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**STANDING COMMITTEE ON FINANCE
(2002)**

(THIRTEENTH LOK SABHA)

**MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)**

**THE GENERAL INSURANCE BUSINESS
(NATIONALISATION) AMENDMENT BILL, 2001**

TWENTY FIFTH REPORT

Presented to Lok Sabha on 8 March, 2002
Laid in Rajya Sabha on 8 March, 2002

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 2002/ Phalguna, 1923 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE - 2002

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Ramsinh Rathwa
4. Shri Rattan Lal Kataria
5. Shri Kirit Somaiya
6. Shri Kharabela Swain
7. Shri Raj Narain Passi
8. Shri S. Jaipal Reddy
9. Shri Ramesh Chennithala
10. Shri Kamal Nath
11. Shri N.D.Tiwari
12. Shri Pravin Rashtrapal
13. Shri Sudarsana E.M. Natchiappan
14. Shri Rupchand Pal
15. Shri Varkala Radhakrishnan
16. Dr. Daggubati Ramanaidu
17. Shri Chada Suresh Reddy
18. Shri Prakash Paranjpe
19. Shri Raashid Alvi
20. Shri T.M.Selvaganapathi
21. Shri Trilochan Kanungo
22. Shri Sudip Bandyopadhyay
23. Shri Sharad Pawar
24. Shri Abdul Rashid Shaheen
25. Capt. Jai Narain Prasad Nishad
26. Shri Prabodh Panda
27. Shri Amir Alam Khan
28. Shri M.V.V.S. Murthy**
29. Vacant
30. Vacant

RAJYA SABHA

31. Dr. Manmohan Singh
32. Shri Krishna Kumar Birla
33. Shri Suresh A. Keshwani
34. Shri N.K. P. Salve
35. Shri S.S. Ahluwalia
36. Shri Dina Nath Mishra *
37. Shri Parmeshwar Kumar Agarwalla
38. Dr. Biplab Dasgupta
39. Shri P. Prabhakar Reddy
40. Prof. M. Sankaralingam
41. Shri Amar Singh
42. Shri Prem Chand Gupta
43. Shri Sanjay Nirupam
44. Shri Daya Nand Sahay
45. Shri Palden Tsering Gyamtso

* Nominated vice Sh. Narendra Mohan w.e.f. 4.1.2002.

** Nominated w.e.f. 18.1.2002

SECRETARIAT

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Dr. (Smt.) P.K. Sandhu	-	Joint Secretary
3.	Shri R.K. Jain	-	Deputy Secretary
4.	Shri S.B. Arora	-	Under Secretary
5.	Shri Srinivasulu Gunda	-	Committee Officer

INTRODUCTION

I, the Chairman of Standing Committee on Finance -2002 having been authorised by the Committee to submit the Report on their behalf present this Twenty Fifth Report on the General Insurance Business (Nationalisation) Amendment Bill, 2001.

2. The Bill was introduced in Lok Sabha on 12 March, 2001. The Hon'ble Speaker referred the Bill to the Standing committee on Finance for examination and report thereon on 27 August, 2001.

3. The Standing Committee on Finance -2001 at their sitting held on 12 November, 2001 heard the views of representatives of (i) General Insurance Employees' All India Association, Mumbai ; and (ii) All India Insurance Employees' Association, Chennai, on the provisions contained in the Bill. The said associations have also submitted written memoranda on the provisions contained in the Bill.

4. At their sitting held on 4 February, 2002 the Standing Committee on Finance – 2002 took the evidence of representatives of (i) GIC, (ii) New India Assurance Company Ltd., (iii) National Insurance Company Ltd., (iv) United India Insurance Company Ltd., (v) Oriental Insurance Company Ltd., (vi) Insurance Regulatory and Development Authority (IRDA) and (vii) Ministry of Finance (Deptt. of Economic Affairs) on the provisions contained in the General Insurance Business (Nationalisation) Amendment Bill, 2001.

5. The Committee considered and adopted the draft report at their sitting held on 26 February, 2002.

6. The Committee wish to express their thanks to representatives of (i) Employees' Associations viz. General Insurance Employees All India Association ; (ii) Public Sector General Insurance Companies – General Insurance Corporation of India, New India Assurance Company Ltd., National Insurance Company Ltd., United India Insurance Company Ltd., Oriental Insurance Company Ltd.; and (iii) Insurance Regulatory and Development Authority (IRDA) and (iv) Ministry of Finance (Deptt. of Economic Affairs) for the co-operation extended in placing before them their considered views and perceptions on the subject and for furnishing written notes and information that the Committee had desired in connection with the examination of the Bill.

7. For facility of reference, recommendations/observations of the Committee have been printed in thick type.

NEW DELHI;
5 March, 2002
14 Phalgun, 1923 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

REPORT

The General Insurance Corporation of India (GIC) was formed as a Government company under sub-section (1) of section 9 of the General Insurance Business (nationalisation) Act, 1972 (GIBNA, 1972) and it commenced business from January 1, 1973. The purpose of establishment of GIC as a holding company of the four operating (subsidiary) companies, as stated in the General Insurance Business (Nationalisation) Act, is **superintending, controlling and carrying on** the business of general insurance. The functions of GIC as enunciated in the said Act are as follows :

- (a) the carrying on of any part of general insurance business as deemed desirable;
- (b) aiding, assisting and advising the companies in the matter of setting up of standards of conduct and sound practice in general insurance business and in rendering efficient customer service;
- (c) advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses;
- (d) advising the acquiring companies in the matter of the investment of funds;
- (e) issuing directions to acquiring companies in relation to the conduct of general insurance business.

2. It has also been stated in the General Insurance Business (Nationalisation) Act that GIC shall keep in mind the desirability of encouraging competition among the subsidiary companies as far as possible in order to make their services more efficient. Though the concept of holding company in the public sector was new at that time, the role assigned to GIC and the need for competition among the four subsidiaries was clearly brought out in the Act itself. On the formation of the GIC, the shares of the Indian insurance companies, which vested in the Central Government, were transferred to the GIC and all the Indian insurance companies became the subsidiaries of the Corporation. Under the schemes framed under GIBNA, 1972, the Indian insurance companies got merged in to one another and ultimately four Indian companies, namely, the National Insurance Company Limited, the New India Assurance Company Limited, the Oriental Insurance Company Limited and the United India Insurance Company Limited were left which were so situated as to promote competition among them so that effective services in the field of general insurance be rendered by them in all parts of India.

3. The Insurance Regulatory and Development Authority Act (IRDA) Act, 1999 incorporated a new sub-clause (c) in clause (7A) of section 2 of the Insurance Act, 1938 under which an Indian Insurance company can carry on life insurance business or general insurance business or re-insurance business. Clause (ii) of sub-section (8) of section 101 A of the Insurance Act, 1938 also defines the expression “Indian re-insurer” to mean an insurer, specified in sub-clause (b) of clause (9) of section 2 of the said Act, who carries on exclusively re-insurance business and is approved in this behalf by the Central Government.

4. GIC was designated as the Indian reinsurer under section 101A of the Insurance Act, to which all the domestic insurers were obliged to cede 20% of gross direct premium in India. In order to ensure retention of maximum business in the country and to secure the best terms from foreign reinsurers, GIC and its subsidiaries have common programme for reinsurance cessions.

5. At present, the General Insurance Corporation of India is undertaking re-insurance business in India and also underwriting direct general insurance business in civil aviation and crop insurance. GIC is also the holding company of four subsidiary insurance companies. In view of the aforesaid provisions in the Insurance Act, 1938 and IRDA Act, 1999, GIC can carry on exclusively re-insurance business or general insurance business. The Central Government therefore, has decided to entrust re-insurance business to GIC and de-link the said four subsidiary companies carrying on general insurance business from GIC. While the ceasing of underwriting of civil aviation and crop insurance business by GIC was dealt with administratively, it is proposed to delink GIC from its subsidiaries by making necessary amendments in GIBNA, 1972.

6. With the enactment of GIBNA in the year 1972, the share capital of insurance companies which stood transferred to and vested in the Central Government was immediately transferred to and vested in GIC. The Bill proposes to transfer back to the Central Government, the share capital of the subsidiary companies [vested in GIC] by making necessary amendment in GIBNA, 1972.

7. The All India Insurance Employees’ Association in their written Memorandum submitted to the Committee on the Bill stated inter-alia as follows :-

“that on the back of Parliament, the Government of India by an administrative order dated November 7, 2000 removed the powers of GIC to supervise and co-ordinate the subsidiary companies as per General Insurance Business (Nationalization) Act, 1972 and made GIC an exclusive reinsurer and the four subsidiaries have been made independent entities through the order which is impermissible in law and is patently illegal and violative of assurances given in Parliament.”

8. On the need for de-linking four subsidiary companies of GIC from GIC even before the parent legislation i.e. the General Insurance (Business) Nationalisation Act, 1972 was amended by Parliament, the Secretary (Deptt. of Economic Affairs) deposing before the Committee on **4 February, 2002** stated inter-alia as under :-

“With regard to the General Insurance Business Nationalisation (Amendment) Bill of 2001, this again is a consequence of the provisions in the Insurance Regulatory Act because that Act does provide that there should be a national reinsurer in the country which should be designated to carry on such business within the country. The General Insurance Corporation has been designated as the Reinsurance Corporation. Therefore, it is not considered to be a good practice that the reinsurer company itself should be the owner of the insurance company because there is a major conflict of interests, if that happens. So, if GIC is to be designated as a reinsurer, under the law, which, it is already been designated, then it would naturally follow that the reinsurer should not be a holding company for direct insurance companies for the conflict of interests, which is inherent in such relationship. Therefore, this amendment to de-link the subsidiary companies from the GIC which, Sir, is really required because of the existing provisions because otherwise the subsidiary companies could be demerged by GIC itself, because they are creatures of the company law. They are companies incorporated under the Company Law so any demerger of subsidiary companies is normally done under the Company Law. So, these being the Government owned companies, under the provisions of the Company Law, they can be demerged. But because of certain provisions, which exist with regard to these subsidiary companies and the law, which was provided at that time when these companies were nationalised, this amendment to the Act has been considered necessary.

9. In response to a query as to the need for issuing notification to make GIC as a reinsurer even before the Parliament enacted necessary amendments to the Parent Act i.e. the General Insurance Business Nationalisation Act, 1972 Chairman, Insurance Regulatory and Development Authority during the evidence held on **4 February, 2002** inter-alia stated as under :-

“Sir, you know that the IRDA Act was passed in 1999. The IRDA was brought into existence on the 19th of April, 2000 and we

invited applications from prospective companies which wanted to set up business in India along with Indian promoters.The first batch of new registration of companies was made on 23rd of October, 2000. Some of those companies which were recognised by us in October, 2000 were to carry on business in general insurance. When you recognise people to carry on general insurance business, the normal incident of that is that you will not be in a position to retain all the risks to yourself. So, you have to reinsure these risks. Big risks have to be reinsured outside India in the foreign markets. Sir, even today, the GIC and the four subsidiary companies are carrying on reinsurance operations. They cede business outside India. Anywhere between 12 to 20 per cent of business is covered by re-insurance obligations. So, we did not want a situation to develop when there was no national re-insurer notified by the Government. with private operators, in an effort to advance their business, assumed larger risks and then started reinsuring with people outside India without their being a compulsory cession into the market within the country. A national re-insurer under the Act is supposed to receive compulsory cession from all the Indian insurers. Today, this is done under section 101(a) of the Insurance Act. In consultation with the Government, we, in the IRDA, fixed that twenty per cent of the gross premium that every private insurer or any public sector company in the general insurance business received, must be ceded to the General Insurance Corporation. There are two purposes which are sought to be served. The first purpose is to see that there is no leakage of foreign exchange or there is no unnecessary remittance of money outside India by way of foreign exchange. The second is that we must develop our own resources, our own strength to retain the risks within the country. So, we started this by notifying a national re-insurer. I did approach the Government saying that if these companies are to be enabled to start business and do business within the country, then we must take steps to notify a national re-insurer. We did not want to start another re-insurer company because a re-insurer's credibility in the foreign market is judged by its resources, its financial strength and its ability to meet its commitments. We had a general insurance Corporation of India which has a total reserves and capital strength of more than Rs. 2,000 crore, with which it will be in a position to strongly negotiate with outsiders on cession of business, on acceptance of business. So, in consultation with the Government, we thought the most prudent decision would be to designate the General Insurance Corporation as the national re-insurer or the Indian re-insurer. We could have started another company. The minimum capital was Rs. 200 crore. With Rs. 200 crore, you will not be able to retain much business within the country. You will be another direct insurer who will then seek outside help to protect the interests of the Indian customer. So, that is one basic reason which compelled us to go to the Government to designate the General Insurance Corporation."

10. Supplementing further on the issue the Secretary (Deptt. of Economic Affairs) during the evidence held on **4 February, 2002** stated inter-alia as follows :-

“..... Sir, after all, there is a law passed by Parliament which enjoins upon the regulatory authority now to declare an Indian company as a re-insurer and it also enjoins upon the regulator to specify the percentage of the sum assured on each policy, as may be specified by him, for which the insurer shall re-insure with Indian re-insurer. So, these are the responsibilities cast by a law passed by Parliament. On that basis, GIC was designated as the reinsurance company. So, it naturally is a consequence that a reinsurance company cannot carry on business which it is going to re-insure itself. It is a natural consequence of that.”

11. On the need for Gazette Notification dated 3 November, 2002 intimating the Govt's decision of converting GIC as a reinsurer only the Secretary (Deptt. of Economic Affairs) inter-alia stated as follows :-

“The law says that any company which is going to do re-insurance business must be approved and designated by the Government of India. They have designated GIC as the Indian re-insurance company. So, it naturally follows that once it is designated as a re-insurance company, it cannot carry on insurance business. But it is not said in this notification or anywhere else that it will not remain the holding company for four insurance companies whose separation has now been proposed in the Bill. The Bill only seeks to carry this process forward because a re-insurer should not firstly carry on insurance business. That should be done through an executive decision, but to carry forward the step further to avoid any conflict of interest between a re-insurance company and primary insurance company, this is a logical sort of amendment in the law that is needed. That is exactly what has been proposed. It is strictly in keeping with the intention of the law passed by Parliament.”

12. The Committee observe that to prevent flight of capital from India in the form of reinsurance premium and to ensure the development of our own strength and resources to retain the risks within the country itself, General Insurance Corporation has been made to operate only in reinsurance arena under Section 101(A) (8) (ii) of the Insurance Act, 1938. Moreover, this measure is also in tune with the provisions contained in the IRDA Act, 1999. The Committee, therefore, are in agreement with the proposed changes in the General Insurance (Business) Nationalisation Act, 1972 and approve the same without any modification/amendment.

13. Though the Committee take note of the need to convert GIC as reinsurer and de-linking four subsidiaries from GIC consequent to the licences granted to private sector players to carry on general insurance business under the provisions of insurance Act, 1938 and IRDA Act, 1999 they are of the view that Govt. should have anticipated the need to amend the General Insurance Business (Nationalisation) Act, 1972 well in advance i.e. before licences were given to private companies to carry on general insurance business and initiated the necessary legislative measures to bring in necessary amendments to the relevant Acts obviating the necessity for bringing the required changes through notifications, administrative circulars and executive orders. The Committee therefore, desire that the Ministry must not to resort to such practice in future and anticipate well in advance the need for amendments by the legislature.

NEW DELHI;
5 March, 2002
14 Phalguna, 1923 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

NOTE OF DISSENT

Shri Varkala Radhakrishnan, MP

The process of de-linking 4 subsidiary companies of GIC from GIC before the parent legislation i.e. The General Insurance Business (Nationalisation) Act, 1972 was amended by the Parliament is beyond jurisdiction. A notification was issued by the Ministry to make GIC a reinsurer is without legislative sanction. It is for the Parliament to make an amendment to the parent act and not the executive. The delinking process is highly ultravires and devoid of merit. I understand that the Public Accounts Committee also disfavoured the proposal unanimously. I therefore strongly dissent the move to delink.

Regarding the introduction of brokerage system in the insurance sector is highly objectionable. It is very likely to result to throw away lakhs of insurance agents through out the country from employment. I strongly object the introduction of brokerage in the insurance sector.

Sd-

(VARKALA RADHAKRISHNAN)

Note of Dissent

Shri Rupchand Pal, MP
Shri Prabodh Panda, MP

I am opposed to the General Insurance Business (Nationalisation) Amendment Bill, 2001 (Bill to delink GIC from its subsidiaries) on the following grounds and so I submit my Note of Dissent.

- (1) Mergers and acquisitions are taking place all over the world especially in financial sector to survive and succeed in competition.
- (2) Merger of all the 4 public sector General Insurance companies is all the more required to meet the competition from private sector.
- (3) If merger is not allowed and spitting up of public sector takes place, it will lead to:-
 - (a) multiplication of administrative expenses such as 4 CMDs, 4 x 4 GMs, etc. besides 4 HOs and so many lower offices.
 - (b) The financial strength of the public sector, instead of being conserved and consolidated, would get frittered in competition between the public sector giving advantage to private players.
 - (c) Already, even in the limited competition between the public sector general insurance companies as subsidiaries of GIC of India, unhealthy practices are noticed in grabbing of business of one subsidiary from another. With the delinking of the subsidiaries from the parent GIC and making them independent companies, such unhealthy practices would increase without any check. It has started happening now in snatching of business by one public sector general insurance company from another. The recent grabbing of insurance pertaining to ONGC with a sum assured of US \$ 12 billion by the public sector United India Insurance from the other public sector New India Assurance has its inside story of unhealthy practice. This requires to be probed along with other similar shifting of business from one public sector to another public sector. There is also draining of money in unhealthy competition between the public sector companies, some times quoting most uneconomical insurance premium.
- (4) The capacity to underwrite mega insurance risk will hamper if the public sector is divided into 4 and their financial base is weakened.
- (5) The capacity to retain risk (risk retention capacity) of a consolidated public sector would be bigger than that of a split-up organization because of the financial base. That means, more premium can be retained and less premium outgo for reinsuring the risk.

- (6) If the split up takes place, it would weaken the public sector general insurance companies. Ultimately, the Government would use it as a handle of disinvest and sell it to private sector.
- (7) If the public sector is weakened, the social insurance, which are given at subsidized cost, will vanish. Already, the social insurance covers to rural poor such as, Personal Accident and Social Security Scheme (PASS) and Hut Insurance have been withdrawn.
- (8) The cost of insurance also would go up for the common people since the cross subsidies available for small insurances would stop. The creamy profitable insurance will go to private sector and the weakened public sector will not be in a position to cross subsidize the small insurances.
- (9) If the name of GIC of India has to be used for the exclusive Indian Re-insurance to get the better coverage of the popular name in international market, there is no prohibition to merge all the four Subsidiaries into a single entity by giving any another name. The purpose should be to consolidate and strengthen the public sector in the competitive scenario. This was assured to be done by the Union Finance Minister in the Parliament while moving the IRDA Bill.
- (10) GICI can be a national reinsurer even while continuing its Insurance business as a merged and larger and stronger entity along with its four subsidiaries.
- (11) The recommendations of Committee on Public Undertakings (COPU) against demerger are very valid.
- (12) The Board of Management of GICI has not been given the opportunity to submit its views on the issue of “demerger”.
- (13) The Reports of “PricewaterhouseCoopers’ as also that of ‘Chitale & Co’ - two reputed consultancy firms on the issue should have been taken into account.

Sd-
(PRABODH PANDA)

Sd-
(RUPCHAND PAL)

Note of Dissent

Shri Rupchand Pal, MP
Shri Prabodh Panda, MP

On the Report In Respect of Bill No. – 24 General Insurance Business (Nationalisation) Amendment Bill, 2001 – Bill to delink GIC from its Subsidiaries and Bill No – 74 of 2001, Insurance (Amendment) Bill – 2001 to bring in the Broker system in the Insurance Industry.

The above Bills had been referred to the Standing Committee on Finance for examination. It has been mentioned in the Report that the representative of the IRDA, Ministry of Finance, Chambers of Commerce & Industry, Chairman LIC, representatives of the subsidiaries of GIC as also the trade unions in the Insurance Sector and Agents' Organizations were examined. It is placed on record that some of them submitted written memorandum and elaborated their viewpoints which are a part of record. A few documents and information were required to be supplied by the managements of LIC and GIC which have not been made available to the members of PAC. Had the same been received it would have helped in examining the implications of the said Bills from various angles.

As the Draft Report dated 22nd February 2002 had been circulated and has been considered for adoption on 26th February 2002 attention was drawn by me to several aspects of the bills which need to be look into. I had put on record my serious objections to both the bills before it was adopted. As stated in the said meeting a Note of Dissent is being submitted in the following paragraphs.

It may please be noted that the Report already adopted may please be reconsidered in the light of the facts that have come on record as the same will have far reaching and disastrous consequences for Insurance Industry in the Public Sector. The Brokers and Corporate Agents, who will be a law unto themselves and shall be answerable to none will ultimately ruin the nationalized insurance Sector which had been making tremendous contribution to the Indian Economy and serving the Social Sector immensely. With these observations I am putting my view points below on the said two bills.

1. The subsidiaries of GIC namely (i) National Insurance Company Ltd. (ii) The New India Assurance Company Ltd. (iii) The Oriental Insurance Company Ltd. And (iv) United India Insurance Company Ltd now being looked after by **GENERAL INSURERS' (PUBLIC SECTOR) ASSOCIATION OF INDIA (GIPSA)** as also the LIC management who appeared before the committee and deposed expressed apprehensions about the inherent dangers arising out of use of brokers and corporate agents in the Insurance Sector. These submissions should have been seriously considered and we should have waited for the information that was to be furnished by them on the subject as promised by them.

2. The representatives of the Employees' Unions submitted the memorandum and placed their submissions on record about the unethical practices indulged in by brokers. This should have been kept in view. They referred to the findings of report of Insurance Company Insolvencies captioned FAILED PROMISES presided by John D Dingell in USA. All India Insurance Employees' Association in the course of submissions placed a copy of the same on record and explained their view points about the dangers of using brokers which is similar to Managing General Agents for procuring business. Such practice has led to the bankruptcies, frauds and scandals in even developed countries like America.

The Draft Regulation in respect of intermediaries including Brokers, Corporate Agents etc. had been circulated by IRDA (Put on website) and subsequently withdrawn. LICI Chairman promised to the Committee in the course of his deposition to provide a copy of the same. It would have helped to understand the inherent dangers had this Committee gone through the Draft Regulation.

3. During the course of the meeting on 26th February 2002 attention of the Committee was drawn to the Recommendation of a Report of Committee on Public Undertaking (COPU) dated 28th August 2001 which have been placed on record. No mention has been made in the PAC Report about the recommendations of the COPU on the same issues. It is emphasized that COPU gave the unanimous recommendation as under.

“The Committee has been informed that the IRDA is in the process finalizing regulations for entry of brokers in the Indian Insurance Market and they will be paid commissions upto 17.5 % for the business procured by them. The Committee note that the non-life Insurance Companies are already working with the high management expenses. They, therefore, feel that the additional burden on the brokerage will compel the non-life Insurance Companies to raise the premium rates in order to absorb the additional costs. They are also of the view that the introduction of the brokers at this state will also affect the agents systems, which is so vital to the growth and penetration of Insurance business in the country.”

4. Vide memorandum submitted by the All India Insurance Employees' Associations on November 12, 2001 and their oral submissions they drew the attention of the Committee and had pointed out that the unanimous recommendations of COPU on the subject were against use of brokers. This should have been taken note of. The management of GIPSA is on record to have proposed VRS in view of the so called redundancy of staff from Administrative and Marketing side in view of the proposed move for introduction of Regulations relating to Brokers or Corporate Agents.

5. Reportedly, GIPSA during its discussions with the Unions in the General Insurance Sector belonging to Class – I, Class – II, Class – II & IV made written proposals by GIPSA which states that ***in the wake of liberalization of insurance Industry, it was decided at the Governing Board of GIPSA that measures need to be taken to restructure and re-engineer our Organisational Structure to succeed in the competitive environment. It was further emphasized by GIPSA that the cost would go up because of the fall in the rate of growth of premium due to entry of new players in the market.*** It is emphasized that the representatives of AIIEA quoted GIPSA's proposals which stated amongst other things as under:

“With the introduction of Regulations relating to Brokers and Corporate Agents, the market is likely to be intermediary-driven. In such a scenario, the cost of business procurement itself will range between 15% - 17.5% as against the current levels of outgo between 2 and 2.5% on this account.”

This clearly shows that the cost of procuring business which is in the range of 2 to 2.5% would get increased to around 17.5%. This has been dealt with by the Committee On Public Undertakings which has gone into the subject and have opined against the use of the Brokers and Corporate agents. The GIPSA is stated to have emphasized that the cost of procurement shall lead to escalation due to change in statute relating to intermediaries. This aspect should have gone into. The reference of the Note circulated by GIPSA and quoted by All India Insurance Employees' Association clearly states that the market henceforth will be driven by the intermediaries viz. Corporate Agents, Brokers etc. and the role of Development Officers would have to be redefined. GIPSA has been quoted stating as under:

The Public Sector General Insurance Companies may have to avail/utilize the new marketing force likely to emerge viz. Intermediaries who will secure licenses to operate during the course of this year.

Commission payments to the new intermediaries namely Corporate Agents and Brokers and enhanced Commission to the Agents will dramatically increased the management cost to the companies.

It is pointed out that COPU & GIPSA have emphasized that the cost of procuring business shall considerably escalate due to change in the statute relating to intermediaries. This aspect was required to be gone into and may please be re-examined by the Committee.

6. There is a widespread and justified apprehension that commission payments to the new intermediaries, mainly Corporate Agents and Brokers, will dramatically increase the management cost. GIPSA has proposed reduction of 30% of the administrative staff higher percentage of marketing staff to save administrative cost while placing on record an appreciation of their services which reads.

“The in-house marketing cadre of Development Officers in the nationalised General Insurance Companies has served the industry admirably. However, in the wake of liberalization of the market which henceforth will be driven by the intermediaries viz Agents, Corporate Agents and Brokers, the role of Development Officers has to be redefined.”

These aspects should have been seriously gone into as there is likelihood of the destabilization of public sector General Insurance in a big way and making the existing employees belonging to different categories redundant even though the services rendered by them have been appreciated by GIPSA and also by the Finance Minister during the discussions on IRDA Bill (1997)

The 15th Standing Committee on Finance which examined the Representatives of the Government, Corporate Houses, the Managements of the Insurance Industry and the Trade Unions are on record have stated in Para 62 at Page 28:

“The Committee notes that lakhs of agents are working at present in the Life and General Insurance Companies and large sums have been invested by such companies for their training and development. It has been apprehended that once the sector is opened up the new companies may take the trained agents alongwith their clients to the detriment of both LIC and GIC. The Committee therefore recommended that tied agency system should be brought in by the IRA in the industry so that an agent is not permitted to operate in more than one company.”

It is confirmed that the Standing Committee on Finance recommended Tied Agency System and also recommended that an agent be not permitted to operate for more than one company. It may be appreciated if the brokers and Corporate Agents are brought in as proposed they will be free to book business on behalf of different insurers and may shift from one to the other along with their clientele. This aspect requires to be examined.

The Draft Regulation on Brokers circulated by IRDA which was subsequently withdrawn, if made available, would have enabled the Committee to study its implications and could have helped to make appropriate suggestions. If the Brokers/Intermediaries for procuring Insurance business will have the power to collect premiums, issue documents and settle claims besides providing Insurance consultancy service, it will lead to fraudulent practices of the pre-nationalized days. There is no safeguard against all these in the Report. If the Brokers and Corporate Agents maintain their own bank accounts and are authorized it to deduct its commission and service charges, it will be disastrous for the nationalized sector which will be weakened. Such practices are similar to the system of Managing General Agents (MGAs) prevalent in the Insurance Industry in USA which is reported to have resulted in bankruptcies and scandals in that country.

8. The 5th Standing Committee on Finance examined Shri R.N.Malhotra, Former Governor of RBI & Chairman Committee on Reforms in Insurance Sector who had submitted a note dated 17 January, 1997, which has been referred it by the Standing Committee in its report on page 67 to 71. On the basis of depositions of Shri Malhotra, The Committee came to the following conclusions:

“Filthy the Committee did not recommend establishment of Managing General Agents and has proceeded on the assumption that Insurance Companies would develop their own sales force and be themselves responsible for underwriting and that they would receive payment of premia before providing insurance covers. It is possible that as the markets develops some Insurance Companies might like to appoint Corporate Agents (i.e Banks) to perform some agency functions. If and when such question comes up, the agency functions would have to be tightly defined so that crucial function like under-writing claim settlement and reinsurance remain with the Insurance Company.”

Refer page 70-71 of the report.

It is emphasized that these aspects were already gone into by the Standing Committee on Finance in its 5th and 15th report and there is no justification to allow use of Brokers and Corporate Agents by paying them commission rates in the range of 17.5% as is being contemplated as the same would lead to destabilization of public sector insurance and redundancy of workforce in a big way. This is contrary to the assurances given by the Hon'ble Finance Ministry on the floor of the House during the course of the discussions on IRDA Bill, when he had stated,

“There is no question of retrenchment of any staff from these public sector Insurance Companies namely, LIC, GIC and its subsidiaries. Let me assure the house that all further measures which are necessary in this direction will also be taken by the Government in due course to make these organizations strong.”

With these few words I oppose legislative measures and submit my Note Dissent in the matter of allowing use of Brokers and Corporate Agents as intermediaries in the Insurance Sector.

It is emphasized that the objects and reasons contained in the IRDA Bill were totally silent on the subject. It seems to be an afterthought or this had been kept hidden at that time.

It is also pointed out that there is enough evidence that shows that there are bungling and swindling by the co-operative banks. They have been in news for quite some time in the recent past. The same may please be kept in view and the matter may be examined in greater detail. It is suggested that

nothing should be done in a hurry in view of the pitfalls and hazards involved. It involves use and misuse of huge amounts of public money.

It may be appreciated that regulators failed to check the scandals, frauds, price rigging by the brokers in the share market and the funds with the Insurance.

Companies are long-term savings for which unscrupulous elements would be tempted to misuse or misappropriate which may remain unnoticed for a long time. Mr. John D Dingell has made elaborate submissions in its report relating to Insurance Companies insolvencies.

It is requested that while taking this Note of Dissent on record the matter may be re-examined in view of the pitfalls and intricacies involved.

Sd-
(PRABODH PANDA)

Sd-
(RUPCHAND PAL)

MINUTES OF THE TWENTY NINTH SITTING OF STANDING COMMITTEE ON FINANCE-2001

The Committee sat on Monday, 12th November, 2001 from 1220 hrs to 1345 hrs and thereafter from 1500 hrs to 1630 hrs.

PRESENT

Shri. Shivraj V. Patil – Chairman

LOK SABHA

1. Shri Raashid Alvi
2. Shri Prabodh Panda
3. Shri Ratan Lal Kataria
4. Shri Rupchand Pal
5. Dr. Sanjay Paswan
6. Shri Varkala Radhakrishnan
7. Shri Pravin Rashtupal
8. Shri Ram Singh Rathwa
9. Shri S. Jaipal Reddy
10. Shri C.N. Singh
11. Shri Kirit Somaiya
12. Shri Kharabela Swain

RAJYA SABHA

13. Shri S.S. Ahluwalia
14. Shri Suresh A. Keshwani
15. Shri Solipeta Ramachandra Reddy

SECRETARIAT

- | | | |
|--------------------------|---|----------------------|
| 1. Shri P.D.T Achary | - | Additional Secretary |
| 2. Dr. (Smt) P.K. Sandhu | - | Joint Secretary |
| 3. Shri R..K. Jain | - | Deputy Secretary, |
| 4. Shri S.B. Arora | - | Under Secretary |

WITNESSES

Confederation of Indian Industry (CII)

1. Shri Subodh Bhargava, Past president CII and Adviser
2. Shri Deepak Satwalekar, Managing Director, HDFC Standard Life Ins Co. Ltd.
3. Shri Stuart Purdy, CEO, Dabur CGU Life Insurance
4. Shri Mohit Burman, General Manager, Dabur India Limited
5. Shri Goerge Oommen, CEO, Tata – AIG Insurance Company

Punjab, Haryana and Delhi Chamber of Commerce and Industry (PHDCCI)

1. Mr. C.K. Hazari, Past President PHDCCI
2. Mr. Shambu Anand, Chairman, Study Group on Insurance, PHDCCI
3. Mr. Ramesh Kapoor, Member, Study Group on Insurance
4. Mr. T.G. Keswani, Consultant, PHDCCI
5. Mr. B.J. Thapar, Consultant, PHDCCI

Life Insurance Agents' Federation of India, Vishakapatnam

1. Shri H.M. Jain - President
2. Shri N. Gajapathi Rao - Secretary General
3. Shri Premsinghal
4. Shri Ranavir Sharma
5. Shri Sanjay Prasad

All India Insurance Employees' Association, Chennai

1. Shri R.P. Manchanda - President
2. Shri N.M. Sundaram - General Secretary
3. Shri R. Santhanam - Secretary Standing Committee
4. Shri J. Gurumurthy - Joint Secretary

General Insurance Employees' All India Association, Mumbai

1. Shri M.S. Upadhyay - General Secretary
2. Shri Ummed Singh - Vice President
3. Shri Upadhay - Joint Secretary

National Federation of Insurance Field Workers of India, Lucknow

1. Shri Jay Prakash - President
2. Shri Anand Tyagi - Secretary General

2. At the outset, the Chairman welcomed the representatives of the Confederation of Indian Industry (CII) and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The CII then gave a presentation and expressed their views on the Insurance (Amendment) Bill, 2001.

The witnesses then withdrew.

3. Since the Hon'ble Chairman had some other important engagement, he left the sitting at about 1300 hours for a shortwhile. The Committee then chose Sh. Rupchand Pal to act as chairman under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

4. Thereafter the acting Chairman welcomed the representatives of the PHD Chamber of Commerce and Industry and before taking their evidence invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The PHD Chamber of Commerce and Industry expressed their views on the Insurance (Amendment) Bill, 2001 and replied to the queries raised by the Members.

The witnesses then withdrew

5. Due to paucity of time, the Committee decided to postpone the oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs – Insurance Division), Insurance Regulatory and Development Authority (IRDA), Life Insurance Corporation, General Insurance Corporation and its four subsidiaries.

The Committee then adjourned for lunch to meet again at 1500 hrs

6. Thereafter, the Chairman welcomed the representatives of the Life Insurance Agents Federation of India, Vishakapatnam and invited their attention to Direction 55 of the Direction by the Speaker. The representatives then placed their viewpoints on the Insurance (Amendment) Bill, 2001 and replied to the queries raised by the Members.

The witnesses then withdrew

7. The Chairman then welcomed the representatives of the National Federation of Insurance Field Workers of India and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The representatives of the Association expressed their views on the Insurance (Amendment) Bill, 2001.

The witnesses then withdrew

8. The Chairman then welcomed the representatives of All India Insurance Employees' Association, Chennai and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The representatives of the Association expressed their views on the Insurance (Amendment) Bill, 2001 and the General Insurance Business (Nationalisation)

Amendment Bill, 2001. They also replied to the questions/queries raised by the Members.

The witnesses then withdrew

9. The Chairman then welcomed the representatives of the General Insurance Employees' All India Association, Mumbai and invited their attention to Direction 55 of the Directions by the Speaker. The representatives expressed their views on the provisions contained in the General Insurance Business (Nationalisation) Amendment Bill, 2001.

The witnesses then withdrew

10. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE THIRD SITTING OF STANDING COMMITTEE ON FINANCE -2002

The Committee sat on Monday, 4 February, 2002 from 1100 to 1300 hours and again from 1500 to 1700 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Rattan Lal Kataria
4. Shri Kirit Somaiya
5. Shri Kharabela Swain
6. Shri Raj Narain Passi
7. Shri Ramesh Chennithala
8. Shri Rupchand Pal
9. Shri Varkala Radhakrishnan
10. Shri Chada Suresh Reddy
11. Shri T.M.Selvaganapathi
12. Shri Sudip Bandyopadhyay
13. Shri Abdul Rashid Shaheen
14. Capt. Jai Narain Prasad Nishad
15. Shri Prabodh Panda
16. Shri M.V.V.S. Murthy

RAJYA SABHA

17. Dr. Manmohan Singh
18. Shri Suresh A. Keshwani
19. Shri S.S. Ahluwalia
20. Shri Dina Nath Mishra
21. Dr. Biplab Dasgupta
22. Prof. M. Sankaralingam
23. Shri Daya Nand Sahay
24. Shri Palden Tsering Gyamtso

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------|
| 1. | Shri P.D.T. Achary | - | Additional Secretary |
| 2. | Dr. (Smt.) P.K. Sandhu | - | Joint Secretary |
| 3. | Shri R.K. Jain | - | Deputy Secretary |
| 4. | Shri S.B. Arora | - | Under Secretary |

WITNESSES

Part I (1100 to 1300 hours)

1. General Insurance Corporation of India
Shri D. Sengupta, Chairman

2. New India Assurance Co. Ltd.
Shri K.N. Bhandari, CMD
3. National Insurance Company Ltd.
Shri P.C. Ghosh, CMD (Additional Charge)
4. United India Insurance Company Ltd
Shri V. Jagannathan, CMD
5. Oriental Insurance Company Limited
Shri Ajit M. Sharan, Current In-charge of CMD

Part II (1500 to 1700 hours)

1. Ministry of Finance

- (i) Shri C.M. Vasudev, Secretary, Deptt. of Economic Affairs
- (ii) Shri S.K. Purkayastha, Additional Secretary - Financial Sector
- (iii) Shri Ajit M. Sharan, Joint Secretary – Insurance

2. Insurance Regulatory And Development Authority (IRDA)

Shri N. I. Rangachari, Chairman

Part I

2. At the outset, the Chairman welcomed the representatives of General Insurance Corporation, New India Assurance Co. Ltd., National Insurance Company Ltd., United India Insurance Company Ltd. and Oriental Insurance Company Ltd and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. Thereafter, the Chairman, requested the Chairman, GIC to introduce his colleagues to the Committee.

4. Then the CMD, New India Assurance Co. Ltd. presented his views on the growth of General Insurance Industry.

5. Thereafter, the Chairman asked the Chairman of GIC to furnish a detailed note on National Agricultural Insurance Scheme alongwith the replies to the points/ queries raised by the Members during the presentation which could not be replied to during the meeting.

6. A verbatim record of the proceedings was kept.

7. The evidence of the General Insurance Corporation, New India Assurance Co. Ltd., National Insurance Company Ltd., United India Insurance Company Ltd. and Oriental Insurance Company Ltd was concluded ,

8. The witnesses then withdrew.

9. The Committee then adjourned to meet again at 1500 hours to take oral evidence of the Ministry of Finance and IRDA on the Insurance (Amendment) Bill, 2001 and the General Insurance Business (Nationalisation) Amendment Bill, 2001.

Part - II

2. At the outset, the Chairman welcomed the representatives of Ministry of Finance (Department of Economic Affairs) and Insurance Regulatory and Development Authority (IRDA) and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. Thereafter, the Chairman requested the Secretary, Ministry of Finance to introduce his colleagues to the Committee.

4. The Ministry of Finance and IRDA then presented their view points on the above bills and replied to the queries raised by the Chairman and the Members.

5. Later the Chairman asked the representatives of Ministry of Finance to furnish written replies / notes on the points/ queries raised by the Members, which could not be replied to during the meeting.

6. A verbatim record of the proceedings was kept.

7. The evidence was concluded.

8. The witnesses then withdrew.

The Committee then adjourned

MINUTES OF THE FOURTH SITTING OF STANDING COMMITTEE ON FINANCE-2002

The Committee sat on Tuesday, 26 February, 2002 from 1330 hours to 1645 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Sudarsana E.M. Natchiappan
4. Shri Rupchand Pal
5. Shri Varkala Radhakrishnan
6. Dr. Daggubati Ramanaidu
7. Shri T.M.Selvaganapathi
8. Shri Trilochan Kanungo
9. Shri Sudip Bandyopadhyay
10. Shri Prabodh Panda
11. Shri M.V.V.S. Murthy

RAJYA SABHA

12. Shri Krishna Kumar Birla
13. Shri Parmeshwar Kumar Agarwalla
14. Prof. M. Sankaralingam
15. Shri Prem Chand Gupta
16. Shri Sanjay Nirupam
17. Shri Daya Nand Sahay
18. Shri Palden Tsering Gyamtso

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu - Joint Secretary
2. Shri R.K. Jain - Deputy Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and informed them regarding the desire of the eight member delegation of the Standing Committee of the German Federal Parliament on Economic Co-operation and Development to call on the Members of the Standing Committee on Finance during their proposed visit to India from 4 to 9 April, 2002. The Committee then decided to meet the German Parliamentary delegation on 5 April, 2002.

3. After assessing the positive outcome of their earlier study tour from 7 to 14 January, 2002 to the States of Maharashtra, Andhra Pradesh and Tamil Nadu, the Committee decided to undertake week-end study tour to Chandigarh and Patiala en route Karnal and Ambala on 16 and 17 March, 2002.

4. Then, the Committee expressed their concern over the reported leakage of the findings of the draft reports on the (i) General Insurance Business (Nationalisation) Amendment Bill, 2001 and (ii) The Insurance (Amendment) Bill, 2001 to the Press. The Chairman, in this connection, requested the Members to be vigilant and directed the Secretariat to be cautious henceforth to avoid such occurrences.

5. The Committee, thereafter, took up for consideration the draft reports on the (i) General Insurance Business (Nationalisation) Amendment Bill, 2001; and (ii) The Insurance (Amendment) Bill, 2001. The Committee after deliberations adopted the draft report on the General Insurance Business (Nationalisation) Amendment Bill, 2001 without any modifications / amendments. The Committee then considered the draft report on the Insurance (Amendment) Bill, 2001 and adopted the same with the following modification :

Page no. 6, Para no. 9, Line 8

<i>For</i>	“proper”
<i>Substitute</i>	“specific”

6. As some Members did not agree to some of the recommendations contained in the draft reports, they desired to submit notes of dissent for incorporation in the reports. The Chairman informed them that they could send their notes of dissent by 1 March, 2002.

7. The Committee, thereafter, authorised the Chairman to finalise the reports in the light of above amendment and also to make consequential verbal changes and present the same to the Parliament.

The Committee then adjourned