. But duplication of service to an extent will be there even now in the present context when you are going to have one corporation. Here also the agents may be approaching the customer thrice. All the agents may be approaching a customer. The duplication comes in there also. But there should be no limitation of business. Even if you incur a little extra cost, if it is going to progress and it is going to give much more profit and result in public saving, then in that case, probably in a very short time, say, within five years, you will realise that the duplication of services has more than repaid its cost. It is very difficult for me at this moment to put forward any statistical data before

you to prove my point except this example. So many companies were paying allowances themselves and they were after all carrying on the insurance business with certain limitations on expenses. Knowing that the new business always costs much more than the renewal business, knowing that we in spite of that, are embarking more and more upon new business for the reason that in course of time that business will become remunerative in the course of the five years. That is the only reason. They are sowing today and they are going to reap the results at a later stage.

Shri S. K. Patil: Are you suggesting that the quantum of business will increase by this competition?

Shri Lakshmiapat Singhania: Yes, definitely.

Shri S. K. Patil: Your present competition is based on many factors none of which is present here. Here the premia are the same, conditions are the same and the Corporation is the same. The return from it will also be the same. There is no change whatsoever. Not only that. You are suggesting that in one place, either Calcutta, Bombay or Delhi, there will be two people of identical companies approaching the people, which is just like suggesting two members or two different agents of the same company may be approaching a party. Here there is only one company. Is there any possibility of the total quantum of business rising as a result of this factor of competition which you are suggesting and will it be a business proposition knowing that 99 per cent. of conditions are just the same? Another difficulty—I am mentioning all together so that you can explain together—is: if there is such a competition, would it not be unwholesome that when the Government appoints four corporations one of them works in a manner that exposes the other three corporations and constantly criticises them, so and so corporation is doing this and that?

After all, it is the same Government that appoints people on the corporations etc. Is it really a feasible proposition, a practical proposition, in the larger national interest?

Shri Lakshmiapat Singhania: It is a very important question that you have put to me. I feel that, as far as the first part of it is concerned, our main idea is to increase business. We are confident it can be done. In the monopolistic type of business the quantum of business should increase and there should be the persuasion of people to insure more and more. Now insurance has to be sold. At the moment what percentage of people are insuring in this country? When you go further into interior parts of our villages you will find that people do not understand even a word of insurance. You have to educate them as to the benefits of insurance.

The quantum of business can only increase if there is the possibility of competition. Otherwise, what will happen is that in course of time only those who want to insure will go to the corporation. Now we want to create a condition—we want to suggest that it should be created—whereby not one who wants to insure should go to the corporation but the corporation should go to the people and educate them about the advantages of insurance. This is the correct approach and, therefore, we have stated that if it is going to be only one corporation the possibility of that type of approach will be less. Therefore we are suggesting that competitive bodies should be created because in the present context when you are proposing that the whole business is to be run by the Government it is not difficult to create conditions where, while still maintaining the State business, there will be this advantage which even the private enterprise was getting and that is why we have suggested that competitive business should come forward.

[Shri LakshmiPat Singhanian]

As far as the criticism of one corporation exposing the other is concerned, we should not be afraid of that, because if everything is going on nicely it is in the interest of the nation, in the interest of the country to bring out more efficiency by pointing out the defects and the shortcomings of those corporations which are not working properly. We should not be afraid of any public criticism in that regard. Let us create healthy competition and let us see the result of it.

Shri S. K. Patil: Just like different brands of products manufactured in the same company, do you also think that there will be different brands of policies in the competition?

Shri LakshmiPat Singhanian: I do not suggest for a moment that the policy conditions will be different. But I do suggest this. Suppose it is a peculiar requirement in which a change of policy conditions is necessary. Then one of those corporations can investigate and put before the Central body a suggestion that this policy may be created for all the corporations. At the moment, these types of suggestions have less chances of appearing than when you have any competition in the line.

Shri S. K. Patil: I am asking this question just for elucidation. The conditions ultimately would be the same. Take, for instance, the small savings. If you calculate, it will more or less come to the same thing. But it does provide an element of compensation. I thought that that was also contemplated in this case when this corporation becomes a separate corporation.

Shri Kamalnayan Bajaj: As I said before, life insurance is a salesman's job. A salesman has got to make clients. We should not forget that.

I was saying that in a growing economy in the country, where the standard of life will definitely

increase, we have to educate our people also and, for that reason, if there is only one corporation the fear is that it may turn, after five or ten years, after some time, into just like a post office savings scheme where people will be expected to go and give whatever requirement is there in the policy and they may be standing in the queue and so on and thereby you will be losing five or ten years or more for educating the people in getting insurance-minded because it is a kind of security that you are selling to the individual and the family. We are saying: your future is secure and for that we are charging you this and we are giving you so much. Then again I would suggest one thing more and that is this. As far as premia are concerned or as far as rates are concerned, we do not want any variation. But certainly this kind of scope should be given that if any corporation gives efficient service, something which others are not giving, the benefit should be given as a sort of bonus, at the end of the maturity period or at the time of settling the claim, something that gives an incentive so that every corporation should be alert to work in the most efficient manner as they possibly can.

Another question raised was that if there are 3 or 4 corporations there will be unhealthy competition and there will be criticism. When these are the national bodies we should not be afraid of the criticism. As a matter of fact, if there is only one body it might become lethargical. If it is not efficient, then we will be criticising it and then it will be more alert. We should in the national interest, keep everything very alert and very dynamic so that we can get very good results out of it and if there is duplication or triplication, I admit that the result will not be three-fold but it will be definitely more than hundred per cent. and we must achieve that more than hundred per cent. even at a little more cost which ultimately, if you work out, on

an average will be lesser than otherwise.

Shri T. N. Singh: I do not want to ask any questions. I am a layman. Regarding this dynamic salesmanship to which reference has been made just now by the witness, I want to know one thing. If there are ten salesmen of one company then there will be no competition. But if there are two salesmen from company A, two from company B and two each from company C, D and E, then there will be competition. The terms and conditions which they can offer to the policyholder being the same, there will be no competition. Have I understood you correctly?

Shri Kamalnayan Bajaj: I have not correctly followed your question.

Shri T. N. Singh: If there is company A only and it has got ten salesmen then there will be no competition because it is only one company. But if there are five companies and those ten salesmen are divided into two for each company, then, even though what they are to offer is the same, the eventual service that they could render being the same still there will be competition. Am I right?

Shri Kamalnayan Bajaj: Not exactly. If there is one company and if there are 10 agents then competition would be more likely to go underground in this respect because they will not be able to tempt the client by saying that "more facilities are being offered by me." He will be able to tempt only by parting with his own commission.

Shri T. N. Singh: What are the "more facilities" that a salesman can offer against another if the rates are the same in both cases? That is what I want to understand.

Shri Kamalnayan Bajaj: As it was already explained, shortly from

the beginning of the policy when he wants to apply, right up to the maturity of the claim, there will be many things that will have to be given as service and in that respect it could be extended by one company.

Shri T. N. Singh: Do you mean to say that there will be competition in running to the client or in writing back promptly to the client?

Shri Kamalnayan Bajaj: In meeting their demands. In meeting the claims on maturity one company may pay after six months. Another company may pay within one month.

Shri T. N. Singh: Prompt reply?

Shri Kamalnayan Bajaj: Yes.

Chairman: If the zones are made completely autonomous with regard to their functioning, will that serve the purpose in any way?

Shri Lakshmi Pat Singhania: I have submitted at an earlier stage that this is not going to solve the problem because I think they will have a definite area and territorial jurisdiction.

Chairman: You mean all-India jurisdiction?

Shri Rane: Can you explain why there is such a vast variation between the business of companies? One company procures a business of several crores and the next company only procures a business of very few crores. What is the main reason? When there was a question of competition, the companies competed with one another. Why is it that there is such a vast variation?

Shri Lakshmi Pat Singhania: It is easy to explain. It depends on the growth of the company, its management and the type of service that it is rendering.

Shri Rane: That means they were inefficient?

Shri Lakshmiapat Singhania: That is a question of their capacity to organize. Suppose a person can organize 20 offices and another person can organize only one office, you cannot say he was inefficient. You can say that one was more progressive and the other was less progressive.

Shri Rane: I am asking about the question of competition. There was no fear of competition.

Shri Lakshmiapat Singhania: Therefore the business was coming up. You must have seen the figures that these things were quite bright indicating signs of the competition.

Shri Rane: What is the field of competition that you visualise in the nationalised industry?

Shri Lakshmiapat Singhania: I feel that except the reduction of premium and the investments, nothing will be common.

Shri Rane: What about bonus?

Shri Lakshmiapat Singhania: Bonus will of course depend on the working of each Corporation.

Chairman: You have made yourself clear about this matter. May I know your idea about zones? You have stated that there might be many more zones, one in every important town and major town. How many will that mean? Will it mean a few dozens?

Shri Lakshmiapat Singhania: To start with, we may have about ten or twelve, and they may be increased later on.

Chairman: So, there should be a dozen zones which should be autonomous?

Shri Lakshmiapat Singhania: They should be autonomous so far as day-

to-day working is concerned, if they are going to have one Corporation.

Chairman: I want your idea about the demarcation of the duties between the Corporation and the ones.

Shri Lakshmiapat Singhania: The demarcation between the Corporation and the zones should be in respect of the day-to-day working like issue of policies, taking the premium, granting of loans and payment of claims, etc. where the zones should be independent, because these should not be confined to one organisation.

Chairman: You mean that the policy regarding investments, policy making generally and supervision will remain with the Corporation.

Shri Lakshmiapat Singhania: It has to be with the Corporation.

Pandit K. C. Sharma: You want a business set-up?

Shri Lakshmiapat Singhania: I do not exactly suggest that, but it may be a little different.

Chairman: May I know your views with regard to the composition of the Corporation?

Shri Lakshmiapat Singhania: For the main Corporation as provided in the Bill, some powers should be given to that Corporation, as we have suggested. If some powers are given to the Corporation and if less interference is kept by the Central Government, it will be better. Let that Corporation work independently and let it not be interfered with by departmental orders. Therefore, as far as the centre is concerned, it should be given as wide powers as possible.

Chairman: What about its composition?

Shri Lakshmiapat Singhania: You have to start from the centre. The centre,

as you have suggested, may have some advisory board. That board should be given some power, some independent power.

Chairman: How do you form the Corporation, How will it be initially formed?

Shri Lakshmiapat Singhania: It has been suggested that you are going to appoint Directors on the Board and you are going to take independent people on this Board. Therefore, my submission is that you should take independent people.

Chairman: There are various suggestions saying that this interest and that interest should be represented.

Shri Lakshmiapat Singhania: Under the Insurance Act, the policyholders' Directors are also there. Of course, there will be no other financial interest, but you should utilise the services of those who have got enough experience and who are doing work in this line.

Shri Feroze Gandhi: Do you mean by this the proprietors or the people who are actually working in insurance business?

Shri Lakshmiapat Singhania: I do not know this distinction which you are drawing.

Shri Feroz Gandhi: Do you mean those who own the business, and the people who are working in insurance are those who are working under these proprietors, the Managers, General Managers etc.

Shri Lakshmiapat Singhania: There may be companies and companies; and there may be certain companies where the proprietors are also working, and taking an active part in the day-to-day management of the insurance business. On top of that they supervise. Now, so far as the employees are concerned, they will all be in the Corporation. The proposed Corporation is going to take all those employees practically. These people, you have suggested, are the people who look to the day-to-day

work. I slightly disagree with that proposition. I do not agree that they are the only persons who are getting the whole business. It may be that in certain instances you can say that certain proprietors were not looking after this business at all. My submission is that those proprietors who had interest in running and in promoting the business were taking a lot of interest in getting and running that business in a very efficient manner. Naturally, those people were responsible for bringing the business to a higher standard; and unless you utilise the experience of these people, the purpose will not be served.

Pandit K. C. Sharma: You mean only the active proprietors.

Shri Lakshmiapat Singhania: The man who understands the job.

Shri Telkikar: Suppose the central Corporation devises some different kinds of policies suiting the purposes and professions of different persons, zonal policies and policies for merchants and so on and if they are allowed to deal with the policies in their particular zones, will this do? Do you prefer this idea?

Shri Lakshmiapat Singhania: I do not think that I have suggested that zones should be allowed to choose their policies. I have suggested that if it is a question of zones, it will have to carry out the directives of the centre.

Shri Telkikar: This is a matter of choice.

Shri Lakshmiapat Singhania: Suppose a certain zone is constituted to look after rural areas and a certain zone is constituted to look after urban areas, you cannot compare the activities of both these zones.

Shri Telkikar: Surrounding circumstances will compel them to choose a particular pattern.

Shri Lakshmiapat Singhania: It is not a question of choice. It is a question of which policy they will be able to sell more and which less.

Shri Telkikar: What is this flexibility or your idea of autonomy?

Shri LakshmiPat Singhania: I have not very clearly understood your question. What I mean by flexibility is flexibility of working. This means that they should be allowed to function as freely as possible and without interference from the centre. This is the basic idea I had behind my suggestion.

Shri Telkikar: So far as the Bill is concerned, there is no restriction on their operation.

Shri LakshmiPat Singhania: In practice that should be so. That was the idea.

Shri Feroze Gandhi: Mr. T. N. Singh asked Mr. Kamalnayan Bajaj a question which I do not think has been very clearly answered, or Mr. Bajaj has not been able to follow that question. Mr. Bajaj says that if there is more than one Corporation, say four or five Corporations, then the element of competition comes in and that this would be very beneficial. Now, taking what was actually happening in practice, out of the 170 and odd companies in existence, the major part of the business was in the hands of two companies. The major part of the insurance business was in the hands of the Oriental and the New India. About 60 per cent. of the total business was in their hands. Now, if his argument is to be taken as correct, then it can only mean that a large number of companies were coming into existence and competing with one another. Whatever the figures of the business of these companies, the fact remains that these two companies were carrying on about 60 per cent. of the total business. Now, how do you explain this contradiction?

Shri LakshmiPat Singhania: First of all, I respectfully disagree that two companies were doing 60 per cent. of the total business.

Shri Feroze Gandhi: At least 50 per cent.

Shri LakshmiPat Singhania: I will not contend as the figures will be available. I agree that they had the largest share. But I am told that the Oriental and the New India, both together are covering 33 per cent. of the business.

Shri Feroze Gandhi: Even then?

Shri LakshmiPat Singhania: When you talk of 165 companies, you should take into consideration the history of the growth of insurance companies in India as to how they have developed and under what conditions they were created and how they were progressing. It is very important to know that the companies in India had to carry on with the different types of competition and different types of business and with different objectives they were created. The business created by life insurance has been very gradual....

Shri Feroze Gandhi: The point is that a very small number of companies were carrying on the greater volume of the business. Therefore, why cannot one company function better than four or five companies, or one Corporation function better than a number of Corporations?

Shri LakshmiPat Singhania: With all due respect, I will point out that to you. I am coming to that point.

Therefore, what happened was those companies which were gradually progressing and coming in competition created business.

Shri Feroze Gandhi: The two companies—Oriental and New India—are doing 40 per cent. of the total business. This figure has been given by the Controller.

Shri LakshmiPat Singhania: I say 33 per cent. But it may be 40 per cent. I am not arguing on that point. Now I will take up your own argument as to why the business is in charge of only two companies. That is because of the mode of competition. If there were no competition, perhaps the Oriental would not have carried on the whole business. The fact is that there was competition between Oriental and New

India and that competition has created this atmosphere.

Shri Matthen: I understand you to mean that the element of competition is the basic thing without which a monopoly or a Corporation cannot function effectively. I also appreciate it. You say on page 3 of your Memorandum that in 1955 the total business exceeded Rs. 85 crores. Is the figure correct?

Shri Lakshmiapat Singhania: We have taken it from the Insurance Year Book. It is correct.

Shri Matthen: This shows that foreign life insurance business has made steady progress.

Shri Lakshmiapat Singhania: Definitely.

Shri Matthen: Do you believe that there is great potential for the future?

Shri Lakshmiapat Singhania: It will depend upon what competition this country has to face in those countries. For instance, we take Malaya, Burma or Ceylon. There, the foreign companies are operating under better conditions.

Shri Matthen: Are Asiatic countries or African countries doing Insurance business in those foreign countries? Or, are the Indian companies the only companies?

Shri Lakshmiapat Singhania: Most of the big business firms are doing this business.

Shri Matthen: I am only talking of Asiatic countries.

Shri Lakshmiapat Singhania: I believe that most of them are Indian companies.

Shri Matthen: I only want to point out that it is a great potential for us in the future. You suggest that now that life insurance is taken over by the Government, they have no idea of doing business in foreign countries. You are then losing a great potential when the Government do not take up the foreign business.

Shri Lakshmiapat Singhania: The idea of this paragraph is this: the Government's intention is to take away the business of all the companies

and give it to one company and therefore we suggested that this is not fair. It should be left over to the composite companies.

Shri Matthen: What is your suggestion now to get the foreign business?

Shri T. N. Singh: I want to clarify one point. If there are four companies which form themselves as a trust or cartel and have the same prices, what is the position? There is no element of monopoly if there are four or five companies coming to an agreement between themselves about prices in a trust or cartel. Then there is no competition.

Shri Lakshmiapat Singhania: No competition.

Shri T. N. Singh: I want to know how the element of competition which you are thinking of should be introduced. The premium will be the same. The conditions will be the same.

Shri Lakshmiapat Singhania: I want to make this clear to you. It is not a question of premium alone. Even today, in practice, the premium is the same. Today the premium in most of the companies is the same as those which have the bigger volume of business. Company 'A' may be able to secure more business than Company 'B'. It is not a question of premium alone. The only answer is that one particular company may be offering better service. You are confining yourself to the premium. You are also saying that the ownership of the Corporation is governmental.

Shri T. N. Singh: Service in this context is something different from service in the context of.....

Chairman: 'Servicing' has been defined elaborately. I have been wanting to know this; You have laid down in the Memorandum that even with regard to the executive committee there should be representation of interests. How do you justify that? The executive committee is in charge of the management. Should it be composed of various diverse elements or should it be composed of business talents or whatever it is in the Corporation which would be in charge of the management?

[Chairman]

Should it also be represented according to the various interests? It has been said that the Bill should provide for, apart from Government nominees, representation of policyholders and so on. But when there is a small committee of management consisting of five members, they.....

Shri Lakshmipat Singhanla: As regards policyholders, I am afraid, we will not be able to eliminate them at any stage.

Chairman: Supposing there is one manager. He shall have.....

Shri Lakshmipat Singhanla: We are confining ourselves to Committees.

Chairman: This is an executive committee, consisting of.....

Shri Lakshmipat Singhanla: It will consist of several people.

Chairman: Five.

Shri Lakshmipat Singhanla: There can be a policyholder. But it is a question of function of the committee. If its function will have to do anything with the policy-holders' interest, I am prepared to say that policyholders' interests should be there.

Shri Sadhan Gupta: You have suggested several competitive corporations. May I know this from you? How do you visualise the distribution of surplus in those corporations?

Shri Lakshmipat Singhanla: Could you make it clear?

Shri Sadhan Gupta: In the insurance companies when an actuarial valuation is made, they will have certain principles on which distribution of surplus will be made, by allocating some portion to the policyholders and some other to the shareholders. In competitive corporations, how would you distribute the surplus?

Shri Lakshmipat Singhanla: The surplus will be distributed under the same system.

Shri Sadhan Gupta: There cannot be any allocation to shareholders.

Shri Lakshmipat Singhanla: Shareholders means Government.

Shri Sadhan Gupta: Under those circumstances, what will be the incentive for the different competitive corporations to show better results between one another?

Shri Lakshmipat Singhanla: Incentive would be community service; incentive would be better appreciation by the Government.

Shri Sadhan Gupta: Do you mean to say that the only incentive would be better appreciation of the Government?

Shri Lakshmipat Singhanla: Of course. As far as the distribution of surplus is concerned, it is not a question of distribution of the proportion of business. It is a question of more service and less service. Company 'A' makes Rs. 1 lakh. Company 'B' makes less. The distribution of surplus will not differ. It is a question of quantity of surplus. This quantity will be got by expense ratio and it will be got by better returns and so on.

Shri Sadhan Gupta: One quantity shows better surplus. What does it stand to gain?

Shri Lakshmipat Singhanla: Policyholders will book more with that Corporation.

Shri Sadhan Gupta: What is the gain of that particular corporation if more policyholders book, because it cannot distribute more surplus among its members.

Shri Lakshmipat Singhanla: Members meaning policyholders or shareholders?

Shri Sadhan Gupta: Members means shareholders.

Shri Lakshmipat Singhanla: It is common; it is not two.

Shri Sadhan Gupta: Policyholders are not owners of the corporation in this case. Is there any distinction between mutual companies and a corporation of the kind you are suggesting? Here the policyholders are not members. They are not managing the corporation. What is the greater incentive for the corporation?

Shri Lakshmipat Singhania: It is not a question of incentive for a corporation. It is a question of incentive to the whole country, because when one corporation is showing better results, then automatically others will try to show better results.

Shri Sadhan Gupta: My question is what is the incentive for a State owned corporation to show better results?

Shri Lakshmipat Singhania: It is better appreciation by Government.

Shri Sadhan Gupta: If appreciation is the incentive, can you not produce the same incentive in a monopoly corporation by some means by which such appreciation will be revealed?

Shri Lakshmipat Singhania: You cannot compare that appreciation with anything, because there is nothing to check or measure that appreciation. And unless you compare it with something how will you know that it has done better?

Shri Sadhan Gupta: Do you mean to say that if one corporation will be commended more than the other, it will induce the corporation to do better service?

Shri Lakshmipat Singhania: When you have only one corporation, there is no question of any comparison with the other. In that case you cannot appreciate or weigh which has done better.

Shri Sadhan Gupta: Can you cite a single instance where mere appreciation—apart from monetary gain—has led to better results?

Shri Lakshmipat Singhania: If you take that plea, no nationalised business can ever prosper. You have to favour all, at least by appreciation. If you do not give even this, how are you going to create interest in the nationalised industries?

Shri Sadhan Gupta: On the other hand, to offset the possible better results as a result of better appreciation, don't you think that several corporations would mean a tremendous wastage in the shape of overhead expenditure?

Shri Lakshmipat Singhania: I do not think so. I have replied to that question earlier. Duplication of service will pay for itself on the better volume of business. This is my submission.

Shri Sadhan Gupta: I think you were asked by certain Members regarding competition of Corporations. I couldn't get your answer. Have you any single instance where State-owned corporations compete with each other? You stated the case of France. I believe there the State-owned corporations compete with the private sector.

Chairman: All that has been covered already.

Shri R. Velayudhan: I want to ask you something about competition. Is it not a fact that when the insurance was in the private sector, there used to be lot of competition or salesmanship which is the inherent aspect of the private sector and now that it has come in the hands of the State, not the Government, service has taken the place of competition or salesmanship? Take, for example, how far the State can do service to the policyholders.

Chairman: Has this not been covered? This matter has been discussed.

Shri Velayudhan: Everything was being asked on the basis of competition. My point is that there is no question of competition now that the State has taken over the business.

Shri Matthen: That is the very point.

Shri Velayudhan: The basic factor is not at all touched.

Shri Matthen: If one finds under the valuation a large bonus is to be distributed to policyholders, will that not economise in their premium?

Shri Lakshmipat Singhania: I follow your point. That is precisely why incentive has to be given. If there is a surplus it belongs to the entire shareholders.

[Shri Lakshmiapat Singhania]

So in a State if you give it to the shareholders, it is going to the community or if you put it in the General Fund, then also it goes to the community.

The surplus is earned out of the efficiency, because every company is practically of the same size. They are not of different sizes. Their capital or resources, whatever it is, is uniform. There is no handicap to begin with. It will only be that some companies had been old, their capital had been very big and their organization vast. Naturally these would contribute to more business or less business. Here, all the companies are starting at one period and they are also of the same size. If there is likely to be a difference in surplus, that is only because of the efficiency and that surplus which is earned out of the efficiency should be returned to the policyholders. For these reasons, the competitive element should be introduced. If you give it in the beginning, it might be tantamount to unhealthy competition, but if it is given at the end of the policy, after valuation, then it is a different story.

Shrimati Sushama Sen: Isn't it a fact that field workers working in a particular zonal office will get more commission?

Chairman: There are no zones as yet.

Shrimati Sushama Sen: But will it be the case in the future?

Chairman: It may not be.

We would like to know from you your ideas about the foreign life business.

Shri Lakshmiapat Singhania: We have suggested that the foreign life business should be left to the composite companies already operating in foreign countries. There are many such companies.

Chairman: How many such companies are working in foreign countries?

Shri Lakshmiapat Singhania: It will be difficult for me to say off-hand, but if you like, I can send a note.

Chairman: Yes, you can send a note.

Shri Sadhan Gupta: I want a clarification about the procedure. We were so long dealing with competition. Now we have gone over to foreign business. Do we examine the witnesses subject by subject?

Chairman: We are taking the points mentioned by them in their memorandum, and important points in which we are interested.

Shri Sadhan Gupta: Is it the procedure that one point should be covered before the other point is taken up, because I have some more questions to put on the competition itself?

Chairman: That has been very thoroughly discussed.

Shri Sadhan Gupta: I have some questions to put.

Chairman: I think we cannot go on like this. We have to stop at some place.

Shri Sadhan Gupta: I put very few questions, and I have some more important questions to put.

Chairman: More or less this subject of competition has been completely discussed.

Shri Sadhan Gupta: How can you know what has not been discussed?

Chairman: I have judged from the trend of discussion. I find that the questions are repeated and the same answers are given.

Shri Sadhan Gupta: Excepting in one case, I don't think I have repeated any question.

Chairman: You may put two more questions now.

Shri Sadhan Gupta: There was an answer about the organization of zones. On this question of zones, you

visualise that they should correspond to what are the head offices today. Isn't it?

Shri LakshmiPat Singhania: I have not said so.

Chairman: He has mentioned that there should be one zone in every major town.

Shri Sadhan Gupta: He said that there should be about a dozen zones which will be concerned with the day-to-day administration. That, in effect, corresponds to the functions of the head offices of the present insurance companies.

Shri LakshmiPat Singhania: I don't think so. The present head offices are not equally divided. They are not situated in equal zones.

Shri Sadhan Gupta: Not that. I want to know whether the functions of the zonal organizations would correspond to the functions of the head offices of the present insurance companies.

Shri LakshmiPat Singhania: As far as the functions are concerned, they will correspond to the functions of head offices partly, because partly those functions will be governed by the central body. It is only a portion of the functions which head offices perform today and secondly in several companies, decentralisation has already taken place. In certain companies, they are issuing policies and dealing with business in different Branches, like, Madras, Bombay and Calcutta, and therefore, they have decentralised in several matters and they are not strictly the functions of head offices. Its function as I have submitted is day-to-day business right through from the date of issue of a policy and repayment of the amount on maturity.

Shri Sadhan Gupta: Don't you think that it will be too much of a work for only 12 zones to deal with and don't you think that the functions of the head office, such as issuing policies and so forth, should be done by the divisional offices?

Shri LakshmiPat Singhania: My submission is that the more you step down and if you are to go from one place to another to finalise a matter, more delay, more obstruction, in service will take place. Therefore, my submission is that it should be as independent as possible.

Shri Sadhan Gupta: What I am suggesting is further decentralisation. You see, the functions of the head office, such as issuing policies, etc., would be carried on by the divisional offices. The zonal offices will supervise these divisional offices and also arrange for publicity and propaganda in those zones and the central corporation itself will be concerned with larger policy matters, such as, investments and other things.

Chairman: And co-ordination.

Shri Sadhan Gupta: Yes, and co-ordination.

Shri LakshmiPat Singhania: Our submission is that the more there is interdependence of these zones, the more will be the delay. Therefore, we submitted that there should be more decentralisation and more independence. More powers should be given to these zones.

Pandit K. C. Sharma: You want that there should be more initiative?

Shri LakshmiPat Singhania: Not only initiative, but there must be quick transaction.

Shri S. K. Patil: You are talking about these 12 zones. The purpose of our arrangement of zones just now is that the whole country has got to be covered and more emphasis is placed on the expansion of business in rural areas. When you talk of these 12 zones, have you worked out scientifically that each zone, when it operates, will cover the entire area? Is it merely a figure?

Shri LakshmiPat Singhania: It is only a mere figure. We have not worked it out in detail.

Shri S. K. Patil: You merely suggest that an efficiency machinery

[Shri S. K. Patil]

should be there because insurance has got to go to the remotest corner of the country and there ought not to be a single village which is cut away. As far as possible the division must not be of a type that will result in more concentration in one part and less concentration in another. So that kind of a detailed picture has not been worked out by the Federation.

Shri Lakshmipat Singhania: No.

Shri T. N. Singh: They should be able to submit a note.

Chairman: If the Federation can submit a detailed note regarding the demarcation as between the Corporation, zone and the division, what will be function of each according to them, etc., will be rather valuable.

Shri Lakshmipat Singhania: We shall submit a note.

Shri Sadhan Gupta: I want to put one more question. You said that there should be no retrenchment. Now you will agree that in many companies, sinecure posts were created in order to provide for favourites, or persons connected with proprietors or authorities. Would you not agree that there should be immediate retrenchment of persons on these sinecure posts?

Shri Lakshmipat Singhania: That is a very difficult question for me to answer without knowing what are those posts you have in mind. But it is a question of utility of these persons. If there are some persons, according to your version, who are bogus drawers of salaries, I am not in favour of wasting the money of the community on them.

Chairman: Now we shall go to the next question of foreign life business. When you were explaining about the foreign life business, you said that there are so many companies who are doing that business and all of them must be retained. Is that right?

Shri Lakshmipat Singhania: I did not say that all of them must be retained; nor is it that I want to select

a few. What I suggested was that if the intention is that the whole business is to be taken away and given to one company, that is not fair. It should be left to the composite companies who are carrying on the business for the last so many years—some of them are carrying on for 35 years or more and they will still be having their general business—and so long as they continue to do general business, there is no reason why they should not continue to carry on the foreign life business also. The life business of those who were doing simple life business and who are not going to operate any foreign business, their business has to be distributed to other companies.

Chairman: How is that to be done?

Shri Lakshmipat Singhania: That method will involve offering this business to the companies in proportion to their existing business, or whether they are doing much more or their quantum of business is more, is to be considered. This question has to be examined on these details.

Chairman: You can work it out and tell us.

Shri Lakshmipat Singhania: Unless and until we have the full facts and figures of the companies working in the fields, it will be difficult.

Chairman: They will be available somewhere.

Shri T. N. Singh: How do you assume that the Bill, as it is, means that this business will be given to only one person?

Shri Lakshmipat Singhania: I am only commenting on the Finance Minister's proposal in Parliament.

Chairman: He has explained that in some place.

Shri S. K. Patil: Your idea is that instead of concentrating this business in only one company, it should be distributed among those who are functioning in the field.

Shri Lakshmipat Singhania: It is not distribution. At the moment they are already in those areas. Therefore, only such companies who are going to work in those areas should retain their life business.

As far as purely-life companies are concerned, their business can be distributed among those companies which are operating.

Chairman: With regard to the other work, other than life business, you say that even though there might be some subsidiary doing other work which has been taken over by the Government, that should not be done and that experience need not be gained. Why?

Shri Lakshmipat Singhania: The main idea of this corporation is to carry on the life business and if you are going to put so many other business with this corporation then the main object will not be served. And there are three provisions in the Bill.

Shri M. C. Shah: Are you referring to the three subsidiary companies of the life insurance companies?

Shri Lakshmipat Singhania: Under this clause other business may be brought in.

Shri M. C. Shah: There is no question of any other business being taken over. The only question is about the three subsidiaries of the life insurance companies that have been mentioned.

Shri Lakshmipat Singhania: I was going to submit that there are two provisions in the Bill which enable the corporation in future to do any other type of business also—not only life insurance, but any other type of business. Our submission is two-fold. One is that it should not include any other type of business.

Shri M. C. Shah: Any other type of business of insurance?

Shri Lakshmipat Singhania: Not insurance, but other types of business.

Shri Feroze Gandhi: Why not they compete with the Government, that is, with the State Corporation? In one case you want competition and in the other case you do not want competition.

Shri Lakshmipat Singhania: We have never suggested that Government should not take up this. Our suggestion is confined to the life insurance. We say that the Life Insurance Corporation should not do other business. The Life Insurance Corporation should not do textile business or cement business.

Shri Feroze Gandhi: I thought you were referring to the general insurance.

Shri Lakshmipat Singhania: As far as general insurance is concerned, if you feel that general insurance is to be nationalised or that general insurance is to be run by the State by having a State Corporation, it can do it. But why combine life insurance with general insurance?

Shri M. C. Shah: But suppose there is something inherited. Instead of disposing them of, why should we not develop them?

Shri Lakshmipat Singhania: My submission is this, General insurance is a very ticklish business and it will have repercussion in other fields. There is the question of acquiring reciprocation as well as the treaty obligations. General insurance is not like life insurance. Secondly, unless and until you are having a corporation and all that for general insurance, you should not undertake this.

Shri M. C. Shah: The general insurance contracts are only for one year. Suppose we have inherited some companies—we have inherited three subsidiaries. Why should we not work those three subsidiaries? Are there any special reasons for your suggesting our not taking them?

Shri Lakshmipat Singhania: The special reasons are: the general business is itself in the nature of a busi-

[Shri Lakshmiapat Singhania]

ness which has all these difficulties and if you are going to run this business as a subsidiary to the life business it will not be appropriate. My submission is that the Government should not run those three subsidiary companies. If the Government wishes to run them, then my submission is that they should form a separate corporation which has nothing to do with this corporation.

Shri T. N. Singh: Probably there is some misapprehension or fear in the minds of the witnesses that the taking over of the general insurance of these three subsidiary companies is a preliminary to the taking over of the general insurance in future. I think that is the lurking fear. Do you want an assurance on that point?

Shri Lakshmiapat Singhania: The point is there is no question of fear. If Government wishes to nationalise anything they can do it at any time. I do not think it is a question of fear. It is a question of administration. It is a question of running this efficiently. Therefore, in the first place, they should not take over this business. In case Government wishes to run it then there should be a separate body and not the very same body.

Shri S. K. Patil: You have suggested that these three subsidiaries should be disposed of. That is your view, if I am not mistaken. Should those life companies, if they want to run independently, be allowed to do so as other composite companies are running them?

Shri Lakshmiapat Singhania: Which life company? There is no life company.

Shri S. K. Patil: Suppose there is an offer to run it in that manner. It is only a question of three companies.

Shri Lakshmiapat Singhania: They can be given to those who were running them or they may be disposed of in any manner Government may think fit.

Shri S. K. Patil: This is the thin end of the wedge. These two things

are quite separate—one regarding life and the other regarding general business. Your suggestion is that if general insurance is taken then there should be another corporation.

Chairman: You want to restrict the power of Government in issuing directions.

Shri Lakshmiapat Singhania: We have suggested that the less directives are issued through the body the better it will be.

Chairman: The directives will be issued by the Government and Government would not like to issue directives unnecessarily. The power has got to be with it. Why should it be restricted?

Shri Lakshmiapat Singhania: If you are going to have a corporation, as it is constituted, it will be dominated by the Government. In that case, why restrict their powers also?

Chairman: There will be certain demarcation, specification of the domain of the corporation. Naturally, Government would not like to come in the way. But there may be certain matters of national importance. There may be some cases in which it may be necessary for the Government to issue directives.

Shri Lakshmiapat Singhania: That Government can always do.

Chairman: Why not allow the powers to remain with the Government?

Shri Lakshmiapat Singhania: If you allow that power, it will always be used.

Chairman: The Government cannot lightly do it. It is not like any department. It is left with the Government. If there is any occasion to issue a directive, it will issue it.

Shri Lakshmiapat Singhania: We feel: let this body feel that they are depending upon themselves. Let them not refer back any questions to you of that nature where they can

themselves take action. Let them not think: we will consult Government before we do so. Then it will work in the departmental manner. In important cases, of course, the power to issue directives is always there.

Shri M. C. Shah: About the subsidiaries I would like to ask one question. The Government have not nationalised general insurance business. Now, won't you like Government to gain some experience by running these subsidiaries in general insurance business as it is complex and complicated? Government may obtain some experience slowly and slowly about general insurance. Don't you think that is good?

Shri Lakshmiapat Singhania: As I have suggested already, it is not a question of my liking. It is a question of Government liking. If the Government likes to run it, my submission is this: run it as a separate corporation; don't mix it with the Life Insurance Corporation.

Shri M. C. Shah: You have no objection to Government obtaining experience?

Shri Lakshmiapat Singhania: After all, what is the value of my objection?

Shri M. C. Shah: You represent the Federation.

Shri Matthen: I want to ask some questions about general insurance.

Chairman: We have already discussed that. Now we are on the question of the power of issuing directives by the Government.

Shri Feroze Gandhi: I have some questions on whether the corporation should do other business.

Chairman: That is finished. With regard to the power of issue of directives he says there should be complete autonomy for the corporation and there should not be any fear in the minds of the corporation that the Government would be interfering in their work.

Shri Feroze Gandhi: Mr. Singhania was not right about the independence of the State Corporation. No matter

how independent it is, it cannot be more independent than the Parliament. Parliament will have to function and it should be under the control of Parliament. There is no getting away from that. Therefore, what he is suggesting cannot be done as long as Parliament has got overall power to discuss and do what it likes. This corporation is going to be formed as a result of an enactment by Parliament and Parliament has the right to discuss the work of that corporation. Parliament will not be interfering with its day-to-day work. It is not the business of Parliament.

Shri Lakshmiapat Singhania: I never suggested that Parliament should not have any control.

Shri Feroze Gandhi: That *inter alia* means there has got to be a link between Parliament and the Corporation. That link is the Ministry.

Chairman: There is another side to the picture. Government will not lightly interfere or issue directives and the corporation, once it is declared an autonomous corporation, naturally will have full autonomy to carry on its work.

Shri Feroze Gandhi: Absolutely.

Chairman: And whether it is Government or even this Parliament, they will not interfere very lightly. It will do so only when it is absolutely called for. So I was only suggesting that it will not be necessary to object to the power to the Government to issue directives. I want you to reconsider the matter.

Shri Feroze Gandhi: It cannot be done even if you want to do it.

Shri Lakshmiapat Singhania: We never said that Government should not have powers.

Chairman: It must be only in this or that. You want to satisfy one or two things. So, only the Government can issue the directive. I was saying that the Government may do it only in very exceptional circumstances, only in one or two instances. But that

[Chairman]

reserve power has got to be there in view of what Mr. Gandhi has said.

Shri LakshmiPat Singhania: I appreciate fully what Mr. Gandhi has said. After all, the overall power should remain with the Government and the Parliament. That is not opposed. Our point of view was that the day-to-day work of the corporation should not be subject to restrictions from Government. That is the only thing.

Shri Raghavachari: In that connection I may submit this: the whole point or view or aspect of criticism about restricting the powers of Government, volition to apply or not to apply any part of the Insurance Act is based on this. What the law has provided is this: that no part of it applies, but if at any time it has to be applied, the Government has the right to do so. The objection is that there should be certain items of that Act which must be made applicable and the rest may be left open. That is the whole thing.

Shri LakshmiPat Singhania: That is our object.

Shri T. N. Singh: I want to know one thing. Clause 18, to which objection has been taken, lays down that "in matters of policy involving public interest". Only in that limited context can the Government invoke the power. Is it contended, as the Memorandum says, that it would be unbusinesslike for Government to intervene when the public interest is prejudiced? You say that clauses 18 and 6(3) are not compatible because it will be unbusinesslike to vest Government with powers to intervene where public interest suffers. Is that your contention? That is the contention according to the memorandum unless it has got some hidden meaning.

Shri LakshmiPat Singhania: It has no hidden meaning. Our contention is only to restrict the power of the Central Government. Where it is required in the public interest, how can we ask to restrict it?

Shri T. N. Singh: But clause 18 does not say anything more than that.

Shri LakshmiPat Singhania: We have drawn the contrast between clause 18 and clause 6(3).

Shri T. N. Singh: Clause 18 says "to a matter of policy involving public interest"; not to any matter of administration. So I fail to understand the point made by such an august body as the Federation of the Indian Chamber of Commerce and Industry.

Chairman: I think he has already admitted that some reserve powers shall have to be there.

Shri T. N. Singh: Another point is: they made a distinction between general business and the other "any other business". I have one point to know about it which is more of clarification.

Supposing in the course of business, we invested in certain concerns. For some reason or other, that concern gives us a difficult time and is unable to pay back the money. Is it not unthinkable that the Corporation should not have the right of closure and taking possession of such a concern in such a contingency? Should it be more helpless than an ordinary individual? Taking over "any other business" provides for a contingency where the Corporation finds this necessary.

Chairman: There is a distinction between taking over and conducting.

Shri T. N. Singh: Even by closure we do not close it altogether, but we run it.

Shri S. K. Patil: You have stated about this Government intervention—the difference between clause 6 (3) and clause 18 of the Bill, and you have come to the conclusion that under one clause, namely clause 6 (3) it must be run as a business concern and that under clause 18 Government could issue directives in the larger interests of the public etc. You find that Government may go on issuing such directives that the autonomous

character of the Corporation cannot be maintained. Can you illustrate one or two orders, if you have got, as to what type of directives you expect will impair the efficiency of the administration?

Shri Lakshmiapat Singhania: What we had in mind was this. The word public interest is very wide. Anything can be in public interest. Even the appointment of a Manager can be in public interest. Therefore, my submission is that it is very difficult to define the public interest.

Chairman: "The Corporation shall be guided by such directions in matters of policy involving public interest as the Central Government may give to it". Matters of policy are the words used. It cannot be in the matter of appointment of a Manager as you apprehend.

Shri Lakshmiapat Singhania: Our object was not to restrict the power of the Government. After all, nobody can do it.

Chairman: I would like to know with regard to the Insurance Act, will it satisfy you if the Government just clarifies the position as to what provisions of that Act are going to be applied—something like a further clarification?

Shri Lakshmiapat Singhania: The point was that there are so many other restrictions regarding expense ratio, running of the business and so on.

Chairman: That is the Government position. They say that it shall be applied with certain modifications because of the context.

Shri Lakshmiapat Singhania: Those points that do not apply to the shareholders may be taken away and the remaining parts can be applied. They have been framed into a law which is applicable to all insurance companies.

Chairman: You want to know what exactly will the modifications be like, or what provisions will apply and what will not apply?

Shri Lakshmiapat Singhania: If this is made definite, it will be better.

Chairman: About the Insurance Act, you want to know how much will be modified?

Shri M. C. Shah: In clause 34 we have said that Government will have the power about the application of the Insurance Act. You want it to be positive that certain clauses of the Act shall apply to this Corporation. Is that what you mean to convey?

Shri Lakshmiapat Singhania: Our submission is that except those clauses of the Act which by forming this Corporation automatically do not apply, the remaining should apply.

Shri M. C. Shah: You want to have a positive statement in clause 34 that certain sections of this Insurance Act will apply to this Corporation also. By implication, those which do not apply will be excluded.

Chairman: You will be satisfied if there is some clarification from the Government with regard to the application of the Insurance Act.

Shri Lakshmiapat Singhania: Yes; otherwise, it will be open for the Government to apply any provision they may like.

Shri S. K. Patil: Do you want this to be expressly stated in the Bill itself?

Shri M. C. Shah: Suppose we say that so many sections of that Insurance Act will apply to the Corporation and residuary powers will apply to the Government. The Government may take time to come to a decision whether a particular section will apply or will not apply. Will that do?

Shri Lakshmiapat Singhania: The less the flexibility for the Government, the better.

Shri Sadhan Gupta: The section in the Insurance Act relating to expense ratio was introduced primarily with a view to curb extravagant expenditure indulged in by certain insurers

[Shri Sadhan Gupta]

and to prevent the mis-application of money by limiting that to a certain amount of expense. In the case of the Government, those considerations do not prevail. Therefore, will you not agree that the expense ratio limit should be revised on a scientific basis?

Shri Lakshmiapat Singhania: To be upgraded or downgraded? The question is this. In the case of individual insurers, the size of the company was taken into account for the expense ratio. In the case of Government, the expenses of the Corporation are likely to be much less because such a bigger body is going to function, all in one. Therefore, our submission was that if there will be no limit, then probably in course of time the cost of insurance will be very high and expense ratio may keep on mounting up. If there is to be any limit, it should not be revised upward. That is my submission.

Shri Sadhan Gupta: You are not in a position to say whether scientific consideration will not do. We have had experience that private insurers who were otherwise financially very sound, when they were approached for certain remunerations to staff, invariably pleaded the expense ratio. They said that the expense ratio prevented them. Therefore, what you mean to say is that the expense ratio should not be fixed with such an amount of rigidity that even though the Corporation is otherwise able to exceed it, it would not be able to do so even for the purposes of beneficial measures.

Shri Lakshmiapat Singhania: As far as the expense ratio is concerned, our submission is that it must be defined. Otherwise it is going to lead to a costly business for the policy-holder. If Government could define that for the private individuals, there is no reason why Government cannot define the calculated expense ratio which should be lower, and not higher, for the corporation. That is my submission, and I think that' if there is a

limit, everyone will work within that limit. If there is no limit, it will go unchecked.

Pandit K. C. Sharma: It is the human capital which is most important.

Shri Lakshmiapat Singhania: I agree and I quite appreciate that human capital is most important and that is what the country requires at present. It should be for the community.

Chairman: You have mentioned about a National Insurance Council. What will be its functions and what will be its role?

Shri Lakshmiapat Singhania: Something of the same nature as you have in several spheres to advise and guide each zone and the Central Board.

Chairman: What will the Corporation do then? The Corporation has to guide and co-ordinate.

Shri Lakshmiapat Singhania: The Corporation will consist of only a very few members. Here you can take others also.

Chairman: There will be other Advisory Committees for each zone, besides the Corporation. You cannot have a third body.

Shri Lakshmiapat Singhania: We have suggested that apart from these zones, Advisory Councils or Committees could be given.

Chairman: So you want for the Corporation a National Council to advise and members of this Council should be drawn from those who are fully experienced in the business and who are representative of the various interests?

Shri T. N. Singh: I thought that you wanted only the representatives of policy-holders to be there. You have said in your memorandum:

"The Committee recommend that apart from these Zonal Boards, a Central Advisory Council (or a National Insurance Council) on which the represen-

tatives of the policy-holders have a place should be constituted to advise the Executive Committee. The representatives of policy-holders on the council should be elected by the policy-holders and not nominated by the Government."

You have not stated who else should have a place on this Central Advisory Council. According to this, I thought that it is only the representatives of the policy-holders that you want on the Advisory Council.

Shri Lakshmiapat Singhanla: Our principle is not to have only the policy-holders.

Shri M. C. Shah: The point is this. The central Corporation will have 15 Directors. There will be four zones, may be more. Each zone will have associated with it an Advisory Council for which the number has not yet been fixed. They will be advising on all day to-day-administration and all these matters there. In the central Corporation, these 15 Directors will just formulate the policy on most important matters. Do you think that over and above these, there should be an all-India Advisory Council? Then there will possibly be a paucity of experts also, because most of them will be on the central Corporation and some on the zonal Advisory Council—the zones may be four or five or six or more. Then the Advisory Councils will have about 12 experts and I do not know how many more expert people will be available for an All-India Advisory Council.

Shri Lakshmiapat Singhanla: Our idea is that the Board of Directors will consist of people who will execute the business whereas the Advisory Council will be able to guide and advise them.

Shri M. C. Shah: The central Corporation will not do business at all. The business will be done by these four or more zonal set-ups, which as I said in the beginning, will be more or less autonomous in their day-to-day administration. From the time a pro-

posal is taken to the time payment of the insured amount is made, all the stages will be manned by these zonal set-ups. They will also be assisted by an Advisory Council which will consist certainly also of the experts having an expert knowledge of the insurance business, policy-holders' representatives, employees' representatives and all these persons. Still, do you want over and above all these, to have an All-India Advisory Council again. Why is that?

Shri Lakshmiapat Singhanla: Our object was only this. We want the Advisory Council to take up all work other than administration, like research on better methods of insurance and cover and so on.

Shri M. C. Shah: That might be done by the central Corporation.

Chairman: There might be a separate department of the Corporation to deal with such matters.

Shri Morarka: May I refer to page 7 of the memorandum which is about clause 34? In the memorandum you have stated:

"Clause 34 of the Bill stipulates that the provisions of the Insurance Act, 1938, shall not apply to the Corporation except with such conditions or modifications as may be notified by the Central Government. While the Committee would agree that some of the provisions of the Insurance Act such as the control of capital structure or the control of investments or distribution of dividends and bonuses will no doubt be superfluous so far as the Corporation is concerned, there is no reason why other provisions such as Section 40 (b) relating to the expense ratio should not continue to applied to the Corporation."

I want to know why they consider that the control of investments by the Corporation will be superfluous. I want to understand why they con-

[Shri Morarka]

sider that the control of investments will be a superfluous thing. After all, the policyholders continue to be the same. The whole thing is done in the interests of the policyholders and to safeguard the interests of the policyholders. Why does the Federation feel that the control of investments shall be a superfluous thing now?

Chairman: I think they consider it a right of the corporation to lay down the policy with regard to the investments.

Shri Morarka: My point is this. At present, section 27 or 27A of the Insurance Act, 1938 controls investments of the funds in a certain manner. Clause 34 says that the provisions of the Act do not apply to this corporation. In other words, the corporation will be at liberty to spend it in whichever way it likes. The Federation's view is that it is not necessary to control investments. In other words, the control of investments, according to the Federation, will be superfluous. I want to understand how the control of the funds will be superfluous when it was thought necessary till the corporation was formed or the insurance companies were nationalised. What is the difference between then and now?

Shri L. Singhanla: There is a material difference. That section of the Act relates to the investment of each individual whereas the policy which the corporation is going to make is going to be its own and quite independent. We have not said that those provisions shall not apply. What we have tried to put before you is that by virtue of clause 34 you are going to keep that power wide in the hands of the Central Government to apply whatever provisions they wish to apply. I may submit to the Hon. Minister that those provisions must be defined. What are those provisions you are going to apply to this corporation? If you leave that clause as it is in the Bill, it will be giving a very wide power to the Government and nobody knows what power the

Central Government is going to exercise. Therefore, we wanted to make it absolutely clear that it is in the best interests of all to define those provisions. For example, we have stated in this memorandum that such and such things may automatically go off the corporation's hands. Not for a moment are we suggesting that there should be no control at all on the investments.

Shri M. C. Shah: Not that you want to take away that section?

Shri L. Singhanla: There is no intention like that. It is only by way of giving example.

Shri M. C. Shah: You have no intention to drop section 27?

Shri L. Singhanla: As a matter of fact, our pleading is that you should retain the provision of the Insurance Act.

Chairman: You have suggested a tribunal for the settlement of claims. Will it be absolutely necessary to have such a tribunal?

Shri L. Singhanla: You know that the claim of paying of insurance policy is the most important factor and therefore there should be some check and somewhere there should be a place where a policyholder can go and put forward his claim for early settlement.

Chairman: Should there be a tribunal for this?

Shri L. Singhanla: A tribunal or some such body should be there. Otherwise the policyholders will have to accept the decision of the corporation. There will be somebody independent to whom policyholders could go.

Chairman: Are you not satisfied with the provisions for compensation in the Bill?

Shri L. Singhanla: With all respect, I submit that the compensation provision which has been provided in the Bill is not fair.

Chairman: We are told that it is very liberal.

Shri Lakshmipat Singhanla: At least I should be allowed to make this submission.

Chairman: What is your idea of compensation?

Shri Lakshmipat Singhanla: My idea of compensation is this: compensation means giving something in lieu of the business which you take over. Insurance is an expanding business. In an expanding business, more surplus will come. It has been said in several places and also by the Hon. Minister of Finance that the trend of allocation between the policyholders and shareholders was reduced. As the funds of the company will get enlarged, naturally the trend of allocation may be reduced. But here it is a question of paying compensation on the basis of the past for the future. If these companies were left as they were, then the quantum of amount available to them will not be the same as the quantum available to them after some time. This is one point. Then, as far as the share capital is concerned, as has been agreed to by the Government also, there is no ratio or relation between it and the securing of the business as far as life business is concerned. In paragraphs 1 and 2 there is reference to ten times or twenty times, etc. whichever is greater. My submission is that, first of all, quantum of compensation is to be the value on the basis of what one is going to lose and, as you have seen yourself, any clause of compensation which you provide should be applicable to the majority of cases. Here, you have found that most of these companies go without the application of that clause. The total number of companies affected under this compensation is as follows:

Out of 156 companies, only 11 life companies come under the clause dealing with twenty times. Similarly, four composite companies come under that paragraph.

Under the clause dealing with 10 times, only 18 companies come. As regards composite companies, 19 companies come under this. On the whole, out of 156 companies, only 52 companies are affected, which means 2/3 of the companies go without the application of paragraphs 1 and 2 of the compensation part.

Now, I shall first deal with the overall picture. This compensation which you are going to pay on the basis of the surplus of the companies is unfair. It is very difficult to determine the surplus of a company today because in an expanding business it will increase. The compensation scheme should be such that we should enable every company to get something according to the work they have done. In a life company, what is the asset? The asset is its organisation and man-power. It is not rupees, annas and pies. Most of the companies have not distributed their surplus and they will have to wait. Then, when there is a competition, for instance, when a particular company is prepared to pay more bonus, other companies have to come forward to pay more and make more sacrifices. Therefore, the future compensation should be based on these matters. After all, Government is going to take over the business and there is no reason to paralyse them in that manner. Here you say about ten times or twenty times whichever is greater. To my mind this is very funny. One who has brought more capital for the safety of the policyholders is punished. Let me repeat again that it has no relation to capital, because compensation is based on the valuation. If you take two companies, both having Rs. 5 lakhs, one company may be able to distribute a much higher surplus than the other, and now that company is going to suffer by having lesser compensation. The other company with lesser surplus is benefited.....

Chairman: That has been considered and a reply also has been given.

Shri Lakshmipat Singhanla: But our submission is that as far as capital is concerned, the provision of ten times

[Shri Lakshmipat Singhania]

which has been proposed for those companies which have brought more capital is a penalty for bringing more security for the policyholders.

Chairman: France took over certain companies. What did they do? Is there any precedent?

Pandit K. C. Sharma: Compared to the zamindari abolition, you are going to have a better deal.

Shri Lakshmipat Singhania: I will not like to indulge myself at the moment in what was the past and what was not because I do not consider we are discussing here that point. But what I am trying to put before you is that the measure of compensation is not fair and I want you to kindly consider in these..

Shri M. C. Shah: May I draw your attention to what has been provided in paragraphs 1 and 2? But in the preamble we have said "whichever is more advantageous to the insurer". If 20 times is more advantageous to the insurer, then those shareholders can opt for that. If ten times is more advantageous, they can opt for that.

Chairman: The choice is left to them.

Shri Lakshmipat Singhania: I have understood it very clearly and my submission is this that 10 times.....

Shri M. C. Shah: I do not know what is in the mind of the members of the Select Committee. You speak of loss in the future business. I do not know whether it is acceptable. Apart from that, with regard to surplus disclosed in the last two actuarial valuations, they have provided for two alternatives. One is ten times plus the paid-up capital, etc. Then we have provided that wherever surplus distributed is less than 3 per cent.—suppose it is 1 or 2 per cent.—that will be taken as 3 per cent. There are very few companies—possibly I can just give you the number of companies—who have given more than 4 or 5 per cent. We have said that two actuarial valuations will be the basis which will

nearly give 6 years from 31st December, 1954.

Shri Lakshmipat Singhania: There are two points involved: one is the 20 times the annual average and the other is the period.

Shri M. C. Shah: Just take the period. You may say whatever you have to say about the period.

Shri Lakshmipat Singhania: I have already said about this and I am just going to repeat it. First of all, on the period, I will just say that this 31st December 1954 is most unfair for the reason.....

Shri M. C. Shah: What do you suggest?

Shri Lakshmipat Singhania: I am coming to it. When you say two actuarial valuations before 1954, it means some companies may have done valuation in 1952-53, and the earlier valuation may have been before 1950, in the case of many companies the first valuation may have been before 1950, that means, during 1946—1950. The 1946—50 period was an abnormal period when the rates of interest were falling, when the salaries were enhanced and when the companies' economy had taken a different shape and therefore, the surplus disclosed in that period obviously is going to be the minimum. Today, when you are taking up business in 1956 and giving effect to the average which falls between 1946—51, in my opinion, it is not fair.

Shri M. C. Shah: You want to exclude the period before 1954?

Shri Lakshmipat Singhania: That is what we have submitted; that instead of 1954, it should be 1955.

Shri M. C. Shah: 31st December 1955. I am just receding back to that period from 1950-55 or.....

Shri Lakshmipat Singhania: If you take three years, it is more than sufficient. The Finance Minister has announced that he is considering the proposition of extending the period. If you make the extended period from 1954 to 1955, it will be enough.

Shri M. C. Shah: There is also a misunderstanding. The Finance Minister has not so clearly said that.

Shri Lakshmipat Singhanla: He said he is considering. My submission is this that if you take the three years' period, 1953, 1954, and 1955 and take an average, that will be much better than taking 1946—51 and 1951—55.

Shri M. C. Shah: Will that give the correct average? As a matter of fact there may be rather a great impetus in the insurance business in the year 1953-54. So will that give you the correct average if you take only three years?

Shri Lakshmipat Singhanla: The new business does not bring in more profit. The new business in 1954 actually involved more expenses to the insurance companies. It is only the renewals that bring profit.

Shri M. C. Shah: That will come in 1955.

Shri Lakshmipat Singhanla: All the renewals will not come in 1955, because there will be a number of lapses. Another thing you have to consider is that in the pre-1947 period, the business done was for the whole of India before partition, and after partition the companies were operating in a smaller India.

Shri M. C. Shah: Therefore, if I understood you correctly—you may correct me if I am wrong—we should not take the period before 1950. Is that what you want?

Shri Lakshmipat Singhanla: Yes.

Shri M. C. Shah: Thereafter, from 1950 we must have any time between 1950 and 31st December 1955?

Shri Lakshmipat Singhanla: Yes.

Shri M. C. Shah: The second plea is that it ought to be 1953, 1954 and 1955 and you do not want 1950, 1951 and 1952. But two actuarial valuations ordinarily take 6 years.

Actuarial valuation is done after three years. In some cases, it may have been done after 4 years. Ordinarily, the actuarial valuation is made every third year: one-third of the

companies might have done in 1952 or so; one-third might have done in 1953; and another one-third might have done in 1954. Therefore, if you take the two past actuarial valuations as has been mentioned in the Bill, there might be injustice. That is what you say. Therefore one thing is that the period should be extended upto 31st December 1955. I think I have understood you correctly. The second point is that we should not take the period before 1950. Am I right?

Shri Lakshmipat Singhanla: Yes.

Shri M. C. Shah: Then the third point is instead of two actuarial valuations which means ordinarily six years, you say it must be three years and those three years must be the last three years. That is what you propose to put forward.

Shri T. N. Singh: I want to know your reactions on this: Assuming that the clause is just modified so that instead of "whichever is more" we say "whichever is less"; and supposing we say that only the market value, whatever it is, of the shares at the time when these companies were nationalised, should be paid, what will be your reaction to that?

Shri Lakshmipat Singhanla: Fundamentally, for shares of insurance companies, there is no share market value.

Shri T. N. Singh: It may be ascertained.

Shri Lakshmipat Singhanla: How to ascertain it is the main point. After all, the example is before you that out of 154 companies, only 52 companies were distributing surpluses and 102 companies, that is two-thirds, were not distributing surpluses and therefore, it is hard to ascertain the value of the shares of those companies. It will also mean that you do not want to pay any compensation to 102 companies.

Shri T. N. Singh: That might also be the idea.

Shri Lakshmipat Singhanla: I am not fit to reply that question in that language, but what I mean is this. If it is not correct if you call it fair compensation. It is not fair compensation.

Shri T. N. Singh: These are my views; probably they are unknown, at least to yourself.

Shri Lakshmipat Singhanla: I am not here to enquire into your views. I am here only to submit my views before you. I am nobody to judge your views. My views are that there should be fair compensation and when you talk about share capital, as the hon'ble Minister has said, it is a very important point.

Shri T. N. Singh: Fair to whom? Fair to the tax-payers and the State or fair to the shareholders? There are two aspects of the question. Sitting here in Parliament, we have to be fair to the State also. When you use the word 'fair', it has to be used rather in a wider context.

Shri Lakshmipat Singhanla: The State does not come into the picture. The State does not pay a single pie. It is the division between the policyholders and the shareholders.

Shri T. N. Singh: The State represents the interests of the policyholders. As a representative of the policyholders, it has got certain criteria for fairness as you have got certain criteria.

Shri Lakshmipat Singhanla: It is the question of fairness between the shareholders and the policyholders. When the State is nationalising a business if they adopt something beyond the law of the land, it is not fair according to the law as it exists.

Shri T. N. Singh: What about your reaction to "whichever is less"?

Shri Lakshmipat Singhanla: It is not a question of being acceptable to shareholders. It is a question of policyholders. Let me put it broadly in this language. When you nationalised Imperial Bank, it meant nationalisation of banking Insurance is more or less like banking. That is public saving and this is also public saving. The Bank's total funds were Rs. 250 crores which were mobilised by the shareholders during the working of the Imperial Bank. The compensation paid for this sum of Rs. 250

crores from the State—not from the shareholders, not from those creditors—but from the State amounted to—

if I am not making a mistake—about Rs. 17 crores to Rs. 18 crores. Here a similar saving of Rs. 400 crores is being mobilised and the compensation paid from the State is nil. It is paid from the policyholders' surpluses and those surpluses also amount to about Rs. 3 crores.

Shri M. C. Shah: They will be paying compensation to the shareholders, to which they are entitled. Suppose a shareholder today gets about 5 per cent, he is only entitled to ask for a capitalised sum which may give a return of 5 per cent. That is most adequate and most fair.

Shri Lakshmipat Singhanla: They are only paying to 11 companies and not to 152 companies.

Shri M. C. Shah: Suppose there are assets and there are liabilities and there are no surpluses. Suppose no dividend has so far been declared to the shareholders. How are the shareholders entitled to anything? Still in fairness we are giving them something. As a matter of fact, what they will get is on this basis: Take some two years' average. What was the yield on their share-holding? Suppose it was about 5 per cent, then you say what will be the capitalised sum which will yield that much to them. That will be most fair and adequate compensation.

Shri Lakshmipat Singhanla: I will submit in this way. Suppose a company takes 25 years to declare the first dividend. After 25 years, when it started paying dividend, if it is being taken over by Government, can the Government come forward and say that we are not going to pay anything, because their share-holding did not yield anything?

Shri M. C. Shah: Here what we do is this: There is the average surplus; as you say, you do not take the period before 1950 into account. You take the period after 1950 and take two

actuarial valuations, which means 6 years. You see three years' average so far as the surplus is concerned and so far as the dividends are concerned whatever is declared to the shareholders, we have provided for that. We have also provided for those companies which did not declare any dividend and we have also taken into consideration the assets and liabilities. Suppose that company winds up its business today, what will be the position of the shareholders? The shareholders will be entitled to get whatever are the assets minus liabilities.

Shri Lakshmipat Singhanian: The Life Insurance Companies, as I have submitted, work on the long term basis and the question of paying compensation on the basis of winding up will arise, because business is conducted in the hope of making profits.

Shri M. C. Shah: A number of companies have not made profits for a number of years.

Shri Lakshmipat Singhanian: They cannot make profits. As I was submitting a little before, if you study the history of insurance business in India, you will realise that every company has paid dividend after a long time.

Shri M. C. Shah: Perhaps they were not working efficiently.

Shri Lakshmipat Singhanian: It is not the criterion to decide. Any business, especially insurance, cannot be profitable in the beginning.

Shri M. C. Shah: You must give credit to the Government that they have thought about this also.

Shri Lakshmipat Singhanian: On that I cannot say. The only point I wanted to make is about this 10 times and 20 times compensation. This means if you *minus* one type of company and see what the compensation the other 150 companies are getting, you will realise the unfairness in this respect. The main factor is, if you take No. 1 company, it has contributed 5 per cent—only about 5 of 20

times—which you call surplus. If you take some other company you want to give only 10 times because the capital is more and the company has brought more than 51 per cent of the capital. Therefore the compensation should be given half and they should be paid 10 times.

Shri M. C. Shah: Why do you omit the 10 per cent of the paid-up capital?

Shri Lakshmipat Singhanian: Therefore, I am saying 49 per cent. 50 per cent is the capital. For 50 per cent capital it has been reduced from hundred to 50, that is, from 20 to 10. The only fault of the company is that it has brought more capital to the shareholders. If the company has brought less than 50 per cent, then the company would have been entitled to more.

Shri M. C. Shah: That company would have gone into liquidation earlier.

Shri Lakshmipat Singhanian: I cannot foresee that. If that was the case then these 152 companies would not have existed.

Shri M. C. Shah: Just tell me in how many cases it has resulted in insolvency.

Shri Lakshmipat Singhanian: No. I haven't got the figures.

Shri M. C. Shah: Therefore, I did not give the figures.

Shri Lakshmipat Singhanian: There is no secret because they are published in the Government book and they are available. The entire records are published. But still those companies could see their way for making profits in the future.

Shri M. C. Shah: That turns out to be this: you want compensation for the loss after the business was taken over whether there may be or may not be loss.

Shri Lakshmipat Singhanian: What I was putting before you was the difference between 20 times and 10 times. For instance, if they had not

[Shri Lakshmiapat Singhania] brought up more capital, their compensation would have been much more.

Chairman: What is your suggestion?

Shri Lakshmiapat Singhania: The compensation should have nothing to do with the capital.

Shri Sadhan Gupta: In your memorandum you have suggested that the period prior to 1950 should not be taken into account because of abnormal circumstances as a result of partition and secondly because of the rise in the bank rate. Regarding partition is it not a fact that business contacts in Pakistan before partition was not very considerable in proportion to the business booked in India?

Shri Lakshmiapat Singhania: Those figures are available and I don't think the business was very small. The business was, if not exactly proportionate, substantial.

Shri Feroze Gandhi: May I know the names?

Shri Lakshmiapat Singhania: I cannot mention the names.

Shri Sadhan Gupta: Is it not a fact, particularly in West Pakistan which has been most affected by partition that the business was not very significant in the case of Indian companies?

Shri Lakshmiapat Singhania: It is a question of figures and I think those figures can be ascertained. I am not in a position at the moment to offer you the details of those figures.

Shri Feroze Gandhi: Mr. Singhania has stated in the course of his statement that the majority of the shareholders belong to the middle classes. How does he propose to substantiate the statement he has made?

Shri Lakshmiapat Singhania: The only way to substantiate...

Shri Feroze Gandhi: You have made the statement. On what basis have you made the statement that

the majority of the shareholders belong to the middle classes?

Shri Lakshmiapat Singhania: We have made the statement because we know that a number of those companies have been run by the middle classes and out of 102 companies you can name only about half a dozen which you can attribute to the higher classes and the remaining are run by middle classes.

Shri Feroze Gandhi: Have you got any figures, facts or information to substantiate this claim?

Shri Lakshmiapat Singhania: I can quote the instance of one of the top-most—the Oriental. They have given some of the figures in the memorandum which has been submitted in order to remove certain mistaken notions regarding the share capital. I will quote it:

363	Shareholders	one share cash
226	—do—	2 to 5 shares each
53	—do—	6 to 10 „
35	—do—	11 to 25 „
24	—do—	20 shares and more
<hr/>		
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52 per cent of the shareholders hold one share each.

Shri Feroze Gandhi: How have you deduced that these people belong to the middle classes and are widows and orphans? When you make a statement, you have to substantiate that.

Shri Lakshmiapat Singhania: We did not say that all belong to the category of widows and orphans.

Shri Feroze Gandhi: You said “the majority”.

Shri Lakshmiapat Singhania: I said that for the reason that the shares of the banks and insurance companies were considered to be completely safe investment. Most of the investment belongs to those people who could not invest much day in and day out. After all it is very difficult to find the difference.

Shri Feroze Gandhi: So I take it that the statement that you made cannot be substantiated.

Shri Lakshmiapat Singhania: I do not agree there.

Shrimati Sushama Sen: Have you got any figures as to how many widows and orphans have invested their money in insurance?

Shri Lakshmiapat Singhania: It is very difficult to get figures about that.

Shri Kamalnayan Bajaj: In insurance companies when the investment is made by the shareholders they look to more to security of the money invested. People who have more money may go in for hazards. They may go in for Tata Iron or more speculative shares. But if somebody takes one share he can also be a multi-millionaire. But a multi-millionaire will not come unless in the course of the transaction he comes to know and owns a particular share. He will not make any effort to own one particular share. So you can conclude that it may belong to more or less middle classes or lower middle classes.

Shri Feroze Gandhi: But the multi-millionaire also arrives at a later stage.

Shri Kamalnayan Bajaj: Probably, you have better information.

Shri M. C. Shah: You said just now that we may have a series of valuation between the years 1950 and 1955. You said that the years 1953, 1954 and 1955 should be taken. That was the plea. I would like to know one thing. During the period of six years there were actuarial valuations on specific dates between 1950 and 1955. There may be actuarial valuation of some companies up to 31st December 1955. Then what will be the formula for three years or six years?

Shri Lakshmiapat Singhania: That will not be difficult, for the reason is this: If you take from 1952 to 1955, then for two years you take a fresh valuation at the time when you are having the new corporation by look-

ing into the assets and liabilities. That, in my opinion, will not be difficult. Or you may straightway value. Supposing the valuation is for 1954. Then you can very well make a valuation for 1955 by a quicker method of adding all the premium receipts and deducting all the claims. There is a method which I have already discussed. It will not create any difficulty. I will put forward a statement in writing to you. If you take a three years' period, the two years are covered by one of them and the one year by the last valuation.

Shri M. C. Shah: That means you will have just to take the averages.

Shri Lakshmiapat Singhania: I am suggesting this average only for 1955.

Shri Nambiar: What is the entrepreneur's risk in the insurance business for which you claim compensation?

Shri Lakshmiapat Singhania: I have only suggested that the compensation should be fair and justifiable according to the assets and work that the company has done.

Shri Nambiar: What was the reason?

Pandit K. C. Sharma: What is the risk which you take with regard to the investment in this business?

Shri Lakshmiapat Singhania: The risk is definitely there. Take, for instance, an insurance contract which was entered into in 1938 for a policy for 20 years to come. The risk the company had taken is that they had promised to pay him after 20 years a certain amount of money which was arrived at on the basis of certain calculations and on the conditions then existing. Now during that period suppose the income of that company has gone down due to certain circumstances which were beyond its control. At the same time, the expenses have gone up, as this has happened in 40 to 50 per cent of the companies on account of the increase in salary, labour legislation and so on. Now in that case the

[Shri Lakshmiapat Singhania]

company has to honour the contract though the rate of premium he is paying has no connection to the present expense ratio. If there is a short-fall in the funds then the share capital must provide it. That is why 102 companies have not been able to show profits. But you have been saying that they were inefficient, they were not doing anything and all that sort of thing. But if you examine the circumstances you will find during those ten years how insurance business has passed through a critical period. It would be easy for any insurance company to incur losses because they have to take risks. Therefore, they have become the victim of those circumstances. Now they are being accused that they are not doing their work. They have been passing through a period when the circumstances were such that even if a most prudent man had been working those companies—many of them, I believe were quite young and it is not that everybody was rotting in the insurance company—he would have found it difficult. Therefore, they have not been able to show profits. It is not their fault.

Shri Namblar: Can you give me an instance in which the shareholders had to bear the losses?

Shri Lakshmiapat Singhania: The instance is before you. 102 companies have not been able to declare surplus.

Shri Namblar: Loss of capital, not the bonus.

Shri Lakshmiapat Singhania: Where companies have gone into liquidation there is loss of capital completely. Why, for instance, were these 102 companies not able to declare surplus? When there is a deficit the capital is taken out of the shareholders. I do not know from where else we could pay that loss. My friend, the Controller, will never allow those funds to be touched.

Shri Namblar: Is it not the policyholder that suffers?

Shri Lakshmiapat Singhania: The policyholder suffers, probably in one per cent. In 99 cases he will not suffer till the capital is exhausted completely. The capital is first exhausted. Capital is the first security and it is first exhausted. Then the policyholder will suffer.

Shri T. N. Singh: In other words, do you mean to say that the 102 companies that had shown no surplus are entitled to large amounts of compensation than what is provided here?

Shri Lakshmiapat Singhania: I was not saying that. I was only replying to the hon. Member. I have not suggested any minimum. As a matter of fact, I was explaining the reasons why 102 companies were not distributing the surplus; because the reasons were beyond their control.

Shri Feroze Gandhi: Can I have a clarification? You said that 102 companies could not show any profit, or whatever it is. Now, there are cases of several insurance companies, quite a large number, where the investment was wrongly made. You referred to the high costs and various other factors like labour legislation. A greater part of the loss which these insurance companies have incurred was due to wrong investment of funds. Now, I will give some illustration. I have a concern. I have an insurance company and I have another concern. I put the money of this insurance company into that concern and that concern collapses or that concern does not pay any dividend. I purchase shares at a lower price and sell them at a higher price. That has been the curse of these 102 companies. It is not the effect of labour legislation. It is not on account of this happening or that happening. What happened to the funds of the company? That is the main thing. Supposing the funds of the company had been misused by the proprietor by some wrongful investments or by

deceptive investments, why should we compensate for all their bungling? The bungling was done entirely by those people. What greater grounds are there to ask for compensation when all that is due to your own mismanagement and when the funds have been misused?

Shri Lakshmiapat Singhania: It is not that. You may have more definite and detailed figures of the losses of these 102 companies. Unfortunately, I am not in a position to....

Shri Feroze Gandhi: You had the figure of Rs. 50 crores of companies which went into liquidation. Why do you say you don't have the figures? Your Federation must have the figures?

Shri Lakshmiapat Singhania: It is very good of you to give that compliment. The Federation is not collecting figures of each individual company operating throughout India. The Federation is not collecting data of the day-to-day management and policies of the companies. I do not think that anybody can undertake this job. It seems to be an impracticable job. If it is presumed that these losses were entirely due to the investments, I beg of you to suggest that it is not a correct idea. The best plan is that it ought to be enquired into by a Tribunal.

Pandit K. C. Sharma: The question is whether you have any information.

Shri Lakshmiapat Singhania: That is why we have suggested in our memorandum that these three points are mainly responsible. These are the most obvious points which have to be borne in mind, instead of taking a few instances.

Shri Feroze Gandhi: There are a very large number of instances. I would say that you may go into the accounts of the Bharat Insurance Company. Can you say that a single pie of compensation should be given to the Bharat Insurance Company?

Shri Lakshmiapat Singhania: I am not mentioning about any particular insurance company. What I am saying is as far as I am concerned....

Mr. Chairman: Let us not discuss about individual companies. Let us discuss about principles.

Shri Sadhan Gupta: The question of compensation remains to be discussed.

Shri Feroze Gandhi: The cases of these insurance companies and investment of their funds should be gone into, and if it is found that their position has become what it is, due to the misuse of funds, then it should be taken into account when coming to a decision about compensation.

Pandit K. C. Sharma: Mr. Singhania, you don't want crimes to be paid for!

Shri Sadhan Gupta: Now, I am going to the other elements in your argument against taking 1950 and periods before that. There is, for instance, the rise in the bank rate. You will appreciate that the rise in bank rate results not only in depreciation in securities but also in increased earnings for the insurer.

Shri Lakshmiapat Singhania: I have not verywell understood your question.

Shri Sadhan Gupta: The insurer gets a higher rate of interest on the investments.

Shri Lakshmiapat Singhania: If you take the instance of 1950 when the bank rate was increased and when the Government policy was changed from cheap money to dear money, the securities which were quoting at 100 dropped to 80. This means Rs. 20 less for the insurance companies which had taken it in their valuation account all these years. The bank rate may give a better yield in the future. But many insurance companies have lost very heavily according to that, and a few insurance companies have even lost 3 to 4 crores in one year only due to the drop in the price of securities—Government securities. Suppose there is half a percent rate increase, that cannot be compensated. That will be converted in course of time. It cannot be done in a year.

Shri Sadhan Gupta: That is your argument against these averages, that the average is reduced by taking this former period because in the country in 1954 new business increased tremendously and therefore that increase is off-set by the lower average due to abnormal conditions. Is it a fact that the new business booked in 1954 does not reflect the real picture, because due to the reduction of premium rates, most of this new business was in the shape of fresh policies after the old policies were paid up? Have you got any figures to show this?

Shri Lakshmiapat Singhanla: Unfortunately, such figures cannot be collected.

Shri Sadhan Gupta: You also stated that many insurers adopted a stringent valuation method in order to create hidden reserves. Have you any facts and figures to show that insurers really adopted stringent valuation methods?

Shri Lakshmiapat Singhanla: This is in the Year Book. Suppose an insurance company has been earning 3% rate of interest and supposing they value their future assets at 2½% then there is a hidden reserve. These figures are all available in the Insurance Year Book, and they will show how much business they have, I may say, re-done by cancelling the old policies. All this will be available together with the lapse ratio.

Shri Sadhan Gupta: It may have been paid-up.

Shri Lakshmiapat Singhanla: Paid-up does not mean continued business.

Shri Sadhan Gupta: Is paid-up included in the lapse ratio or in the reduction of amount of business in force?

Shri Lakshmiapat Singhanla: Business in force will remain, but it will not be recurring. It will definitely indicate the lapse ratio. I believe those figures could be collected. But the 1954 figures will not be available now. They will be available only in 1957. It takes three years to have these lapses indicated.

Shri Sadhan Gupta: You have also argued for getting the paid-up capital in addition to a compensation of 20 times the 7½% of the shares. Your argument is that the capital has no relation to the amount of earnings of a shareholder because in life insurance, small capital may have a big earning and big capital may have a small earning in accordance with the circumstances. Would you not agree that the compensation seeks to capitalise your future earnings from the insurance companies, and as such you cannot claim the paid-up capital or the Dividend Equalisation Fund?

Shri Lakshmiapat Singhanla: Dividend Equalisation Fund is entirely different from the capital. The Dividend Equalisation Fund is there because it is not a year-to-year business for every life insurance company. Here it is a periodical business. Supposing you make a valuation, 7½ per cent is contributed to the shareholders. The shareholders do not distribute the surplus in one year. Therefore, it is but logical that that surplus is distributed in three years' time at the next valuation when the results are known. Therefore, that money is kept in the shareholders' Fund.

Shri Sadhan Gupta: The Dividend Equalisation Fund is to guarantee against there being no surplus for distribution in the future.

Shri Lakshmiapat Singhanla: Very few companies will have that. This is only earnings of the past. The Dividend Equalisation Fund has nothing to do with the future earnings. If there is no surplus and the company continues distributing the dividend, then the Dividend Equalisation Fund can be utilised. Most of the companies had to keep their funds for three years for distributing till the next surplus came out. This belongs to the shareholders. As regards the question of equating the share capital against dividend, I will say that there should be a fixed ratio and there should be a standard. These companies are having 5% of the capital of the total compensation they are going to have. In every company, it

should be 5%. It should be the same. Why should you take away the extra capital from the companies?

Shri Sadhan Gupta: You say that the average contemplated in the First Schedule of the Bill—Part A, paragraphs 1 and 2,—is a deceptive average because of certain factors. Is it not a fact that actuarial valuations are made on the basis of future assumptions and surpluses are distributed on the basis of valuation made on future assets?

Shri LakshmiPat Singhania: Taking certain assumptions into consideration. In the past they may have earned 3½% rate of interest, but they may take 2% or 2½% for the future for taking a secret reserve.

Is it not a fact that in the valuations in 1953, the assumptions would be incorrect and would be too favourable to the shareholders because of the reduction of premium rates that took place in 1954? For that purpose they have the assumption of a certain rate of premium but that premium was reduced before the next valuation took place....

Shri LakshmiPat Singhania: It is for the new business and not for the old business, because the old business which was in force will continue on the contractual obligation. Take for instance 1940. There may have been variation of premium rising by 1½ per cent. a dozen times.

Shri Sadhan Gupta: Regarding Part 'C', you have made a complaint about granting a certain percentage to the policyholder. Don't you think that since the policies of mutual companies are being taken over, the payment of all the policies are granted and as the mutual companies hardly lose anything they do not deserve any further compensation?

Shri LakshmiPat Singhania: I most humbly submit that I hold no such view. If the company has been mutualised and policyholders have sacrificed their interests at that time, why should they suffer? After all, mutualisation is a kind of co-operative business and this

means Government is going to treat them on a different footing. Actually speaking, mutual companies should have got more compensation instead of less. The question of their getting lesser compensation does not come under any equity. This is my submission.

Shri Nambiar: You are also a businessman and are having a lot of workers. When a worker is retrenched or compulsorily retired, what is the compensation that you give him? Because, he is also an earning member. What is the rate of compensation you used to give in such cases?

Shri LakshmiPat Singhania: It depends upon his capacity at the time of retirement.

Shri Nambiar: Not anyhow 20 years' salary?

Shri LakshmiPat Singhania: May be more. It depends upon the type of earning capacity of the man at that time.

Shri Nambiar: Are you aware that there is a feeling in certain sections that the compensation already contemplated is too much and that there is some scope for reduction?

Shri LakshmiPat Singhania: I do not know.

Shri Morarka: They say that so far as compensation is concerned, there should be a fresh valuation as on 31st December, 1955. I was hearing something about the last three years' average. It is on page 11 of your memorandum. It says:—

“For these reasons the Committee consider it absolutely essential that for purposes of compensation, the surplus of the life insurance companies should be arrived at after a fresh valuation of the assets and liabilities of all life insurance companies as on 31st December 1955.”

Whether it is 3 per cent or 5 per cent, is a different matter. Whether it is 10 times or 20 times is also a different matter. So far as the valuation is concerned, they want a fresh valuation as on 31st December 1955

[Shri Morarka]

and there is no question of taking the average for the previous three years.

Shri Lakshmiapat Singhania: The idea was that in the Bill it was provided that the valuation before the 1st January would be taken. Therefore, we have suggested that the valuation of the assets and liabilities should be taken upto 31st December 1955. Here, our main reason was only to bring up the period to December, 1955.

Shri Morarka: Still, it must be the average of the last three years.

Shri Lakshmiapat Singhania: That is what we have submitted.

(Witnesses then withdrew.)

II. All India Federation of Life Insurance Officers' Association, New Delhi Spokesmen:

- (1) Shri G. S. Agarwala
- (2) Shri Mangaldass
- (3) Shri P. K. Kunte
- (4) Shri G. K. Roy

Chairman: Is there anything more than what you have said in your memorandum that you want to place before the Committee?

Shri Agarwala: The All India Federation of Life Insurance Officers' Association represents the cause of the development staff—development and field officers—and with a view to safeguard their interests, this memorandum has been submitted which is already before you. But with a view to explain some of the important points, that is, the part that the development staff has played in the building up of this business in India, I would like to place before you.....

Pandit K. C. Sharma: Do you want any additional clauses in the Bill to encourage or help your interest?

Shri Agarwala: I am placing this point before you because it is relevant to point No. 1 that has been put in the memorandum. That is why with your permission, I want.....

Chairman: You have said that there should be some representation given

to development and field officers. What are the development officers?

Shri Agarwala: Development officers consist of organisers, inspectors, branch managers and development executives.

Chairman: Who are the field officers?

Shri Agarwala: Field officers are those who are exclusively assigned the field work. Actually, field officers are dealing with the procurement and servicing of New Business.

Chairman: What about field staff?

Shri Agarwala: Field staff is more or less the same. Development executives are those who have to deal with development problems relating to the procurement of business and administration of the branch.

Chairman: Do you want representation on the executive committee also on the basis of interest?

Shri Agarwala: We do not want any representative of the Federation but we would submit that if one or more of the officials of the corporation are those who have worked themselves as agents, inspectors and branch managers, their practical experience in the field will be very much advantageous in the day-to-day policy decisions of the corporation.

Chairman: I am not referring to the corporation. I am referring to the executive committee which is a small body. Supposing we agree that so-and-so's interest shall be represented, then there will be other interests too, naturally. Supposing it is going to be a combination of several interests, it may not be a body of five and so it may cease to be an executive committee. It may be something else. So, do you still insist.....

Shri Agarwala: Our submission is that one of the members of the executive committee of five—or it may be more—must have practical knowledge of the field work. We do not say that he should be a representative of the Federation but we say that he must have practical knowledge of the field, who himself has worked.....

Chairman: You want somebody who has field experience. Is that so?

Shri Agarwala: Field experience may have a different meaning. For instance, a manager who may not have worked in the field may have knowledge about field work while dealing with field officers. My Federation submits that an officer who has himself worked as such should be there.

Chairman: What is the membership of the Federation?

Shri Agarwala: This is a Federation where we have about 200 members, locally and direct, and about five associations have already affiliated with our Federation. One is the Bombay Association which has a membership of 400; one is the Meerut Association of over 100 strength and one is at Moradabad. There are five associations from the south and the north, and there are about five or six associations which have applied for affiliation. In all, our membership exceeds 1000—

Chairman: Whom do you represent? What category?

Shri Agarwala: The salaried field staff of all types.

Shri Nambiar: Is it officers' category?

Shri Agarwala: Even an Inspector who is working in the field is named as development officer. He may not be holding an office as such, but yet he is known as development officer.

Shri Nambiar: This name is not familiar.

Shri Agarwala: There were a number of associations earlier under this name. There was the Meerut association and there were clubs like this. But this Federation has come into existence after the nationalisation of the insurance business.

Chairman: It is of recent origin?

Shri Agarwala: But the associations which are affiliated with it are

old, because at that time there were a number of units working and.....

Shri Roy: There was a good number of associations throughout India of the standing. These associations after the promulgation of the Ordinance thought that there should be one headquarters in Delhi. And as such requested the association of Delhi to convert itself into a Federation so that this Federation is in a position to collect the view-points of different associations situated in different parts of India which can be placed before the Select Committee or the Government. The objects of this Federation are mainly two points. One is to help the Government to do this colossal job of integration if called for. Secondly to safeguard the interests of field workers or field officers, whoever may be.

Chairman: Have you any views to offer with regard to the corporation, whether there should be one corporation or more?

Shri G. S. Agarwala: We have given a thought to this and we feel that there is no point in having many corporations. There is a provision for four zones and therefore a central body like one corporation would be better.

Chairman: Have you any idea with regard to the process of integration? Should it be territorial or should it be according to companies?

Shri G. S. Agarwala: If it is a monopoly business, it must be one unit. How best it can be done is a very difficult point to deal with in such a short time. We feel that the servicing of the existing business is as important as the procurement of business; otherwise, there will be lot of difficulties in building up the development force for achieving the targets that the Government have before them, that is, raising the *per capita* insurance from Rs. 25 to Rs. 200.

Chairman: There has been a suggestion that there should be some

[Chairman]

competition and therefore, there should be several corporations.

Shri C. P. Matthen: You appreciate the necessity of having the element of competition in the working of the insurance business. Some Members are afraid that the corporation will become static if there is no competition.

Shri G. S. Agarwala: We feel that if proper incentive is given to the development staff and the responsibilities and duties are clearly assigned to each official, there is no need for competition.

Pandit K. C. Sharma: You mean the division of duties and responsibilities to each man in different zones?

Shri G. S. Agarwala: If the duties and responsibilities are divided and fairly adjusted for each official concerned, there should not be any difficulty in achieving the targets when it is a monopoly.

Chairman: If you have any more points, you can mention them.

Shri G. S. Agarwala: Regarding point 3 in the Memorandum which is about rationalisation, it is a very difficult problem because now a number of units have been functioning in this country with various scales of pay, with various types of working. The primary concern of the Federation is that the development staff which has been responsible for building up this business—it is not an easy job to keep them happy and satisfied—should be reasonably satisfied. The biggest difficulty in this respect is that about 40 to 50 per cent of the total remuneration is found in the shape of various types of allowances, and that was the convention of the insurers. The basic salary of an individual represents only 50 to 60 per cent of the total remuneration. In the monopoly corporation, the Federation feels that there should be fixation on the basis of the total remuneration. If a man has been getting a particular remuneration and has been justifying himself from the economic point of

view, it is the submission of the Federation that due consideration should be given to the total remuneration drawn by him while rationalising the scales of pay.

Chairman: In what way?

Shri G. S. Agarwala: That if a man has been justifying his total remuneration and has been working economically for a number of years, he has to be considered not on the basis of the basic salary that he has been given, but on the total remuneration.....

Chairman: I think this is a matter of detail which may be left to the Corporation.

Shri G. S. Agarwala: It is only for that purpose we have submitted that there should be either an advisory committee consisting of 5 Members....

Pandit K. C. Sharma: You want an institution like the Income-tax Investigation Commission.

Shri G. S. Agarwala: It is not investigation. It may be any body.

Pandit K. C. Sharma: You want that a committee something like the Income-tax Investigation Commission, should be appointed to examine each case in consultation with the Public Service Commission as to what a particular man should get on the basis of the remuneration he was getting from the company, and also for recruitment. Therefore, there should be a body which will examine present cases and the future recruitments in consultation with the Public Service Commission. Is that so?

Shri G. S. Agarwala: That is what the Federation wants, either at the level of the Public Service Commission or any advisory body in the Corporation itself.

Pandit K. C. Sharma: You want a specialised body to examine these cases?

Shri G. S. Agarwala: So that there may be the least dissatisfaction in the field force.

Then point No. 5 is about the postal life insurance which caters for the Government servants and some Government bodies. Now the view-point of the Government is the socialistic pattern of society and in that case, in course of time, probably in the next five years, most of the industries may come under the public sector. In that case, it will be an indirect competition with the Corporation's business and that will present a lot of difficulty to the Corporation's field force. Therefore, it is our submission that if for any technical reasons the postal life insurance cannot be taken over by the Corporation, the facilities that are extended to postal life insurance must be standardised, so that there is absolutely no element of competition and the Corporation's field-man is not put to any disadvantage. That is our submission.

Chairman: What is the disadvantage for the Corporation's man?

Shri G. S. Agarwala: If a Government servant takes out a policy with the postal life insurance, he has the facility of getting the premiums deducted at source. That is an attraction. Therefore, the salesman who sells a policy of the Corporation to a Government servant is at a disadvantage.

For instance, there is quite a good business in Delhi from Government servants and if the industries are nationalised, the employees of those industries shall also become eligible to insure their lives with postal life insurance. In the case of defence officers, they are required to pay extra premium for hazardous occupation; and this extra premium is paid by the Ministry of Defence, for the benefit of their employees only, to the postal life insurance. If that facility is not extended to the Corporation, naturally the Corporation's employees shall be at a disadvantage in underwriting business in the same area.

Shri T. N. Singh: In other words, the postal life insurance means that there is no commission to be paid to the field workers. You want that this should come under the Corporation so that the commission could be given to the field worker?

Shri G. S. Agarwala: This is the technical difficulty we have referred to.

Chairman: Supposing the whole thing is put down on the basis of postal life insurance?

Shri G. S. Agarwala: The postal life insurance caters only to a certain class of people. If that is the type of organisation that is going to be set up in the Corporation.....

Chairman: If it is more effective, that can be done.

Shri G. S. Agarwala: That will present a lot of problems. After all, it is the development officers that are responsible for bringing the life insurance to its present level and you will certainly not like to throw those people out.

Chairman: We can utilise them for other purposes.

Shri G. S. Agarwala: At least, the experience they have.

Chairman: I can't say anything. The Corporation has first to build itself before making further schemes.

Shri G. S. Agarwala: We only want that the premium rates should be standardised and the method of working between the postal life insurance and the corporation must be standardised.

Shri T. N. Singh: Supposing a proposal is made that those who want to insure with the Corporation without an agent, would not have to pay any commission to anybody with the result that they should be entitled to a lower premium rate. In that case, it will create more complexity than the solution that you have.

Shri G. S. Agarwala: It is their legitimate claim, but if you are satis-

[Shri G. S. Agarwala]

fled that without them the development can be achieved.....

Shri T. N. Singh: I only wanted to know whether you have any objection to such a proposal.

Shri G. S. Agarwala: I can't say anything, because the progress as shown by not writing business through the agency force is before you.

Chairman: Is there any other point?

Shri G. S. Agarwala: I would like to take point No. 6. It is the submission of the Federation that while dealing with the plans and making rules, the representative of the Federation may be invited in an advisory capacity so that the experience of the Federation's representative may be availed of in the formation of the Corporation.

Chairman: And then?

Shri G. S. Agarwala: We have also prepared an effective plan, of course, for the Northern zone.

Chairman: You can send that on to us.

Shri G. S. Agarwala: I have got a copy of it.

Chairman: You can pass that on.

Shri G. S. Agarwala: Under clause 10, sub-sections 1 and 2, it is provided that if the terms offered by the Corporation do not suit a particular employee, he may be paid three months' salary.

Chairman: That has been discussed.

Shri G. S. Agarwala: The point is that the conditions before nationalisation were quite different from what they are to-day. Normally a permanent man in a good company doing good work is never asked to go. This was the usual convention.

Pandit K. C. Sharma: You mean the termination was unusual.

Shri G. S. Agarwala: Termination of the services of a permanent man is unusual in good companies. After

all, a man who would have put in 10 or 15 years of service in a particular profession and today if you ask him to go, he loses his profession. Therefore, it is the submission of the Federation that adequate compensation should be paid which we suggest should be at least one month's salary for each year's service put in the professions, so that he may be able to rehabilitate himself.

Chairman: So many associations have said that.

(Witnesses then withdrew.)

III. All India Insurance Employees' Association, Calcutta

Spokesmen:

- (1) Shri Rajni Patel
- (2) Shri Chandrasekhar Bose.
- (3) Shri M. R. Paranjpe

Chairman: You represent the All-India Insurance Employees' Association?

Shri Rajni Patel: Yes.

Chairman: Are there any points which you have not mentioned in your Memorandum and which you want to mention here.

Shri Rajni Patel: There are one or two points, especially the one about compensation which we have omitted to mention. Our respectful suggestion regarding compensation is that the basis for compensation should not be as stated in the First Schedule, Parts A and B. In respect of compensation what we are suggesting is: this that the compensation should be either the purchase price of the share or the market value of the share as on 18th January, 1956.

Shri T. N. Singh: Whichever is less.

Shri Rajni Patel: Yes, that is our submission. We are stating this here, because in our Memorandum it has been omitted.

Secondly, with regard to Chief Agents, we would respectfully sug-

gest that—of course it is for their representative to deal with their problem—the Chief Agents must go in the set-up of the Corporation. We do not say that they should be eliminated as such.

Chairman: You want them to be absorbed according to their capacity and qualifications.

Shri Rajni Patel: That is so. Certainly their valuable experience could be utilised.

Chairman: They are going to be represented by their own association.

Shri Rajni Patel: The rest of the points we have mentioned in our memorandum.

Shri Sadhan Gupta: You have suggested that the shareholders should be paid the purchase price or the market value, whichever is less. That is perfectly all right for companies the shares of which are quoted in the market. But in certain cases the shares are not quoted in the market. In most cases, I take it, their shares are not quoted in the market. In that case would you agree to compensation being paid on the face value of the share?

Shri Rajni Patel: The position is this. Really speaking, we want to be equitable to the smaller shareholder who has not cornered the so-called major holding in a company. We should not be unfair to him because we do recognise that a large number of them are of the middle class investing public whose wealth is small and whose numerical number is quite large. In cases where there are no quotations in the market we feel that purchase price would be the proper criterion.

Shri Feroze Gandhi: Is the purchase price ascertainable?

Chairman: If possible, you can find it out.

Shri Rajni Patel: That can be ascertained.

Chairman: That is why there is the formula.

Shri Rajni Patel: In cases where the purchase price can be ascertained that should be calculated accordingly. In cases where it is not ascertainable, it should be calculated on the paid-up value.

As far as companies mentioned in Part C of the First Schedule are concerned, we accept the formula and we think it is a commendable formula—that is for companies without any share capital.

Shri Nambiar: In your memorandum you have suggested that the representatives of your association should also be taken on the corporation. Is it not so?

Shri Rajni Patel: Yes.

Shri Nambiar: What should be the number?

Shri Rajni Patel: As far as we can see, the present provision in the Corporation Bill provides for a corporation in which the number of members would be 15. For a corporation of this type, which is handling this huge business, there must be members from various sides. We have suggested only three because we could not suggest four—four would be more than 25 per cent. whereas three would be this side of 25. Apart from other representatives enumerated in our memorandum, there should be three representatives of the employees. Our idea in suggesting representation for the association of three persons is this. The employees are extremely anxious to see to it that these nationalised industries are run smoothly and that they will give their full co-operation. They have also got experience in the line. In the case of my colleague Mr. Paranjpe, he has got experience of more than 25 years in Oriental. Mr. Bose is from Hindustan. Most of them have worked in insurance companies for long and would be of value in the running of the industry. We have suggested the representation of only three because the total number envisaged is 15.

Shri Namblar: Do you feel that there is any necessity for any retrenchment? Do you feel that if there is any retrenchment, for whatever cause, they can be absorbed?

Shri Rajni Patel: That question can only invite one answer. We respectfully submit that the very setting up of the Select Committee is a progressive step by the Government and Parliament in the matter of the nationalisation of the industry. Our government, after having very carefully considered the prevailing malpractices for the last few years and wastage of huge funds of the public, came to the conclusion that, in the interests of the country and the policyholders and also for mobilising the savings of the people—if I may read the note of the Finance Minister in the Statement of Objects and Reasons—it is necessary that the life sector of the industry should be nationalised. Nationalisation, I take it, is a progressive step and it is envisaged in the every scheme of the Bill that when this nationalisation starts, the huge potential that is available in life insurance which has not gone to our rural areas should be tapped and tapped properly. If that is done, I take it that retrenchment would not only be unnecessary but, the Association certainly hopes, through its co-operation, the business of life insurance will expand in such a manner as to absorb many of our unfortunate brethren who are emerging from our colleges and schools and who are still unemployed. Therefore, we do not envisage unemployment as a result of nationalisation. On the other hand, we envisage the absorption of new personnel.

Shri Namblar: With regard to the scales of pay, I find from your memorandum that the scales of pay that are prevalent among your staff at present are higher than the Central Pay Commission rates. If your pay scales are to be standardised at the rates of the Central Pay Commission, I think you will lose a lot. Or do you

want standardisation on the basis of your *status quo*?

Shri Rajni Patel: We very humbly and respectfully submit to the members of the Select Committee that there should be no comparison whatsoever between Government employees and the employees of commercial concerns like insurance companies. I take it that when our Parliament and our Government decided to nationalise insurance they also have decided to run it not only on commercial lines but on sound commercial lines. If that is done, then certainly there may be such great potentialities and the business would be run on such sounder commercial lines that there cannot be any sort of retrogression from the scales of pay and conditions of service that are being offered to the employees of some of the major companies. But we hope by eliminating wastage and other things, by economising in various ways and by bringing more business in the manner that the Bill envisages, which we have mentioned in our memorandum, it would be possible, while ensuring the maximum of service to the policyholders, to raise the level of the employees in the industry who serve in the smaller companies who now have no scales of pay at all.

(Witnesses then withdrew.)

IV. Insurance Club, Patna

Spokesman:

Shri B. Sahay.

(Witness was called in and he took his seat.)

Chairman: What is the membership of your Club?

Shri B. Sahay: 150 members.

Chairman: Besides what you have stated in your memorandum, have you to say anything?

Shri B. Sahay: As far as agents, special agents, chief agents, inspectors and branch managers are concerned, all of them may be allowed to continue. About agents, we want that old

agents with more than four years service should be retained. As for the new agents to be appointed, the same salary and same commission may be offered.

Chairman: Are these not matters of detail which the Corporation will have to decide? There will be people there who will be going into these various questions and they will decide as to what should be done. So far as the Bill is concerned, is there any specific suggestion?

Shri B. Sahay: About salaried people, if they are not allowed to work, they should be given six months' pay as commission and gratuity for each year of service.

About chief agents, they should be continued. If they could not be conti-

nued on the same terms, let them work in the villages because you require people in the villages and, as you know, the chief agents are hard-working people.

Chairman: But they are mostly in the urban areas.

Shri B. Sahay: If they are not retained, they should get compensation for the unexpired period.

Then the chief agents have got their employees, as employees of the different offices. They are more experienced people. Even if the agents are removed, those employees should be retained on the same terms if they have qualifications and experience.

(The Committee then adjourned)

THE SELECT COMMITTEE ON THE LIFE INSURANCE CORPORATION BILL, 1956.

MINUTES OF EVIDENCE TAKEN BEFORE THE SELECT COMMITTEE ON THE
LIFE INSURANCE CORPORATION BILL, 1956.

Wednesday, the 4th April, 1956 at 9 A.M.

PRESENT

Shri Balvantray Gopaljee Mehta—*Chairman.*

MEMBERS

Shri S. K. Patil	Shrimati Sushama Sen
Shri C. P. Matthen	Shri S. R. Rane
Shri Feroze Gandhi	Shri V. B. Gandhi
Shri Raichand Bhai N. Shah	Shri B. R. Bhagat
Shri S. R. Telkikar	Shri Sadhan Chandra Gupta
Shri Tek Chand	Shri K. Ananda Nambiar
Shri T. N. Singh	Shri K. S. Raghavachari
Shri Tekur Subrahmanyam	Shri G. D. Somani
Pandit Krishna Chandra Sharma	Shri R. Velayudhan
Shri R. R. Morarka	Shri C. D. Deshmukh
Shri M. D. Joshi	

Shri M. C. Shah, Minister of Revenue and Civil Expenditure was also present.

DRAFTSMAN

Shri V. N. Bhatia, *Deputy Draftsman, Ministry of Law.*

REPRESENTATIVES OF MINISTRIES AND OTHER OFFICERS

Shri H. M. Patel, *Secretary, Department of Economic Affairs, Ministry of Finance.*

SECRETARIAT

Shri P. K. Patnaik—*Under Secretary.*

WITNESSES EXAMINED

I. *The Overseas and Inland Insurers' Employees Association, Calcutta.*

Spokesmen :

Shri B. Maitra
Shri T. Bose.
Shri N. K. Das

II. *The Indian Insurance Companies Association, Bombay.*

Spokesmen :

Shri A. D. Shroff
Shri R. M. Desai
Shri B. K. Shah
Shri M. G. Mody
Shri T. K. Desai
Shri B. J. K. Setalvad

III. *The Indian Insurance Companies Association, Calcutta.*

Spokesmen :

Shri D. Das Gupta
Shri B. K. Setalvad

I. Overseas and Inland Insurers' Employees Association, Calcutta.

Spokemen:

- (1) Shri B. Maitra
- (2) Shri N. K. Das
- (3) Shri T. Bose

(Witnesses were called in and they took their seats)

Chairman: Mr. Maitra, Mr. Das and Mr. Bose, you represent the Overseas and inland Insurers' Employees Association, Calcutta. You have sent a memorandum and that has been circulated amongst the members of this Select Committee. Have you any other points to make?

Shri Maitra: I have a few special points to make. Apart from the special points we have already mentioned, we wish to speak particularly on the points relating to clauses 16, 17, 18 and 20. Section 16 of the Bill speaks about the central office of the Corporation. It does not say where the office of the Corporation will be located.

Chairman: You mean that the place has not been specified in the Bill?

Shri Maitra: We suggest that the office of the Corporation be situated at that place, where, on the 'appointed day', the business on the existing companies books be the largest. We want that should be the criterion.

Chairman: This is a good point. So, you would not like it to be left to the Government to decide?

Shri Maitra: We think this should be the criterion.

Chairman: Supposing we say that the Government will decide according to the various factors, of which this may be one. Will that be all right?

Shri Maitra: That should be the guiding factor.

Shri M. C. Shah: What will be the advantages?

Shri Maitra: Because the largest number of policy-holders will be there.

Shri S. K. Patil: Probably on that day only!

Chairman: Looking to the past, they want that the place wherever there was the largest business should become the headquarters of the Corporation. They want this to be the deciding factor. I say that it may be taken as one of the factors.

Shri V. B. Gandhi: Some day the emphasis may shift. Would you then want the headquarters to be shifted?

Chairman: That is their opinion. What is the next point?

Shri Maitra: Sub-clause 3 of clause 16 does not speak with regard to the autonomy of the zonal offices.

Chairman: What do you really want to suggest?

Shri Maitra: We wish to say that in under-writing and all day-to-day work these zonal offices should be entirely autonomous.

Chairman: Would you like that to be specified in the Bill itself?

Shri Maitra: It should be specified.

Chairman: Should we not leave it to the Corporation to decide and demarcate between the various zones within the Corporation?

Shri Maitra: Particularly with regard to the day-to-day work, for instance, under-writing, grant of loans, surrender of policies, paid-up policies, revivals, claims etc. should be entirely left to the zones.

Shri M. C. Shah: Do you want all these particulars to be specified in the Bill?

Chairman: Would you not like it to be left to the rule-making powers?

Shri Maitra: We would like it to be included in the Act itself.

Chairman: You want complete demarcation as between the Corporation and the zones and as between the zones and the divisions and so on.

Shri Maitra: Then, sub-section 2 of Section 17 provides for the appointment of a Managing Director of the Corporation. You will remember that the Insurance Act, 1938 while speaking about the appointment of the Controller of Insurance stipulated for some academic qualifications of the Controller of Insurance. We suggest that this Managing Director of the Corporation should be a person possessing these technical qualifications.

Chairman: You mean the qualifications should be the same as those laid down for the Controller of Insurance without any change? Practical experience without academic qualifications will not do? Is that what you mean to say?

Shri Maitra: Yes.

Chairman: Supposing there is a successful businessman who has done the work and he has experience of 10 to 15 years. Will that not do?

Shri Maitra: He may be put in one of the zonal offices; but the Managing Director who is supposed to deal with principles and policy of the corporation and not the day-to-day work of the offices should be one who is aware of the principles involved.

Chairman: What is your next point?

Shri Maitra: Clause 18 stipulates that the Corporation will be guided by the directions of the Central Government. We are of the opinion that many criticisms have already been made with regard to the inefficiency of Government enterprise. Now, we suggest that this clause 18 which apparently contradicts sub-clause (3) of clause 6 be deleted altogether.

Shri M. C. Shah: You want the clause itself to be deleted?

Shri Maitra: Yes, because it militates against sub-clause (3) of clause 6. Sub-clause (3) of clause 6 says that the Corporation should be carried on as a commercial enterprise. When you stipulate that the Corporation should be guided by the directions of the Central Government, the Central Government is not supposed to do any commercial enterprise, and that being so, their directions may complicate matters and it would simply give rise to static conditions

Chairman: You must be aware that there is something like a parliamentary government in this country and the monies voted by Parliament have got to be under the direct control of Parliament. Parliament can any day raise questions of policy and may desire its will to be obeyed. Therefore, the Parliament can act only through the executive. The sovereign authority of the Parliament would be exercised through the Government, and there is no other machinery. Would you not like the Government to possess the power which is necessary to carry out the will of the Parliament? Is that the idea?

Shri Maitra: Parliament is enacting this law, and if the Parliament is not satisfied with the work which the people whom they have chosen to carry on have done, they can certainly in another session repeal some of its provisions but not at the very start...

Chairman: It is not merely legislation, it is also administration. There might be certain national interests concerned with regard to carrying on the day-to-day administration. Even there, there may be certain matters in which the Parliament may desire that a certain thing should be done. That will be done and the will of the Parliament may have to be obeyed through some directives issued by Government. So, it may be necessary to reserve the authority of the Parliament and of the Government to issue

directives. Directives can be issued only off and on in exceptional circumstances, not as a day-to-day routine. So, I do not think you object to the reserve powers of Government as such?

Shri Maitra: But these two clauses apparently contradict each other. Clause 18 is so very comprehensive that it might intrude into the day-to-day business of the Corporation itself. This clause is so very comprehensive. If you want to keep some control, it should be in a very restricted manner.

Chairman: Would you like it to be restricted? You mean that you want as little interference as possible in the working of the Corporation?

Shri Maitra: I have dealt with the clauses up to 18. I wish to speak about clauses 20, 23, 24, 27, 34 and 35. Sub-clause (2) of clause 20 confers on the Corporation the right of transferring an employee from one place to another. Of course, while we agree that such a power should be with the Corporation, nevertheless, the employee should also be permitted to represent his difficulties, if any, and due consideration should be given to them.

Chairman: The authority should be exercised with discretion. That is what you mean?

Shri C. P. Matthen: This clause does not say that they cannot represent. What prevents an employee from representing?

Shri Maitra: He has no chance of disobeying the orders.

Chairman: These are small points. This has nothing to do with this Bill. Whether a man should be transferred or not or what should be the jurisdiction within which he can be transferred are not points for the Bill. We can make regulations. This Select Committee need not go into them.

Shri Maitra: Clause 23 of the Bill speaks about valuations at intervals of two years. Prior to the 1950 Insurance Act, valuations generally used to be made at intervals of five years,

that is, quinquennially. After the 1950 Act, this was made triennial. The Bill suggests that this should be made biennial. We would suggest that this may be made annual. By making the valuation annual, the chances of paying interim bonuses will be eliminated and the confidence of the people in the Corporation enterprise will also be created.

Chairman: What is your next point?

Shri Maitra: Clause 24 of the Bill speaks about the utilisation of the surplus. It does not refer to the separation of the funds. There are foreign insurers who maintain non-participating and participating funds distinctly and separately, and the valuations are made accordingly. The general practice was to allow 90% of the surplus of the "with-profit" funds to the policy-holders and 10% allowed as reserves and shareholders' profit and so on. The entire surplus arising out of the non-participating funds used to be given to the shareholders. This Bill says that the entire fund, both with and without profits be mixed together and the surplus arising out of the two funds taken together will be distributed to the policy-holders. "With-profit" policy-holders pay an extra premium in order to participate in the profits of the enterprise. What we suggest is that it would be equitable to group together the "with-profit" policies and the "without-profit" policies separately, and some portion of the profit arising out of them with profit fund after paying to the policy-holders may be allowed to the workers in the field as well as in the office and the entire profit out of the non-participating fund be distributed to the workers in the office and the field.

Chairman: Next point.

Shri Maitra: Clause 27—of course, we may be wrong in interpreting the provisions, but it leads us to think that the Government will allow the foreign insurers to take away their assets which will be considered as in

excess of their actuarial liabilities—it lays down that the Central Government may direct the Corporation about the repatriation of assets of the foreign insurers. The fact that the assets are more than their liabilities will not necessarily imply that the foreign insurers brought this amount from their own countries. From our experience we know that large amounts are there already which are far in excess of their actuarial liabilities. These funds have accrued in various ways. Firstly, they have accrued by their transferring the unclaimed amounts of the claims to their profit and loss account. This gave them a very large amount. Now, they also transfer amounts of commissions payable to the agents who died. On the death of the agents, no commissions are payable. That amount also goes to the profit and loss account. Thus, by the death of agents or their discontinuance of agency, the amount goes to the profit and loss account. Foreign insurers used to stipulate that Rs. 250/- will be the minimum amount for a policy to qualify itself for being made a paid-up policy. When a person defaults and the policy has not acquired that minimum value of Rs. 250/-, the policy is treated as surrendered in the books of the insurer although no payment is actually made to the policy-holder.

Chairman: What is the suggestion?

Shri Maitra: What I mean is this: One has unclaimed claims and commissions and there are similar other tit-bits which all go to make this excess amount. These are, really speaking, trading profits of all these years—over half a century or even more—they have been trading in our country. Now that the Government will be paying a sufficient amount of compensation for taking up their business, this amount which is really speaking the amount of profits, should not be returned to them.

Chairman: All of them?

Shri Maitra: Yes, unless they can give us positive proof that this amount was actually transferred from their respective countries. I may also add that the mere fact that the assets are in excess of their liabilities should not be taken as a positive proof.

Shri Matthen: Do you want this principle to be applied in respect of all foreign companies, namely, the profits made in India should not be taken back.

Shri Maitra: Now we are paying them compensation and already profits have been distributed to the shareholders.

Shri T. N. Singh: How do you define the expression "assets brought to India"?

Shri Maitra: As I have said the operative clause—in the next sub-clause—leads us to believe that. Maybe, we are entirely wrong in our interpretation. What I would like to impress upon you is that by the mere fact that the assets are in excess of the liabilities it should not be concluded that these amounts were brought from the country of origin of the insurer.

Chairman: Do you want all those profits to be confiscated?

Shri Maitra: Yes, because we are paying them compensation.

Chairman: That means, they have nothing to do with their profits.

Shri Maitra: Profits have already been transferred.

Sub-clause (3) of clause 27 provides for the actuarial reserves of the foreign currency policy to be transferred from this country to the other country. The present practice is this: When a particular policyholder intimates to the company that he is retiring from this country permanently to take up permanent residence in some

other country of which he is a domiciled citizen the reserve value is transferred to the company of his place of origin to enable that company to issue a fresh policy. This is perfectly in consonance with the Foreign Exchange Regulations Act. The Foreign Exchange Regulations Act is not being altered, and that being so, the corporation will also be able to transfer the reserve value of such policies as and when needed. Therefore, why should we at all transfer these actuarial reserves *en bloc* to the detriment of the interests of the policyholders that are to remain here? These foreign national policyholders are not in any way put to any adverse condition by our nationalising the business, whereas by transferring it *en bloc*, there will be a fall in the premium income which would adversely affect the policyholder of our country. If you will kindly see sub-clause (k) of clause 39 (2) of the Bill, you will find that it provides for differential bonuses. That means in a closed fund the policyholders will be allowed bonus on the fund that will remain. That being so, the policyholders who are to remain in such companies books will be adversely affected and the question of expense ratio may also come in. There will consequently be a precipitate fall in the premium and that will have its reflection on the bonuses. So, there is no reason why these foreign currency policies should be transferred *en bloc*. I do not say that in individual cases it should not be done, because it will have to be done. But why in all cases?

Chairman: What is your next point?

Shri Maltra: Clause 34 of the Bill virtually repeals the Insurance Act, 1938 so far as life insurance is concerned. Our submission in this regard is this: The Insurance Act 1938 which came into operation sometime in October, 1939, ran about 16 years and has had about ten amendments. We have gathered experience about this industry and the Act gives a reflection about it. So, without going to the

extent of nullifying the entire enactment, we can certainly adopt certain provisions *mutatis mutandis* in this Act itself. We have certain sections which we suggest should be included in this present enactment. They are sections 27, 27A, 28, 29, 30, 31A, 31B, 38, 39, 41, 42 and 44.

Chairman: Should they be applied as they are?

Shri Maltra: They can be incorporated with necessary changes because they have to fit in properly.

Now what I have to say is about clause 35 (b). Section 2E of the Insurance Act says that those insurers who have ceased writing new life business in this country should not be brought into the arena of the Insurance Act. Those insurers do not make deposits, they do not file returns and they have no obligation whatsoever. But they have still in their books a large number of policyholders. We contend that section 2E of the Insurance Act was a lacuna and the present Bill should amend this in such a way that those policyholders who are already in the books of those insurers should also be brought within the purview of this Act. When the Government guarantee is there in the present Bill, why should a small group of policyholders be deprived of this guarantee from the Government? Not only that. As regards the funds which these insurance companies still hold, there is no restriction for the transfer of these amounts to their own countries. There, to a certain extent, these policyholders are helpless. Therefore, we suggest that this lacuna should be rectified.

Chairman: Anything etc.

Shri Maltra: With regard to clause 10 I have dealt with it in my memorandum and I do not think I should repeat it again. With regard to clause 4, I suggest that some provision should be made by which the workers in the corporation will get some quota.

(Witnesses then withdrew)

II. The Indian Insurance Companies Association, Bombay.

Spokesmen:

- (1) Shri A. D. Shroff.
- (2) Shri R. M. Desai.
- (3) Shri B. K. Shah.
- (4) Shri M. G. Mody.
- (5) Shri T. K. Desai.
- (6) Shri B. K. Setalvad.

III. The Indian Insurance Companies Association, Calcutta

Spokesmen:

- (1) Shri D. Das Gupta.
- (2) Shri B. K. Setalvad

(Witnesses were called in and they took their seats)

Shri Feroze Gandhi: When was this association formed?

Shri Shroff: In 1927.

Shri Feroze Gandhi: Has it been in existence since then?

Shri Shroff: Yes, it has been in existence.

Shri Feroze Gandhi: Is it a registered body?

Shri Shroff: It has been recognised by Government and is known as the Indian Insurance Companies Association.

Shri Feroze Gandhi: Has this association been at any time consulted by Government?

Shri Shroff: Whenever any important question has to be decided, this Association has always been consulted by Government.

Chairman: When was the Calcutta Association formed?

Shri Setalvad: In 1924.

Chairman: Have you any specific points to make besides what you have said in the memorandum?

Shri Setalvad: I have nothing special.

Shri Shroff: As you would have noticed from our memorandum, we are confining ourselves exclusively to the question of compensation. But we are certainly at your disposal if you want to ascertain our views on any other matter contained in the Bill.

Chairman: It is stated here that in fairness to the shareholders the prevailing percentage of allocation should be accepted as normal and conclusive in calculating compensation. What is meant by prevailing percentage of allocation? Would it not be prejudicial to those who for some reason may not be able to make a higher percentage of allocation?

Shri Shroff: As you may be aware, before the Insurance Act was amended in 1950 the general basis was 10 per cent. of the surplus arrived at on the basis of valuation which in those days used to be once in five years. This means that 10 per cent. of the surplus went to the shareholders. That Act was amended in 1950. I am drawing your attention to the fact that the draft Bill itself provided for the continuance of 10 per cent. In the Select Committee, it was further considered and then it was brought to 7½ per cent. Since then, excepting four companies, all the life companies have allocated 7½ per cent. of the surplus as the share of the shareholders. So far as our information goes, it was four companies. But in this matter, I want to make one submission. It is not possible for any individual or even for the association to compile any accurate information. That can be supplied only by the Controller. But subject to such information as is available to us, it was only four.

Shri M. C. Shah: Are the members of the Association confined only to insurance companies?

Shri Shroff: We have got a membership of 52 companies of whom companies which also do life business—composite companies—are members. But companies which are exclusively doing life business are not members of this association.

Shri M. C. Shah: Is this Association composed of only composite companies?

Shri Shroff: Both general and composite.

Shri M. C. Shah: That means membership consists of both the general companies and composite companies. It is not exclusively general companies.

Shri Shroff: That is right.

Shri Sadhan Gupta: It appears that the Association is an association of general insurers, and the composite companies came in because they were doing general insurance business, and the life insurance concerns were excluded.

Shri Shroff: Only companies which do exclusively life business are not members.

Shri Nambiar: In their Memorandum, the Indian Insurance Companies' Association, Calcutta have said in the first paragraph: "Our Association represents Indian Insurers transacting General Insurance business in the Calcutta area including Composite Offices transacting both life and General insurance business". This shows clearly that you are more concerned about general insurance than about the life insurance business.

Shri Feroze Gandhi: You may clarify the position.

Shri Shroff: Both the Associations in Bombay and Calcutta are the Indian Insurance Companies' Association having on their roll Members who are

doing only general business and also those doing composite business, that is to say, both general and life business. Companies doing exclusively life business are not Members of this Association. It will be appreciated that companies which are composite companies are as much interested in life insurance business as they are interested in general business. As a matter of fact, in some cases, the composite companies are more interested in life business than they are in general business.

Shri T. N. Singh: Out of 52 companies which are your Members, how many are composite companies?

Shri Shroff: So far as the Bombay Association is concerned, out of 52 companies who are Members, there are 30 composite companies who do both general and life business.

Shri Setalvad: Out of 50 Members in the Calcutta Association, 36 are composite companies doing life business.

Chairman: You can explain your point on the percentage of allocation.

Shri Shroff: Before 1950, the generally accepted percentage was 10, although it is true that there were two or three companies, perhaps, who were charging less than that as a share to be appropriated from the surplus for the shareholders. After the amendment of the Insurance Act in 1950, the maximum permissible under the law was 7½ per cent. and as I mentioned earlier, excepting three or four companies, according to the information available to us, others continued to appropriate 7½ per cent. out of the surplus as share to the shareholders.

Shri Sadhan Gupta: Isn't it a fact that the biggest companies usually kept their allocation to shareholders well under 7½ per cent? Oriental appropriated about 3·4 per cent. and Hindustan Co-operative appropriated under 7½ per cent.—I forget the actual

figures. I have not got the figures for New India. Would that not show that it was considered fair to allocate that much to shareholders?

Shri Shroff: I am not in a position to correct this information, or confirm or contradict it.

Shri Feroze Gandhi: Would you please give the position of New India?

Shri Shroff: I may be allowed to amplify my point. It is suggested that there were some big companies which were charging less than 7½ per cent. This information was certainly with Government and Parliament when the Act was amended in 1950 and with full knowledge of the fact that there were a few companies which were charging less than 7½ per cent., the generality of the conditions was taken into account and the Parliament with full knowledge of the fact that three or four companies were charging less than 7½ per cent. still considered that 7½ per cent. was a fair appropriation for the shareholders.

Shri Sadhan Gupta: Isn't it a fact that Parliament was only putting in a ceiling on the allocation and as a matter of fact several companies thought it fair to keep the allocation much below the ceiling?

Shri Feroze Gandhi: That is why I want you to give us the percentage which New India gave. Would you be in a position to give that?

Shri Shroff: I would rather talk on a general basis than go into the cases of individual companies. If any Member wants information about any one particular company, I am prepared to submit it. So far as New India is concerned, before 1953, valuations were made on the basis of appropriating 10 per cent. of surplus for the benefit of the shareholders. When the Act was amended in 1950 in all subsequent valuations—we have made only one valuation in 1953—we have ap-

propriated only 7½ per cent. for the shareholders in 1953.

I submit that in view of the background that upto 1950 every company was allowed to charge 10 per cent. with the exception of a few companies which did not—may be three or four companies—and the fact that Parliament after taking into consideration the generality of the conditions prevalent in the life insurance business in India, determined 7½ per cent. as the maximum, and in view further of the fact that the Act was amended only in 1950, the experience gained so far has not been of a character to justify disturbance in the ratio which was fixed only five years ago. We would like to understand what has happened in between 1950 when the question was thoroughly sifted by Parliament and now to justify disturbance of the fixation of 7½ per cent. as the appropriate share of the shareholders out of the surplus.

Chairman: There were certain companies which preferred, in spite of the ceiling of 7½ per cent., to appropriate something less than that, there in may lie the explanation that you seek.

Shri Shroff: I am prepared to concede one thing. If life insurance business was allowed to develop as it started developing in the last few years and if further experience was gained over a period of 10, 15 or 20 years when a certain trend would be established—by trend I mean the trend of new business which comes to companies every year, the trend to mortality experience, the trend of interest yields, the trend of expense ratio—if all these were established over a period of 10, 15 or 20 years, I submit that that would be a situation where we could review whether 7½ per cent. as share of the shareholders was a fair ratio or it could be revised, but in the light of the fact that it was revised only five years ago, sufficient experience has not been gained to justify a revision at this stage.

Chairman: It is stated that if overseas Life Section is taken away from composite companies, there will be a crippling of their general insurance as well and the companies will be faced with the problem of costs. How many Indian companies do foreign business also?

Shri Shroff: If I may first deal with the general question, it would cripple the capacity of the companies doing general business. Every composite company doing both life and general business had a pattern of its own organisation and it is obvious that a company which has different categories of business, sets up an organisation in such a way that it could economise on all categories of business. If, for instance, New India, had a number of branches all over India, in running its offices, it would have one cashier, one accountant and one secretary whose general functions would be to supervise and attend to this type of work for both the Departments, general and life. If now the life business is taken away from the composite companies, it would call for an entirely new pattern of organisation and I am submitting that—although it may be a problem for Government, I do recognise it must be an enormous problem to integrate 152 companies all over India—I do want to submit that Government knew the terrific head-ache in reorganizing our own patterns. There is difficulty even in getting accommodation. We have our offices in two rooms where we do both life and general business. If these businesses are going to be separated, we are going to be faced with the problem of finding office accommodation in a number of places. This is only an illustration.

Shri M. C. Shah: What is your plea therefor?

Shri Shroff: What I am saying is this. The Chairman asked how it was going to handicap the composite companies by the separation of life business. I am saying that it is bound to increase the cost of running the gene-

ral business. That is certain for composite companies.

Chairman: I was going to ask you first just to find out the information about the number of companies who do foreign business.

Shri Shroff: You mean general business or life business?

Chairman: Both.

Shri Shroff: There are about 15 to 16 Indian companies; if you will pardon my saying so, important companies doing sizeable business; there are about 15 or 16. These are doing life business outside India. There are about 7 or 8 companies who are doing a considerable amount of general business abroad. Separation of life business from general business in India itself is a problem.

Chairman: I would like to know, if you can give me an idea, what is the maximum percentage of foreign life business to foreign composite business.

Shri Shroff: From the figures so far available to us, there is an outstanding life business of about Rs. 80 crores done by Indian companies outside India. Rs. 80 crores of business are in force. If you take an average of 5 per cent. as premium income, it is about Rs. 4 crores to Rs. 4½ crores, that is, the annual premium that Indian companies are making abroad on the life insurance business.

Chairman: What will be the percentage to the total business?

Shri Shroff: It is very difficult to compile. If I may be permitted to say, so far as general business of the Indian companies are concerned, they are doing business which gives about Rs. 3½ crores of premium, that is, from business that they do outside India.

If you take the rough figure of Rs. 1,200 crores of business in force in

India, including those of Indian companies and foreign companies operating in India, this is the figure on 19th January. Against this, Rs. 80 crores of business has been done by Indian companies abroad.

Chairman: From the Corporation's point of view, would it be advisable or feasible to deal with a number of companies even though some of them, or a quite number of them, have only negligible life business?

Shri Shroff: In India or abroad?

Chairman: Abroad.

Shri Shroff: It is entirely a matter for Government to decide.

Chairman: What about your views?

Shri Shroff: I think it has taken a lot of effort to do or establish ourselves in foreign countries. As you may be aware, there are a number of difficulties. The foreign government has its own ideas of granting licences. That government has its own restrictions and limitations about the investment of funds. There are tremendous difficulties in getting trained personnel. If you ask for our views what I would say is that Government should examine the position of individual companies, their record as to what sort of progress they have made abroad, what is their potential for increasing life business abroad etc. On the basis of these considerations it is entirely for Government to decide, if they ultimately decide to give its foreign business to Indian companies, to whom they should give, on what basis they should give and on what terms they should give. If I presume to be in charge of this business in Government I would proceed on these lines. After all, in deciding this matter there must be certain principles on which you have to proceed. As I have enunciated certain principles, you may look into the position of the individual companies, their record of what they have done abroad, of their capacity in India to sustain the business

etc. They have got to expand in course of time.

Shri Matthen: With all the companies that are working in foreign countries would you prefer a new company being formed, with others also?

Shri Shroff: You may form a new company. But you will be up against a very serious fundamental difficulty. The companies which are operating today in Pakistan or Burma or South Africa or Singapore have obtained licences to operate. If a new company is to be formed, that company will have to apply to the various foreign governments to get a new licence. You may get a licence or you may not get a licence. That is the fundamental difficulty. I am sure you know as to what has happened to the State Bank of India.

Shri Matthen: You have stated that we have got about rupees 80 crores of business. Could you give us some idea of the rate of progress for the last five years?

Shri Shroff: The main progress that insurance companies have been able to make was during the last three or four years when they have been able to make considerable headway.

Shri Matthen: What is the rate of progress? What is the percentage?

Shri Shroff: I am afraid I haven't got the figures.

Shri Matthen: But you think it has tremendous potential to expand.

Shri Shroff: We are convinced about it. If I may refer to one personal experience I was recently in East Africa. There the Indian companies are doing fairly substantial business and my assessment of the situation is this: East Africa today offers a very substantial potential for expanding our business there. We have, for instance, 250,000 of our countrymen living in East Africa. Besides,

the East African lives have not yet been insured on any organised basis even by the giant British companies. As a matter of fact, soon after my return from East Africa I have been studying the possibility of doing pioneering work in the matter of life insurance in East Africa which had not yet been done and there are 20 million people there.

Chairman: I would like to put forward before the Committee the two points on which you might elicit information—(1) their views with regard to compensation and (2) their views with regard to life insurance work abroad. These are the two main points on which they have submitted their memorandum. I would like Mr. Shroff to elaborate his point of view on these two points so that the Members may then ask questions.

Shri Shroff: Since I was on the question of foreign business if you allow me to complete it, then I shall answer the questions.

As I said, during the last three or four years Indian companies doing business abroad have started making headway. You will be interested to know that even in a country like South Africa where we as Indians suffer enormous disabilities, for the last 20 years the companies have been operating there. We have not only been operating there, but I would be able to satisfy you that we have been able to maintain our position *vis-a-vis* the South African, British and foreign companies. I am certain—and I am speaking on behalf of the companies which had experience of operating there—that if those companies are allowed the freedom to continue their work abroad, in the course of the next few years we would be able to obtain for Indian companies a fairly substantial position *vis-a-vis* the very big British companies. Our experience in recent years in the Far Eastern countries has been so encouraging although that is not for life; that is for general business. Then, in spite of very

powerful competition, in a country like Japan during the last four or five years we have established a position which is comparable to the position of any well-established insurance company in the world. That is about the foreign business.

Now I will come to compensation. I have already dealt with the point of a share of 7½ per cent. going to the shareholders. My basic plea before you is this, and I find it was mentioned even by the hon. Finance Minister in Parliament while introducing the Bill and explaining some of the provisions of the Bill, that the correct basis for assessment of compensation is the future earning capacity of the companies which Government have decided to take over. That is what we in technical terms call "surplus earning capacity". The surplus earning capacity of any life insurance company is conditioned by three main factors. The three main factors are: the mortality rate for a period of years and particularly during the period of valuation. What I mean by that is this. When we insure hundred lives and when the claims arise we just try to see what is the percentage of claims to the expected mortality. When we assumed or when we determined the premium rates we proceeded on certain assumptions in the light of previous experience which runs over many decades of older and well-established companies. We assume that out of hundred lives, say, 40 or 45 claims will arise. We also estimate that during that period on the funds that we accumulate we will earn a certain rate of interest. We also assume that there will be certain expense ratio, that out of our earnings we will be spending so much to run our business and to service it. These are the three main factors on which the surplus earning capacity of a life company can be assessed.

Our submission is this. The best and the most equitable form of assessing compensation for life companies is to value the position of individual companies on the date Government

decided to take over their business. For the sake of convenience though Government have decided to take over the business from the 19th January 1956, the 31st December, 1955 might be fixed as the date on which the valuation of all companies should be made. I have seen it suggested that it will be an elaborate procedure and it cannot be done. After all, over a period of years, every company has been making its valuation. Now, it does not take more than four months to prepare the valuation. I may also suggest a machinery which would facilitate the procedure. What I suggest is that Government should call upon these companies to prepare their valuation as on the 31st December 1955. Government themselves should appoint an expert committee of actuaries or whomsoever they like, who can again go into those valuations and if Government are satisfied, or subject to such corrections as the Committee of experts may suggest, this valuation should be accepted and on the basis of that compensation should be paid.

Chairman: That is one suggestion.

Shri Shroff: Then we consider that the formula laid down in the Schedule to the Bill will not work out equitably—*inter se* equitably—to all the companies. The formula proceeds on the basis of taking an average of the two last valuations. Unfortunately, in the case of a large number of companies the period of this valuation differs. There are a large number of companies whose last valuation was only in 1953 and there are other companies whose valuation was in 1954. I am sure you and members of the Committee must have noticed that a tremendous progress has been made by life insurance companies in India during 1953, 1954 and 1955. As a matter of fact, we have established a new trend in life business in this country and we personally would be terribly disappointed, whether it is run by Government or by private business, if that trend is discontinued instead of it being reinforced in future years. When we have established a

new trend of increase in the life business, it would be inequitable, I submit, to value the business which you are going to take over as on 31st December, 1955, on the basis of our valuation of 1953 or 1954 and particularly the average of the two. And the inequity is further enhanced by this: if you take the average of the two valuations, the first was triennial valuation made under the Amending Act of 1950 and the past valuations were made for quinquennium.

To illustrate, the business in force on 31st December, 1955 only for Indian companies—excluding foreign companies operating in India—is estimated at Rs. 1,100 crores. If you take the mean of the two past valuations—the first one of five years and the second one of three years—the mean is reduced to Rs. 690 crores. I would submit for your consideration whether it is equitable that you should take over business which is estimated to be Rs. 1,100 crores on 31st December, 1955 and you give compensation to companies on the mean business of the two previous valuations, which is only Rs. 690 crores. Taking the totality of these factors, I submit for your consideration whether our plea is not correct and justified. Whereas we should be entitled to get hundred per cent. from the Government, by the very fact that you are taking the mean of the past two valuations, you are summarily reducing our business from Rs. 1100 to Rs. 690 crores.

If you also implement the formula given in the Schedule to the Bill that instead of the practice of taking 7½% as the share of the shareholders it will be summarily reduced to 5% then in the ultimate analysis, whereas we are entitled to 100 you are trying to offer us only 35. I only submit for your consideration whether this is fair and equitable.

Chairman: More than pass marks!

Shri Shroff: When you are out to take a business of this character, why should you leave that feeling in us?

[Shri Shroff]

We do submit that we have made no small contribution towards bringing the life insurance business to the existing position, and we submit that we are handing over a very rich legacy to you....

Chairman: Not to us!

Shri Shroff: When I say that I mean to me and to you, both, because I claim to be as much a part of the country as you gentlemen here.

Shri T. N. Singh: Let us therefore share it 50-50!

Chairman: Have you anything more to add with regard to this point?

Shri Shroff: On the question of compensation, I have tried to put it as briefly as I could and those are the main considerations. I am again pleading that you will be taking 100 on the basis of the schedule but actually offering 35.

Shri S. K. Patil: How does it come to 35?

Shri Shroff: If you like, I shall recapitulate. I am afraid Shri Patil was not here then.

Shri S. K. Patil: I was here and I was hearing you. From 1100 crores to 690 crores and from 7½ per cent. to 5 per cent. will not make it 35 per cent. It must be more than 40 per cent.

Shri Shroff: As I said, you are taking over Rs. 1100 crores of business outstanding on the 31st December, 1955. On the basis of the formula in the schedule you are offering compensation on the mean business of the two past valuations, which works out to Rs. 690 crores.

Shri S. K. Patil: That works out to about 63%.

Shri Shroff: Then you are saying that instead of taking 7½% which is the share appropriated for the shareholders, you will cut it down to 5%. You are reducing that again by 33%.

Shri S. K. Patil: That would come to 40%. I am merely contesting that figure 35.

Shri Shroff: Then I was explaining to you the three main factors which determine the surplus earning capacity of the life companies, namely mortality experience, interest yield and the expense ratio. I venture to point out that if valuations were made for life companies as on the 31st December, 1955, you will see an improvement on all these three factors. We have improved the interest yield on our funds. Since our last valuation, our mortality experience is better and we are showing a much larger margin of expense ratio..

Shri T. N. Singh: For mortality rate, should the credit go to the Health Minister or to you?

Chairman: Who will take the credit for the lower mortality rate?

Shri Shroff: You can give the credit to whomsoever you like.

Pandit K. C. Sharma: There is such a thing as credit for income tax.

Shri Shroff: Some time in future, it. I should like to know the variations you have in the brought about this.

Pandit K. C. Sharma: There are several factors. The credit of the Government is there. You cannot improve your business without the stability of the Government.

Shri Shroff: I claim also to be a contributor.

Pandit K. C. Sharma: What is your particular contribution?

Mr. Chairman: Have the representatives of the Association anything to say with regard to these points or about the life business abroad?

Shri Setalvad: We have nothing else to say except that the general companies who are doing life business should be allowed to do life business.

Chairman: Have you anything to say about the other points?

Shri Setalvad: No.

Shri T. N. Singh: I will take first the question of compensation. You have stated that formerly 10% of the surplus was available to the shareholders for distribution. Latterly it was reduced to 7½%. May I know as to when it was 10% and what was the total available? After all, the number of share-holders must have been the same. What was the total amount available for distribution among the shareholders then and what was the amount when it was reduced to 7½%?

Shri Shroff: Do you want it for all companies? I am sorry I have not got the figures for all the companies with me. In general experience, what would happen is this. At the time we were providing 10% as the share of the shareholders the 1950 Act was amended and since then it was 7½% except in the case of three or four companies. It is only when business expands, and particularly when business proves to be profitable even at a lower ratio, that the actual quantum coming to the shareholders is bound to increase.

Shri T. N. Singh: What is the quantum? Is it more on the 7½% basis than on the 10% basis?

Shri Shroff: It varies with different companies. Companies which have substantial increase in their business will have the quantum increased.

Shri T. N. Singh: Would you like that these companies which have increased their business should get a higher and higher return irrespective of any other limitation?

Shri Shroff: I submitted at the very outset that since this amendment to the Act was in 1950, we have not had sufficient experience to decide on a revision of it. In the case of most companies, after the revision of this ratio, only one valuation has been made.

Shri T. N. Singh: This expansion has been phenomenal and so I may

take it that the return to the shareholders should also have been correspondingly phenomenal.

Shri Shroff: The quantum due to the shareholders is bound to increase.

Shri T. N. Singh: In view of the general trends here and the national policy with which I hope you all agree.....

Shri Shroff: I do not know what trends you are referring to. I may not be concurring with any trends that you may be referring to.

Shri T. N. Singh: That is why I said that I hope you all agree. I felt that the general desire was that nobody should get inordinately higher compensation as compared with the compensation being given in other fields. Supposing some persons have invested 100 and they get 100 to 105. If other parties are getting 105, in justice and equity the others coming in should also get near about that figure. If they are to get 150 and not 105, that will amount to discrimination.

Shri Shroff: *Inter se*, among all insurance companies you should reach a formula where there will be no discrimination.

Shri T. N. Singh: We are paying compensation to the Imperial Bank; we are paying compensation to the zamindars; we have paid compensation whenever we have taken over any concern or any economic activity. I think that you realise that any compensation to be fixed in any individual field will have to be in line with what has been done in other cases.

Shri Shroff: Since I have not got before me the information relating to the compensation in other cases, I would refrain from expressing an opinion. What is before me is something which is specified in the Bill.

Shri T. N. Singh: I thought it was all very well known as to what happened in the case of the zamindaries and in the case of the Imperial Bank

Shri Shroff: I do not know if you are inviting my opinion which I think may not be relevant here. But if you want my opinion.....

Shri T. N. Singh: I only asked the question because in certain cases there were certain kinds of compensation. In this line also it should be kept up, and should be limited as cases crop up one after another. That was a matter of policy, and so I wanted your opinion. If you are not prepared to give your opinion, that is another matter.

Shri Shroff: What is the opinion required?

Shri T. N. Singh: On the question of the principle. Should we follow a consistent policy—this national Government of ours—or should we vary it according to individual cases? This is the specific point I want to know.

Shri Shroff: You will have to vary that according to individual cases.

Shri T. N. Singh: Now, in regard to the quantum of compensation, there may be a view that nobody who has already got more than the capital invested in the shape of return should get anything more—the principle of *Damdapat*,—a principle which has been applied in the case of the zamindaris and which means practically no compensation. How would you react to that?

Shri Shroff: My reaction would be violent disagreement with that view.

Shri T. N. Singh: In that case, between these two extremes, what is your *via media* as a compromise?

Shri Shroff: I have already put before you my suggestion.

Shri T. N. Singh: I want to know on the basis of the 7½%.

Shri Shroff: I have said that this has been the practice since the Act was amended in 1950 and that we have not yet acquired sufficient experience to revise it.

Shri T. N. Singh: Do you want some other year to be taken?

Shri Shroff: If you have an average of the last two valuations—in a number of companies you are bringing down the last valuation only to 1953, where there has been a substantial progress in business in 1954-55—my submission is that weightage should be given to the increase in business since the last valuation.

Shri T. N. Singh: Another question is in regard to the foreign business that you have raised. I presume you represent the companies which are partly composite companies, not merely life companies. Now, in regard to them, why do you contend that only some of the select companies should be given that right, and what will happen to the numerous life companies?

Shri Shroff: I have never pleaded for them. I only suggested a few principles on the basis of which Government might decide. If Government decide to give foreign business to any Indian companies, I think Government should select a few.

Shri T. N. Singh: So, you leave that discretion to the Government. You accept the principle that according to merits certain selected companies can be given this. You have no objection to the provision as contained in the Bill. Is that so?

Shri Shroff: As I see it, Government are assuming powers to transfer this business if they think it necessary or desirable to do so.

Shri T. N. Singh: That is in order to avoid any kind of heart burning to one company or the other. What will be your reaction to this?

Shri Shroff: I am perfectly reconciled to what has happened. If Government think it is desirable, it is practicable and it is going to be a workable arrangement for them to take over also the foreign business of Indian life companies, certainly Government are competent to do that.

Shri Matthen: Let the Government do whatever they like. You need not fight shy of expressing your opinion.

Shri Shroff: I have pointed out only one difficulty—the hon. Finance Minister has also mentioned it—with regard to business in foreign countries. But the first difficulty will be to get the licence. The Government of India or the new corporation may get a licence, but the difficulty is certainly there.

Shri Morarka: Just now when you were explaining the basis of compensation, you said two things. One was that the compensation was inadequate. Secondly, you said that the method of calculation may be so inequitable that it may be discriminatory between the companies intense. As regards the first point, you fully explained that. Now, could you kindly explain the second point also, namely, how the method of calculation would be discriminatory between the companies intense?

Shri Shroff: The Schedule says that we have to take the average of the last two valuations. A number of companies have their valuation as on 31st December, 1953. But there are some companies which valued their business in December 1954. Since there has been a big change in business since 1953, it may not be quite correct if you take that as the final basis. Therefore, I suggest that the basis of valuation should be as on 31st December last for all companies.

Shri Morarka: Therefore, according to you, would it happen that two companies transferring an identical bundle of assets may get different kinds of compensation?

Shri Shroff: Obviously.

Shri Morarka: So, according to you, if two companies value their business on two different dates—one in December, 1953 and the other in December, 1954—would the method of valuation be different?

Shri Shroff: It will differ in the sense that when you make a valuation at the end of every three years, the valuers go by certain figures. Valuations are made on their actual experience and on certain assumptions. In some cases valuation may be liberal while in some it may be stringent. It has now become a common experience of all that a well-managed company can earn, on an average, 4½ per cent. interest. But valuation is made at 2 or 3 per cent. If in 1954, as against 1953, the valuers feel that they should take 3½ per cent. instead of 3, then the surplus will substantially increase.

Shri Morarka: That happens in two different years. Now what I want to know is whether there will be a difference in method in one and the same year, between two different companies?

Shri Shroff: It differs.

Shri Morarka: That is one company may adopt a more liberal method while the other may adopt a stringent method?

Shri Shroff: That is true.

Shri Morarka: Therefore, do you think it would be more desirable to have the re-valuation made on a common standard for all the companies on the specified date?

Shri Shroff: Even if you do not do that, at least there should be a common basis for all the companies. The purposes will be achieved if you value the business on one date, namely, the 31st December, 1955. But this should be applicable to all companies.

Shri Morarka: Even then, if you permit the companies to continue to have some method of valuation, though it is on the same day,.....

Shri Shroff: there will be some difference because some companies may have a stringent method whereas other companies may have a liberal method.

Shri Morarka: Some companies may be valuing their investment on the book value basis and some will take

it according to the market price. There may consequently be a difference, unless there is a common method of valuation for all.

Shri Shroff: Under the law, we have to take it according to the market value. If there is a surplus, you have to credit it. If there is a deficit, you have to provide for it. In the case of those companies which made their valuation in December, 1953, some deficit was found. There was a difference between market value and book value. Immediately they had to provide for that deficit. One such company had to provide something like Rs. 25 lakhs. The same company that had its valuation made in December, 1955 has a surplus to the extent of Rs. 85 lakhs.

Shri Morarka: What according to you would be the difficulty if the re-valuation is to be made, say, on 31st December, 1955 or 1954 for all the companies?

Shri Shroff: I see no difficulty. We are all accustomed to make our valuation periodically. I do not think it will take more than 4 to 5 months. Let the Government have an expert committee for this purpose and let them examine the validity of that valuation.

Shri M. D. Joshi: The Chairman had asked you about the percentage of life business to the total composite business done outside. What is the percentage?

Shri Shroff: I think I have mentioned the figures. The total outstanding life business of Indian companies operating abroad at the end of December, 1955 was of the nature of 80 crores.

Shri M. D. Joshi: I wanted percentage.

Shri Shroff: I gave those figures also. All the companies which operate for life business do not operate for general business. The Indian companies operating abroad for general business had an annual premium of Rs. 3½ crores as on December, 1954.

Shri M. D. Joshi: You are pleading for taking surplus as projected upto 31st December, 1955 as a basis for compensation. I want to know whether there was any increase in the expenditure.

Shri Shroff: That will be found out when the valuation is made.

Shri M. D. Joshi: Can you give us some idea about this?

Shri Shroff: When the valuation is made as on December, 1955, the actual expenses incurred have the company during that period will be reflected. If there is an increase, to that extent it will reduce the surplus.

Shri M. D. Joshi: The total amount of compensation should, according to the Government proposals, come to 3.2 crores of rupees.

Shri Shroff: Less the capital of the companies.

Shri M. D. Joshi: According to your calculation, how much will it come to?

Shri Shroff: Unless you see the business as on 31st December, 1955, you cannot say that. I won't, therefore, hazard an estimate. But I must say that it will be substantially higher than that figure.

Shri M. D. Joshi: Could you give us a very rough idea?

Shri Shroff: There are about 152 companies and it is not possible for me now to say how much it will be.

Shri V. B. Gandhi: In your reply to Mr. Morarka, you said that in making valuation companies may adopt different bases. For instance, some may adopt a rate of interest at 2½ per cent. and sometimes the same company in a different period may decide to adopt a rate of interest at 3½ per cent. According to you, you would like the valuation as on 31st December 1955 to be adopted as the basis for compensation. Don't you think that most companies will, in that case, adopt the more optimistic and more profitable rate for this purpose?

Shri Shroff: What I suggest is this. You let them adopt the same basis as they adopted in the last valuation. What I mean by basis is this: There has to be a liberal margin provided between your assumed rate of interest and ultimately the actual rate of interest. All well-managed companies are earning about $4\frac{1}{2}$ per cent. though they have been sufficiently stringent in the valuation. In most of the cases valuation is done at about 3 per cent. So, there is that gap of $1\frac{1}{2}$ per cent. between the actual return on the investment and the assumed rate. It makes valuation sufficiently consolidated.

Shri V. B. Gandhi: You know that both in this country and other countries socialisation has taken place in respect of many kinds of undertakings. Now, take for instance, in England when they took over the steel industry, for the valuation of the undertakings they accepted the formula of taking share prices as shown over a number of years previous to the date of taking over. The idea was to arrive at a stable rate of earning capacity and all that. You do not seem to agree with the basis as proposed in the Bill which is somewhat similar to the basis adopted in other cases of industrial undertakings.

Shri Shroff: I submit it is very very different.....

Shri V. B. Gandhi: Do you think there are any special features which probably make it necessary, according to you, to discard this average of two previous valuations and have your compensation based on the valuation of the latest period?

Shri Shroff: Do you want me to compare the basis of compensation adopted in the case of stock-holders of the British steel industry with the compensation offered to Indian insurance companies? If that is so, I may point out that what applies to manufacturing companies does not apply to insurance companies for one obvious reason, namely, manufacturing units

have a certain installed capacity and a certain operating capacity. Unless the plant and machinery is substantially added to that unit, the earning capacity of that unit is taken in terms of its maximum installed capacity which may yield one million tons or so. You cannot suddenly change it to 2 million, 3 million or 5 million tons. In the case of insurance companies, the outstanding business is something which assures you some return over a period of 15 or 20 years. So, the conditions are entirely dissimilar.

Shri V. B. Gandhi: Now you said that a few companies appropriated out of their surplus for shareholders less than $7\frac{1}{2}$ per cent. that is permitted. You also said that there were only about four or five companies who did so according to your information. Do these companies happen to be among the largest ones?

Shri Shroff: One is the largest. I have before me the figures of these companies. If you permit me, I can name them now; otherwise I will not be able to clarify the position.

There are the Oriental, Bombay Life, Western India, Hindustan Co-operative and Metropolitan of Calcutta. In the case of the Hindustan Co-operative, I think they did certain things laid down in their Articles of Association and also in their original Prospectus when the company was floated and also in the conditions on which they did life business. They have done life business on the condition that they will not charge more than 5 per cent. of the surplus. That is laid down actually in their Prospectus.

In the case of Oriental, it has varied during recent years. I find that during the last 10 years, they have charged as high as 6.6 per cent. and they have charged as low as 3.5 per cent. and the average works out to something like 4.4 or 4.5 per cent.

In the case of Bombay Life it is 4.6 per cent. and in the case of Western India, it is 4.1 per cent.

In regard to the Metropolitan, the information is not available with me.

Shri Feroze Gandhi: It is 50 per cent.

Shri V. B. Gandhi: Since these companies could legally appropriate 7½ per cent. and decided to appropriate less than that, what were the material considerations which weighed with them? Would you tell us what these considerations were?

Shri Shroff: I am not interested in the management of these companies and so I wouldn't be able to tell you.

I have already told the Committee that I am prepared to concede one thing, that is, if over a period of years other companies find that certain trends are definitely established, certain trends in the sense that new business which has been increasing during the last two years continues to increase at the same rate, that companies continue to maintain the margin of actual interest yield and assumed interest rate and the expense ratio over a period of years, I entirely agree with you that other companies also might have charged less than 7½ per cent.

Shri V. B. Gandhi: I thought one of the considerations in the minds of these companies should have been, or could possibly have been, the interest of the policy holders or as an aid to contract more business.

Shri Shroff: I am not prepared to concede that other companies had not the interest of policyholders before them.

Shri V. B. Gandhi: Perhaps, as an aid to contract more business.

Shri Shroff: If that is so, I may point out that the other companies which were charging 7½ per cent. had a phenomenal increase in business. If I may mention, one company had Rs. 19,80,000 of new business in 1953 and in 1955, it had new life business worth Rs. 51 crores, although it charges 7½ per cent. This company is the New India.

May I draw your attention to the view of some of the Indian insurers and the view of the largest life operating company in the United Kingdom, the Prudential, which has been mentioned in our Memorandum?

Shri V. B. Gandhi: You have mentioned it in the Memorandum. In regard to Prudential, this view or expression has been as late as May, 1953.

Shri S. K. Patil: I am checking some of the very valuable information that you gave. In calculating the compensation, you have made two points, namely, that the previous valuations do not represent the correct position of the companies and therefore valuation must be made again as upto 31st December, 1955 and the other is about this ratio reduction from 7½ per cent. to 5 per cent. as mentioned in the Finance Minister's speech.

Now, in this first one, namely, that there should be valuation again as upto 31st December, 1955, is the reason only that the quantum of business during last two or three years has increased or is there any other reason to fix this particular date?

Shri Shroff: Yes, because it obviously becomes unequitable. If you take the average of the two last valuations, you come to the mean business of 1950 which for the whole of India comes to only Rs. 690 crores whereas the business in force in December, 1955, of Indian companies excluding foreign companies, was Rs. 1100 crores.

Shri S. K. Patil: On this second point, namely, the reduction of this ratio, you have been saying—if I am not mistaken—that there must be a period during which the results have got to be properly assessed and you consider that this five year period is not an adequate period during which these trends could be definitely established.

Shri Shroff: Because, our last valuation was only in 1953.

Shri S. K. Patil: I want to know what you consider to be a reasonable

period during which this could have been done.

Shri Shroff: As we go by human experience, three to five years are hardly considered a basis for the establishment of a basis. I would say that 10 to 15 years should be considered as a fairly reasonable period to justify the review of the position that was made only in 1950.

Shri S. K. Patil: Another thing I want to ask. Of course, that is merely for making my point that I am asking. Any statement made by an experienced person like you will have that currency in the country. I am only checking on it.

You were referring to 35 per cent. Therefore, I take it without going into the whole argument. You have worked it out and I have understood. I am merely checking. It becomes, say, about two-thirds, because from 1100 you come to 690, that is from $7\frac{1}{2}$ to 5. Arithmetically, that comes to 42 per cent.

Shri Shroff: Investment in 1955 on valuation would be found to be substantially higher than our last valuation in 1953 and, when you work this out as we tried to work out, in the case of about 18 or 19 companies, for whom we have information, it comes to only 35 per cent of what will be due to companies on a valuation of business as on 31st December, 1955. That is my submission.

Shri S. K. Patil: You discussed about the companies doing business in foreign countries. It was hinted that that business, the Government say, should be given to one company and so on. Your argument was that the Government should consider the progress made by the new companies and so on and so forth. Do you suggest that if there was any composite company doing business in other parts and if it had done well, it should be allowed to continue that business?

Shri Shroff: You will please appreciate my position. I am not here to

plead for any one company. I am only placing our suggestions as to the possible principles on which the Government might consider transfer of this business to any one or two or three or all companies.

Shri S. K. Patil: I am merely suggesting as a sort of *via media*. Something has got to be done. There are already some companies who are doing purely life business and therefore they cease to exist. So their business has to be transferred to some others. Your idea seems to be that instead of giving it to only one company, it should be distributed to several companies by finding out their credentials, benefits and the progress they have made.

Shri Shroff: That is our submission.

Shri Feroze Gandhi: You have stated that in 1950, the percentage which was allocated or which should be allocated to shareholders was reduced from 10 per cent to $7\frac{1}{2}$ per cent. Would you agree that after reduction of $2\frac{1}{2}$ per cent, the total amount of money available for distribution was more than when it was 10 per cent?

Shri Shroff: I have explained it to a gentleman here. It will depend upon the size of the business and the profitability of the business.

Shri Feroze Gandhi: You have already given figures for New India. Here I have figures for five companies which I would call the biggest insurance companies. You have also the names. They are Bombay Life which parted with only 4.62 per cent; Oriental, which is the biggest, parted with 3.46 per cent; Western India parted with 4.14 per cent; Hindustan Cooperative parted with 2.82% and—quite a big company—Metropolitan, parted with only about .52 per cent. If this is what the companies were willing to part with, why should you have any objection to Government increasing the compensation? What compensation the Government are prepared to pay is much more than what insurance companies have paid to their own shareholders.

Shri Shroff: I presume you object to Government paying more to anybody.

Shri Feroze Gandhi: What I mean is when these companies were parting with less than 7½ per cent, what objection do you have to the Government giving something between 7½ per cent. and what they were paid?

Shri Shroff: To these companies?

Shri Feroze Gandhi: Generally speaking.

Shri Shroff: Generally, excepting these five companies, all others were parting with 7½ per cent. Therefore, we must object. These five companies cannot be said to be representing the whole life business in the country.

Shri Feroze Gandhi: These five companies between them hold the vast majority of insurance business.

Shri Shroff: I disagree. It is not correct.

Shri Feroze Gandhi: It is absolutely correct.

Shri Shroff: I should like to have the figures which are absolutely correct.

Shri Feroze Gandhi: I will give you. The question after all is that when these companies were paying to their shareholders a certain amount what objection, in principle, do you have to Government paying less than 7½ per cent.

Shri Shroff: These companies were paying less than 7½ per cent to the shareholders in 1950. When Parliament reviewed the whole position, they were doing that. They were not charging 7½ per cent or 10 per cent in 1950.

Shri Feroze Gandhi: But we limited it.

Shri Shroff: The Government were fully seized of this information and, as I pointed out, in the draft Bill

presented by the Government, they themselves have suggested 10 per cent. The Select Committee after consideration brought it down to 7½ per cent. having full information before them that there were four or five companies which were charging less than 7½ per cent. I give credit to Parliament that they must have considered the question in a comprehensive way and in their opinion for the whole industry 7½ per cent was considered as a fair share.

Shri Feroze Gandhi: When you calculate this surplus amount, there is an item of unclaimed balances, that is, the firm's part of the calculated surplus. Is that correct?

Shri Shroff: I do not know what is meant by "unclaimed balance".

Shri Feroze Gandhi: How can I explain to you, Mr. Shroff, what is unclaimed balance? Unclaimed amount is that amount which has not been claimed. That forms part of the surplus. What right do the companies have to keep this amount which is not really theirs. It does not really belong to the company. It is unclaimed balance.

Shri T. N. Singh: It belongs to the State.

Shri Feroze Gandhi: There are many companies which in many ways had not parted with what they should have parted. There are many ways of doing that and it has happened. What right has the company to claim this surplus which does not rightfully belong to the company?

Shri Shroff: I am sure you are aware valuations are prepared in terms of the conditions laid down by the insurance law. The valuations are made by actuaries and those valuations are subject to the control of the Controller of Insurance. If there was any item in the valuation of the assets of the life company which was open to dispute which was not in conformity with the principles laid down by the law, then such valuation

will be challenged. I am not aware of any valuation being challenged on the basis that you suggest.

Shri Feroze Gandhi: You are perfectly entitled to do it legally. The question that I am putting is this: What is the right of the company to claim this unclaimed balance which, as Mr. T. N. Singh has just pointed out, belongs to the State and not to the company?

Shri Shroff: Not even to the policyholder?

Shri Feroze Gandhi: You say it is unclaimed balance. You had part of the surplus. What right have you to claim that? A gentleman who was giving evidence told us that in some concerns the unclaimed balance forms a very high proportion.

Shri Shroff: It is not so in our experience.

Shri Feroze Gandhi: We have to remember that there are 150 companies

Shri Shroff: The valuations have been made under the formula laid down in the law of the land. It is up to the Controller of Insurance, in any case where he is not satisfied, to challenge the valuations and get them rectified. We are not aware of any case in which that has happened.

Shri Feroze Gandhi: In the course of your statement you have referred to branches.

Shri Shroff: In any case, if it is a loot on the part of the shareholders the policyholders have participated to the extent of 92½ per cent in the loot.

Shri Feroze Gandhi: You made some reference to branches and branch secretaries and branch organisations. Take the case of New India with which you are fully acquainted because you were there and your General Manager is here. In the course of your statement.....

Shri Shroff: Are we discussing just at present those issues?

Chairman: Let us know the question.

Shri Feroze Gandhi: I would like to know how many branch secretaries you have in New India at the headquarters in Bombay?

Shri Shroff: There are some branch secretaries.

Shri Feroze Gandhi: How many branch secretaries do you have?

Chairman: We need not go into the details.

Shri Matthen: In the matter of compensation I think you have been sufficiently cross-examined. I also think that you have made a very effective case. About foreign life insurance you said that we have got about Rs. 80 crores today. Do you think it is a very large potential to keep us—I won't use the word exploitation—in other countries in Asia and Africa? Is it such a tremendous potentiality?

Shri Shroff: I mentioned one illustration of East Africa. I said this as a result of personal observations and assessment of the situation there. And I am convinced that the 250,000 Indians who are in fairly prosperous conditions who are living in East Africa will help us. It has been our general experience whenever we go to any foreign country where our countrymen are there, whether it is the general business or life business, I must gratefully acknowledge, that we get the most encouraging response from our own countrymen whenever we go out for business. In East Africa it has been our experience during the last three years. We had started making headway. I personally am convinced that there is a great potential for increasing business in East Africa not only amongst our own countrymen but also for starting pioneering work of assuring the East African life which has not yet been done by any company.

Shri Matthen: Only in East Africa?

Shri Shroff: We have also made survey in other countries, particularly in Indonesia. We have started in a small way because of the comparatively unsettled conditions there. But our surveys have indicated that Indonesia is one of the countries where there is tremendous potential for our life business.

Shri Matthen: There are other countries also, I believe.

Shri Shroff: I think so.

Shri Matthen: For example, Malaya. Possibly, there also there is great potential. That has also to be tapped.

I think Mr. Patil was just remarking that the Government want one composite company to take over all the business, I do not know how far that is correct. What is the best way of tapping the maximum business? In what way should the companies, whether composite or life, work after nationalisation? Do you prefer the existing companies working in foreign countries to continue the work or do you prefer one company doing the work? Which will tap more business?

Shri Shroff: I think I have made my position sufficiently clear. Government are taking power under the Bill and they can transfer the foreign business to such agency as they like. I suppose the Government will study the position of various companies operating abroad and if they are satisfied with their existing operations, their record, their capacity to sustain an increased business, they will transfer the business to them. It is entirely within the discretion of Government to have 1, 2, 10 or 12 companies.

Shri Matthen: This is only a Bill and not an Act. Whatever may be the recommendation of the Government, I want you to say explicitly what you believe would be in the best interests of the country.

Shri Shroff: The Select Committee would be best advised to suggest some

of the principles and the Government may take their final decision.

Shri Matthen: What is your suggestion?

Shri Shroff: You do not want me to suggest the names of individuals. That is not my business.

Chairman: The principles.

Shri Shroff: The principles I have already enunciated.

Shri Matthen: If there are more companies than one working in the field then there will be an element of competition which I consider is the basic thing.

Shri Shroff: I would welcome it every time.

Shri Matthen: I am asking you whether individually you would prefer one company like New India or Oriental or more than one company.

Shri Shroff: I am a great believer in private enterprise and private enterprise can only survive and thrive on the basis of healthy competition.

Shri Matthen: You said just now that the tempo has now come to Rs. 1,100 crores from Rs. 680 crores. You wish that the Government corporation will keep up this tempo. For that keeping up do you believe that a small element of competition is necessary?

Shri Shroff: I am a great believer in that.

Shri Namblar: With regard to compensation I could not get myself convinced. You said that the shareholders sacrificed their dividends so as to provide for the future. Can you substantiate that point?

Shri Shroff: I think it is a matter of general experience of every company starting life business or even in the case of the composite company that for it to establish its position and status in general business it always

takes a number of years before which it will not pay. Therefore, to that extent the expenditure, to which the shareholders put up capital—you will concede that capital is required for life business—is at stake. Whatever is put up by shareholders is at stake for a number of years, which it takes for a life insurance company to establish business and to make it pay—sometimes it takes 5 years, 10 years or 12 years.

Shri Nambiar: Is it not a fact that in many companies the management could not declare any dividend to the shareholders more due to malpractices and bad business than due to any other reasons?

Shri Shroff: I am not aware of that.

Shri Nambiar: You are not aware of the malpractices?

Shri Shroff: I am fully aware of the malpractices. But I am certainly not prepared to subscribe that it can be magnified to the extent that you can generalise. There may be cases where due to malpractices they could not make their business prosper. I am prepared to accept that. But I am certainly not prepared to accept the view that it is a general statement which could be made applicable to all companies.

Shri Nambiar: The criterion you propose for compensation being one based on possible future earnings and not based on the past performance and valuation, may I know whether it is your contention that all companies should be taken for granted as capable of earning in the future whether they performed well or ill in the past?

Shri Shroff: My answer is very obvious. You have the valuation of their business as on the 31st December, 1955. If the valuation does not disclose a surplus then, of course, you say they have no capacity to make future earnings. When you make a valuation of their business as on the

31st December, 1955 and that valuation does not disclose a surplus or any idea of earnings in the future, it is very clear for you to decide whether they are entitled to anything or not.

Shri Nambiar: Even in those cases where the companies could not make any profit on the 31st December, 1955, they may do much better in the future. Your criterion is the future earnings. Perhaps, today I may be bad. But tomorrow I will become good. So I must be given compensation. That is the argument. If the compensation is determined on the position obtaining on 31st December 1955 what is the harm?

Shri Shroff: It should be remembered that the determination of the future earnings of a life insurance company is not a matter of chance. There are established principles, there are established factors by which you can assess the future earnings. It is not a matter of chance. It is not my guess or your guess or anybody else's guess. The company has a record; the company has certain funds and the company has certain investment policy on the basis of which it will earn 4 per cent., 3 per cent. or 3½ per cent. The company has an expense ratio record. So you can determine whether the company, on the basis of that expense ratio, can earn. Then the company has its own mortality experience. These are the three basic guides by which you can assess the future earnings of the company. It is not a matter of chance. It is not a matter of individual opinion.

Shri Nambiar: Why do you say that this limitation of 3 per cent. and 5 per cent. is not based on the calculations and on the past performances? It is exactly on the basis of the past performance that this limitation has been put. Why do you dispute that and say it is wrong? That is based on the relative experience of the past.

Shri Shroff: No, I dispute that. The situation was reviewed as recently as 1950. I should like to know what factors have come in between

[Shri Shroff]

1950 and 1955 to justify a sudden revision of that.

Shri Nambiar: I now come to the risk involved in the shareholders running this business. You want a certain percentage of compensation, or whatever it is, for the risk involved in advancing certain money. What is the risk that you have got in insurance business?

Shri Shroff: I am glad that this point has been raised, and I would like to say something about it. In the running of a life insurance business, it is not only the money capital that is put into it. The fact of it is this. If any group of 5 or 10 people get together and collect 5 lakhs of rupees and start a life insurance company and try to work it for a period of years, they will soon realise that it is not the capital of Rs. 5 lakhs that is going to attach the business. In the first place, who are the five or ten people who are in the business? Secondly, what is the capacity of these people to organize the business? And believe me, it takes a lot to organise life business. People do not go to your offices and say that they want to take out a life policy; and particularly, in a country like this, so vast, this business calls for an enormous effort, tremendous organisation and trained personnel to get the business that we have been able to get. I suppose it cannot be imagined that during the last three years the fact that Indian companies have been able to increase their business substantially is due to any scramble on the part of people to rush to the life offices and asking for their life being insured. I may tell you from personal knowledge of a number of companies that during the last seven or eight years we are pumping a lot of money to build up our organization. We are running training classes and now trained personnel is one of our most powerful assets in the life companies. It is meant to make them go to you, give you the merits of a life policy, explain to you the comparative merits of taking out a policy

from one company against another. This requires a lot of selling. Life insurance is not bought; it is essentially sold, and to sell it you have to build up an organisation; and this takes a lot of time to build it up.

Shri Nambiar: You require some talent and some work. What is the loss in money value that you had. This is what I want to know.

Shri Shroff: You are perhaps aware of the fact that there is what is called a "good-will" and that good-will is not calculable in terms of rupees, annas and pies. It is a certain status, a certain credit and a certain reputation that you establish in the country against others; and I claim on behalf of the life companies that they are all built up over a period of years and we have today come to command a certain good-will. That we are handing over today to the nation—an organization which has kept on expanding ever more on very sound and healthy lines. Therefore, I claim that life companies are entitled to claim from the buyers of the business for something in the nature of good-will.

Shri Nambiar: Let that good-will continue. Why do you want to cash in on it?

Shri Shroff: That good-will you can have from us for nothing.

Shri Sadhan Gupta: About foreign business, is it not a fact that Indian companies who aspired to do foreign business will find it difficult to continue the foreign business after deprivation of their business in India?

Shri Shroff: I have not followed the question.

Shri Sadhan Gupta: I was asking you whether Indian companies would find it possible to carry on their foreign business now that their business in India is being taken away from them.

Shri Shroff: I entirely agree that nationalising life business in India and the manner in which it is done is certainly going to create a handicap

for Indian companies operating abroad. I am prepared to admit that. As a matter of fact, this has created a new handicap and a new obstacle for us, which will take some time for us to get over.

Shri Sadhan Gupta: Will it not be better if the Corporation can find some way of doing foreign business, itself? It is not a Government organization—I mean the proposed Corporation.

Shri Shroff: Government are quite competent to decide on this if it is desirable and if it is in the national interest.

Chairman: Are there going to be any difficulties in the way of this Corporation doing foreign business?

Shri Shroff: One difficulty will be that this Corporation should obtain a license. The main difficulty is this. When you go abroad as a new operator, you must obtain a licence. Some Governments will take the view first as to why the Government of one country should operate a company in a foreign country. I do not know if you are aware of the experience of the State Bank of India.

Shri Sadhan Gupta: Regarding the general business of composite companies inside the country, don't you think that by reasons of their life business being taken away, most of these composite companies will be compelled to wind up their general business as well because it would become too uneconomic?

Shri Shroff: I very much doubt whether any composite company will be compelled to wind up. As I pointed out, it will call for a reorganization, a new pattern on which to run the business. It is certainly going to be less economic than it is today.

Shri Sadhan Gupta: It is my experience that practically all the composite companies will find it almost impossible to carry on. Do you agree?

Shri Shroff: I do not agree.

Shri Sadhan Gupta: Would you agree that quite a substantial proportion of them will have to wind up?

Shri Shroff: I do not think so, subject to this very important reservation that companies today which are in an uneconomic position cannot, in the ultimate analysis, survive. They may have to wind up because they will find it more difficult now than before. It will call for a reorganization.

Shri Sadhan Gupta: Now, coming to compensation itself, you have stated that the surplus is determined by the interest earnings, the expense ratio and the mortality rate. You will agree that the mortality assumption is not affected by anything that the insurer can do, unless the insurer carries on business very foolishly and books people who are to die the next day. It can be said that regarding mortality, the insurer has not much to do and it depends on extraneous factors. Is that not so?

Shri Shroff: Mortality experience to a certain extent can be controlled by companies by the selectiveness of the business. That is one thing. But I must say that this factor is subject to one very serious risk. For instance, you may get epidemics and all that which you cannot control and your assumption of mortality experience might be completely upset. The essence of insurance business is averages—the average over a period of years. Therefore, when you take the average over long periods, you are not likely to be terribly upset.

Shri Sadhan Gupta: That is right. On the other hand, by beneficial measures undertaken by the Government, the mortality figures may improve in favour of the insurers and the insurer would get the benefit of it.

Shri Shroff: That is true.

Shri Sadhan Gupta: Regarding interest earnings also, that too depends considerably on extraneous factors, namely the higher interest rate available and factors like that.

Shri Shroff: I do not agree: It calls for a lot of judgment on the part of people who invest funds. It does call for judgment as to how to invest your funds and the ultimate result of this judgment is where by observing strict rules of conservative investment you can gradually increase the return of the money you invest.

Shri Sadhan Gupta: Apart from judgment,—judgment is always assumed to be reasonable and this is always the assumption—as I said, mortality can be regulated by not insuring very bad lives. Similarly, interest earnings you can throw away by making very bad investments. Assuming reasonable judgment, I take it that you have to depend on extraneous factors for interest earnings.

Shri Shroff: Except the Government policy. I take it that no business is possible which does not take into account the Government policy. It is a common denominator. It plays a vital part in all business—iron and steel industry or cement or any other business. In fact, it affects other business much more vitally than the life insurance business.

Shri Sadhan Gupta: That might help us in future. Your premium earning also depends, and has been influenced lately, by several Government measures such as income-tax relief for certain amount of insurance premium and so on.

Shri Shroff: I do not know what you would say about reducing premium. We were able to bring about a substantial increase in business because we reduced the premium.

Shri Sadhan Gupta: The growth of the volume of business has also been influenced by the taxation reliefs granted by Government in the matter of income-tax.

Shri Shroff: As I pointed out before, if I gave the fullest credit to all the factors mentioned by the honourable Members, it seems to be assumed that we are to sit tight in our chairs and allow the operation of these factors to give us all the business that we do. But for all the cumulative effect, it does need an enormous amount of selling. We have to go and tell you that these are the factors. The mere existence of these factors does not produce business.

Shri Sadhan Gupta: You mean that these factors alone will not produce business?

Shri Shroff: Unless there is the appropriate selling organisation.

Shri Sadhan Gupta: You mean that procurement also has a large share?

Shri Shroff: It gives us talking points to sell.

Shri Sadhan Gupta: You have also stated that the manufacturers' earnings are limited according to the installed capacity of the unit, while you were trying to draw distinction between the compensation paid to the steel business in the United Kingdom and to the insurance business here. You then said that they cannot increase it except by increasing their installed capacity by adding to the plant and machinery substantially. Is it not a fact also that the business of life insurance, to register any appreciable growth, has to expand its organisation and incur considerable expenses by way of expanding its organisation?

Shri Shroff: Let there be a clear understanding. The compensation we are asking for is not for the increased business that you will get in future. The compensation we ask for is for the business which we are handing over to you.

Shri Sadhan Gupta: The future earning capacity you speak of on the

basis of which you demand compensation has been taken into account in the Bill itself by capitalising your assumed future earning capacity at the rate of 20 years....

Shri Shroff: It is not taken into account. You are taking into account 690 crores of business whereas you are actually taking over 1,100 crores business. So, it has not been taken into account.

Shri Sadhan Gupta: Is it not a fact that your earning capacity bears a very disproportionate relation to the capital investment thereon and the organisation and all that you talk of?

Shri Shroff: Mr. Chairman, if you wish me to reiterate everything that I have said, I shall do so.

Chairman: All you have to say is that you have already answered that question.

Shri Sadhan Gupta: Don't you think that the organising talent can be amply rewarded, wherever it exhibits itself, by absorption by the corporation if it thinks it worthwhile to absorb?

Shri Shroff: That is a matter of individual arrangement between the corporation and the talent wherever they can find it. It has nothing to do with the compensation payable to shareholders.

Shri Sadhan Gupta: You have also made it one of the principles for demanding compensation that you have transferred the goodwill of the company. Do you think that according to the provisions in the Bill, they really take your goodwill over? For example, when a goodwill is transferred, the person who purchases it is supposed to get all the credit of the company which he purchases. Here, the companies are not taken over as such. The credit due to them is not available to the corporation. Therefore, the goodwill of the companies is not taken over by the corporation.

Chairman: Have you finished?

Sbri Sadhan Gupta: I thought he would answer this. My last question is this. I would ask you to look at the whole thing from the point of view of the socialist pattern to which we are pledged. You know in a socialist pattern there must be fairness to all. You cannot think of any company or any organisation which would grant the worker or a clerk compensation of 20 years' earning when he is put out of employment.

Shri Shroff: I have not understood the question.

Shri Sadhan Gupta: You rely on future earning capacity and you think future earning capacity should be capitalised by paying 20 years possible earning. Can you think of a worker in a factory or a clerk in an office who is dismissed claiming his 20 years' annual pay as compensation? Under the circumstances, would it be fair to shareholders to claim so much?

Shri Shroff: I am glad it is said that under the socialistic pattern of society there is going to be fairness to all, and on the basis of that principle I say that our claim for compensation is fully justified. You cannot compare the right of compensation of a worker to taking over of property.

Shri T. N. Singh: In a socialistic pattern of society, property is guaranteed.

Shri Shroff: That is your understanding of the socialistic pattern of society. We are, unfortunately, very much strangers to that and we do not understand it.

Chairman: I would like you to tell us with the background of your experience as to how you view this nationalisation. You have strong views on this, I know. But apart from that—Government have accepted it as a policy—how do you think it should be implemented so that there is the least disturbance or dislocation and also that the confidence created in the insuring public is maintained?

Shri Shroff: I am glad that you have asked me this question. I honestly differ from the Government on this issue. But I am as anxious as anybody else in this country to see that the Government, if they want to run this business, run it successfully so that the nation should benefit from it.

Regarding the whole approach to the formation of corporation, if I am permitted, I may first enunciate one or two principles as we view it. Unfortunately, insurers' interests were given no opportunity to express their views on the Government's intention and this is the first opportunity we are getting.

Chairman: They were expressing their opinion with regard to the policy.

Shri Shroff: Yes. But we have had no opportunity before to express our opinion on the question as to how Government are going to run this industry in future. Frankly speaking, we have not sufficiently applied our minds to this problem. The sudden decision of Government has created new problems for us too, particularly for those who are running composite companies. If I may put it in a general sort of way, it is this: Our approach is influenced mainly by this, namely, if life insurance business, which has fortunately developed very much in the course of the last three or four years, is to continue in the same way and grow more, some element or competition must be brought into it. How to bring that element of competition is rather a difficult problem, but if you will adjust it within the framework of Government, it will be good. The ideas that occur to us are these:—

We have tried to study similar situations in foreign countries. With all the information that we have tried to obtain, we have not come across a case where the Government have completely taken over the life insurance business except in the case of Costa Rica which is a small

country with a population of 800,000 people. But we find a comparable situation, for instance, in a country like France and if I have your permission I will give you some background. That is going to be a very good experience for us if Government are inclined to consider alternatives. The nationalisation of insurance, and also banking to a certain extent, came in France soon after the last world war. That decision had a strong political background behind it. France was an occupied country during the major part of the war and the resistance movement was started. People who sponsored the resistance movement, rightly or wrongly, came to the view that the difficulty in getting back France was mainly due to certain people—the financial parties. They felt that the insurance business and banking industry were really an obstacle to France in regaining her freedom. Therefore, at the famous convention of the resistance movement in North Africa they made it a sort of pledge—an article of faith—that as soon as they went back to France they should try and divest these organisations of power, who created a real obstacle for France in regaining her freedom. Therefore, one of the first things done after France got back her freedom was to nationalise the insurance business and some of the banks there. The way in which it was done, in my judgment, affords some guidance to us in our existing situation.

Pandit K. C. Sharma: It was a political decision.

Shri Shroff: Yes. But never mind about the decision, whether it was a political decision or not.

We have had recently detailed enquiries made as to how these nationalised insurance companies were working. In the first place, the whole of the business was not nationalised. If I remember aright, only those companies doing business over a certain premium—one thousand million francs—were nationalised. After the Government took over the entire ownership of stock of these companies, in actual working, Gov-

ernment left the life companies free to work and to compete with other companies which were not nationalised.

Shri Matthen: Is there only one corporation?

Shri Shroff: There is no corporation at all. All the big companies that were taken over by the Government functioned as they were functioning before subject to such tariff assessment or other restrictions to which every company is subjected. The Government, of course, have nominated representatives on the Boards of these companies. It is also true that appointments are subject to the approval of the Government, but in the actual day-to-day running of the business, these companies are allowed to function as they used to function before. This is authentic information.

What I submit on the analogy of what has happened in France is this: Some honest, constructive attempt, some constructive thinking, should be made which in our judgment would enable the Government to implement their policy and also to run the life insurance business in future on a healthy and progressive basis. In our analysis of the life insurance business in the country, our judgment is this, that there are a number of units today which by any standard of judgment will not be considered economic. There are these small companies. If you look at the record of their working over a period of years, you will find that ultimately these companies cannot survive as healthy units. Therefore, our thinking is that the first step to be taken is to rationalise the existing units. Regrouping of these units should be done so that out of 152 units, say, 8 or 10 bigger units will emerge. This could be done partly by the amalgamation of a number of uneconomic units. Regional considerations might also play some part in bringing about such grouping of these units. These 8 or 10 powerful units may work under such general policy regulations as the Government may prescribe.

The entire ownership may be taken over by Government, because that will fulfil the Government's objective of nationalisation. These units will then be allowed to work as autonomous units.

Shri C. P. Matthen: Independent by themselves?

Shri Shroff: Yes and with the element of competition. There may be standard, uniform premium rates. There is no objection to that, but in insurance business a considerable amount of competition can be brought to operate through the standard of servicing that every unit will do, that is, its approach to the clients and the way in which it services its business. It is not for me to tell the Government. Government must have already found that out—if not yet, they will soon find it out—that servicing is a very very enormous problem. There are, in our estimate, about 5 million policyholders today. To issue premium notices, to collect premiums, to take notice of lapses, to take steps to revive the lapsed policies, then the numerous intimations which you get from policyholder\$ about their change of address, enquiries about the conditions of policy, registering assignments, these are all big jobs, big administrative jobs. If I may say personally, in New India, for instance during the last three or four years, when we saw business expanding, it really caused us terrific headache to deal with the administrative problem. I am sure the Government in course of time will admit this. New India is after all a small proportion of the total insurance business. It is going to be an enormous administrative job.

We, therefore, suggest that if these life insurance companies were split up into 8, 10 or 12 group units, each units sufficiently sizeable and powerful, both in the matter of their organisation and personnel, run under certain policies laid down by Government, then in our judgment, that is going to be an effective approach to implementing the Government policy progressively.

Shri C. P. Matthen: Will one work in another's region also?

Shri Shroff: Yes, they will work all over the country. They must have an average of lives all over the country. You cannot have all the policies in Bombay, Calcutta or Madras.

If I may say one or two things to complete the picture, a lot has been talked about the deficiencies of existing life insurance business. There are already controls under the law. In the tentative scheme which I am putting before you, the administration of the existing law should be made more vigilant or, if necessary, on proper assessment, even fresh restrictions or controls can be brought in.

For instance, one difficulty which has been experienced in respect of some companies is the disappearance of securities. Something like a law can be prescribed as to the physical possession of the securities and all that. Then Government may also lay down certain general policy for investment. If this idea is accepted, the Government may have an Investment Advisory Board which should function for all the 10 or 12 group units in the country. The proposal that I am making is a constructive attempt to meet all possible criticisms which have been made, rightly or wrongly, but they can be met by a structure like the one I am putting before you.

Shri M. C. Shah: You have seen the Bill. There is a scheme proposed in the Bill. If you can show how to improve the scheme, that will be helpful to the Members of the Committee.

Shri Shroff: I must tell you that there is a fundamental difference in approach. That is this: You want to create one monopoly organization.

Shri M. C. Shah: That is the basic fact. We cannot ignore that. Parliament has accepted that basic fact that there should be monopoly so far as the life insurance business in India is concerned. The monopoly will be that of the Government of India.

Chairman: Accepting that fundamental fact, you can say how to run the business.

Shri Shroff: The difference between me and the hon'ble Member is this: It is in the concept of profit. When you say monopoly, I concede that let Government have the complete ownership of the entire insurance in the country and let them be the monopolistic owners.

Shri M. C. Shah: That monopoly is there. That is the basic consideration.

Shri S. K. Patil: How does it conflict with this theory of monopoly so long as the Government is the owner? As I understand it, you were suggesting that within the four corners of that monopoly, a competitive spirit should be introduced so that the monopoly would be more productive.

Shri Shroff: You are the sole owner of that business in the country. The main consideration is how you are going to run the business to fulfil your own objective of expanding life business at a rapid rate in the country to mobilise the savings and a number of other objects in the Bill. In our judgment, the best way to do it is that you assume complete ownership of all life insurance business in the country, but the method by which you should do it whereby you will reduce the cost is the question. In my judgment the very very big administrative problem, is the running and servicing of business and also maintaining a certain element of healthy competition.

Shri M. C. Shah: So far as life insurance is concerned, there are 360 million people in the country and if they want to get themselves insured, they will come to the Government or whatever set-up they have. What is the element of competition there? I can understand competition about servicing, but about the business itself, where is the competition?

Shri Shroff: If you allow me to say so, in the first place, I do not admit that you have 360 million potential

insurers. I do not admit that you will at any stage reach that position.

Shri M. C. Shah: Out of 360 million, there may be quite a good proportion.

Shri Shroff: Whatever it is, the life insurance potential is very very limited in comparative terms. If you consider the *per capita* income, even assuming the possible increase in the next five years, the potential for life insurance business comparatively is very limited. Even there, I say the element of competition will help you in getting as nearly as possible to the maximum number of life insurants. You say that anybody who wants to insure will come to you. That is my difference with you. You will never get the maximum life business unless you make an approach. What I say is we will approach everybody who is a potential life insurant and get his business. That is the fundamental point.

Shri M. C. Shah: I think you assume that the Government will not approach. Rather, the Government will try to make every citizen insurance minded.

Shri Shroff: There is that difference between our approach and Government's approach.

Chairman: You have started saying as to what should be the new set-up after accepting the policy of nationalisation of life insurance business. According to you, how best could the results accrue to us; in what set-up could this new nationalised enterprise function? You can develop on that idea.

Shri Shroff: I was trying to explain that although Government might own the entire industry, it is the matter of running it which will help you in attaining your objectives to the maximum possible extent. As I was just saying, I for one think that the insurance trade which is very anxious to cooperate with Government in implementing this policy, want to see that the essential element of this business is maintained, that is, you are

not to wait for the man to come and buy insurance.

The other suggestion is that you organize 10 or 12 powerful group units. Let them be autonomous units. Let each one exercise its own initiative, its own enterprise in pushing its business. Let these 12 units compete with one another in the way each sells its business and in the way in which each services its business and you will see in a period of time that this healthy element of competition will bring the standard of the units to one high recognised standard and **business will thrive, in a manner** which none of us dare to imagine today.

Chairman: So your point is that you don't believe in one Corporation running the whole show?

Shri Shroff: I don't.

Chairman: You would like to have some 8 or 10 units functioning all over the country without any demarcation of jurisdiction for each ?

Shri Shroff: Yes, you must have as wide an average of business all over the country. You cannot have all the life business at Bombay or Delhi. You must have an average.

Shri S. K. Patil: Now, please give us some information enlarging the scope of the thing that you are suggesting. Hitherto what the insurance companies did was to get as much business as they could and wherever they could. By that I mean the difference between the Government's stand-point and your stand-point is this: While the individual company, even that group that you suggest, will be anxious to get business and more business, the Government's anxiety is that this has got to be brought to everybody in the sense that the rural insurance must expand, that means, every approachable man whether he is a potential insurant or not, has got to be approached.

Shri Shroff: I entirely agree. It is laid down in this Bill that this Corporation is going to work on business

lines. Then you say that the corporation should approach every person to secure business. For that you must go into the rural areas. Then you also say that the Corporation shall be run on business lines. If I understood the term "business lines" correctly, the corporation should be able to maintain the expense ratio so that another objective of the Bill will be fully maintained, namely, there shall be absolute protection to the policy-holder. Absolute protection to the **policy-holder means that the business** should be so run that the ultimate return of the money to the policy-holder would be safeguarded. Our experience tells us that you cannot give perfect protection to your policy-holders if you allow the expense ratio to go up.

Shri M. C. Shah: Why do you allow the expense ratio to go up?

Shri Shroff: I am prepared to stake my reputation that the expense ratio will go up if you are going to make an attempt to run into the rural areas to get business. It is not that we are strangers. We have also made an attempt and we know what it costs to get business from rural areas.

Shri M. C. Shah: I think we shall have to wait for three or four years.

Shri Shroff: When you get into this business you will see for yourself that the expense ratio for getting business in an urban area or even in small towns is very different from trying to get this business in a rural area. It is a matter of experience. We had experience of a number of years.

Chairman: Could you tell us what are going to be, according to you, the pitfalls in the arrangement that is suggested in this Bill?

Shri Shroff: In the light of our experience we feel that the administrative problem is going to be so enormous that what will happen in the next twelve months or the next two years is this. People will be shouting at you that their premium notices are not being received. People

will be shouting at you that their claims are not being paid quickly. You will be unable to revive the lapses which are happening in every company. The administrative problem is a terrific problem. It is only when Government get into it and start grappling with the problem that they will realise what I am telling them. I am not saying anything to frighten a hard-headed administrator like Mr. H. M. Patel, who has tackled more difficult problems than this.

Shri S. K. Patil: I have not understood why the institution of a corporation as the Bill suggests will be in contradiction to the arrangement which you are suggesting. Suppose these two ideas are linked up. There will be 8 or 9 units, very powerful and autonomous, and the corporation will be working as a kind of central body because somebody has to control these units, preferably the Government. The Government has got to operate it through some institution. That institution is called the corporation. Could not there be any compromise between the corporation functioning as the central body or the main body and these 10 or 12 units that you are suggesting? Apart from your answer just now, would you be kind enough, for our information, to prepare a scheme, as you feel it, and circulate it amongst us so that we can have full particulars about it? No doubt you have all your experience of the past. But you are not filling in the details.

Shri Shroff: It is not possible to fill in all the details. I do not see any contradiction between what is proposed in the Bill and what I am proposing. I do not see any contradiction. What I am suggesting is an effective businesslike way of implementing your own objective.

Shri V. B. Gandhi: Your proposal to have the business taken over by 8 or 10 rather independent units is based on the difficulty, according to you of the enormity of the administrative problem which you believe one corporation would not be able to

do justice to. Very well. But, as you know, in the Bill it is contemplated that the business will be split up into various zones and it is the zonal units which would take care of certain territories. That is one point.

Now we might perhaps welcome the idea of having an element of competition. But in order to get this element of competition if we are to have 8 or 10 independent units functioning over the entire area, are we not duplicating the staff, the services, the arrangements, equipments and all that? Now how could you tell the committee that the advantages of competition will outweigh this incidence of duplication?

Shri Shroff: If I may answer your last question first, you are not duplicating. You are breaking up the problem into small sizable works. In business when we are faced with similar problems what we generally do is to reduce the size of the problem. My opinion is that you will make your administrative problem much smaller in size so that you can grapple with it properly.

Shri V. B. Gandhi: Would not one unit operate over the entire territory? Would not the units be autonomous?

Shri Shroff: They would be autonomous.

Shri V. B. Gandhi: Would there not be duplication?

Shri Shroff: There are 152 companies operating today. There is duplication there also.

Shri M. C. Shah: There everybody tries to get business by running down others.

Shri Shroff: I am very sorry, but we do not run down others.

Shri M. C. Shah: Just showing small advantages, if you do not want to use the term "running down". An agent of company A will go to a prospective insurer and say: these are the advantages of company A. Agent of company B will say: we are more advantageously situated than com-

pany A. Agent of company C will say: the other two companies are in a semi-insolvency state. All of them will say something of that sort in order to induce a person to insure. But when there is a monopoly and when there is a guarantee from the Government of India that all policies are guaranteed by the Government of India then those elements will go away. The competition will remain so far as servicing is concerned.

Shri Shroff: That is where I differ from you.

Shri M. C. Shah: The guarantee of the Government of India is much more valuable than the guarantee of others.

Shri Shroff: If you think that because the Government is guaranteeing all the policies so there will be a scramble here and people will rush at your office to insure themselves, I submit you are inviting disillusionment.

Shri M. C. Shah: I did not say that.

Shri Shroff: Of course, Government guarantee cannot be compared to any other guarantee. But the guarantee which is offered by some of the Indian companies today is, in actual practice, as great as anybody can desire.

Shri M. C. Shah: I do not want to enter into a dispute on that.

Shri Shroff: What is it that a practical man thinks? He wants to be assured that when his policy matures he would be paid at the right time. That is the sort of protection he wants.

Shri M. C. Shah: The protection given by the Government of India is always much safer and sounder than that given by others.

Shri Shroff: In that way is it greater than the protection given by New India or Oriental?

Shri S. K. Patil: In claims you are not contesting Government protection?

Shri M. D. Joshi: You say there should be an element of competition in life business. At the same time you suggest amalgamation of different companies into 8 or 10 units for the working of the scheme. Do you mean to say that the terms and conditions of life policy should be different in different zones and in different units? Or should they be the same throughout India?

Shri Shroff: The conditions and terms of the policy will be uniform all over India.

Shri M. D. Joshi: Then where is the element of competition? Is it in service?

Shri Shroff: If you put me in charge of a company and if you put somebody else in charge of another company and give us twelve months' time to work, then you will see the result. It is the men with initiative who will run it well.

Shri M. C. Shah: That means we must have administrators with brains.

Shri Shroff: How will you attract administrators with brains if you give them no scope of initiative, enterprise and exercise of power?

Shri Morarka: You said something about 10 or 12 units. What I suggest is: suppose we have this corporation as it is and we make this corporation into a holding corporation and the shares of all the companies, both life and part of the composite insurance companies, are transferred to this holding corporation, retaining the individual identity of all the companies, at the same time transferring complete, cent per cent ownership to this Government corporation, would that not meet with your objective of providing competition, solving the problem of administration?

Shri Shroff: You are coming nearer to my concept.

Shri M. C. Shah: You are nearer to him!

Shri Morarka: There is equal distance!

You have suggested that companies which are most uneconomic may be eliminated and, if necessary, some amalgamations may be effected either immediately or in due course. But after forming this corporation and making it into a holding corporation would that solve the administrative problem?

Shri Shroff: It will considerably reduce the tremendous administrative problem. What I meant by the enormity of the administrative problem was this. All the large companies are having their own patterns on which they do business. Now to reduce all those patterns into one standardised pattern is going to be an enormous job whereas under the proposal I have made, by grouping together some of the larger companies, you will continue to stick to their patterns and develop them further.

Shri Morarka: My second question relates to the accountability of this corporation to the public. It would be accountable to the Parliament through the Ministry concerned. In order to make this accountability more effective would you not approve of the idea of issuing 25 per cent of the shares of this corporation to the general public, subject to this provision that no one person can have more than five shares in this corporation, so that there may be no danger of concentration of power or any voting?

Shri Shroff: I do not see any particular merit in a Government-owned corporation offering shares. If I may presume to venture an opinion, I do not think the investing public would be very enthusiastic in taking the shares.

Shri Morarka: If the investing public does not take shares in the Government-sponsored corporation, that is a different matter. I am only asking whether it would be desirable or it would not be desirable from the

point of view of accountability that this Corporation should have share-holders from the members of the public so that the Corporation may be required to meet regularly.

Shri Shroff: Why don't you vest the same rights in the policy-holders? I do not think the public will be able to do this. You see the experience of the State Bank of India where the public do not show very great enthusiasm or response to take shares of the State Bank of India. There is a certain kind of attitude on the part of the investor.

Shri Morarka: You must be aware that there is a recommendation of the Estimates Committee that all the future Corporations of the Government must have 33% of the shares given to the public. I am relying my suggestion on that recommendation of the Estimates Committee, and I want to know from you whether it would ensure the accountability of the Corporation, or it would not.

Shri Shroff: You will have share-holders' meeting and you will get a few cantankerous shareholders to raise all kinds of questions about all aspects of management. That is the only thing you will get.

Shri Morarka: Now, in the Bill which is before the Select Committee, there is no provision for the representation of policy-holders in this Corporation. The Corporation which is to consist of 15 members has no provision for any representative of the policy-holders being there. In the present Insurance Act, all the insurance companies are bound to have some representatives of the policy-holders.

Shri Shroff: The policy-holders' representatives should be one-fourth.

Shri Morarka: Would you suggest one-fourth for the Corporation, or would you suggest anything else?

Shri Shroff: If you want to bring it down in the Bill, I agree with you. You might make a provision. You

in the Select Committee will be able to advise the Government and to suggest that out of the 15 members, there may be 3 or 4 or 5 representatives of the Policy-holders. This is a fundamental thing.

Shri Morarka: I am only asking whether as a measure of precaution there should be a provision in the Act or whether there need not be.

Shri Shroff: I entirely agree with that. If the provisions of the Bill are to bear any relation to the objects of the Bill, there must be a specific provision that the policy-holders should be adequately represented on this Corporation, because the first object is to give absolute protection to the policy-holders. How will you give absolute protection without the policy-holders' representatives being adequately represented in the Corporation?

Shri Morarka: You have stated about an Investment Advisory Board. After this Corporation comes into being, all the investments of the different insurance companies would belong to this Corporation, and it may be that this Corporation may control some of the companies other than insurance companies. What formula or what set-up would you suggest for the management of these companies?

Shri Shroff: I am glad you are asking me this question. I would very strongly recommend to the Select Committee that the restrictions placed in clauses 27 and 27A of the Insurance Act should be made applicable to the working of this Corporation. I am saying that for one or two important reasons of national interest. There are already Rs. 350 crores or more of funds which would be vested in Government, and life offices have a tendency to multiply geometrically. In course of time, the Corporation will come to have very very substantial funds. Under clauses 27 and 27A of the Insurance Act, restrictions have been placed on the investment of life funds. Apart from the few practical difficulties experienced by us in implementing these provisions.

we have found that these restrictions are of a healthy and sound character. You are replacing the collective judgment of various people on the affairs of various companies by these 15 members of the Corporation, whoever they may be. Their qualifications are not laid down in the Bill. One does not know who they may be. After all, it is not only the question of giving protection to the policy-holder but the whole nation will be interested in this behalf. In order to impress the nation that these funds are going to be judiciously invested, I would strongly recommend the continuance of the restrictions and conditions laid down in clauses 27 and 27A. After all, Government are not acquiring life insurance business to introduce, if I may be pardoned for saying so, nationalisation of industries by acquiring control of various companies. Insurance funds are to be invested on merits: that they are safe and sound in the investment and that they will yield reasonable return, these should be the main considerations. I suggest that the funds should not be allowed to be used for purposes other than the purposes of protection of the policy-holders. Therefore, continuance of the restrictions laid down in clause 27 and 27-A, I recommend should be imposed on the Corporation as they were imposed hitherto on life companies.

Shri T. N. Singh: You have stated, and I believe I have understood you correctly, that in order to introduce an element of competition, you want certain independent units, eight or ten, or whatever the number may be, and that the competition will be confined to rendering service but not in the matter of rates. Am I correct that the element of competition will be in regard to services like approaching the client and giving him all facilities, and not in the matter of the policy?

Shri Shroff: The way you organize your unit, the way you train your men, these are going to be the main factors in developing insurance in this country.

Shri T. N. Singh: One very important element of competition which leads to better business is the price which has to be paid, the competitive advantage that a particular manufacturer can offer for a commodity to the consumer. That is a very important element. But that will be lacking in this. Is that not so?

Shri Shroff: That is so.

Shri T. N. Singh: There is also another aspect, and I believe you are not unaware of the psychology that when too many people run for the same thing, it creates also an adverse impression in the mind of the purchaser as to why so many people are running for it and he may fight shy.

Shri Shroff: You will also admit that if he has to buy only from a monopolist he may perhaps get more shy.

Shri T. N. Singh: There is that element also. I want to know what difference does it make if instead of 10 persons sending 20 canvassers only one person sends 20 canvassers. What actually does that amount to? What is the difference if numerous canvassers approach the policy-holder and look to his needs and try to get him all the advantages possible? What difference does it make if A sends 10 canvassers and B, C, D, E and F send only two each, that is, in all, 10 persons? The territory is not limited. So, without limited field of approach to the future policy-holder, how is that in any way going to be different?

Shri Shroff: The difference is obvious. If I was running one unit, I would be careful in selecting my agent. My agent will be a trained agent, and therefore his work is likely to produce better results. It is by the selection of the agent and the training given to the man who goes out to get the business that you will produce much better results.

Shri T. N. Singh: Do you think that the assurance that the present field

workers will be continued should not have been given?

Shri Shroff: I do not know who has given the assurance.

Shri T. N. Singh: The employees, the workers in the insurance field, will continue. That is one of the assurances given. Now, we have to be careful and we should authorise these seven or eight units to weed them out.

Shri Shroff: You will have to give initiative to these independent units.

Shri T. N. Singh: Do you like this assurance to be removed?

Shri Shroff: We do not accept this scheme.

Shri T. N. Singh: Supposing we accept your proposal, all this will follow and the assurance need not be given, and some persons will have to lose their job on merits.

Shri Shroff: All this will follow, if you accept our proposal.

Shri T. N. Singh: Then we go to the question of investments. Now, you have stated that the clauses of the old Insurance Act, namely 27 and 27A should be observed. One of the objects—about which no secret has been made—is that a larger proportion of the nation's savings should go to national undertakings or to private enterprise also through national organizations like the Development Corporation, the Finance Corporation and others. So, in that context, if a low proportion is deducted, do you think that this objective will not be met?

Shri Shroff: After all, what is the over-riding consideration? You want to protect the position of the policy-holder. Therefore, the over-riding consideration in the investment policy must be such that you do not take unnecessary risks with the policy-holders' money. You may invest it in national efforts but at the same time you must see that the investment is a sound investment and that it will give you a reasonable return.

Shri T. N. Singh: You think that the principle and nature of the investment as defined in clauses 27 and 27A of the Insurance Act are the last word on the subject?

Shri Shroff: They have been known in practice for so many years and they have been found to be working satisfactorily.

Shri T. N. Singh: But circumstances have changed, the needs of the nation have changed and requirements have changed. In the light of these changes, would you not envisage any change in clauses 27 and 27A?

Shri Shroff: If you study the provisions of clauses 27 and 27A of the Insurance Act, they give you sufficient scope. 50 per cent of the funds can be invested in so many things. You have enough scope for investment of funds up to 50 per cent.

Shri T. N. Singh: I want to know from you not as to what I feel or the Committee will feel or the Parliament will feel. Now, about this proposal which you have just referred to regarding a holding corporation, would you ordinarily prefer a holding Corporation? In that case, there are a number of companies which are at present functioning and their rates are according to sound lines or unsound lines on which they have been running. They cannot quote certain rates because of their limitations. In that case, don't you think that it will upset the structure of those small companies, or whatever they are, and upset their working if they are made to work on a uniform rate?

Shri Shroff: That should be rationalised. If you find that there are units which are not economic, they should be rationalised and they should be amalgamated and carried on to the larger group.

Shri Tek Chand: Will you kindly dispel my ignorance and enlighten me on one or two suggestions which have been made by you? To my mind, the scope of competition within a larger unit, within the framework of mono-

poly will be virtually circumscribed in view of the following facts.

The competition will be restricted to merely competition and canvassing or to use your language, competition in selling the insurance to the people. Therefore, the scheme is the same, the premium will be the same, security to the policy-holders will be the same and so far as promptitude or want of promptitude in the matter of ordering claims of the policy-holders is concerned, that too will be the same....

Shri Shroff: It will not be the same. That is where this element comes in. What I am suggesting is that under independent units run by people on their own initiative, there will be different standards of service leading to the establishment of the highest standard of service.

Shri Tek Chand: The position is that the insurer is the Government. So far as competition is concerned, they will be hawking the wares of the Government and will be advocates engaged in the work of persuading or inducing the people to accept it.....

Shri Shroff: But that brings in business.

Shri Tek Chand: What is the element of competition there? When there are four, five, seven or eight competitive units, the question will be whether you let them tap the village people or the urban people....

Shri Shroff: I mean competition in organising the business, competition in running the business and competition in servicing the business.

Shri Telkikar: Your idea regarding the flexibility of operation? Is it that you want to give some autonomy in the working of the offices? Do you mean to say that the persons employed on commission basis will be preferable to the personnel employed on salary basis?

Shri Shroff: Under the scheme of the business, you are making the organisation so rigid. But if you have

8 or 10 autonomous bodies on the basis where you can produce business, then you bring the element of competition.

Shri Telkikar: So, this commission basis would be the incentive as far as urban areas are concerned when you look to the quantum of business. For instance, you see the difference: If you go to rural areas, you shall have to approach more number of people and get less money. So, this incentive will not work in rural areas, which is the objective of the Bill. Therefore, would you like to.....

Shri Shroff: I have sounded a note of warning to the Government in this connection that if in the larger interests and greater anxiety to get business in the rural areas they go there, their expense would be pushed up to such a level that they will find it impossible to do so.

Shri Telkikar: So, in rural areas, you shall have to send people who are allowed to work on salary basis.

Shri Shroff: There are other ideas in my mind. How can they enter in the rural areas—not on the basis of mass rate?

Shri Telkikar: What suggestion you can make if we are to be successful in rural areas?

Shri Shroff: Mr. Chairman, I do not think it is possible to discuss little details here.

Shrimati Sushama Sen: May I know what would be the incentive for the corporation to render better service to the policy-holders?

Shri Shroff: All these things can be judged from the results produced.

Shrimati Sushama Sen: Could you give any idea of the results?

Shri Shroff: The unit which is able to organise the business better, which is able to render more prompt and effective service will ultimately succeed in getting larger business. Their efficiency will be reflected in the results that they produce.

Shri Sadhan Gupta: Following that question, I want to know what would be the inducement for the corporation to get greater business. It is not a corporation which will distribute its profits to the members of the corporation.

Shri Shroff: If you have groups of units or units, you will have to pay some fee for running and managing these units. They are to function as autonomous units. Therefore, some managerial fees will have to be fixed for that.

Shri Sadhan Gupta: Is it not possible to achieve the same object by suitable incentive—monetary or otherwise—for better procurement of business and better service?

Shri Shroff: I am unable to understand the question.

Shri Sadhan Gupta: I do not know what kind of managerial fees you have in mind. Whatever managerial fees you have in mind, such fees can be paid to the members of a monopoly corporation for rendering better service to the policy-holders, for showing greater volume than the last year and for liberalisation of policy conditions consistent with economy and consistent with scientific actuarial basis. Can't that be done?

Shri Shroff: If these groups are formed and if they are allowed to sponsor the business, they will have to recruit the best men. I very much doubt about the capacity of a single corporation to recruit men who, in spite of the fees, will produce good results.

Shri Sadhan Gupta: Do you think that multiple corporations will do the thing? Don't you think that multiple corporations, on the other hand, would involve a tremendous wastage of national resources by way of expenditure?

Shri Shroff: I do not agree. You will find ultimately that the organisation will be more economical.

Shri Sadhan Gupta: Don't you think that instead of one branch, about four or five will have to be established in

each place with all the consequent expenditure?

Shri Shroff: Not necessarily.

Shri Sadhan Gupta: Regarding the investment policy is it not desirable to take into account also the long term view of the national interest and national economic progress of the country as a whole instead of only the short-term view of return to policy-holders?

Shri Shroff: I submit that sections 27 and 27A provide for sufficient scope for short-term and long-term for investment of funds. That is exactly the basis on which we have been investing the funds of our companies for all these years.

Shri Sadhan Gupta: Do you not think that the ultimate return to the nation which private enterprise is not in a position to.....

Shri Shroff: Subject to the overriding consideration that the interests of the policy-holders are at all times safeguarded.

Shri Sadhan Gupta: In this case it is safeguarded.

Shri Shroff: But is it sound? Government should be prepared to do that because they will not be able to protect the policy-holders by a wise management. I suppose it is not visualised by anybody, much less by the member in charge, that Government are going to find money to.....

Shri Sadhan Gupta: So, you mean that the interest of the Government is to be safeguarded.....

Shri Shroff: I submit that it is because some of us have fears of this character that we strongly recommend to you that the restrictions laid down in the present Act should continue. If you want to give unqualified protection to the policy-holders and if you also want to provide some bonus to be paid to the policy-holders, your investment cannot be

[Shri Shraff]

based on what you consider as long-term basis. The hon. Member says that investment of life funds should be made on a long term basis. You are certainly free to do so. Under the present provisions of the Act, you invest your funds in such a way that you should at the end of every three years leave something to distribute.....

Shri Sadhan Gupta: May I know what your fears are if sections 27 and 27A are removed?

Shri Shroff: I want the continuance of that policy and I want that to be safeguarded. If you are going for investment, you may not be able to fulfil that objective. I have very serious fears. First of all, who are going to be the members of the corporation?

Shri M. C. Shah: They are all very good people.

Shri Shroff: The hon. Member may be aware that sometimes people whom we consider as good may not be good business people.

Shri K. S. Raghavachari: You were prepared to have monopoly and State ownership; but only you want other autonomous units to work with all the advantages that you have referred to. Cannot the same thing be done by the present corporation defining certain policies only and leaving the zonal units that they wish to set up to be fairly autonomous in destiny with the details beyond the things settled by way of policy?

Shri Shroff: You and Mr. Morarka are in perfect agreement on that.

Shri Matthen: You mentioned the creation of several autonomous units and you also said that the rates of premium must be the same, etc. You mean that there should be independent actuarial valuations for the units. If the valuation of one company warrants a higher bonus or even a lower premium, the premium will be different. Would you object to that?

Shri Shroff: I would suggest that if the Government are going to have the monopoly, the premium rates must be

uniform. The bonus should vary, because that will contribute to the efficiency of the independent working of the units.

Shri Matthen: That is all right.

Then, Mr. Morarka was asking you about the present position of some insurance companies who have very large investment in industrial undertakings. They may be textile mills, sugar mills, etc. What is your proposal for looking after these undertakings in an efficient businesslike way? Am I clear? I am only asking you in view of Mr. Morarka's question that there are several industrial undertakings which are actually being owned by the insurance companies and which come along with the insurance companies that Government are taking over; do you suggest any machinery for looking after them properly?

Shri Shroff: I would suggest their disposal.

Shri Matthen: I am told that in U.S.A. which has the highest standard in the matter of production, there are industrial corporations. Take for example a big soap manufacturing corporation. Of course, you know more about the American business than I do. I would like to know whether it is a fact that they allow competition between the different units of the same corporation in a particular line, say, washing soap and they even allow competition to the extent of cut-throat competition. Is this information correct?

Shri Shroff: I know of a very large American corporation where the units are allowed to compete with one another.

Shri Matthen: The same corporation allows different units to compete with one another. Are you suggesting anything on the model of the French nationalisation?

Shri Shroff: I personally would like to have our nationalisation to be as equal as possible to the French nationalisation.

Shri Matthen: You give preference to the French model?

Shri Shroff: Yes, with a few modifications to suit our conditions.

Shri Matthen: Assuming that you prefer the French model, you would like different units?

Shri Shroff: It is much simpler.

Shri Matthen: It is one of the objects of the Corporation to tap the rural area. In the rural area, it may not be paying for the Chief Agent or the Agent working on commission to get business. Would you recommend the rural area being controlled by paid men?

Shri Shroff: By paid men, by mobile agencies.

Chairman: You know the trend of questions from various quarters in the Committee and you have yourself suggested a structure which possibly may not fit in into the structure of the Bill as framed. Now taking the basis of the Bill, is there any possibility of making improvements?

Shri Shroff: I can't say now, because I don't have any material.

Shri S. K. Patil: Would you give those details, as suggested?

Shri Shroff: If desired, I will.

Chairman: We would welcome any suggestion coming from people who have experience in the line, if they can put their heads together having in mind the fundamental policy of nationalisation. Secondly, there should be the least dislocation, as far as possible, both with regard to the present function and with regard to the basis that the Government have accepted. We will have to do something and try to fit in these things. If some of you could sit down and put your heads together and see if there is anything useful that you could contribute to the deliberations of this Committee, it would be helpful.

Shri Shroff: We are entirely at your disposal.

Chairman: Supposing there are any proposals coming forward as a result of consultations among those who know the job, then it may be useful at a later date. If necessary, we may even invite you again depending on the necessity as a result of the proposals made.

Shri Shroff: We shall be only too glad to be of service.

Shri M. C. Shah: May I suggest that the French example is not at all applicable to the nationalisation as envisaged by the Government? There, part of it is run by the Government and the rest run by the private sector. It is being done in other countries, possibly in New Zealand or so. That will be incompatible here.

Shri Shroff: One thing to be considered is this: The few companies which are nationalised—all the big companies are nationalised—whether they are operating now as nationalised companies. That is important.

Shri M. C. Shah: As a matter of fact, they have allowed private companies to run in competition with these companies.

Shri Shroff: You might eliminate that and say that only these nationalised companies are allowed to operate as independent autonomous units.

Shri M. C. Shah: Therefore, the element of competition has to be brought in, because there are other private companies also in the same business. That is being done in New Zealand also. Here the position is quite the reverse. There will be only the monopolistic state of affairs. The Government of India will have the monopoly of life insurance business and the corporation of the size, as you say, will be more or less autonomous. Can you suggest something just to supplement the scheme that has been envisaged?

Shri Shroff: We are making these suggestions to you to enable you to get the best out of the worst. We give you nationalisation, we give you

[Shri Shraff]
monopoly and in the actual working of it, we want to introduce an element of competition which will enable you to fulfil your objective much more effectively than you would do under the scheme in your Bill.

Shri S. K. Patil: You can give an elaborate note on that point.

Chairman: You can give us a note if there is something substantial.

(Witnesses then withdrawn).

(The Committee then adjourned).

THE SELECT COMMITTEE ON THE LIFE INSURANCE
CORPORATION BILL, 1956

Minutes of Evidence taken before the Select Committee on
the Life Insurance Corporation Bill, 1956.

Thursday, the 5th April, 1956 at 9 A.M.

PRESENT

Shri Balvantray Gopaljee Mehta—*Chairman*.

MEMBERS

Shri C. P. Matthen	Shrimati Sushama Sen
Shri Feroze Gandhi	Shri S. R. Rane
Shri Raichand Bhai N. Shah	Shri V. B. Gandhi
Shri S. R. Telkikar	Shri B. R. Bhagat
Shri R. Venkataraman	Shri Sadhan Chandra Gupta
Shri Tek Chand	Shri K. Ananda Nambiar
Shri T. N. Singh	Shri K. S. Raghavachari
Shri Tekur Subrahmanyam	Shri Tulsidas Kilachand
Pandit Krishna Chandra Sharma	Shri G. D. Somani
Shri R. R. Morarka	Shri R. Velayudhan
Shri M. D. Joshi	Shri C. D. Deshmukh.

Shri M. C. Shah, Minister of Revenue and Civil Expenditure was also present.

DRAFTSMAN

Shri V. N. Bhatia, *Deputy Draftsman, Ministry of Law*.

REPRESENTATIVES OF MINISTRIES AND OTHER OFFICERS

Shri H. M. Patel, *Secretary, Department of Economic Affairs, Ministry of Finance*.

SECRETARIAT

Shri P. K. Patnaik, *Under Secretary*.

WITNESSES EXAMINED

I. *The All India Chief Agents' Association, New Delhi*

Spokesmen :

Shri J. D. Dhingra
Shri R. N. Chatterjee
Shri R. R. Nag Paul

II. *The All India (Life) Chief Agents' Association, Bombay*

Spokesmen :

Shri N. M. Jalundhwala
Shri A. H. Kulkarni
Shri K. Janardhan Pai
Shri S. A. Ramaswamy

III. *The Life Insurance Special Agents' Association, New Delhi*

Spokesmen :

Shri M. M. Ahuja
Shri L. B. Kotak

IV. *The Bombay Shareholders' Association, Bombay*

Spokesmen :

Shri Dhirajlal Maganlal
Shri G. M. Shah

V. *The All India Life Insurance Employees' Association, Bombay*

Spokesmen :

Shri R. A. Menezes
Shri Sailen Ghosh
Shri R. D. Chitre
Shri V. N. Gupta

VI. *The Kanpur Insurance Institute, Kanpur*

Spokesmen :

Shri S. N. Puri
Shri B. Chakravarti
Shri M. C. Desai
Shri H. L. Soni
Shri T. P. Srivastava

I. *The All India Chief Agents' Association, New Delhi*

Spokesmen:

Shri J. D. Dhingra
Shri R. N. Chatterjee
Shri R. R. Nag Paul

(Witnesses were called in and they took their seats).

Chairman: What is your membership?

Shri J. D. Dhingra: 50.

Chairman: When was your Association established?

Shri J. D. Dhingra: A year ago.

Chairman: Is it spread all over the country?

Shri J. D. Dhingra: Yes.

Chairman: Besides the points you have mentioned in the Memorandum if there are any other special points which you want to mention you may do so, taking one point after another.

Shri J. D. Dhingra: Our Association has wholeheartedly welcomed the Government's decision to nationalise life insurance business.

Chairman: You need mention only the points.

Shri J. D. Dhingra: In a speech in Lok Sabha the hon. Finance Minister made certain references to the Chief agents. He said:

"As regards chief agents who up till now had jurisdiction over certain territories they, I am afraid, will have to go. Under the changed condition it would not be proper for us to continue them. I may add that the trend over the last decade has been towards the elimination of chief agents and their substitution by branches."

I have certain important facts to give in this connection.

Chairman: Do you want the chief Agency system to be maintained.

Shri J. D. Dhingra: We want the chief agency system to be maintained.

Chairman: How do you want them to be absorbed? What is the method by which you would like.

Shri J. D. Dhingra: We would like to say that both the systems should be continued—the branches as well as the chief agency system.

Chairman: Do you mean to say there should not be any change?

Shri J. D. Dhingra: There will be changes.

Chairman: I would like to know what change you would recommend.

Shri J. D. Dhingra: We would recommend that there should be a re-organisation committee which will go into the whole question of integration of the two systems—chief agency and branch systems.

Chairman: Why not the Select Committee do this work?

Shri J. D. Dhingra: Certainly the Select Committee can do that.

Chairman: How can the chief agents be fitted into the new scheme of things?

Shri J. D. Dhingra: We want that certain areas may be earmarked for the chief agents. In the new set-up certain administrative areas may be handed over to them within which they will work.

Pandit K. C. Sharma: You want a separate region for that system?

Shri J. D. Dhingra: Either a separate region or within the same region separate areas may be earmarked.

Chairman: What is the idea? You want this corporation, the zones, the divisions, the sub-divisions, the branches and then you want certain areas reserved for the chief agents. How does it fit in? I have not yet been able to grasp it.

Shri J. D. Dhingra: In India at present many insurance companies are working on both chief agency as well as branch system basis.

Chairman: Should we not forget what it is today? We are now re-organising the whole thing. How do you re-organise it and how do you suggest the absorption of the chief agents in the new scheme of things? We have to take note of fact that there is going to be a new situation.

In that new situation how are you going to fit in the chief agents?

Shri J. D. Dhingra: In India even today there are companies which are working on both the systems. There are established companies working both systems.

Chairman: You are talking about the present. I am talking of the future. You want to maintain the present in the future.

Shri J. D. Dhingra: No. The future corporation will be like that of a big company of today. It will have just a monopoly of business. Within the same geographical bounds of the country both the systems can work.

Chairman: At the same time and in the same place?

Shri J. D. Dhingra: Just as the various branches will have different areas, all the various zones will have different areas earmarked. The branches as well as chief agents can have separate areas earmarked.

Chairman: You want separate areas for both?

Shri J. D. Dhingra: Yes.

Chairman: In some places chief agents and in some other places branches, is that the idea?

Shri J. D. Dhingra: Yes.

Chairman: You want separate domains for chief agents and branches. How much do you want to reserve for the chief agents?

Shri J. D. Dhingra: We suggest that even for purposes of comparison, roughly one zone may be earmarked for the chief agents so that ultimately Government and Parliament could see the comparative output of work under the two systems in the next five years.

Chairman: You want one zone within the whole country or you want one division in each zone?

Shri J. D. Dhingra: We want either one zone in the whole country or a

division in each zone. We want either of the two.

Shri M. C. Shah: May I know whether it is a fact that since 1950 the trend of the insurance companies is to eliminate chief agents and to have branch offices? The contracts that are being terminated are not being renewed. Is it a fact?

Shri J. D. Dhingra: The fact is while the number of chief agents in India has gone down, the volume of business done by the chief agents has actually increased very much more as compared to the rate of progress of the branches.

Shri M. C. Shah: I am not concerned with the volume of business. I am talking of the trends.

Chairman: What does the trend show? Is it towards elimination or is it towards increase?

Shri J. D. Dhingra: The number of chief agents has gone down.

Chairman: What about the trend? Is it towards elimination?

Shri J. D. Dhingra: I think there is an impression that the chief agency system has outlived its utility. I would like to correct that impression. I certainly maintain that the system of chief agents has been very successful in India, particularly during the last five years.

Chairman: Instead of introducing that system, various companies are trying to eliminate that system.

Shri J. D. Dhingra: In 1950 there were 205 insurance companies in India. In 1955 there were only 165. The other 40 companies were either amalgamated or they left the field. Those companies were run on the chief agency system. The spade work in insurance was done by the chief agents. The chief agency system has not outlived its utility. On the other hand, I submit that the rate of expansion of business under the chief agency system has been as much as

40 times and I can quote certain figures to prove that in India during the period 1949—53 the total life insurance business increased from Rs. 142 crores to Rs. 155 crores, which means an increase of Rs. 13 crores. This represents an average rate of expansion of about 9 per cent. As was rightly said, most of the business was done under the branch system. So this rate of expansion can be treated as rate of expansion of the branch system in India. In the case of chief agency system the rate of expansion has been as much as 570 per cent. or 650 per cent. and in no case has it been less than 50 per cent. That certainly shows a much faster rate of expansion. If the nation's needs are mobilising the people's savings faster, then certainly the chief agency system lends itself towards that end. So we cannot say that the chief agency system has failed. We cannot admit that the trend has been towards its elimination for various reasons.

Chairman: What are the other reasons?

Shri J. D. Dhingra: As I said, the last five years have been a period of consolidation. Though the number of insurance companies has not increased the total business has expanded. While in the beginning the figure stood at Rs. 780 crores, at the end of the period it increased to Rs. 1059 crores. That does not mean that life insurance has become less popular.

Chairman: Nobody has questioned that. You need not propound theories which are not contested. Just tell us why was it that the companies by a deliberate policy tried to eliminate chief agents and to establish branches, which you have admitted. You can give reasons for that.

Shri J. D. Dhingra: The main reason for that was this. All the 45 companies which had chief agency systems have either left the business or merged with others.

Chairman: Have you any figures with regard to the chief agents of those 45 companies?

Shri J. D. Dhingra: They were all small companies. Most of them started with the chief agency system.

Chairman: Having started with that, they tried to eliminate that system?

Shri J. D. Dhingra: They were small companies and if there had been no chief agency system they would have gone out of operation much earlier.

Shri M. C. Shah: If that is so, why do all the big companies prefer to have the branch system? Why is the trend like that?

Shri J. D. Dhingra: Let us see the result of it.

Chairman: First we are concerned with the trend. What are the present companies doing with regard to the chief agency system?

Shri J. D. Dhingra: I have not got the exact figures as to how many chief agencies were converted into branches.

Chairman: You have not got the figures.

Shri J. D. Dhingra: I do not think anybody has got those figures.

Chairman: Possibly other agencies might be able to supply the figures.

Shri Venkataraman: You represent only the chief agents of foreign companies here or all the companies?

Shri J. D. Dhingra: All the companies.

Shri Venkataraman: In your memorandum you have quoted only the foreign companies.

Shri J. D. Dhingra: I can give you a list of all the Indian companies whose chief agents are members of our Association.

Shri Venkataraman: Is it true that so far as foreign companies are concerned greater reliance is placed on

chief agency system while all the Indian companies tend to have branch system? With regard to the foreign companies are all of them having exclusively chief agency system?

Shri J. D. Dhingra: Sun Life Insurance Company has branch system.

Shri Venkataraman: Leaving Indian companies, is there any other company which has branch system?

Shri J. D. Dhingra: As far as we know, there are some others too. But Royal also has got chief agency system.

Shri Venkataraman: Is it not a fact that Norwich Union, Royal and North British account for the bulk of the foreign business in India?

Shri J. D. Dhingra: Yes.

Shri Venkataraman: Only foreign insurance companies rely very much on the chief agency system. The Indian companies do not rely on this system.

Shri R. N. Chatterjee: Many of the existing big Indian companies, for instance, Bombay Mutual, Empire of India, Bombay Life and others, started on the basis of the chief agency system. All the companies which have the chief agency system have played their role well.

Shri M. C. Shah: You have mentioned the names of three companies. But those three companies are simply waiting for the expiration of the period of contract. They are having 10 years' contract and they are just waiting for the expiration of that period.

Shri J. D. Dhingra: No, Sir. As far as Norwich Union is concerned, they are working exclusively on chief agency basis.

Shri M. C. Shah: You must remember that about Empire of India I know much more than you do.

Shri J. D. Dhingra: So far as the British companies are concerned, I

can certainly say that they are not marking for the deadline of 1960.

Shri Venkataraman: That is exactly my point. The foreign insurance companies rely on the chief agency system because of their efficiency? But the Indian insurance business is changing over to the branch system. You said that the Bombay Life Insurance Company had the chief agency system, but what is the tendency in Bombay Life today? Have they not changed the chief agency system for the branch system?

Shri R. N. Chatterji: Probably it suits them better. They might have their own reasons. If we know the reasons, we might be able to meet this particular point.

Chairman: Now, so far as compensation is concerned, there has been some mention of compensation being given for the termination or alteration of the chief agency contract. Is that so?

Shri J. D. Dhingra: Yes.

Chairman: What is the sort of compensation that is expected for this termination?

Shri J. D. Dhingra: We want that all the renewal commission on business completed up to the date of termination should be continued to be paid to the chief agents.

Chairman: Has it been the practice in the past when agencies were terminated? You want that whatever is the practice prevalent today with regard to the termination of contracts of chief agencies should be continued. Is that so?

Shri J. D. Dhingra: Apart from the question of practice, there is the question of equity. This is a question affecting a whole class of people who are chief agents. Unless this is done, when one looks at it the ends of equity and justice will not be met.

Pandit K. C. Sharma: Let us know how these chief agencies were terminated.

Mr. Chairman: Whenever there was a case to terminate the contract, what was happening till now?

Shri J. D. Dhingra: In the case of contracts which terminated in 1950, I am definite that all the chief agents got the continuation of their over-riding commission, and in certain cases the Courts awarded them the dues.

Shrimati Sushama Sen: On the basis of the average, what do you think would be paid monthly to the chief agents? I mean on an average for about 10 years, what would the chief agents have been earning? What would be their emoluments if fixed on a monthly salary basis? How much do you think the chief agents would expect?

Shri J. D. Dhingra: The chief agent's emoluments have been based on the business. His emoluments will depend on the amount of business he has been doing.

Shrimati Sushama Sen: Can you not give us an idea of what his earnings are?

Shri J. D. Dhingra: They have been varying from 2½ per cent. up to 15 per cent. on first year's premiums. On this basis, if it is worked out, in the case of chief agents the total cost has been very much less as compared to the branches. The chief agent has been running the business on a very much more economical basis.

Shrimati Sushama Sen: If that is so, why are the chief agencies being terminated? If the chief agents are doing good business, why are they being terminated?

Shri J. D. Dhingra: For many insurers, the cost may not have been the only consideration. In the case of Bombay Mutual, I can give the figures to show that their converting chief agencies into branches has increased their renewal expense ratio. So, cost is not the only consideration. In the case of Bombay Mutual the renewal expense ratio before they converted their chief agencies into branches was 13, 14 and 14 per cent. for the years 1947, 1948 and 1949 respectively. That means an average of 13·7 per cent.

before they converted their chief agencies into branches. After conversion the renewal expense ratio rose to 17·4, 16·8 and 15·9 per cent. for the years 1952, 1953 and 1954 respectively, which is much above 13·7 per cent.

Shri B. R. Bhagat: Does this include the renewal expenses of the branches as well as of the chief agencies which were terminated?

Shri J. D. Dhingra: Yes.

Shri B. R. Bhagat: It is not a correct statement to say that only because the chief agencies have been converted into branches their expenses have gone up. This cannot be because the cost includes, as you admitted, the renewal expenses of the chief agents as well.

Shri J. D. Dhingra: After 1950 there have been branches. Before 1950 there was only the chief agencies. After 1950-51, there were just two or three chief agencies left under the Bombay Mutual whereas before that the whole of Bombay Mutual worked only on the chief agency basis.

Shri M. C. Shah: Your plea that if the chief agency system is abolished and branch offices are opened the expense ratio will go up cannot be sustained.

Shri J. D. Dhingra: I have cited the case of Bombay Mutual.

Shri M. C. Shah: One case cannot prove the whole matter. If your plea is that if the chief agency system is abolished and branch offices are opened, the expense ratio will go up generally, then you may advance that argument. There is no use quoting one case. The facts about the expenses of Bombay Mutual are not known to this Select Committee,—whether their expense ratio increase was due to this or that. What is the general proposition that you propose to advance? If it is your proposition that if the chief agency system is abolished and branch offices are opened, the expense ratio will go up, then you may contend like that.

Chairman: You must give us only the general trends. Now, there may be chief agencies being abolished in several cases. What is the position in regard to all the cases as a whole? Owing to the abolition of the chief agency system and substitution of branches, has this resulted in very much cost? Have you got figures to prove that?

Shri J. D. Dhingra: Ours is only the Chief Agents' Association and therefore we have no approach to the branch organisations, and as such we ourselves are not in a position to give the detailed figures. If this Committee can call for these figures, I am sure that they will be very revealing.

Shri M. C. Shah: When was your association formed?

Shri J. D. Dhingra: One year ago.

Shri M. C. Shah: Is it one year ago or after the Ordinance?

Shri T. Subrahmanyam: What is the date on which your Association was formed?

Shri J. D. Dhingra: I do not remember.

Shri B. R. Bhagat: There are two associations, I suppose. The other one is the All India (Life) Chief Agents' Association. I do not know when the other association was formed.

Shri J. D. Dhingra: That is an older body. But today we have more membership and we have collected our data from all over India and we are co-ordinating our activities with that body.

Chairman: May I take it that all that you want is that this system is continued in some form or other, or supposing it is decided that this system need not be allowed to continue, you want that the present practice of continuing the commission being paid should be there. Is that so?

Shri J. D. Dhingra: That practice, I was trying to explain, has been only

in individual cases. I would therefore request that that practice should be extended to all cases because of the special considerations and because of equity and justice.

Chairman: You want that practice to continue for all, wherever there is a case for abolition. If there is any alteration in the contract, what would you suggest?

Shri J. D. Dhingra: I would suggest that on the basis of the past business, renewal commission should be continued.

Chairman: Do you suggest that a definite provision be made in the Bill so that chief agents and chief agency staff are absorbed in the Corporation? Is there any specific suggestion?

Shri J. D. Dhingra: We have suggested that clause 8 may be suitably amended so that our over-riding renewal commissions are guaranteed.

Chairman: I am now referring to the absorption of the chief agents and the chief agency staff. Have you any constructive suggestion to make about this?

Shri J. D. Dhingra: We would request that clause 10 may be suitably amended to include the staff of the chief agencies.

Chairman: You mean that while referring to the employees of the companies, the definition should be such as to include also the staff of the chief agents? So, you don't want to absorb the chief agents?

Shri J. D. Dhingra: We do not want to have a legal claim for the chief agents.

Chairman: We are not talking about any legality. We are talking about absorption of chief agents; legal or not legal is a different matter. I wanted to know your views.

Shri J. D. Dhingra: We feel that these chief agents are very experienced people, and with due regard to their qualifications and experience they should be suitably made use of

because there is the national interest involved.

Shri Sadhan Gupta: You have suggested that definite areas should be marked out for the chief agents and for the branches. What is the number of chief agents in India?

Shri J. D. Dhingra: It is about 250.

Shri B. R. Bhagat: The number is 248.

Shri Sadhan Gupta: Even then, that does not make much difference. You want 250 areas. Do you think that it is feasible for the Corporation?

Shri J. D. Dhingra: I am not unaware of this. I do not think it will be feasible to earmark 250 areas; and I also think that all the chief agents' offices cannot stay on as chief agents' offices. Therefore, a suitable system should be evolved so as to have sizeable areas in which the branches would work and areas in which the chief agents would work.

Chairman: What is that suitable arrangement that you suggest?

Shri J. D. Dhingra: We have requested that a Re-organisation Committee under the chairmanship of the Finance Secretary may be set up to go into the organisational details.

Shri Sadhan Gupta: You have also stated in your memorandum that the chief agents may be left to operate even in competition with the branches, and that they may not have exclusive areas. Now, I take it that the essence of a chief agency is that it works independently of the control of the insurer. The discretion in the development of the business is vested solely in the chief agent. Do you think that the Corporation should be asked to divest itself of all controlling power and leave it to individuals to develop the business for themselves.

Shri J. D. Dhingra: The Chief Agent certainly would work under the control of the Corporation.

Shri Sadhan Gupta: I did not catch your reply.

Chairman: He says that the chief agents will continue to work under the control of the Corporation.

Shri Sadhan Gupta: Then that is something like a Branch Manager.

Shri Dhingra: He will be at the same level as that of a branch manager, but he will have enough incentive and enough scope to produce more.

Shri Sadhan Gupta: I was under the impression that the chief agency should develop business according to its own discretion and the corporation can have no supervisory or controlling power over it just as in the case of branch manager. So, you will agree that that kind of a set-up should not exist. The chief agency—if you like to choose to call it thus—should be under the superintendence and control of the corporation in respect of business development

Shri Dhingra: I fully agree with you that chief agents will be under the control of the corporation. That is our conception. Even now chief agency is working under the control of head offices and therefore, I see no reason why that advantage of personal initiative should be lost in the new set-up. Certainly it will be just another wing or part and parcel of the corporation.

Shri Sadhan Gupta: How do you distinguish the chief agency system from that of a branch system?

Shri Dhingra: According to our view, an overall limit of expenses will be naturally fixed by the corporation—say, some overall percentage will be fixed. They decide the same percentage for the chief agents also. Then for procurement, we have to incur certain fixed expenses on the Agents. That leaves us only a little margin within which we have to develop our initiative. If I can manage my office staff within a certain percentage and if I am allowed to go out and mobilise the people's saving in the villages and districts without getting any day-to-day permission, I can do it within that small limit which has already been earmarked.....

Shri Sadhan Gupta: Would you accept the authority of the corporation to direct you as to how you should proceed regarding the development of business?

Shri Dhingra: Certainly.

Shri Sadhan Gupta: In that case, don't you think that it would be better for these chief agents to assist the corporation in the capacity of officers of branches or similar other capacity on a salary basis?

Shri Dhingra: We feel that the salary system does not allow that much of scope for initiative and this should not be lost sight of. Also we feel that commission system will lend itself to greater production of business. That has been our past experience.

Shri Sadhan Gupta: Regarding the economy, don't you think that if you were paid an overall sum for managing your affairs you would be compelled to cut down the remuneration of the staff of your offices in order to make both ends meet so far as you are concerned?

Shri Dhingra: I can tell you from my personal experience that the staff of chief agency offices in very many cases are paid more than the staff in some of the branches.

Shri Sadhan Gupta: Do you not agree that the staff working in the bigger insurance companies are paid better than the chief agency offices staff? The staff of Oriental, Hindustan, New India and National are very much better paid than the staff of the chief agency.

Shri Dhingra: The chief agencies will be quite happy to abide by any general restrictions that may be put on them. But all that we suggest is that we should have enough scope for initiative, because in the insurance business under Chief Agency system the more we produce the more we get, but still we are within the ceiling.

Shri Sadhan Gupta: Regarding expansion of offices, you have quoted two foreign companies and I think one Indian company, namely, Hindu Mutual. Regarding foreign companies, have you compared the figures for renewal expenses as between foreign companies run by chief agencies and foreign companies run according to branch system?

Shri Dhingra: I have compared and I shall give you those figures also. In respect of the Sun Life of Canada which is one of the best run offices in India but which is working on branch basis, the figures are as follows:

In 1953, it was 13.3 per cent.; in 1954, it comes to 14.1 per cent. and in 1954 the figure was 15 per cent. For all the three years together it is 42.3 per cent. and on an average it is about 14.1 per cent. per annum. These are the renewal expenses. In respect of the Norwich Union which is also an equally good foreign company but which is working on chief agency basis, the average figure for the above three years comes to 7.3 per cent. which is roughly half of the average in respect of Sun Life.

Shri Sadhan Gupta: Have you figures for the comparative remuneration paid to the staff of the branches and the chief agencies?

Shri Dhingra: I have not got those figures.

Shri Sadhan Gupta: The next thing I want to ask you is about the figures regarding the ratio of business development as between chief agencies and branches. Don't you think it is open to this fallacy? In the case of chief agencies the volume of business is much smaller. If we increase it from one lakh to four lakhs, the figures go up very much. But if it is increased from one crore to two crores, then the reflection in the percentage is not so much but at the same time considering the volume of business it is better. In most cases, the output of the chief agency is very small. Don't you think, it is open to that fallacy?

Shri Dhingra: We have also given figures in respect of certain chief agencies where the volume of business is more and comparable to that of branches. Such as from 18 to 97 lakhs...

Shri Sadhan Gupta: That is in Delhi, I believe. The branches of big companies have done greater volume of business than in Delhi, that is, 97 lakhs.

Shri Dhingra: There are also certain branches which have done very much less.

Shri Sadhan Gupta: I am talking of bigger companies, because a corporation will not be comparable with those small concerns.

Shri Raghavachari: I was not able to hear whether you mentioned that there was any compensation actually paid or not when these chief agencies came to be abolished in the past.

Chairman: They say that they were allowed to draw certain commissions that were due to them.

Shri Raghavachari: Only the renewal commissions?

Chairman: Yes.

Shri Sadhan Gupta: Now you have claimed for the continuation of the renewal commission. Is that correct?

Shri Dhingra: Yes.

Shri Sadhan Gupta: Is it not a fact that at least a part of the renewal commissions which you could claim from the insurers if the agency continues, say, by way of your expenses of the chief agency, you should not take into account, now that you have no longer to offer it?

Shri Dhingra: I could not follow the question.

Chairman: He says that in the amount you are going to get as renewal commission there is a fraction for the purpose of running expenses of the office. Now that you will no more run the office, that portion of the commission may not be necessary or due.

Shri Dhingra: We treat all our renewal commissions as our deferred earnings. Our Commissions consist of two parts, namely, first year commission and renewal commission. First year commission is very very low and therefore the whole thing has to be taken as a whole. When it is taken as a whole, we certainly feel that there is no justification for reducing it.

Shri Venkataraman: On page 6 of your memorandum you say that there are certain decisions of Bombay and Calcutta High Courts. Can you mention what you refer to?

Shri Dhingra: We know of one case and that is in respect of Messrs. Madora and Company.....

Shri Venkataraman: Are you referring to cases under section 44 of the Act which has provided for continuance of payment of commission or as compensation for termination of chief agency? I want to make a distinction between compensation for termination of chief agency contracts and continuation of payment of commission under section 44 of the Act. Have you got any case to your knowledge where compensation has been paid for termination of the chief Agency contract apart from payment under section 44 of the Insurance Act?

Shri Dhingra: As far as we know, section 44 does not apply to chief agencies at all. Moreover it came into force in 1951.....

Shri Venkataraman: So, can you say that the compensation has been for termination of chief agency contract in respect of Bombay Mutual and Empire?

Shri Dhingra: I have just mentioned these names.

Shri Telkikar: May I know how many chief agencies there are?

Shri Dhingra: As I said they are about 248.

Shri Telkikar: I wanted to know the number of chief agencies and not the number of chief agents.

Chairman: It must be the same.

Shri Telkikar: You have given figures only in respect of eight companies. What do you mean by that?

Shri Dhingra: We had only very little time to compile these figures. I will certainly give you, if you are interested, very many more figures within a week's time.

Shri Telkikar: Taking into consideration the functions you carry on in the office, is it not that the difference is only in the nomenclature? Because, you do the same work which is done in the branches.

Shri Dhingra: I had a talk with the chief agents on this issue which we considered as important. My personal experience is that we do not issue any renewal notices, we do not issue lapse notices and we do not issue any receipts. These parts of our jobs are being done by the head offices because they have felt that our renewal commissions and our first year commissions are not commensurate with these additional tasks and therefore they do not burden us with these tasks.

Shri Telkikar: In the case of Bombay Mutual, they had some Chief Agencies. After 1950, they had converted these Chief Agencies into Branch Offices. It is only by accident that some are remaining. Are you satisfied if these Chief Agencies are supposed to be converted into Branch Offices for the purpose of clause 10(1) and (2) of this Bill?

Shri Dhingra: I must say that a certain amount of reorganisation will have to be done. The whole question may have to be gone into, but certainly we have already suggested that the Chief Agency system should be allowed to continue.

Shri Telkikar: The Chief Agency system will not be allowed to continue. Of course, they will not be there in that nomenclature.

So far as the staff of Chief Agencies are concerned, if these Chief Agencies are deemed to be Branch Offices

for the purpose of Clause 10(1) and (2), then of course, the employees will be satisfied. Isn't it?

Shri Dhingra: I couldn't understand you.

Shri Telkikar: For the purpose of compensation or continuation of their employment, suppose these Chief Agencies are deemed to be Branch Offices for the purpose of sub-clauses (1) and (2) of Clause 10 of this Bill, then their staff will be considered to be permanent employees and they will have the same facilities which the Branch Offices are going to get.

Shri Dhingra: We do not think the Chief Agents come within the purview of Clause 10.

Shrimati Sushama Sen: You say in your Memorandum that the personal service to policyholders under the Chief Agency must be personal, prompt and friendly. We want to know what help you could give in the new set-up in order to keep up these friendly relations with the policyholders? In the new set-up in what capacity could you give this help?

Chairman: They have asked to be continued as they are.

Have you any other suggestions to make?

Shri Dhingra: There are certain contracts which even today allow renewal commission after the termination, and the benefits under these contracts extend as long as the policies are in force. Now I would like to mention three important points in connection with those contracts.

The first is, of course, the legal rights that those agents have. They have already earned the commission by virtue of the contract.

The second is an important factor and that is the business of these Chief Agents consists of two parts, one the Indian business and the other the sterling business. If any restriction is put by the Corporation, it will

naturally imply that even the renewal commission may not be paid in spite of these contracts, whereas so far as the sterling business is concerned, we are quite sure that the foreign companies will fully honour their obligations. Therefore, we fear that there may be some restrictions which may even put us in an inferior position; I mean our own Government may even put us in a position where we may be treated in an inferior way. I would just request you to kindly keep this point in view.

The other point I would like to explain is this, that the burden of continuing the renewal commission is not excessive. The Chief Agents were a social necessity in the past and the burden, if the renewal commission is continued, will not be very excessive.

Chairman: What does the renewal commission come to? You can just try to give us some figures.

Shri Dhingra: The total renewal premium income in India, according to the latest Insurance Year Book, is Rs. 44 crores.

Shri M. C. Shah: That is for 1954. We have got figures for 1955.

Shri Dhingra: I am giving figures from the latest Insurance Year Book.

Chairman: You can proceed.

Shri Dhingra: On this basis, the renewal commission payable to the Chief Agents will be very much small as compared to the corresponding benefits available to the agents on the one hand and the salaried staff on the other.

Chairman: How much will that be?

Shri Dhingra: The renewal commission payable to the agents will be Rs. 3.3 crores for the first two years and Rs. 2.2 crores thereafter. This is based on 5 per cent. renewal commission. As you know, this renewal commission is now hereditary under section 44 of the Act. That means that Rs. 2.2 crores a year is payable to the agents and if we assume that a normal period of a policy is 10 years, the total liability including the

[Shri Dhingra]

first two years may come to about Rs. 24 crores. This is so far as the agents are concerned.

On the other hand, if we take the salaried staff, there are 165 life offices in India, and assuming that in each office there are on an average 10 officers both in the Head Office and the Branch—if I am not wrong there are certain companies which have as many as 40 Branches and something like 400 or 500 officers—drawing Rs. 1,500 and above and if they are entitled to provident fund, gratuity, pension, etc.—every insurance company contributes to provident fund which is normally 1/12th of the salary of the officer, that is, both the employee and the employer contribute Rs. 125 each which comes to Rs. 3,000 a year—in the case of each officer the accumulation of all these benefits with interest over a period of 25 years will amount to Rs. 1,30,000 per person or a total liability of Rs. 22 crores. As against this amount for salaried staff and that of Rs. 24 crores in the case of agents, the total liability in respect of Chief Agencies will be very very insignificant. I am only saying this because this question was put to us from various quarters saying that the total liability on account of Chief Agents may be very big. According to our calculations, compared to the earned income of agents and that earned by the salaried staff, the total quantum to be paid to Chief Agents is very small. The total Chief Agency business in India is roughly about 5 per cent. and this means a total renewal premium income of Rs. 2.2 crores. and allowing for the normal renewal commission of 2½ per cent. in many cases and even 1 per cent. in certain cases, the total average liability will come to just Rs. 4.4 lakhs or a maximum of Rs. 44 lakhs throughout the whole period, as against Rs. 24 crores for the agent and Rs. 22 crores for the salaried staff. Moreover, this liability for Chief Agents is a decreasing figure, because as the policies are paid off, the amount payable will be reduced.

Shri Tulsidas: I would like to know the strength of the employees.

Shri Dhingra: I understand that the Department is collecting the figures.

Shri Feroze Gandhi: You can give your figure.

Shri Dhingra: I have not got any figures.

Shri Tulsidas: How many are there in your office?

Shri Dhingra: We have ten.

Shri Matthen: In countries like Canada, U.K. and America, what is the system that is more popular? Is it chief agency system or salaried staff system?

Shri Dhingra: In America, where the business is expanded very much, the chief agency system is very much prominent. It is called the general agency system there.

Shri Matthen: What is the proportion?

Shri Dhingra: The general agency system in America is very popular and very successful.

Shri Matthen: In Canada?

Shri Dhingra: Both in Canada & U.S.A., the normal system is chief agency or general agency, as far as we know. In U.K., the Branch system is also popular:

(Witnesses then withdrew)

II. The All India (Life) Chief Agents Association, Bombay.

Spokesmen:

- (1) Shri N. M. Jalundhwala
- (2) Shri K. Janardhana Rao
- (3) Shri A. H. Kulkarni
- (4) Shri S. A. Ramaswami.

Chairman: We have already examined an Association of the same kind.

Shri N. M. Jalundhwala: We won't take much of your time. We would like to leave this point about continuing our services to Government. If we are to continue in the new set-up, we shall be happy to serve the Corporation as loyally as we served the insurance companies so far.

Chairman: Have you any suggestions to make as to how your services should be made useful, how to transform the chief agencies into something useful to the new set-up? Have you got any specific suggestions to make?

Shri N. M. Jalundhwala: I am afraid not.

Chairman: Any other point?

Shri N. M. Jalundhwala: If it is ultimately decided to discontinue chief agencies, then the question of payment of commission would arise and to presume that there will be no difficulty about the payment of commissions, because commissions are earned by us on the business we do. We are remunerated in two ways, one is the first year's commission and the other is the renewal commission. The renewal commission is always a deferred payment. That practice is being followed by the insurance companies in all countries. In the event of discontinuance of chief agencies, something specific should be stated about the payment of commissions.

Chairman: Is this practice followed in all cases where the chief agency system is abolished?

Shri N. M. Jalundhwala: Yes.

Chairman: In all cases the renewal commissions are paid?

Shri N. M. Jalundhwala: I may add here with your permission that this Association admits only Chief Agents of Indian companies. I cannot speak for Chief Agents of non-Indian companies. But as far as the Indian companies are concerned, it is the practice to pay commissions even after

the chief agencies are discontinued for any reason whatever.

Chairman: What about the office expenses? You will have to incur no office expenses now.

Shri N. M. Jalundhwala: That is quite true. We shall have to incur no office expenses. Our income will also cease at once. We wouldn't be allowed to carry on the business for which alone we are qualified. The Chief Agents have all their lives been Chief Agents. They have not been doing anything else.

They are really well fitted for further work as they have the accumulated experience of so many years. They can be given some administrative work and/or work in the insurance field as outside it there would be no scope whatever for them.

In the past the renewal commission has been the main saving to us. We have been putting it back in the business to expand our goodwill. What you suggest is quite true. Instead of taking the money ourselves, we put it in the business itself as we thought by the creation of the goodwill we can further expand our business and so enlarge our income over a period of years. The result is that though I have worked for 30 years I have not been able to get much. I have only been assured of a slightly expanding income as years have passed. The renewal commission represents our saving and there is no doubt whatever on that question. We have been saving and putting those savings in the business so that we may get returns in the shape of expanding renewal commission.

Chairman: It is stated in the memorandum that the institution of chief agency will not be pressed if it is considered to be inconvenient or incongruous in the new set-up. By this is it to be understood that you have no strong feelings about the continuance or otherwise of the chief agency system? Is it to be taken that you are not much concerned about this system?

Shri N. M. Jalundhwala: Not at all. That would be an entire misreading of our position. After all how long will the compensation which is paid last? It is our lives' occupation. What we have meant is this. If in the national interest it is decided that the chief agents must go, then of course we must go, whatever happens.

Chairman: What is the average amount of commission received by the chief agents?

Shri N. M. Jalundhwala: That depends on the size of the chief agency.

Chairman: What is the average? You might have worked it out.

Shri N. M. Jalundhwala: If you had informed us earlier, we could have got the particulars as far as members of our association are concerned.

Chairman: On what basis should income-tax be calculated? Should the compensation be paid in a lump sum or year after year?

Shri N. M. Jalundhwala: The position is this. As I have told you, we have nothing else to fall back upon—no provident fund, no pension and no gratuity. All we can lay our claim on is the renewal commission. We do not want it to be paid in a lump sum. If it is paid to us in a lump sum for administrative convenience then it would be exposed to direct taxation. Then we will not be having anything in our hands. If we are asked to pay tax on our year's earnings we must pay. But if the amount is paid to us in a lump sum, my submission to you is that you should try to see that it is not taxed. Then only we can get on. Then there would be some hope of rehabilitation for us. Otherwise overnight we may well become refugees.

Chairman: So you have no suggestion to make with regard to the use of the experience that you have gained. Supposing the system is not to be continued. Then you have no suggestion for the alternative use of your experience.

Shri N. M. Jalundhwala: Regarding their absorption in the organisation of the corporation, if on merits we are acceptable to them and we are offered any work, we would certainly co-operate and render service and our experience of the past will certainly be of help to them. We have not thought it advisable to press that we must be absorbed. But, obviously, we have got to go out and look for a living anyway and if the corporation could absorb some of us, we will of course be willing to co-operate.

Shri Venkataraman: The Bombay Life Insurance Company converted some of its chief agencies into branch offices. When they terminated the contracts with the chief agents, did they pay any compensation to the chief agents?

Shri N. M. Jalundhwala: They have been continuing to pay the renewal commission.

Shri Venkataraman: They did not pay any compensation. They were merely paid the commission which they would have otherwise earned.

Shri N. M. Jalundhwala: There the termination was effected after the period of contract was over. Then in certain cases the contracts were not in writing.

Shri Venkataraman: They are paying renewal commission which they would have got under the contract.

Shri N. M. Jalundhwala: Yes.

Shri Sadhan Gupta: Am I right in saying that in the areas in which chief agents operate they get credit not only for the business that they or the agents appointed by them bring in but also for the business in that area which any other agent brings in though not appointed by the chief agent?

The other question is about compensation. Don't you think that a possible compensation for your loss of renewal commission due to nationalisation may be that chief agents who

have merits may be absorbed as officers of the corporation to assist in the development of the insurance business?

Shri N. M. Jalundhwala: About point No. 1, there cannot be any such independent agents in the present scheme of things. When a chief agent is appointed for a territory he is exclusively given charge of that territory and that is the requirement of the Insurance Act also. There cannot be more than one chief agent or agents appointed by another chief agent in the same area with the result that the chief agent gets the entire credit for all the business that is secured from that territory.

Chairman: With the assistance of a number of agents?

Shri N. M. Jalundhwala: All the agents are virtually appointed by the chief agent himself. If there are agents who are not appointed by the chief agent directly, they also will be put up under the chief agent and that is the requirement of law also.

Regarding the second point I must admit that if an alternative appointment is offered to a chief agent then his claim for compensation due to loss of occupation would probably be partially met. But that is not the position with regard to the commissions payable to him. As I tried to explain to you, commission represents the only saving which a chief agent can expect as a result of 20 or 30 years of continuous work.

Shri Matthen: Do you think that there will be larger business expansion under the chief agency system?

Shri Feroze Gandhi: What is the possible strength of the working chief agents?

Shri Tulsidas: What is the number of salaried staff?

Shri N. M. Jalundhwala: That would vary with individual chief agents. The total number of salaried employees may be about fifty or so.

About the other point asked as to whether according to me there is scope for larger business expansion under the chief agents, that is a matter of experience. I do not say that expansion would not have resulted but for the chief agents. There have been branches and there have been chief agencies. Wherever companies have employed the chief agents—I suppose I will be borne out by the people in the know—there the chief agents have shown excellent results not only with regard to expansion of business but with regard to the quality of business—the cost, the lapses, the claims. It is not correct to say that the chief agent has outlived his utility. He is a commissioned man. He is not a salaried man. His income depends on his work.

Shri Matthen: In the future set-up you want the chief agency system also to continue?

Shri N. M. Jalundhwala: If it is not incongruous with the set-up which is considered essential for the national well-being then I would most earnestly submit that it should be continued as it will be for the good of the corporation as also of the nation. You will have workers with a direct incentive.

Shri Matthen: You claim full premia commission for the work completed till the appointed date. How long will you claim that?

Shri N. M. Jalundhwala: Till the policyholder continues to pay premium.

Shri T. N. Singh: From what you have said I gathered the impression that if an opportunity is given to you to be absorbed in the new set-up then there will be no question of compensation. Am I right in assuming that?

Shri N. M. Jalundhwala: I said the claim for compensation would be partly met in respect of those who are offered alternative suitable employment. I added that this would not apply to commissions which are,

[Shri N. M. Jalundhwala]

after all, savings. Anybody who does not accept such alternative employment will, of course, have the right to ask for full compensation.

Shri T. N. Singh: Having come into the organisation. I take it you will have no objection to be bound by the general rules and other rules like conduct rules that may be applicable to other employees of the corporation?

Shri N. M. Jalundhwala: That is quite true. We should not have any such objection. We have to fall into the line. But those of us who are too old or who are offered a position which they do not consider at all adequate will be, I suppose, free to reject them. But if he comes, he must be bound by the general rules.

(Witnesses then withdrew)

III. Life Insurance Special Agents Association, New Delhi.

Spokesmen:

- (1) Shri M. M. Ahuja
- (2) Shri L. B. Kotak

(Witnesses were called in and they took their seats)

Chairman: What is the standing of your Association? What is your membership?

Shri M. M. Ahuja: This Association was formed a few months ago. We have about 500 members all over the country.

Shri Velayudhan: Was it formed before the promulgation of the Ordinance?

Shri M. M. Ahuja: It was formed just before the Ordinance was promulgated.

Chairman: Have you any other points to mention besides what you have stated in your memorandum?

Shri M. M. Ahuja: Clause 25 of the Bill states that the Corporation will have the sole monopoly of doing life insurance business in this country. We suggest that for healthy business competition is a very essential thing

and therefore we must have at least four Corporations in this country doing autonomous business and they should have the right to procure business throughout the country.

Chairman: Do you want the premium rates to be the same or different?

Shri M. M. Ahuja: To start with, it can be the same, but after some time, according to the experience of the Corporations they can make adjustments, because for every business, competition is a very healthy thing. If there is competition, a certain amount of healthy competition, there will be more efficiency and the service will also be better.

Chairman: But it is the same owner and the same control. Why do you want different types of rates, etc.?

Shri M. M. Ahuja: Because it will help us in selling more insurance.

Shri Venkataraman: If the premium rates are the same—standard rates—where is the competition?

Shri L. B. Kotak: If there is competition it will make for efficiency of the zone. If there is efficiency and saving in expenses, it will mean different bonuses.

Shri Matthen: You said that different autonomous corporations must be there, and to start with they should have the same premium. If later on they find it necessary to have a larger premium or if they want to reduce their premium, they must be able to do so. Is that your contention?

Shri M. M. Ahuja: It will depend on the working of that Corporation, whether the working is on economic lines and sound lines.

Shri Matthen: So, you do not think that premium is the only consideration but that there are other things also to be taken into account. Even

now, as you may know, insurance companies charging larger premium are getting more business. You think there are other factors?

Shri M. M. Ahuja: You can see from the fact that though the Postal Insurance is the cheapest, about 80 per cent. of the Government servants insure in private companies. There is another company called the Co-operative Assurance Company of Amritsar, which offers the cheapest premium, but their business is only Rs. 12 lakhs and every year the business has been going down. Cheapness of premium is not the only consideration.

Shri Venkataraman: Is it then not due to the comparative stability of the company? Cheaper premiums are not preferred by any ordinary prudent man because he thinks that the company is not safe.

Shri M. M. Ahuja: There is the case of Postal Life Insurance, as I have already mentioned, but Government servants do not patronise it.

Chairman: Do you want all the Corporations to compete with each other all over the country without any zonal restrictions being fixed for them?

Shri M. M. Ahuja: Yes.

Chairman: What is your next point?

Shri M. M. Ahuja: About special agencies, we learn that the special agencies are being abolished. But our suggestion is that as this is the most economical way of getting business and the best business is through these special agents, they should be retained. I can prove this with facts and figures, although they relate to foreign companies; and these companies are doing about Rs. 4 crores of business. One of the companies is the Norwich Union and the other is Prudential. Norwich Union is doing business exclusively through special agents. Prudential is doing business exclusively through paid people; and

both are working in the same towns and for the same type of clientele. The lapse ratio of Prudential in the year 1951, was 22 per cent. The lapse ratio of Norwich Union was only 12 per cent. In 1952, the lapse ratio of Prudential was 25 per cent. while that of Norwich Union was 10 per cent. In 1953, the figure was 21 per cent. for Prudential and only 8 per cent. for Norwich Union. Both these companies are working through Special Agents and Agents.

Chairman: Have you got the figures for Indian companies?

Shri M. M. Ahuja: I have got the figures. Oriental is doing business through both Inspectors and special agents.

Chairman: Have you got comparative figures for Indian companies?

Shri M. M. Ahuja: I have selected five companies—Oriental, Hindusthan Co-operative, National, Bombay Life and New India. I will give the figures for the year 1951:

<i>Name of company.</i>	<i>Lapse ratio</i>
1. Oriental	.. 35%
2. Hindusthan Co-operative	.. 47%
3. National	.. 51%
4. Bombay Life.	55%
5. New India.	.. 38%

Shri Feroze Gandhi: May I know why the lapse ratio is so high?

Shri L. B. Kotak: The lapse ratio being higher depends on the way the policies are sold. If the policies are sold properly, that is, if the purchaser purchases them after understanding the contract properly and then he keeps on paying the premium, then there are few chances of the policies lapsing. But if the policy is sold under pressure, it is possible that the policy may lapse. There is another reason also. The paid people doing insurance business have a certain quota of new business fixed for

[Shri L. B. Kotak]

every year. If they fall short of their quota, they naturally have to put in certain business in order to maintain themselves in service but such business does not complete one year's time. They get the credit for it because in the contract they are supposed to do a certain amount of minimum business every year.

Shri Feroze Gandhi: Why do they do business which is not real?

Shri T. N. Singh: It is said that the capacity of the special agents to pay rebates brings in parties who are in a strong position to purchase policies. That means that naturally they get the stronger sections of the purchasers of policies because of this kind of inducement that they are able to offer, while the other agents are perhaps not in a position to offer rebates. Is that so?

Shri L. B. Kotak: Rebating is not the crime of the special agents. These special agents came into existence in 1951 by an Act of Parliament. Rebating had been in existence even before 1951, and the reason is this. All the paid people who depend upon their salaries for their livelihood get their salaries, but they are the people who have the power to appoint these agents. A number of companies have paid people like the Branch Secretary, the Inspector, the Superintendent and Organisers and they appoint their own relations as special agents and agents under them with the result that they have extra money which they part with to the client. As a matter of fact, the man working on commission has to live on that commission alone. He cannot afford to give away a part of his commission to a client.

Shri Feroze Gandhi: You have given figures about lapse ratio of some of the biggest companies. Do you know that the lapse ratio of the Empire of India, which is under an Administrator, is only 14 per cent. Now, this company has been under an Administrator. After very serious mismanage-

ment, it was taken over. Why is the lapse ratio in the Empire of India so low as compared with that of other companies? In the Oriental it is 35 per cent, in the New India it is 38 per cent, and the ratio goes up to nearly 60 per cent. in some companies. Why is it so low in the case of Empire of India?

Shri M. M. Ahuja: According to the Blue Book, the lapse ratio of the Empire of India, was 14 per cent. only in 1953. I will just quote the figures:

1951—41 per cent.

1952—39 per cent.

1953—14 per cent.

Gradually it has been going down. There is no doubt about it.

Shri Feroze Gandhi: Why was it 41 per cent. in 1951 and why has it come down to 14 per cent. in 1953? After this company was taken over by the Administrator, the lapse ratio has come down so rapidly.

Shri M. M. Ahuja: I will quote the figures for the Oriental:

1951—35 per cent.

1952—29 per cent.

1953—20—per cent.

Shri Feroze Gandhi: The lapse ratio of Oriental is higher than that of the Empire of India. Can you give any reasons as to why it is high in the other companies?

Shri M. M. Ahuja: As far as I can tell you, the business of the Empire of India has been coming down after the Administrator took charge. Before the Administrator took it over, the business was much more than it is today. They touched a figure before 1951 of about Rs. 8 crores.

Shri Feroze Gandhi: Supposing the figures you have are correct, then the lapse ratio of the Empire of India must be considered high.

Shri Morarka: The figures are not correct. The business of the Empire of India has also increased but less as compared to other companies. It has not decreased.

Shri Feroze Gandhi: You may confine yourself to this particular point. Why has the lapse ratio of the Empire of India come down?

Shri M. M. Ahuja: That is because the lapse ratio was the highest in the first year, and the expansion of business is not so much as in other companies.

Shri Feroze Gandhi: Expansion of business in other companies must also have resulted in higher lapses.

Shri M. M. Ahuja: In the initial stages the lapse ratio is higher. If the business is through special agents, the lapse ratio is much less. Most of the companies get their business through paid people.

Shri Matthen: How does the special agent cost less?

Shri M. M. Ahuja: The difference in cost is because the special agent works under a branch and under a Chief Agent also. The Chief Agent has an exclusive jurisdiction. The chief agency is just like a branch by itself. Their minimum area is one district. Their cost is pre-determined and they have to work between 72 and 75 per cent. The cost of the branch is not pre-determined. It is determined only when they are actually worked. The special agent is like an Inspector working on 15 per cent. maximum which he will get.

Pandit K. C. Sharma: He gets works from the field workers and submits it to the Branch Manager.

Shri M. M. Ahuja: His cost is pre-determined before he starts to work as special agent. He cannot get anything more than 15 per cent.

Shri Matthen: What was the total business of the Empire of India in the year in which the lapse ratio was only 14 per cent.? I want to know what was the turn-over of the Empire of India after the Administrator took it over.

Shri Sadhan Gupta: I am suggesting to you that the principal reason

for such high lapse ratio is that companies seek to book a very high volume of new business in order to attract policyholders and that is why bogus business is booked. It is in order to show inflated new business figures. When the corporation takes it up this kind of business will be eliminated and the lapse ratio is bound to come down.

Shri Kotak: My answer to the question is this: If in the corporation the same kind of principle is introduced for determining increments of different inspectors and different branch secretaries, the basis of new business only, naturally the result will be a higher lapse ratio. But if the increment of field officers is not inclusively dependent to the volume of new business, then of course the lapse ratio will fall down, for there are several other factors which can determine the wages of field organisers. For example, servicing of the policies, and training of the agents and seeing that they build up a strong agency organisation which are not ordinarily taken into account in determining their wages. Their wages are entirely dependent on the volume of business they produce. Naturally, they have to do more and more business in order to earn more and more increments.

Shri Sadhan Gupta: I think that point has already been submitted by you and your predecessors. I am stating that when the corporation is established, it will not have to lay down any kind of new business in order to attract policyholders because policyholders will not be attracted by new business since there will be only one concern and not many. So, lapse ratio is bound to come down under the circumstances because what they will classify as proper business will be the actuarially sound business.

Shri Venkataraman: On page 67 of the Blue Book you will find that there were 10,386 special agents in 1951 but their number fell to 4,852 in 1954. Was it not due to the fact that they could not do the quota of the business and their licences were not renewed?

Shri Kotak: In 1950 the amendment Act was passed and special agents came into existence in 1951. There were then companies which were giving as much as 27½ per cent or more. After this amendment Act was passed, the commission of special agents was limited to 15 per cent. Then some companies thought that they could not compete with the big companies like Oriental, with the result that they started recruiting salaried people. They recruited organisers, inspectors, superintendents of agencies and various other designations were created. I know that the organisers were started with something like 20 per cent. and it reached upto 30 to 35 per cent. In fact, these salaried people are nothing but *pro rata* people. Their salaries are determined by the amount of new premium they bring in. The result was that a number of people who were working as special agents were attracted to take up services so that they could earn more. In fact, it was nothing but employing the special agents on salary basis by the back door.

Shri Venkataraman: Is it a fact that special agents were not able to reach the targets?

Shri Kotak: To some extent it is true. The Act authorised special agents to do new business only of Rs. 50,000/- every year. Oriental had fixed its basis at a higher level. Those who are genuine workers who have integrity and who can produce business will bring in more business than Rs. 50,000/-. I know in Oriental they have worked on the commission basis and there are many special agents who not only do business of Rs. 2 lakhs but they do as much as Rs. 20 lakhs a year. A very large majority of people there have been able to earn 15 per cent., in spite of the fact that the limit of earning 15 per cent. was pitched at Rs. 2 lakhs. We do not want any *binami* special agents or bogus special agents to be created. There are people who would like to work on commission basis because they could bring large volume

of business and the principle here is the larger the work the greater the emoluments.

Chairman: How would you like these special agents to be utilised in the new set-up?

Shri Kotak: I would suggest that it is better for the two systems (special Agents and Inspectors) to co-exist at least for some time so that the corporation will be in a position to judge whether all the mal-practices are due to the special agents or some other reason. But if the Government think that the special agents are not wanted even for a short period, let them do away with them, in which case rather suggest that the corporation adopt the old system of Oriental's commission which was in vogue before the 1939 Act with a ceiling of not more than 50 per cent. commission on any single policy. We would in that way like to revert back to that old basis.

Shri Ahuja: In that case, there is an incentive in men to do more business. If you try these special agencies, we would suggest that rules and regulations can be made more rigid and also the right type of people can be taken and mal-practices removed.

Shri Matthen: What are the modifications you suggest?

Shri Ahuja: Firstly, instead of Rs. 50,000/-, Rs. 2 lakhs should be fixed in respect of business in a year. Then, there should be no direct recruitment of special agents. If any agent is promoted as a special agent, he should have worked at least a year or two as an ordinary agent. Then the right type of people will be selected and all the *binami* special agents will be eliminated.

Shri Matthen: How long, according to you, should the corporation continue to have these agents under them?

Shri Ahuja: They may continue at least for two valuations. We have valuation after every two years. After two valuations you will come

to know whether it is economical for the corporation to have them or not because our plea is that our cost is pre-determined and secondly our business is the soundest business which has the least lapse ratio. If you will attract the real type of workers, they will take up the job as a whole-time job. But you can have these special agents only in big towns because you can have bigger volume of business there and they can live on the 15 per cent. commission. But in small towns, it is not possible for these special agents to do the work. Both special agents as well as inspectors are very essential for the insurance business.

Shri T. Subrahmanyam: Are there a large number of *binami* agents?

Shri Ahuja: We do not know, but then, what we say is that there are.

Shri T. N. Singh: Don't you think that the continuance for four years or so of both the systems will result in two parallel organisations functioning in the same area which may lead also to unhealthy competition?

Shri Ahuja: This system has been in existence in Oriental for the last four years or six years and 40 per cent. of business is being written by special agents in Delhi and Bombay. I do not know about other towns. There has been no clash worth the name there for these six years. In fact, we have built up very good organisation in big towns and the cost is only 15 per cent. The cost of inspectorate ranges from 20 to 30 per cent.

Shri T. N. Singh: Judging from the answers given by you, it appears that you have no objection if some weeding out is done from the existing agents on account of *binamidars*.

Shri Ahuja: There is no objection.

Shri T. N. Singh: Suppose the whole system is allowed to continue as in the case of Oriental, as you said. In that case, Government would not be able to employ many of these agents.

In other words, people after a certain age will not be considered as proper persons to continue in that work. Would you like that formula to be applied in that case?

Shri Ahuja: No.

Shri T. N. Singh: How do you envisage a difference being made between two sets of employees.....

Shri Ahuja: Special agents are on contract business. They are not in the service of the Government.

Shri T. N. Singh: In case the other thing is accepted, namely, your second suggestion of having agents on commission basis, etc. then also you would not like any age-limit to be fixed.

Shri Ahuja: No.

Shri T. N. Singh: From what you have said, I gather that if special agents, according to your proposal, are allowed to continue, they will act as recruiting agents for all agents. Am I correct?

Shri Ahuja: Yes.

Shri T. N. Singh: So, they will be a kind of recruitment agency for all agents. Is that so?

Shri Ahuja: Yes. The only difference will be that they will be like inspectors without the pre-determined cost.

Shri T. N. Singh: But will not inspectors also simultaneously be recruiting agents?

Shri Ahuja: Oriental has got certain restrictions in regard to this matter of recruitment. There, a special agent cannot appoint more than eight agents whereas a paid inspector can appoint any number of agents. Therefore, a special agent will be more careful because his limit is only eight.

Shri Morarka: Would you please tell me how many special agents there are in the country?

Shri Kotak: According to the blue book, there are about 4,800.

Shri Morarka: Your association has a membership of 500. Is it true that your association represents only special agents of foreign companies and not the Indian Companies?

Shri Kotak: Both of us represent Indian insurance companies. Both of us are from Oriental company.

Shri T. N. Singh: Yours is a professional association. May I know whether you have got any code or conduct of your own?

Shri Kotak: Not so far.

Chairman: Is it possible to evolve one?

Shri Kotak: I think it is possible.

Chairman: Do you think it is possible for the association to check the tendency of malpractices?

Shri Kotak: Yes, Sir.

Shri Ahuja: I think unless the conditions are improved it won't be possible.

Shri Telkikar: I would like to know whether the special agents will be able to secure more business in rural areas.

Shri Ahuja: I do not think the special agents can be successful in rural areas or even in small towns. They may be successful only in big towns.

Shrimati Sushama Sen: Am I to understand that you have no connection with the rural area so far?

Shri Ahuja: We have no connection with the rural area so far.

(Witness then withdrew)

IV. The Bombay Shareholders' Association, Bombay.

Spokesmen:

(1) Shri Dhirajlal Maganlal.

(2) Shri G. M. Shah.

Chairman: When was your Association started?

Shri Maganlal: It was started in 1929.

Chairman: What is your membership?

Shri Maganlal: The present membership is 375.

Chairman: Besides the points that you have mentioned in the Memorandum, have you anything special to emphasise?

Shri Maganlal: I would like particularly to emphasise the point about compensation to shareholders referred to in the Memorandum.

Chairman: You can put it briefly.

Shri Maganlal: In our Memorandum, we have referred to the role of the Government in the matter of paying compensation to the shareholders, being that of a just arbitrator, and in order to give you an idea of what an insurance shareholder is today and what his sufferings and what his pitiable plight are, in the matter of payment of compensation, I think I will have to give you a picture first of all as to how and what is being paid to the shareholders and also as to what a shareholder is and how he is a middle class man.

Chairman: Should we go into the first lessons? We shall rather concentrate on certain points.

Shri Maganlal: I would be brief and give you an idea of what the whole thing is regarding the pitiable state of the shareholders.

The first point that I would like to make is that the shareholders are being driven out of a joint family consisting of the shareholders and policyholders at a time when their business has reached a stage of prosperity after independence, partition and economic stability. After sweat, toil and tears, the insurance companies have come to a stage of prosperity and at that time we are asked to get away, and therefore consideration ought to be given

for the shareholders in the matter of compensation, and I think all justice and reasonableness ought to be exercised.

I would like to bring before you now a shareholder is a middle-class person. First of all, I will give you two figures regarding the holdings of the shareholders. We have taken the figures for the New India Insurance Co. 10,000 shareholders hold shares of 55 per cent. of the total shares and the individual holding of these 1,000 shareholders is less than Rs. 1,500. This 55 per cent. is held by the middle-class.

Shri Feroze Gandhi: What about the balance?

Shri Maganlal: I have not got figures about the balance. So 55 per cent. constitutes a very big portion of the holdings. In the same way, as far as the Oriental is concerned, 52 per cent. of the holding—that is 363 shareholders out of 700, hold one share each.

Shri T. N. Singh: What is the total number of shares in New India?

Shri Maganlal: The total number is 7 lakhs and as I told you 55 per cent. of the shares is held by 10,000 shareholders. Secondly, there is a Reserve Bank Bulletin of 1955, issued in February, which gives a survey in collaboration with the income-tax authorities, of the averages of 1952-53, wherein it has been given out that 59.5 per cent. of the shareholders have an income of less than Rs. 8,000. They have this figure from the income-tax authorities. That is, those who pay income-tax and who have an income of less than Rs. 8,000, constitute 59.5 per cent. of shareholders.

In the year 1949, the Indian Chamber of Commerce, Calcutta, had taken out an average in which they had taken samples of 54 companies, and they found that 97 per cent. of the shareholders were individually having holdings of less than Rs. 10,000.

Shri M. C. Shah: Since, then, seven years have elapsed.

Shri Maganlal: This was the average that was taken at that time. Even recently, in the case of the Imperial Bank of India, 75 per cent. of the shareholders hold shares of less than Rs. 10,000.

Shri Morarka: Do these figures relate to shareholders of insurance companies alone or in the case of all companies?

Shri Maganlal: I am just trying to give you what the shareholders are, particularly, of New India and Oriental. I am trying to describe that the shareholder is a middle-class man and in the matter of compensation, he deserves the highest amount of sympathy from the authorities, as this affects the flow of equity capital which is so essential for the development of the country.

Shri M. D. Joshi: What is your conception of a middle-class man in the matter of earning?

Shri Maganlal: I would say a man earning between Rs. 8,000 and Rs. 15,000 per year would be middle-class.

Chairman: That means more than Rs. 1,000 a month.

Shri Maganlal: At least my interpretation of middle-class would put him between Rs. 8,000 and Rs. 15,000.

Chairman: Supposing your contention is accepted that a fairly big number of shareholders are middle-class, don't you think that the Government are liberal, as provided in the Bill?

Shri Maganlal: No. That is why I am trying to explain that the compensation that will be given is much less than they deserve. This will drive the small middle-class investor from going into equity holding to debentures or preference shares. That is what I am trying to prove before you by the figures. Now I have put before you the view that the shareholder in insurance business as well as outside is a middle-class person.

Shri Feroze Gandhi: You gave the analysis of the shareholding of the Oriental Insurance Co. Do you know the shareholding of the Directors of the Oriental? Would you please reveal that figure?

Shri Maganlal: It will give you the figures. The number of shares of Directors is 134.

Shri Feroze Gandhi: Out of a total of?

Shri Maganlal: Out of a total of 3000, that is, of Rs. 200 each.

Shri Feroze Gandhi: Would you say that they are middle-class people?

Shri Maganlal: These Directors' holdings are like this: five Directors hold 10 shares each; one Director holds 13 shares; one Director holds 27 shares and so on. But they do not constitute the whole class of shareholders.

Shri Feroze Gandhi: On this assumption that because somebody is holding 2 shares, somebody is holding 5 shares and somebody is holding 10 shares, you can't come to the conclusion that because the shareholding is so small the shareholders are all middle-class. That you can't say.

Shri Maganlal: What I am trying to tell you is that there are 701 persons who receive this compensation and out of this 701, 363 are holding one share each and these are the middle-class people.

Shri Feroze Gandhi: Are you in come to the conclusion that if a man holds only one share, he belongs to the middle-class?

Shri Maganlal: You cannot take into consideration the person's other holdings also.

Shri Feroze Gandhi: Are you in possession of the information as to the entire holding of these people?

Shri Maganlal: I have not got that information at the moment.

Shri Feroze Gandhi: If you got through the analysis of shareholding of the Oriental, you will find that each one has a very good investment. Very very few people, would belong to the middle-class in Oriental.

Shri Maganlal: There are figures that speak for themselves. What I say is that many of these 363 persons holding one share each are middle-class.

Pandit K. C. Sharma: Your inference that they are middle-class is wrong.

Shri T. N. Singh: Statistics may be right, but conclusions may be wrong.

Shri Maganlal: If you say that the conclusion is wrong, it is believed that they hold more shares. After all they should hold shares in some company. The inference has to be taken. After all you have to take into consideration particular cases. You cannot generalise.

Shri Feroze Gandhi: You are trying to convince us from the time you began that because the shareholding in the hands of individuals is very small, they belong to the middle-class. But one share is also in the hands of very well-to-do people. If you see the list of the entire shareholding of the Oriental, you will find that they are very well-to-do people and there is not a single person who belongs to the middle-class.

Shri Maganlal: I submit that 59.5 per cent. of the shareholders are those whose income is Rs. 8,000 and below and that gives you a general idea. As far as the insurance shares is concerned I do not think I can give you any better idea. The investment in the insurance sector is a sort of semi gilt-edged investment by small investors in the hope of leaving some money and they have to get out at a time when the business is most prosperous.

Shri Feroze Gandhi: Can you give figures of the other companies? I have not got the names.

Shri Maganlal: I have not got particulars of shareholders of all the companies in Bombay. I thought it was outside my scope.

Shri Feroze Gandhi: You are here to give particulars on a very highly specialized subject. You have given an analysis. After all when you have found out all these figures, you could have easily found out figures from a few more companies.

Shri Maganlal: I cannot give you that. We have not got it.

Chairman: Let us accept it. Now we would like to know your views with regard to compensation. You were going to explain that the scheme for compensation is not liberal.

Shri Maganlal: I will explain it. Out of 109 companies (pure-life companies) there are only 23 companies which have shown surplus under the two valuations and only they become eligible for the purpose of compensation under clause (1). When we have worked out we find that out of 109 companies except nine companies all the rest would be getting only the paid-up capital and a little more. It varies from 15 to 20 lakhs of rupees. Their total capital is 120 lakhs according to our calculation. The major portion of the compensation which goes to the shareholders is so meagre that for having worked all these years they will get just what they have invested. That is exactly the position except for a few companies which will get compensation, where also they have hit because of a certain formula which has been adopted in the compensation scheme.

Now I come to the details of the memorandum which we have submitted to you. First I will refer to the question of the 7½ per cent. being reduced to 5 per cent. It is mentioned that in the progressive set-up many companies have adopted this 5 per cent. as basis. But according to the analysis that we have got, only Oriental and Bombay Life are two companies which have voluntarily adopted

the reduction from 7½ per cent. to 5 per cent.

Three other companies have been obliged to do so because of their constitution and the rest of the 149 companies have all adopted the basis of 7½ per cent.

Chairman: What is the percentage of business between those who have adopted 5 per cent. and those who have adopted 7½ per cent.?

Shri Maganlal: I am unable to tell you the figures because I am not aware of those figures being collected. Out of the 149 companies only five have adopted this 5 per cent. Of the five, two adopted it voluntarily and the rest on account of their constitution. That being the position, this arbitrary reduction from 7½ per cent. to 5 per cent. that is, nearly 33 per cent. of the share of the shareholder compensation spells upon them great amount of suffering.

Chairman: Let us consider the average of these five companies.

Shri Maganlal: Two of them have reduced it voluntarily. The other three have done it under their constitution.

Chairman: So, they accepted it as basis, that is, it was basically correct according to those who put it in their constitution.

Shri Maganlal: In the year 1950, 10 per cent. was reduced to 7½ per cent. All investments in Insurance shares which were made during this period by investors were made on the basis of 7½ per cent. allocation to the shareholder at any time by way of their contribution. That would be the return that the shareholder would be getting out of the business. But when 7½ per cent. was considered to be the basis, cutting it down to 5 per cent. spells lot of suffering to the shareholders. We want to submit that this 7½ per cent. should be allowed in the case of companies which have adopted 7½ per cent. as the basis. Those who

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have voluntarily adopted 5 per cent. may be allowed to have 5 per cent. and those who have under their constitution laid down the basis as 3 per cent. may, as provided in the Bill, be allowed to have 3 per cent. I think that would be a fair basis of compensation to the shareholders. That is the position in foreign countries. In the United Kingdom allocation is something like 10 per cent. If 7½ per cent. is adopted as the basis I don't think it will be going too much out of the way and giving the shareholder anything more than reasonable.

Shri Venkataraman: What do you suggest for Oriental and Bombay Life?

Shri Maganlal: They have adopted 5 per cent. and they can continue it.

Shri Venkataraman: Then will there not be discrimination?

Shri Maganlal: We have stated that those who have adopted 5 per cent. or less should be allowed less. There would be no discrimination in that case because they have already adopted that as the basis.

Shri Venkataraman: That would mean that such companies would be penalised in the matter of payment of compensation because they were good enough to have the ratio of 5 per cent.

Shri Maganlal: If the authorities think that they should be allowed more, they can do so. But after all they have themselves adopted 5 per cent. as the basis and there is nothing wrong in that remaining the same.

Shri Venkataraman: But why not reduce this 7½ per cent. to 5 per cent. because there are other companies which have already reduced it to 5 per cent?

Shri Maganlal: Most of the companies have just started and they are picking up. Between 1946 and 1951 they were in a transitory stage and now when they are picking up they are being taken at a ratio which is lower than was provided and the investors who were making investment on the assumption or on the banking

that they would be getting an allocation of 7½ per cent., which was fixed in 1950, are being told that they would get only 5 per cent. I don't think any big change has come over which necessitates a reduction from 7½ per cent. to 5 per cent. in such a short period. I submit that individual justice and reasonableness would be restored if the 7½ per cent. is allowed to all those insurers who were expecting 7½ per cent. as the basis. If they are allowed 7½ per cent. then they would be getting only reasonable compensation.

The next point that we have taken is about the period. In the matter of period we have taken out certain statistics and we find that in the present set-up, out of the 23 companies which become eligible for the purpose of compensation, 11 companies have to run a period of 8 years, 6 companies a period of 7 years, two companies a period of six years, two companies a period of five years, another two companies a period of four years and so on. That being the position one basic period should be taken for the purpose. We would suggest that the period 1951-55 would be the reasonable period for adoption. If it is possible, valuation by projection from 1953-54 may be undertaken. Then it should be projected to 1955 and all the valuations before 1951 may be cut out so that the basic period may be arrived at. It would be, to our mind, a very fair period for the purpose of giving compensation. As I have told you, we are getting out of the business when it is prospering. If we ask for goodwill nobody is going to pay it. But we hope at least the shareholders deserve a sympathetic treatment in the sense that the period 1954 and 1955 should be taken in the set up of things and that these dates should be considered for the purpose of compensation. This will make a material difference. I submit that if the shareholders are to be done any justice, if they are to be given any reasonable compensation, then the period adopted of the two valuations, to my mind, would cut them very badly.

I have certain figures that I have collected from 50 companies and in the valuations of 1951 and 1952 almost all the companies, small companies, have been very very poor. In many cases they will be paid certain compensation plus their capital under clause (2). So the payment to them will become very small. Therefore, as far as the period goes, it should be 1951-55 by projection of the valuations from 1953. If the valuation was in 1953 then we should cut out the period before 1951 from this. We would submit that 1955 may be taken as the basis and valuation as on 31st December 1955 may be made. But if it is difficult and it will take a very long time for this valuation and if the actuaries are able to make approximate valuations by taking certain approximations, I think the shareholders would even submit to the same.

Shri B. R. Bhagat: If you work out this compensation, will it be less than the paid-up value in the case of the shareholders?

Shri Maganlal: It will not be less than the paid-up capital. It will be a little more.

Shri B. R. Bhagat: I am asking about this 5 per cent. for 20 years. You say that it is not less than the paid-up value of the shares in the case of a surplus company.

Shri Maganlal: Not surplus. They will be paid the same if they come under clause (2). They must be paid on the basis of the market value and the intrinsic value.

Shri B. R. Bhagat: What is the market value?

Shri Maganlal: It reflects the intrinsic worth or purchase price of an establishment.

Shri B. R. Bhagat: I do not think in many cases you have the market value at all.

Shri Maganlal: We have figures for 5 companies. First I will give for Oriental. For the last ten years the average of Oriental works out to

Rs. 5,700. People investing in this company invested in it as a legacy share. People think they will get regular returns and they purchase it for the rainy day.

Shri M. C. Shah: What was the market value of this share on the 18th January, 1956?

Shri Maganlal: I cannot just tell you

Shri M. C. Shah: I want to know what was the market value on the 18th January, 1956.

Shri Dhirajlal Maganlal: I am sorry, I haven't got the figures with me.

Chairman: We would like to know what was the quotation in the market for Oriental on the 18th January, 1956.

Shri Maganlal: I think it was round about Rs. 5,500 and Rs. 6,000.

Shri M. C. Shah: It was between Rs. 4,600 and Rs. 4,700. Will you take that figure?

Shri Maganlal: If you give the figure, I will accept it.

Shri B. R. Bhagat: What about the shareholders of the rest of the companies?

Shri Maganlal: In the present working of insurance, particularly life insurance, the shares had lost all their value in the sense that they were not getting much over par.

Shri Sadhan Gupta: Regarding the Oriental, is it a fact that one of the reasons why the price of the share was high was due to a kind of artificial scarcity which had been created? As a matter of fact, when a particular holder of Oriental shares died, 200 shares were put in the market by his executors and the price of shares went down. So the market value is as much due to the artificial scarcity as to intrinsic worth.

Shri Maganlal: There is no scarcity. There is no squeeze in the market at all for these shares. These shares are

[Shri Maganlal]

bought and sold easily. The seller always quotes Rs. 100 higher and the buyer always wants it at Rs. 100 less.

Shri Sadhan Gupta: Is there very limited transaction of these shares in the market?

Shri Maganlal: Very limited, one or two shares at a time.

Shri Sadhan Gupta: Is it a fact that when a shareholder of the Oriental died, the price was very much brought down on account of the sale of these shares being put on the market by the executors?

Shri Maganlal: I am not exactly aware of the period. If you can give me the period, I will let you know.

Shri Sadhan Gupta: I think it is difficult for me to give the period off-hand. But I understand that there was one case recently in which the gentleman who held 200 shares died, after which his executors sold out his shares and that the price of the shares was brought down very much.

Shri T. N. Singh: You want compensation based on the market value.

Shri Maganlal: What I say is: if an investor could not get a fair compensation bearing market value he will not buy equity shares in an equity stock? He will go in either for debentures or preference share.

Shri M. C. Shah: There was a scheme of mutualisation so far as Oriental was concerned. That scheme was just in the offing for about a year and a half or more. Then it was known that in the valuation they will get about Rs. 8,800. Therefore the prices went up from Rs. 4,800 to Rs. 7,000 in those two years. Are you aware of that fact?

Shri Maganlal: Yes, I agree with you that the price had gone up in the last three years. There is the average of Rs. 6,300 and that was only because of the scheme of mutualisation. There-

fore, I would cut out these three years for the purpose of consideration of this valuation. If we take ten years' average then what will happen?

Shri M. C. Shah: Excluding these three years?

Shri Maganlal: We have taken ten years' average.

Shri M. C. Shah: Have you excluded the period from the date on which.....

Shri Maganlal: I remember it was in 1935 that these shares were sold at rock-bottom prices for about Rs. 1,600 or so. In the case of New India, after the nationalisation announcement came—of course, no payment is going to be made *ad hoc* because that is not a life company—the price went down from Rs. 65 to Rs. 38.

Shri M. C. Shah: Do you know that the price reached Rs. 72 and on the 18th January, 1956, the price was only Rs. 46-8-0?

Shri Maganlal: I did not refer to January, 1956.

Shri M. C. Shah: When you said that prices went down from Rs. 65 to Rs. 38 and considerable disturbance was caused, I pinned you down to certain dates. I say that it was Rs. 46-8-0 and the price today is Rs. 42 or so.

Shri Maganlal: Today it is only Rs. 38.

Shri T. N. Singh: I would say that since the witnesses had suggested that compensation should be based on the market value, we need not discuss that question at great length.

Shri Maganlal: I am only telling you what the share-prices were. I do not suggest that compensation should be on market values as they are not available.

Shri M. C. Shah: This is a frightful picture.

Shri Maganlal: Even if it is frightful, the facts have to be taken into consideration. I am not exaggerating.

Shri Tulsidas: I would like to know, since the Minister has raised the question of the reduction of share prices, the quotations the share market had for almost all shares on that date. because as I can see it, the shares had dropped not on account of the nationalisation of insurance but on account of the budget which was expected. In the past budget also the prices of all shares had dropped. It was not therefore a question of nationalisation of insurance.

Shri Maganlal: I would like respectfully to submit that the shares of insurance companies were affected since the last six to eight months because this question was being examined from time to time and the Minister himself several times stated that this matter was under examination.

Chairman: What is your next point?

Shri Maganlal: May I then quote the three companies?

Chairman: Yes.

Shri Maganlal: In the case of Industrial, the price is 45 and the available compensation would be round about 30 to 35. For the Bombay Life, the price is 300 and the available compensation will be 150. For the Empire, the price is between 500 and 600 and the available compensation will be between 300 and 350. These are the figures that I have got and as compared to market value, the shareholders will suffer a lot under the present compensation provisions.

Pandit K. C. Sharma: I just want to ask whether you have any precedents where any industrial undertaking being taken over by the Government has been paid in the form of compensation at the market price. Do you know of any precedent anywhere in the world where an undertaking has been taken over by the Government and market price has been paid?

Shri Maganlal: Certainly. The Bank of England was taken over at the market price, on the returnability of dividend and the market price. I think in the case of the Imperial Bank of India we did that.

Pandit K. C. Sharma: In regard to the zamindaris, what is the difference in the land taken over and in regard to the Banks what is the difference in the business taken over by the Government?

Shri Maganlal: There is difference between a shareholder and a landholder.

Pandit K. C. Sharma: The simple fact is that the zamindar did work but the criterion was that he was not the tiller of the soil. I may tell you that the market value in Uttar Pradesh of a kachcha bigha was Rs. 1500 but he was paid only Rs. 30 to 40. Once the State takes over for national purpose, the question of market value does not arise at all.

Shri Maganlal: I am not saying about the actually existing market value.

Pandit K. C. Sharma: Would you agree that the eminent domain of the State plus the existing policy of the Government and also the credit and stability of the Government are the three factors which should determine the value?

Shri Maganlal: I am telling you about the suffering.

Pandit K. C. Sharma: You can as well say that if a person is sent to jail for seven years, his children will suffer! The public policy of the Government is foremost and then comes the market value.

Shri Maganlal: As far as the statement of the Finance Minister goes, we have to be paid reasonable compensation. "Reasonable" is the word used by the Finance Minister and I am trying to say what is reasonable to the shareholders. I am going to stick to the word "reasonable".

Pandit K. C. Sharma: What is reasonable is that these factors will be taken into consideration—the stability of the Government, the credit of the Government and also the protection of your life and property. All these factors come into consideration.

Shri T. N. Singh: I would like to know first whether you want the compensation at the market rate.

Shri Maganlal: It is not possible to give it.

Shri T. N. Singh: Even if there is any possibility?

Shri Maganlal: The question does not arise because there is no possibility.

Shri T. N. Singh: Now, in any claim of compensation, is it possible in the context of the Constitution to calculate, or base any calculation, on the basis of prospects of future earnings, which may be bad or which may be good? You want compensation and depreciation on the earnings that the shareholders would have had on the prospect of future earnings. Would you agree to drop the idea of prospects in any system of calculation for compensation?

Shri Maganlal: In the present scheme, there is nothing except that what we have experienced in 1954-55 should be availed of.

Shri T. N. Singh: For the period of 1954-55 you have based your calculation on the market rate of shares in certain cases and in other cases there are no market values as you have not declared dividends. So, taking the generality of cases, after all, compensation has to be fixed not for individual cases but for all the cases. The majority of the cases are going to get almost even more than what they would have got. Out of 100 companies, some are such that they will get their full compensation, that is, the price paid for the shares plus something which may go up to 10%. You said 15 lakhs out of 130 lakhs of shares. That will account to 12% or so. On the basis of actual investment plus 12%, that is what they will get.

Shri G. M. Shah: All companies will not get their capital back. Many companies have got deficit.

Shri T. N. Singh: Even then, those which have deficit will get 100% of what they invested.

Shri G. M. Shah: No, they will have to pay their deficit from the capital. They will be losing. This is based on a new valuation to be made according to the proposal in the Bill. We cannot say what will be the position. I think 50% of these companies will lose their capital.

Shri T. N. Singh: Any such capital as being in a debenture is a risk capital and all the risks that go with that have to be taken.

Shri G. M. Shah: I have got a list of Bombay companies where you will find that five companies are getting compensation. In Bombay there are three companies which will get their capital back. There are nine companies which will lose their capital, almost half or more.

Shri T. N. Singh: That may be due to bad management.

Shri G. M. Shah: That is the position in composite companies also. Five will get compensation, six will get the capital back and five will be losing their capital.

Shri T. N. Singh: How many will get many more times than their capital?

Shri M. C. Shah: These companies would have gone into liquidation. You mentioned that out of 100 companies, there are 72 in which the shareholders will be practically losing everything, while the other 18 will only get something under the Bill.

Shri Maganlal: The position has been entirely different. If the period of 1954 and 1955 is taken into consideration, the position will very much improve.

Shri M. C. Shah: I have noted your point.

Chairman: What is your next point?

Shri Maganlal: My next point is about the tax liability. As far as tax liability is concerned, clause 30 of the Bill provides for the dissolution of the companies. At the same time, these companies do not go into the process of liquidation. What I say is that section 2(6)(a) of the Income-tax Act should not be made applicable. According to section 2(6)(a) of the Income-tax Act, companies going into liquidation and paying compensation to the shareholders are liable to tax. That being so.....

Shri M. C. Shah: That will not apply to middle-class people.

Shri Maganlal: Would you like them to be included?

Shri M. C. Shah: Middle-class people will not be liable to income-tax as their income will be much less than the minimum prescribed.....

Shri Maganlal: If I purchase some 20 shares in a company, that is my investment. Now, suppose I get something by way of compensation and you charge me income-tax on that amount, will it be fair? I invest a capital and I would get compensation as income instead of capital. In the Bill it says that these companies will be dissolved. I would request you to see that section 2(6)(a) of the Income-tax Act does not come into operation in this case.

Chairman: Do you want that it should not apply to all that you get or only to the amount that you get in addition to the capital?

Shri Maganlal: According to the Act, it is applicable to companies that go under the process of liquidation. Therefore, it does not apply to this case completely.

Chairman: There will be the capital that you have invested and there will be something more also. Do you want income-tax to be exempted with regard to both these items or do you want it to be exempted only in respect of the additional amount?

Shri Maganlal: In the Bill itself under clause 30, this full amount is exempted. This is being considered as capital. What I would like is to make it sufficiently clear as otherwise income-tax people are likely to create trouble. So, it has to be made clear in the Bill that section 2(6)(a) will not apply in this case.

Chairman: Do you want it not to apply to all that you receive?

Shri G. M. Shah: Yes, to all that we receive.

Chairman: There is the capital and there is also something more that is going to return.

Shri G. M. Shah: That is not in the form of an income. I would like to submit that if I buy, for example, one share of the Oriental worth Rs. 5,700/- and if I am given some amount now by way of compensation, what I get is only a return of the capital. It is not in the form of any income. That is why we plead that section 2(6)(a) of the Income-tax Act should not apply here.

Shri T. N. Singh: What I want to know is this: Some of the companies will now be getting a decent compensation, comparatively speaking. Is it not true that in most of these companies shareholders have continued more or less as they were since there were not many transfer of shareholders? The percentage of transfers has not been very high.

Shri Maganlal: It is just the other way.....

Shri T. N. Singh: I believe that when these companies get their compensation they will get more or less near about what was the market rate in 1954 or 1953, as the Finance Minister said.

Shri Maganlal: I have given you five examples where we have told you that rates much lower than the market value would come as compensation. We have quoted five companies.

Shri T. N. Singh: What percentage will they be getting less?

Shri Maganlal: 33 per cent less.

Shri M. C. Shah: Is New India one among them?

Shri Maganlal: New India is a composite company. Oriental, Bomby Life and Empire come under that category.

Shri T. N. Singh: Supposing a majority of shareholders belong to the class getting an income of Rs. 1,000/- or more a month, in that case also would you like their compensation to be on a higher level than the one proposed in the Bill?

Shri Maganlal: What I mean to say is that if the period 1954 and 1955 plus $7\frac{1}{2}$ per cent is taken into consideration, they will get reasonable compensation.

Shri M. C. Shah: Would you like to pay $7\frac{1}{2}$ per cent also? The position in certain companies was rather worsening.....

Shri Maganlal: I invest money in the shares. Then there is the intrinsic value of the shares to be taken into consideration.

Shri M. C. Shah: Are the rates fixed according to the $7\frac{1}{2}$ per cent basis or is it according to the intrinsic strength of the company itself?

Shri Maganlal: That will be judged by what they are likely to get.

Shri M. C. Shah: There may be certain companies—and I can give you a number of such companies—the managements of which, in order to be popular among the shareholders, pay $7\frac{1}{2}$ per cent. But the intrinsic strength of those companies deteriorated so much so they were just on the verge of insolvency. In respect of those companies also, would you like to give $7\frac{1}{2}$ per cent to the shareholders?

Shri Maganlal: If they are on the verge of insolvency, I think they are liked to get less than capital.

Shri G. M. Shah: If they have given $7\frac{1}{2}$ per cent, then where is the question of insolvency?

Shri M. C. Shah: That is because they had their valuation made just according to their own plans.

Shri G. M. Shah: That cannot be so. There was strict supervision and control over such valuation.

Shri M. C. Shah: I can show the list of such companies.

Chairman: Have you got any other point?

Shri G. M. Shah: I want you to make the clause dealing with tax position very clear. In Oriental, there are two things. It is not the price at which....

Shri M. C. Shah: That point is in the Bill.

Shri Maganlal: It is clear there, but it should be made more clear.

Shri Morarka: Some time back, you were arguing about tax liability. You were then referring to clause 30 of the Bill. Clause 30 of the Bill does not say that the insurance companies will be compelled to be wound up or dissolved. According to this clause, a company will be considered as dissolved only when it makes an application to the Government and the Government grants a certificate to the company saying that there is no reason for the continued existence of the company, etc. Such matters as to when the company will be dissolved, etc. are its own affair. Then before such application is made shareholders are bound to consider pros and cons of such dissolution. Therefore where is the question of income-tax immediately coming up here?

Shri Maganlal: Here, if the compensation is paid to the company, it asks for certificate, the company stands dissolved.

Shri Morarka: Why do the companies stand dissolved? When the Government pays compensation, the company is not bound to make an application. And even when an application is made it is for the Government to think over and decide whether the company should be given a certificate or not.

Shri Maganlal: If the shareholders of the company decide that they should do some other business, then that company stands.

Shri Morarka: If the company decides to do other business, it continues. The companies do not stand dissolved unless they ask for the certificate from the Government. Therefore there is no question of income-tax payable by the shareholders on the amount of compensation which they do not receive, the question of tax coming in here?

Shri Maganlal: If dissolution is treated as liquidation, then section 2(6)(a) of the Income-tax Act comes into operation. Therefore, I would respectfully submit that we should provide in the Bill that section 2(6)(a) of the Income-tax Act will not apply. That is my submission.

Shri Sadhan Gupta: You stated that previously five companies had paid less than 7½ per cent. I believe there is no change in their Articles of Association.

Shri G. M. Shah: It is only a question of shareholders agreeing.

Shri Sadhan Gupta: You also said that 23 companies revealed a surplus. Can you give me the figures as to how many of these 23 companies had share capital?

Shri Maganlal: I think all of them have share capital. All the 23 companies have declared surplus.

Shri Sadhan Gupta: So, you have given only a list of companies that have share capital, not the other companies. Is it correct?

Shri Maganlal: Yes.

Chairman: Any other point?

Shri Maganlal: In view of the very great delay that was caused in the case of nationalised airways, the shareholders would urge that a time limit should be prescribed in the Bill for

the purpose of valuation and payment of compensation to the companies. In case of dispute of any nature. The amount agreed upon should be immediately paid and the remaining amount may be paid within a prescribed time. This provision has to be incorporated in the Bill in order that the compensation may be available to the companies in a short time and interest should be paid on the compensation amount from the date of nationalisation; or they may be paid dividend. They may be paid dividend for 1956 or compensation may bear interest. That is quite reasonable.

Under the proposed scheme, a certain formula has been given for the valuation of these companies. Under this formula, the assets are to be valued on the basis of market value or purchase price whichever is less. In my opinion, the market value of the assets should be taken. I do not understand these particular words "market value or the purchase price, whichever is less", because in some cases the purchase price might be lower and the party might be affected, and in some cases it will be the other way round. Therefore, I would submit that for all these companies that are going to be valued on the basis of 1955, the basis should be the market value and not the purchase price.

The only other point is about the allocation of profits before tax in some cases. Mr. G. M. Shah will explain.

Shri G. M. Shah: For instance, Oriental have allocated their surplus before tax. We would like to know whether this compensation will be before tax or after tax.

Chairman: We would like to know your views on that. The Committee has not yet deliberated on that point.

Shri G. M. Shah: Our point is that the allocation of surplus should be before tax. The twenty times should be before tax for all companies.

Chairman: That is your view?

Shri G. M. Shah: Yes. One more point remains. There are companies which have made various provisions. For instance, the Bombay Life have got special premium taken on shares which is exclusive of capital or surplus. That should be returned to the shareholders. Then there is this Empire of India which has got a reserve of Rs. 5 lakhs and odd built up many years before. There are special allocations made in various companies.

Chairman: You want them to be returned?

Shri G. M. Shah: Yes. They should be returned to make it an equitable distribution for all companies.

(Witnesses then withdrew)

V. All-India Life Insurance Employees' Association

Spokesmen:

- (1) Shri R. A. Menezes
- (2) Shri Sallen Ghosh
- (3) Shri R. D. Chitre
- (4) Shri V. N. Gupta

Chairman: Have you anything to say besides what is stated in your Memorandum?

Shri R. A. Menezes: Clause 10 of the Life Insurance Corporation Bill does not cover all aspects affecting the employees. We want that the Industrial Disputes Act should be made applicable to all employees of the Corporation.

Chairman: That point has been made before.

Shri R. A. Menezes: We would like to emphasise that.

Chairman: Yes. The next point.

Shri R. D. Chitre: Regarding the constitution of the Corporation, there is a provision under clause 4 that there will be 15 Members. We would like to point out that at least one of these Members should be able to act as liaison officer between the employees and the Corporation.

Chairman: Is it besides some Labour Welfare Officer or besides the Public Relations Officer?

Shri R. D. Chitre: They will be zonal officers. We want that there should be one man through whom we can represent all cases and keep constant liaison between the employee and the Corporation.

Chairman: Is it a point that should figure in the Bill? Isn't it rather more or less a matter of administration?

Shri R. D. Chitre: The Bill does not make anything clear.

Chairman: Isn't it a matter of detail about the method of administration of the Corporation?

Shri R. D. Chitre: What we feel is that if something is made clear in the Bill that at least one representative will be there, that will enthuse a spirit of cooperation in employees.

Chairman: As a matter of fact, it is the national policy that there should be more and more participation of employees in all industries. It has been made clear, I believe. And this is a matter of detail with regard to the method of administration as to what should be the machinery through which relations between the employees and the employer should be maintained satisfactorily. Do you think that it should be emphasised in the Bill or do you want that a special provision should be made for the purpose?

Shri Sallen Ghosh: We want a special provision made in the Bill.

Shri R. D. Chitre: The second thing is that we have mentioned regarding standardisation of the scales of pay of the employees of the industry and there we have already pointed out that about 75 per cent of the business has been concentrated and salaried staff and their pay scales have been standardised. After their transfer to Government machinery, there should be preservation of these. Under sub-clause (4) of clause 10, they do not

have the remedial measures that were available under the Industrial Disputes Act. They are taken away.

Chairman: Are they taken away?

Shri R. D. Chitre: Yes. Sub-Clause (4) of clause 10 says: "Notwithstanding anything contained in the Industrial Disputes Act, 1947, or in any other law for the time being in force" Actually the clause should have been worded otherwise, that the persons who are covered by the Industrial Disputes Act will not be affected by this Clause.

Chairman: At present, they are governed by that Act. You think by the change that is there, they will not be governed by that Act.

Shri R. D. Chitre: It has been clearly stated that "Notwithstanding anything contained in the Industrial Disputes Act, 1947".

Chairman: Next point.

Shri R. D. Chitre: We have mentioned about the staff of Chief Agents. Though it is not anywhere covered in the Bill, as Chief Agencies are going to be abolished, their staff also will be going out.

Chairman: The staff of the Chief Agents should be absorbed. Is that your point?

Shri R. D. Chitre: Yes. The third point is about the existing pending disputes. There are existing pending disputes everywhere and these pending disputes should be settled before the Corporation is set up.

Chairman: How can that be done? How can the setting up of the Corporation wait after having announced the nationalisation? How can the whole process wait upon the settlement of certain disputes which may or may not come to an end?

Shri R. D. Chitre: The setting up of the Corporation need not wait, but the disputes should be settled.

Chairman: It is one thing to say that there must be a machinery to try to

settle as early as possible all the pending disputes and another thing to say that these disputes should be settled before the Corporation is set up.

Shri R. D. Chitre: A time limit must be set for the settlement of these disputes. You should give a definite deadline by which the disputes should be settled before the setting up of the Corporation.

Chairman: Is it reasonable? You can say that it is necessary that a settlement takes place as early as possible and you can say that a machinery should be set in motion to see that it is done as expeditiously as possible.

Shri R. D. Chitre: We have a very bad experience of the Bank Tribunal. It dragged on for seven years.

Chairman: There may be a history behind that and the same history may not be here.

Shri R. D. Chitre: What we want to submit is that when the people are coming under the Corporation, they cannot come with their past cases. Whatever it is, it should be put in order.

Chairman: Next point.

Shri R. D. Chitre: As we have said, nearly 70 per cent of the staff are in higher scales of pay, and the consideration of pay should be at the upper level. The employees under the private managements are not getting a living wage. Under the present scheme, there is vast room for expansion of business and there should be definite attempts made to pay them a living wage. The standardisation should be at the upper level.

Chairman: Is the trend not known from Chittaranjan and Perambur, the other sectors of public life? Is the trend not there to uplift and to improve the lot of workers?

Shri R. D. Chitre: From certain statements at the Ministerial level, we understand that standardisation will be on the basis of Government pay-scales.

Chairman: It may be as in any other public sector.

Shri R. D. Chitre: The banks and insurance companies go together because they come somewhere between commercial establishments and utility concerns. Their standardisation should be at that level. We have been comparing with the Reserve Bank which is a credit institution. There some scales are better. There may be room for improvement there also. Here I have given figures showing how the pay scales of employees of bigger companies differ from that of the Reserve Bank pay scales. There is a slight typographical error. In the last column "1024" must be "10248". We want to say that rationalisation should be at the higher level.

Then again, there are different pay scales in different insurance companies. Their working conditions differ. In many companies, their method of work also differs. Some draw higher scales of pay because they are more efficient and their output is better. So we do not know how these persons are going to be fixed in the standardised scales. Supposing a person is getting Rs. 162, at what level will he be put?

Chairman: It is a matter of detail.

Shri M. C. Shah: Let there be co-operation from them.

Shri R. D. Chitre: There will be co-operation. That is why we are suggesting a machinery allowing participation of employees at all levels.

Shri M. C. Shah: That will be done. Why do you worry about it?

Chairman: Next point.

Shri R. D. Chitre: We suggest that information about the set up of the Corporation may be circulated among the employees, so that they may render their cooperation and give whatever constructive suggestions they have.

Shri M. C. Shah: We want your fullest possible cooperation.

Shri R. D. Chitre: Under the new scheme of nationalisation, there should not be any retrenchment of the employees.

Shri M. C. Shah: Regarding that we have already given assurance. Why do you worry about it?

Chairman: Only some people at the top who may not be there by natural rights may be affected. That is what I understand.

Shri R. A. Menezes: We are concerned with persons covered by the Industrial Disputes Act.

Shri R. D. Chitre: There may be transfers of many of the employees and this puts the employees into difficulties. If the representatives of the employees are associated with it we can minimize the difficulties that will be there and we can see that everything goes on well.

Chairman: The dislocation must be minimized.

Shri R. D. Chitre: Yes. There should be a housing scheme for all the insurance employees. Previously all big companies were having their own housing schemes. Now some priority should be given to the employees in the matter of housing throughout the country.

With regard to valuation we submit that the valuation should be yearly. This can be done easily as there will be machinery in the corporation for doing this. In the past they were small private companies and so they were unable to carry on the valuation.

Shri M. C. Shah: We have provided two years. We will wait for some more time. Let us have some experience.

Shri R. D. Chitre: Two years have been provided in the Insurance Act.

Shri M. C. Shah: Previously it was three years. Now we have brought it down to two.

Shri R. D. Chitre: Previously the private management could not afford frequent valuation.

सभापति-सहोदय, जिनके भी कोसेस हैं वे सब इस दफ्तर को मालूम हैं, आपको शायद मालूम नहीं है।

नेकस्ट पाइंट

Shri B. Chakravarti: There is a provision in the Bill [sub-clause (2) of clause 10] that the present emoluments of the employees, both in the field and in the offices, may be subject to reduction. In case an employee has served for say more than 10 or 15 years and has a good record of service behind him and he is asked to accept emoluments which are substantially less than what he has actually been drawing, in that case if he is inclined to leave the job then he should be given adequate compensation. Some principle in this regard may be laid down because if he goes out of the job then he cannot serve elsewhere in the insurance line.

Chairman: You want him to be compensated.

Shri B. Chakravarti: Yes. In the memorandum we have also laid down the principle as to how the compensation is to be determined. The second point is this. Whatever an employee expects to get just at the present moment or when the corporation takes over, whatever he is asked to accept as remuneration, the provident fund accumulation and gratuity that he has become entitled to should remain unaffected.

Regarding zonal offices Mr. Puri, one of our members, has already explained to you in detail our viewpoints.

We have also to place for your kind consideration the case of the agents. The old agents and the existing agents are working under certain specified conditions. Since the new schedule of remuneration has been received by us, we find therein very extensive changes have been effected. So, whatever may be the position with regard to the engagement of new agents—of course, they will have to work under the new rates of remuneration—the position of the old agents should not be affected.

Chairman: Do you mean to say that the terms should remain the same irrespective of the new order of things?

Shri B. Chakravarti: Yes. Under the old terms they had to serve for a period of ten years at a stretch. Under the Insurance Act it was not necessary for them to procure any business to earn renewal commission. So the *status quo* may be maintained. Then some of them might have grown old and it may not be possible for them to introduce the minimum completed business of Rs. 75,000 or the renewals. Previously, in terms of the contract, which was also guaranteed by the Insurance Act, they would continue to get it. Not only so, but after their death it would pass on to the beneficiary. I was hereditary.

Chairman: You want the same terms to continue.

Shri B. Chakravarti: I want the terms and conditions to continue as provided for in the Insurance Act.

Chairman: As they exist?

Shri B. Chakravarti: Yes. There is also another point on which I have to state something.

In the Bill there is provision for reducing the policy liabilities. These policy liabilities should not be reduced.

Chairman: Irrespective of the standing of the company? What would have happened if the Corporation was not there?

Shri B. Chakravarti: Previously, in certain cases when a company was asked to be merged with another company because of financial unsoundness, this kind of reduction in the policy liabilities took place.

Chairman: What happened before and what was considered reasonable then should also be done now. Is that what you mean?

Shri B. Chakravarti: It happened then of course. I do not question

exactly the reasonableness or otherwise. Those policy-holders took policies under an assurance on the part of the insurers or their representatives. Mostly the policy-holders who took out policies with the company whose policy contracts are expected to be reduced relate to small companies. Small companies, as you must be aware, were doing business mostly in the rural areas, and people in the rural areas would be very substantially hard hit for it.

Chairman: What would have happened if this nationalisation had not come in?

Shri B. Chakravarti: Of course, people would have suffered because of bad management. There is no doubt about it.

Chairman: The intrinsic worth of the company would have been taken into consideration then.

Shri B. Chakravarti: It was for the Controller of Insurance to keep vigilance and I should say that the Controller was intervening in certain cases. The whole point is that since we are out to secure big business from the rural areas, an atmosphere must be created conducive to better production of business from the rural areas. The rural people, when they find that although the Government has taken over the insurance business their position has not improved because they have been victims and there is no redress for them, will have a bad feeling.

Chairman: That is what the Finance Minister says—robbing Peter to pay Paul! This is what you are advocating.

Shri B. Chakravarti: After all, you are trying to do good to a maximum number of people and to people who are practically not insurance-minded and taking out policies rather blindly on assurances—They are not discriminating people, and should not therefore be made to suffer.

Chairman: What is your next point?

Shri B. Chakravarti: We have finished.

Shrimati Sushama Sen: You said, you have business in the rural areas. May I know the extent to which people have insured in the rural areas? We want to expand business in the rural areas and so we want to know what is the amount they have insured. What is the business you have been able to do in the rural areas ?

Shri B. Chakravarti: We are doing a fairly large volume of business since the upward trend in agricultural prices has been stabilised.

Shrimati Sushama Sen: What is the amount of this insurance?

Shri Tek Chand: Nobody knows!

Shri B. Chakravarti: The average sum assured per policy will probably work out to a little over Rs. 2,000.

Shri Sadhan Gupta: You were talking about policy reduction. Would you not agree that the principles involved in the proposed policy reduction, or the fear of policy reduction, is not merely the intrinsic worth of the company and whether the policy-holders would have suffered or not, but that it is primarily the psychological reaction of this kind of thing on the prospective policy-holders?

Shri B. Chakravarti: Yes, of course it will have a bad reaction on the prospective policy-holders as well in the rural areas. There is also this point that it is not only a question of determining the soundness or unsoundness of an individual insurer at the present stage. There is therefore scope for taking a more lenient view than if the case were determined in isolation.

(Witnesses then withdrew.)

(The Committee then adjourned.)