

12.33 hrs.

COMMITTEE ON PRIVATE MEMBERS' BILLS AND RESOLUTIONS
MINUTES

SHRI KHADILKAR (Khed) : I beg to lay on the Table Minutes of the Thirteenth to Eighteenth sittings of the Committee on Private Members' Bills and Resolutions held during the current session.

ESTIMATES COMMITTEE
EIGHTEENTH REPORT

SHRI P. VENKATASUBBAIAH (Nandyal) : I beg to present the Eighteenth Report of the Estimates Committee on action taken by Government on the recommendations contained in the Fifty-fifth Report of the Estimates Committee (Third Lok Sabha) on Planning Commission—Rural Works Programme.

12.34 hrs.

STATEMENT RE. SOCIAL CONTROL OVER GENERAL INSURANCE

उप-प्रधान मंत्री तथा वित्त मंत्री (श्री मोरारजी बेसाई) : यह स्टेटमेंट तीन पेज का है।

MR. SPEAKER : Could he place it on the Table ?

श्री मोरारजी बेसाई : मैं इसे टेबुल पर रखता हूँ।

STATEMENT

With your permission, Sir, I wish to make a statement outlining the major steps that Government have decided upon in regard to social control over general insurance.

2. In answer to a question in this as well as in the other House I had stated that Government had undertaken a detailed examination of the proposal for nationalisation of general insurance in all its aspects, including the possibility of achieving the objectives in other ways. The examination has since been completed and the proposed measures are a result of this examination.

3. The objectives to be aimed at in general insurance are of a somewhat different character from those which I had set out the other day in relation to banks. The funds available for investment with general

insurance companies are modest and amount, in the case of Indian insurers, to only about Rs. 50 crores apart from another Rs. 10 crores already invested in Government securities. The annual increase is of the order of Rs. 5 crores. This is in contrast to life insurance where the investments are about Rs. 1,000 crores and the increase annually is over Rs. 100 crores. The profits in general insurance after tax are now only about Rs. 3 to Rs. 4 crores, and if the premium structure is rationalised, would be even more modest. In other words, the resources available from general insurance are of such a minor nature that issues like utilisation of these resources for planned development, and appropriate policies for this purpose hardly arise.

4. The objectives which we seek to secure in this field are, that the premium rates should be fair, that there should be complete security to policyholders, that insurance companies should not be owned by individuals and their funds utilised to further private interests and lastly that the industry should function on sound and healthy lines and free from malpractices. The examination by Government has shown that these objectives can effectively be secured by regulation and control over insurance companies. These measures would require amendments to the Insurance Act 1938 which regulates the working of insurance companies in the country and will therefor require legislation. I shall indicate briefly the more important measures which we propose to adopt.

5. A fair premium rate is the essence of service to policyholders. This is particularly important in general insurance where the policyholders are not paid back through any bonus system any excess in premiums paid by them. At present the premiums are being regulated by the Tariff Committee, a statutory body consisting of members elected by the insurers themselves. It is proposed to reconstitute that body with the Controller of Insurance as its Chairman, giving him over-riding powers in case of difference of opinion between him and the trade in regard to the actual rate to be charged.

6. Security to policyholders is sought to be achieved by making it obligatory on

[Shri Mearaji Desai]

insurers to build up strength. Even now under a "Code of Conduct" framed by the insurers themselves and being complied with voluntarily, the insurers are required to maintain at all times, a "solvency margin"; that is to say their assets must exceed their liabilities by a specified amount. It is proposed to give statutory recognition to this principle. The solvency margin proposed is 20 per cent of the net premium income of the insurer concerned or Rs. 20 lakhs, whichever is higher.

7. The statutory deposit which is Rs. 3,50,000 for an insurer registered for all the three classes of general insurance business will be increased to Rs. 20 lakhs and this deposit will be required to be made even if the insurer is registered for only one class of insurance business or two.

8. The solvency margin as well as the statutory deposit will however be only Rs. 1 lakh for insurers carrying on marine insurance relating exclusively to country craft or its cargo. At the moment, they are required to make a deposit of Rs. 10,000 only.

9. The provisions regarding 'solvency margin' which will be finding a place in the statute book for the first time as well as the provisions regarding increased deposits would ensure that the companies build up strength and not fritter away their resources. Insurers who individually lack the necessary strength would be given the facility to pool their resources by resort to "group working". A group need comply with the provisions for solvency margin and deposit only as a single unit, but this does not mean any decrease in the security for policyholders, because in group working every member of the group will be liable only for his share of the risk on each policy.

10. Unlike in the case of life insurance and banks, concentration of economic power is not a problem in general insurance as the funds are small. The reason, of course, is that contracts in general insurance are for short periods, usually a year and therefore do not entail accumulation of funds. However, it has been considered desirable that the investment of even these small funds should be regulated. Therefore the provisions of Section 27-A of the Insurance Act, which requires that investments of life funds should be made only in

"approved investments" that is to say investments which satisfy certain criteria of soundness, should be applied to investments of general insurance funds also with suitable modifications. As in Section 27-A, limits will also be placed on the maximum investments in the shares of individual companies.

11. Likewise, the provisions of the Insurance Act relating to maximum holdings and voting rights of shareholders which were hitherto applicable only to life insurance, would now be made applicable to general insurance companies also. In terms of this proposal, any holdings in excess of 10 per cent of the shares will have to be disposed of and voting rights would be limited to 5 per cent of the total.

12. These two provisions would ensure that there is no "interlocking" between general insurance companies and other joint stock companies and that general insurance funds are invested well and not utilised to further the private interests of the management or of any group of private individuals.

13. The last of the major objectives I mentioned earlier is that the industry should function on sound and healthy lines and free from malpractices. Some of the proposals I have outlined earlier, namely increased deposits and requirement of a solvency margin, would ensure that only financially strong units remain in the field. The control over the premium rates would also have a very healthy effect on the tone of the market as, in the ultimate analysis, malpractices, to whatever extent they may be present, can arise only because there is a margin between the actuarial premium and the premium actually charged.

14. As a further measure for achieving this objective, the Controller of Insurance will be clothed with greater powers of supervision and control over insurers. The more important of the proposed provisions are :—

- (i) The Controller will be required to make regular inspections of insurers and, in addition, have the right to make surprise inspections, and, if necessary, to enter premises and search and seize records. If the inspection reveals unsatisfactory features the Government can order the cancellation of the registration of the insurer.

- (ii) Appointment or removal of principal officers of insurers would need the prior approval of the Controller.
- (iii) The Controller will be empowered to appoint, as a routine measure, directors on the Board of insurers or to appoint observers.
- (iv) With a view to conserving foreign exchange, the Controller will be given the power to scrutinise the terms of reinsurance contracts and ask for the termination of such contracts at the earliest legal opportunity if he considers it necessary in the public interest.

15. Notwithstanding all these provisions, there may be insurers who may continue to be weak or whose working is unsatisfactory. It is therefore proposed to empower the Controller to bring about the amalgamation of insurers where he feels that such a step is in the public interest or in the interest of policyholders or shareholders or in the interest of the insurance business of the country as a whole. The scheme proposed will be placed before Government who will be empowered to approve it finally. Similarly, where the insurer has been persistently failing to comply with the directions given to him by the Controller or is being managed in a manner detrimental to the interests of the policyholders or shareholders or in the public interest, the Government may by notification acquire the insurer and pay compensation. Provision for an appeal to a Tribunal will be provided where an insurer feels that the compensation is inadequate.

16. I propose to introduce a Bill in the next session of Parliament to give effect to these measures.

17. With these measures, we can, I hope, look forward to the development of general insurance in India on sound and healthy lines.

12.34½ hrs.

STATEMENT RE. ACTION TAKEN ON POINTS MADE BY M.Ps DURING LAST RAILWAY BUDGET

THE MINISTER OF STATE IN THE MINISTRY OF RAILWAYS (SHRI PARIMAL GHOSH) : Sir, while replying to the Railway Budget for 1967-68,

MR. SPEAKER : He may lay it on the Table.

SHRI PARIMAL GHOSH : Yes, Sir. I beg to lay a statement on the Table of the House on the action taken on the points made by the Members of Parliament during the last Railway Budget discussions.

STATEMENT

While replying to the Railway Budget (1967-68) discussions held in May-June this year, I had said that all the various suggestions made by Members of Parliament during these discussions in this House would be carefully examined and Members would be informed about the action taken on some of the more important suggestions made by them.

A careful scrutiny of such points was accordingly undertaken by the Railway Board in consultation, where necessary, with the various Railway Administrations and in accordance with the practice followed in the past, I have arranged for three copies of a consolidated set of statements of action taken in respect of these points to be placed in the Library of Parliament for perusal of the hon'ble Members interested. These statements are in respect of points which were not covered by me or my colleagues while replying to these discussions and cover not only the important points as promised by me, but other lesser important ones as well. Only such of the points as were by way of a general observation have been left out.

I may add that all the suggestions made by hon'ble Members have been of great use to the Railway Administrations and even points of general observation as did not call for a specific reply have also been taken note of and are being kept in view by the authorities concerned while framing various policies.

STATEMENT RE. MANGALORE HARBOUR PROJECT

THE MINISTER OF TRANSPORT AND SHIPPING (DR. V. K. R. V. RAO) : Sir, I beg to lay on the Table a statement on the Mangalore Harbour Project. [Placed in Library. See No. LT-2160/67].