Shri Pataskar: Not at this stage. This is not the suitable time when we should do all these things.

Lastly, I thank all the Members of this House including the Opposition and those who had to differ from the provisions and whose views I was unable to accept. Ultimately, I may say that with patience it will be realised that by enacting this legislation we have—every section of this House—contributed to make it a better and more effective law from the ideal of parliamentary democracy based on free and fair elections which we want to have.

Shri Kamath: When will the rules be laid before Parliament?

Shri Pataskar: As soon as they are framed.

Shri Kamath: Before the next session?

Shri Pataskar: I will see that they are framed early; there is no going back upon that.

Mr. Speaker: The question is:

"That the Bill, as amended, be passed."

The motion was adopted.

LIFE INSURANCE CORPORATION BILL

The Minister of Finance (Shri C. D. Deshmukh): I beg to move:

"That the Bill to provide for the nationalisation of life insurance business in India by transferring all such business to a Corporation established for the purpose and to provide for the regulation and control of the business of the Corporation and for matters connected therewith or incidental thereto, as reported by the Select Committee, be taken into consideration."

The House has already discussed generally the Bill to provide for the nationalisation of the life insurance business and at that stage I explained in detail the reasons which prompted the Government to undertake the nationalisation. We are now concerned with the machinery to work successfully this scheme and the Bill before the House deals with this question. I shall now refer briefly to the amendments which have been introduced in the Bill by the Select Committee.

The first change which is of some consequence is the one in clause 6(2)(d). During the course of the discussion on the Emergency Provisions Bill, I had referred to the difficulties which we envisaged in the way of the Corporation carrying on the business outside India. I have mentioned that the Corporation may have to transfer the foreign business to others. The change now made, that is, the addition of the words 'or persons' makes it clear that the transfer of business, if such a course is decided upon, will not be all to one company. We shall consider carefully the request of any existing company to be allowed to carry on life business outside India and where we are satisfied that the company in question has the means and the volume of business sufficient to give a good chance of carrying on the business successfully outside the country, we shall readily give the necessary permission and at the least transfer its own foreign life business to it.

The next change is in clause 8. Though one might get the impression that an important change had been made, the change itself is really minor. It is a redraft to bring out more clearly our intention that all provident funds, etc. established by individual insurers shall vest in the Corporation and the Corporation shall, in due course, set up some trusts for the benefit of its employees.

There is a change in clause 11 which is merely clarificatory. The explanation makes it clear that the compensation paid to the employee for termination of service will be in addition to any rights which he may have earned under his contracted service.

I next turn to clause 12. By clause 36 introduced by the Select Committee, the contracts of chief agents are being terminated. I shall deal with the reasons for that provision in due course. Now, clause 12 provides for the absorption in the Corporation of the staff of the chief agents. Strictly speaking, the employees of the chief agents are not employees of the insurance company. It was Government's intention to give every reasonable consideration, short of an assurance of the kind given to the whole-time employees of the insurance business. The Select Committee was

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quite understandably anxious that the elimination of chief agents should not result in genuine whole-time employees being thrown out of employment and provided that this intention of the Government should be put on a formal basis. At the same time they felt that care should be taken to ensure that any concession given was not misused to saddle the Corporation with payments to persons who were not genuine whole-time employees at all. It is easy enough to check whether a particular person employed by the insurance companies is really a whole-time employee. The same does not hold good in the case of persons employed by the chief agents. It was for this reason that it was considered necessary to lay down certain criteria for absorbing this category of staff. These criteria would help to sort out persons genuinely dependent entirely on insurance in the same manner as direct employees of insurance companies.

Some major changes have been made in clause 15, which entitles the Corporation to seek relief in respect of certain transactions. One change is that transactions dating back to five years can now be reopened instead of two years. There was a wide divergence of opinion on this question. Some Members thought that in the interests of policyholders we should be able to go back to ten years, while others felt that since these provisions are only supplementary to reliefs available under several laws, the period of two years provided in the Bill was ample. Five years was adopted as a compromise.

The other change in this clause relates to the persons who are entitled to seek relief. In the Bill as introduced, only the Corporation was given this right. It was felt by some Members of the Committee that should someone other than the Corporation also be aggrieved on any of the points in question, that person should also have the right of seeking relief from the Tribunal. Although it is our view that there is no real issue of unfairness or difficulty to anyone genuinely aggrieved, we, as Government, have no objection even though there is involved a measure of risk of harassment at the hands of unscrupulous persons.

The next important change occurs in clause 18. The bill, as introduced, provided that to start with the Corporation should have four zones, the Select Committee thought that, after taking all aspects into consideration, the better arrangement would be to have five zones, with the fifth zone having its headquarters at Kanpur. It is difficult to define in terms of States the areas that will be covered by each zone in view of the impending reorganisation of States. If it is permissible, however, to draw somewhat upon the picture as it will be after reorganisation, if the proposals go through, the areas in each zone could be as follows: Northern Zone with headquarters at Delhi and the area might be, Delhi, the proposed now States of Punjab, Rajasthan, Himachal Pradesh and Jammu and Kashmir; Central Zone with headquarters at Kanpur and the area will be Uttar Pradesh and the proposed new Madhya Pradesh; Eastern Zone with headquarters at Calcutta and the area will be Bengal, Assam, Bihar, Orissa, Manipur, Tripura and Andaman Islands; Southern Zone with headquarters at Madras and the area will be the proposed new States of Andhra—that is to say, including Telangana—Madras, Kerala and Mysore; and, then, the Western Zone would have its headquarters at Bombay and the area might be the present State of Bombay minus the areas comprised in the new Mysore plus the additional areas that may become part of the proposed new States of Maharashtra and Gujarat—that is to say, Marattawad, Maha Vidarbha, Saurashtra and Kutch.

I now come to clause 19. The change made is really a minor one though the line side-lined makes it appear otherwise. It was always our intention that the Corporation should constitute an Investment Committee for the purpose of advising it in matters of investment. Clause 17(3) of the Bill, as it stood, did permit the constitution of such a committee, but, in view of the importance of the Investment Committee, the Select Committee thought it advisable that a specific provision should be made in the Bill itself for the constitution of the Committee and also for its composition. Sub-clause (2) of this clause—that is, of clause 19—makes the necessary provision.

The other change is that the Corporation is empowered to have more than one Managing Director. This is dealt with in clause 20.

Next is clause 21. The change made there is that any direction given by the Central Government shall be in writing. Personally, I feel that such a provision was not really needed since all directions given by the Government would naturally be in writing.

A new important provision is sub-clause (3) of clause 22. We felt that there should be a committee in each zone to promote friendly relations between the Corporation on the one hand and its employees and agents on the other. This idea is borrowed from the Airlines Corporation Act, where such committees have proved very useful. It will be seen that representation on the committee has been given to agents as a class. In a life insurance organisation the agency force has a special importance and value. By having them also on the committee, we shall not only be giving representation to all sections of the business, but also promoting a feeling among all of them that they are all working for a common goal, that is, in the success of the Corporation. It is our earnest hope that these committees would greatly help in the smooth working of the Corporation and contribute their share in making nationalisation a success.

Four of the minutes of dissent appended to the report of the Select Committee have raised the question in relation to clause 25, with which I will deal next, regarding the audit of the accounts of the Corporation by the Comptroller and Auditor-General. This has also figured during Question Hour in this House and, I think, as a result of that, Members are aware of the stand taken by Government in this matter. However, as it is an important question, I wish to say a few words about it on the present occasion.

Under article 149 of the Constitution, it is laid down that "The Comptroller and Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament....." The accounts of the Corporation will be separate from the Union Government's accounts as it will be an autonomous body, and as yet no law has been made by Parliament prescribing that the audit of accounts of autonomous bodies will be performed by the Comptroller and Auditor-General even where Government is financially interested in them.

Shri Sadhan Gupta (Calcutta South-East): What about the Air Corporation Act?

Shri C. D. Deshmukh: That is a separate law made by the Parliament itself.

Shri Velayudhan (Quilon *cum* Mavelikkara—Reserved—Sch. Castes): We can also make the same law here.

Shri C. D. Deshmukh: No general law has been made. We are considering one particular legislation now, just as the Air Corporation Act or, just as the Act about the nationalisation of the Imperial Bank—the State Bank.

I have no desire to take refuge behind legal formalities. I mention this only to clear misapprehension which seem to exist in some quarters that such audit by the Comptroller and Auditor-General is almost a constitutional necessity. The Government have devoted very careful attention to this subject and, let me at once make it clear, that they are ever willing, in fact anxious, to associate the Comptroller and Auditor-General, to the maximum extent possible or advisable, with the financial working of State undertakings. Accordingly, the Comptroller and Auditor-General has been entrusted with the audit of accounts of authorities who function more or less under Government conditions—for instance, the Damodar Valley Corporation, the Industrial Finance Corporation or the Airlines Corporation—and also of Government sponsored companies with whose transactions the staff of the Comptroller and Auditor-General are likely to be familiar. But, where important commercial considerations are involved, like the State Bank or the Insurance Corporation, since Government officers lack experience of the work in such enterprises, Government would not like the success of these recently nationalised ventures to be jeopardised by some violent change in the system. Such institutions cannot be run without the exercise of a large measure of discretion by the higher executives, and any system which makes it possible for audit to raise objections to the exercise of such discretion is bound to paralyse their working. Undertakings like the Insurance Corporation are basically different from Government's ordinary business and until we have had some experience of their working, it seems to us to be best to maintain the *status quo*. I may explain also that the provision suggested in clause 25 does not affect the accountability to Parliament of the Corporation.

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Clause 29 requires the report of the auditors to be placed before Parliament and when this is done, the House will be able to discuss the report fully and freely.

It would perhaps be useful in this connection to refer to the practice in similar matters in the United Kingdom, as we have generally been following the United Kingdom in these respects. That country has a fairly large public sector in industry and also a Comptroller and Auditor-General who is independent of the executive as we have here. But so far as we know, the Comptroller and Auditor-General in the United Kingdom does not audit the accounts of the nationalised concerns, nor has he claimed any inherent right to audit them. A Select Committee in the United Kingdom went into this question of the Comptroller and Auditor-General's responsibility for the audit of nationalised undertakings and decided against it for much the same reasons as I have indicated earlier.

Shri B. S. Murthy (Eluru): Why not we take a different step?

Mr. Speaker: The hon. Minister has given his opinion. It is for the Government and the House to take up the question.

Shri C. D. Deshmukh: At no stage however did anyone contend that the accountability of these concerns was diminished for that reason. A practical consideration against providing for audit by or in consultation with the Comptroller and Auditor-General who, I should state here, is of the view that he should be associated with the audit of such concerns, is that he is very short of senior staff. Extensions have repeatedly to be given to his superannuated officers. That is all that I have to say at the moment on this important point.

Shri Velayudhan *rose*—

Shri C. D. Deshmukh: The hon. Members will have plenty of opportunity for either making observations or putting questions.

The changes made in clause 27 and clause 29, to which I come next, are minor ones. Clause 27 provides that the Corporation shall prepare annually a report on its working. Clause 29 provides that this report, as well as the report of the actuaries prepared under clause 26, shall be laid before both Houses.

I now deal with clause 31 which has been newly inserted. This clause is corollary to clause 6(2)(d) which empowers the Corporation to transfer the whole or any part of its foreign business to others. Naturally, the companies taking over the foreign business of the Corporation would like to transact new business in those countries. Clause 31(1) empowers the Central Government to permit this. Members may be somewhat intrigued by the actual phraseology employed authorising the insurers to carry on life insurance business in India in respect of the lives of persons ordinarily resident outside India. The legal opinion is that since the head office is deemed to be in India the companies would be deemed to carry on business in India also notwithstanding the fact that the operations are confined to territories outside India. Hence this special provision in clause 31(1).

Sub-clause (2) of clause 31 is necessitated by the phraseology employed in sub-clause (1). This makes it clear that any permission given under sub-clause (1) will not entitle the insurers concerned to continue policies on the lives of persons temporarily resident in India even though they may be ordinarily resident outside.

Next, I come to clause 34. That is also a new addition. Section 6A of the Insurance Act requires all shareholders of companies carrying on life insurance business, that is, both life and composite companies, to reduce their holdings to 10 per cent. of the paid-up capital of the insurance company concerned. The share-holders were given time till 1st June, 1953, to effect reduction. On that date, all holdings in excess of that limit vested in the Administrator General of the State concerned. The object of this provision of the Insurance Act, which did not apply to purely non-life insurance companies, was to ensure that no one person was able to dominate the affairs of such an insurance company carrying on life insurance business. Not all the holders were able to dispose of their excess holdings and many shares vested in the various Administrators General. Some of the shares so vested have since been disposed of by them in accordance with the provisions of the insurance rules, and the sale proceeds handed over to the original shareholders, but there are still some shares undisposed of. After nationalisation all

companies would have become purely non-life companies and there is therefore no question of any one dominating a life insurance company. The excess shares still undisposed of could, therefore, safely go back to the original shareholders without any harm to public interest. It is, therefore, proposed by this amendment in clause 34 that these shares should revest in the original shareholders. The Administrator-General would of course be entitled to deduct any expense he might have incurred.

The next change relates to clause 35 which concerns with repatriation of assets and liabilities in the case of foreign insurers. The change made by the Select Committee is of a minor character and is intended to expedite the work of repatriation. In the Bill as introduced, the relative clause provided for the Corporation being 'divested' of certain assets and liabilities. One can be divested of something only if it is first vested in him. That means, the repatriation of the 'excess assets' and sterling policies and assets will have to wait till the 'appointed day', as only on that date the assets and liabilities of the various insurers would vest in the Corporation. Now, there is no real reason why this matter should be delayed till that date. In fact, it would be convenient from the point of view of every one concerned if the work of repatriation could be taken in hand as soon as the Bill is passed. The amendment, therefore, empowers the Central Government to effect the repatriation both before and after the appointed day.

Then I come to clause 36 which again is a new addition. It provides for the termination of the contract of chief agents and special agents. Some of the insurance companies, mostly the smaller ones, were operating through chief agents in respect of branches. In terms of the Insurance Act, the chief agents were required to be given exclusive jurisdiction over areas not smaller than a district. Some of them had entire States allotted to them. Whatever view might be taken of the wisdom or otherwise of this type of organisation, I should say that even before nationalisation, many of the bigger insurance companies were changing over from the chief agency system to the branch system. I think there can be no two opinions but that chief agents can have no place in the new set-up. The Corporation cannot afford to leave the responsibility of development to persons over whom it can have no real control. In fact, there was complete unanimity on this point. Even the chief agents who gave evidence before the Select Committee, to my mind, did not seriously urge their own continuation. For similar reasons, special agents who were also remunerated by commission will have to be replaced by inspectors on a salary basis. The compensation payable to these persons is dealt with in the Third Schedule.

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The next change, if it can be called a change at all, occurs in clause 37, The clause, as amended, provides that payment to policyholders should be made in cash. There was a report current saying now that the business has been taken over by the Government payments will be made in bonds. Apparently this report has received such wide circulation that to counter it, the Select Committee thought it necessary to make a formal provision that payments will be in cash.

The change in clause 40 enhances the penalty for withholding the property or books of the Corporation from six months to one year.

I now turn to clause 43 which relates to the application of the Insurance Act to the Corporation. I propose to deal with it at some length, as there appears to be a good deal of confusion of thought on this subject. We do recognise that in the interests of everyone, including the Corporation itself, there should be external control over the affairs of the Corporation, in addition to any internal checks it might adopt. We also recognise that the Insurance Act is a well thought out piece of legislation and that many of its provisions could, with advantage, be applied to the Corporation. At the same time, we should not lose sight of the fact that a great change has occurred in the life insurance field by the replacement of the 160 and odd companies for whom the Act was intended by a single mammoth Government-owned Corporation. We thought the best course would be to examine each provision of the Insurance Act from the point of view of its utility in the changed conditions and apply only those sections which could be applied with any real advantage. Our examination showed that there were some sections which could be made applicable to the Corporation without any modification. There were a few others which

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were equally salutary, but which required modification before they could be applied; the remaining were either inapplicable or unnecessary under the changed circumstances. Clause 43, therefore, lays down which of the sections would be applicable *in toto* and which would apply in a modified form. I may point out that all notifications issued under this clause have to be laid before both Houses of Parliament. Some Members have suggested in their minutes of dissent that certain sections, which are among those left out, should be made applicable to the Corporation. For instance, one is section 40B which limits the expenses which an insurance company may lawfully incur. With the principle itself, namely, that the Corporation must be economically managed, there can be no quarrel. If we have thought it unnecessary formally to apply the provisions of section 40B to the Corporation, it is because we are confident that the question of the Corporation exceeding the limits laid down in the insurance rules could never arise. Even now many of the bigger insurance companies have a renewal expense ratio of less than 15 per cent., which is the maximum prescribed under the rules. The Corporation should certainly be able to keep its renewal expense ratio at a much lower figure than this 15 per cent. which incidentlly is rather a high limit. If, for any reason, the Corporation is unable to do this and the expense ratio does go up, I have little doubt that there will be a spate of questions in the Parliament and there will be ample opportunities for the Parliament to look into this question. Therefore, what else can be the purpose of a clause like this? Its absence will not, and indeed cannot, have the effect of encouraging the Corporation into extravagance. In fact, I would have promised an immediate reduction in the expense ratio but for one difficulty. The Corporation will not really need the large number of employees it would be inheriting from the various insurance companies. By retrenching the superfluous staff, the Corporation could bring down the expense ratio straightaway without the least loss of efficiency. But, I am aware how anxious Members are that nationalisation should not result in unemployment and it was for this reason that I had given a categorical assurance that there would be no retrenchment. The best solution is to expand the business and thus find real work for all. We are confident that we shall be able to do so in due course. But, till the business is increased, the reduction in the expensed ratio cannot be obviously as rapid as we would wish. While we shall be denied the benefit of integration for the time being, we shall have inevitably to incur additional expenditure made inevitable by the reorganisation of the offices which is attended by the movement of offices from one building to another, from one place, town, district and State to another place, town, district and State.

Another strongly pressed suggestion is that the provisions of the Insurance Act relating to investment, namely section 27A, section 29 and section 30, should also be applied. Here also, the reason for not applying them is the same, namely, that they appear to be needless. These provisions which incorporate some of the well-known cannons of investment were enacted to prevent the management from misusing the policyholders' money to benefit themselves. In terms of the Bill, the investments are to be made under the guidance of a high-powered investment committee. There is the further safeguard that the Central Government have the right to give directions to the Corporation in the matter of investment. It is, therefore, inconceivable that any wrong policy could be followed by the Corporation. I trust hon. Members will agree that whenever we have made any portion of the Insurance Act inapplicable to the new Corporation, it has been for good and compelling reasons.

Now, I return to the Life Insurance Corporation Bill. I shall take first subclause (f) of clause 44 of the Bill, as amended by the Select Committee. This sub-clause allows a State Government to continue any existing scheme of compulsory life insurance of its employees or to introduce such a scheme hereafter. The change made from the original provision gives every State Government an opportunity of introducing a compulsory scheme of life insurance for its employees, if it so wishes, instead of giving that right only to such of the State Governments as had already introduced such a scheme.

I proceed now to clause 44A and clause 45. These I will take together, as they deal with the same matter. On account of serious mismanagement including in some cases misappropriation on a large scale, Government have to appoint administrators to certain insurers

under section 52A of the Insurance Act. The provisions of section 52A apply only to companies carrying on life insurance business either alone or in conjunction with other classes of business. Therefore, in the absence of any special provision, on the appointed day, when the entire life insurance business vests in the Corporation, the administrators would become *functus officio*. This would not cause any difficulty in the case of purely life companies, as all the assets vest in the Corporation and the records etc. would also pass on to the Corporation. In the case of composite insurers, however, the cessation of management by administrators under section 52A would cause serious difficulties. The companies will go back to the very people from whom they were rescued. In the case of one composite company, even the question whether that management had any real title to the shares which were shown in the names in the book is itself in doubt. In fact, it is a subject-matter of both criminal and civil proceedings. It was, therefore, thought advisable from the point of view of everyone that administration under section 52A should be continued for some time to enable those proceedings to be brought to a conclusion. These two clauses provide that the life business of composite companies shall not vest in the Corporation on the appointed day, but would be later transferred to it by the administrators under a scheme.

Next I will deal with clause 48, which relates to the rule-making power. The changes are not important except one in sub-clause (3) which provides that all rules made under this Act are to be laid before both Houses of Parliament and will be subject to such modifications that Parliament may make during the session in which they are so laid or the session immediately following.

That leaves now the Schedules. I shall first take Schedule I which deals with the principles for determining compensation. While moving for reference of the Bill to the Select Committee, I had explained at length these principles. I need recapitulate them only briefly before indicating the changes made by the Select Committee.

Part A of the Schedule deals with proprietary companies which had distributable surpluses, part B with other proprietary companies and part C with mutuals, co-operatives and unregistered bodies. Part A is by far the most important as the companies claiming compensation under this Part account for the bulk of the business done in the country and therefore of the compensation. Briefly, the compensation payable under this Part is twenty times the average annual allocation to the shareholders at the last two actuarial valuations. The allocations taken into account are in each case subject to a maximum of five per cent. of the surpluses and a minimum of three per cent. as the Bill stood when it went to the Select Committee. An alternative basis was also provided in terms of which the companies can claim instead half the above, amount that is ten times the average annual surplus plus the right to retain the paid up capital. These were proposed in the Bill as introduced. I shall now explain the changes made by the Select Committee in this Part.

The first change is regarding the criterion for being placed under this part, that is A. In the Bill as introduced, it was provided that the insurance company should have allocated a part of the surplus to the shareholders. It was noticed that some companies, both Indian and foreign had distributed their entire surplus to the policy-holders. Obviously such insurers should not be penalised for their progressive spirit. It was for this reason that the Select Committee changed the criterion from allocation of the whole or any part of the surplus to the shareholders to allocation of the whole or any part of the surplus to the policyholders.

The second change, which is more basic and important, is intended to allow for growth in business. During the earlier debate I had mentioned that representations had been received that while the broad approach to the question of compensation was equitable, some change was necessary to ensure equity *inter se*, that is, as between the different groups of surplus companies. As I mentioned earlier, compensation was based on the results of the last two statutory valuations. But some companies have their last valuation as at 31st December 1954 while others had valued as at 31st December 1953 or in some cases earlier. Those companies which had their last valuation as at 31st December 1954, had an advantage over the others as normally business expands with time. This advantage was significant as business increased sharply

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during the years 1954 and 1955. Therefore, a suggestion was made that compensation should be based on a standard period applicable uniformly to all insurers and also that the standard period should include 1955, the last completed calendar year. I had indicated that I had a good deal of sympathy with this point of view. This suggestion is being met by the change effected by the Select Committee. In the Bill as revised, the compensation payable is the compensation payable under the Bill as introduced multiplied by the ratio the average sum assured during the years 1950-55 bears to the average sum assured in force during the inter-valuation periods taken into account for calculating compensation. It sounds rather complicated. But, in other words, the effect of the change is that compensation is increased proportionately to the increase in business.

The third change relates to Explanation 2. In the Bill as originally introduced the minimum percentage of surplus deemed to have been allocated was three. It was felt that this minimum was too little and penalised the shareholders of those companies which have taken an enlightened view of their responsibilities and allocated a small proportion of the surplus to the shareholders. As a concession to this point of view, three per cent. has been increased to three and a half.

There was one other change which, however, relates to foreign insurers. In the Bill as introduced, the compensation payable to foreign insurers was on the basis of only those valuations of their Indian business as were made at the same time as the valuation of their world business. It was represented that these valuations in some cases took them too far back and was, therefore, unjust. It was therefore decided that in their case also, the compensation should be based on the statutory valuation of the Indian business irrespective of whether the valuation of the world business was conducted at the same date or not. But, this has introduced a difficulty. It is not the practice of foreign insurers to make any allocation of surplus at the time of the valuation of only a part of their total business, particularly where, as it happens in the case of Indian business, that part is a very small one indeed. We have therefore evolved a method which would give us a figure which may be deemed to represent the shareholders' share of the Indian surplus. We assume that the proportion of the Indian surplus deemed to be allocated was the same as the proportion of world surplus allocated to the shareholders. This, I hope the House will agree, is fair. Of course, these proportions are subject to the minimum of 3½ per cent. and the maximum of 5 per cent.

Now, I proceed to Part B. Companies coming under this part would be mostly companies in deficit, that is, where the life assurance funds are less than the liabilities to policy-holders. We would merely be returning the excess of the assets over liabilities. The change made in the opening para is a purely verbal one and needs no comment. The next change relates to para. 3(b). In the Bill as introduced, the shares, securities or other investments were to be valued at the market value or the purchase price, whichever is less. By the deletion of the words 'or the purchase price whichever is less', the Select Committee has provided that these assets also will be valued at their market value. The change made follows actuarial principles and in fact I should not think it necessary to refer to this change but for the fact that there is a minute of dissent on this subject. Insistence on valuing any assets at market value or purchase price whichever is less is something unknown in insurance. All that the Insurance Act (Clauses (a) and (b) of Regulation 7 of Part I of the First Schedule) requires is that every balance-sheet submitted under the Act should be accompanied by a certificate that all assets are known at amounts not exceeding their market value. Insurance companies have in the past been freely taking credit for appreciations and there has been no suggestion that an insurance company has been imprudent merely because appreciations are taken credit for. Market price wherever ascertainable would be a fairer basis for evaluating them than purchase price which might well have no relation whatever to its real value: it may easily be too low and may conceivably be too high. The only merit of the purchase price probably would be its definiteness. On the whole it seems fairer to accept market price as the basis even though it will mean a little more trouble in calculation.

Incidentally, companies coming under this Part are the last ones in respect of whom we should make a departure from established principles. The vast majority of the companies coming under this Part would be those in deficit and the 'compensation' would therefore be, in all probability, less than even the paid up capital. There is no need to add to the losses already incurred by the unfortunate shareholders.

The next change is in clause (e) which rectifies an omission. "Outstanding premiums within the days of grace" —that is the phrase—as they are usually described, are taken into account as assets in all balance sheets and in fact, the form of the balance sheet prescribed in the Insurance Act specifically provides for that item.

I should deal perhaps with the Explanation to this Part also though it is only clarificatory in character. By this explanation we are making it clear that if certain excess assets had been refunded to foreign insurers under clause 35, these assets will not again be taken into account for purposes of calculating assets minus liabilities, or, in other words, the same amount would not have to be paid twice over. That is all I have to say in regard to Part B.

The change made in Part C is minor and clarificatory in nature. The compensation payable in the case of mutuals, co-operatives and unregistered bodies is a nominal one, a small bonus to the policyholders. Some co-operative societies do have a share capital, though no dividend or bonus is payable on it and we are therefore providing that the capital would be returned. That finishes the First Schedule.

I do not think I need take much time over the Second Schedule which deals with the calculation of policy liabilities for the purpose of determining excess assets in the case of foreign insurers. All the changes are clarificatory in nature except one in clause (b) of paragraph 1 which makes the method of calculation more stringent, *i.e.*, more favourable to the Corporation.

The last Schedule, *i.e.*, the third, deals with the principles for determining the compensation payable to the chief agents. In terms of the Insurance Act, the remuneration of the chief agents has to be by way of an over-riding commission on the premia received under their agencies. The whole of the over-riding commission cannot be deemed to be net remuneration as out of that commission the chief agents have to meet the expenses of running an office including payment of commission to special agents employed by them. The contracts of the chief agents too are for periods not exceeding ten years. After a careful consideration of the relevant factors Government felt that the chief agents would have a fair deal if they were paid 60 per cent. of the over-riding commission for eight years. The Select Committee, however, came to the conclusion that payment of compensation at 75 per cent. of the over-riding commission specified in the contract for a period of ten years would be juster. The special agents are more or less inspectors on a commission basis. They get an over-riding commission of 15 per cent. on the first year's premium but no renewals. The compensation proposed is one-eighth of their average earnings during the past few years.

This somewhat long but perhaps necessary recital of the changes made by the Select Committee and of the reasons therefor, concludes my observations and I move.

Mr. Speaker: Motion moved:

> "That the Bill to provide for the nationalisation of life insurance business in India by transferring all such business to a Corporation established for the purpose and to provide for the regulation and control of the business of the Corporation and for matters connected therewith or incidental thereto, as reported by the Select Committee, be taken into consideration."

Fifteen hours have been allotted. I would like to know from the hon. Members how much they would allot for general discussion and how much for the clauses and if they want any time for the third reading.

Shri Tulsidas (Mehsana West): Eight hours for the first reading.

Shri Bansal (Jhajjar-Rewari): Ten hours for general discussion because I do not think there are many amendments.

Mr. Speaker: The general discussion, I have been noticing, once again becomes clause by clause discussion. After it comes back from the Select Committee, what is the object of the general discussion?

Shri Velayudhan: No, no.

Mr. Speaker: Not that I am going to avoid general discussion altogether. Ultimately it comes to it that the clauses have to be amended and a number of amendments have to be discussed, and then I am asked to extend the time. Therefore, I will allow out of 15 hours, six hours for general discussion.

Some Hon. Members: This is too small.

Mr. Speaker: Excluding the time taken by the hon. Minister. But it will be included in the 15 hours. Six more hours from now for general discussion by hon. Members. He has taken about an hour. That means seven hours up to the end of the general discussion. We will have eight more hours out of which I will reserve one hour for the third reading. So, seven hours for clause by clause consideration.

Shri Bansal: The whole of Monday may be left for general discussion. That means six hours on that day and two hours today, so that we may have eight hours in all.

Mr. Speaker: The very same hon. Member will get up then and say "This is very important". I have had experience. In the other one also we went on for 2½ hours more. In addition to the time that has been already taken by the hon. Minister, six hours. Seven hours for clause by clause consideration, and one hour for the third reading.

Shri Velayudhan: In the meanwhile, may I submit that the speech delivered by the Finance Minister may be circulated to us?

Some Hon. Members: It should be circulated to us.

Mr. Speaker: Very well. It will be done. Leaders of groups will have 20 minutes, others will have 15 minutes.

Shri Tulsidas: Twenty minutes are not sufficient.

Mr. Speaker: Very well, it will be extended to half an hour in suitable cases.

Shri Tulsidas: This is a very important measure and the Select Committee has gone into it very thoroughly and has amended several clauses. The hon. Minister has now explained to us the different amendments made.

This piece of legislation seeks to mould life insurance business in this country in an entirely different manner. I do not want to take much time of the House on the question of nationalisation as that was discussed when the Life Insurance (Emergency Provisions) Bill was discussed here. At the time of discussion of that particular measure I had established with the support of facts and data that doctrinaire thinking had motivated Government to nationalise life insurance business in this country I also pointed out that the malpractices to which the Finance Minister generally refers were of a very insignificant character. He might consider the malpractices to be on a large scale, but if you see the actual facts, they come to not even 0·5 or 1·5 per cent. of the total funds that these companies are handing over to the Government.

[SHRI BARMAN *in the Chair*]

Whatever the reasons for these malpractices, I had pointed out when that Bill was being discussed that it was the failure of the control department and the administrative incompetence of the Government that were to be blamed for all the unfortunate events that happened in the recent past. Nationalisation of life insurance was, therefore, not founded on facts of large-scale malpractices to which even today the hon. Minister referred in his speech. But I am glad that he said at the time of introducing the Bill that there were also ideological considerations in nationalising this industry and that was the main reason why this industry has been nationalised. I am not going into the question of the merits of nationalisation. I would, therefore, confine my remarks to the provisions of this particular Bill. I have done that in my Minute of Dissent and I am sure hon. Members must have read it.

I may say that with this measure a State monopoly in the insurance business will be created which will have no parallel today in any part of the

world. As the Finance Minister said, a giant or mammoth corporation will be formed which will eliminate all elements of competition in this business and it will be entrusted with the task of looking after the interests of millions of policyholders who will vest with it their life savings. This corporation will have in its fund the savings of millions of policyholders. The Finance Minister has said several times that this corporation is expected to spread itself as fast as possible in every nook and corner of the country and carry the message of insurance to the common people. It is also expected that this nationalised industry will step up the tempo of small savings made by the small men, and will help in canalising the nation's resources for rapid economic development. I am also interested in seeing that the corporation develops into a mighty agency which will spread the message of life insurance and create the confidence amongst the people that this corporation functions in the interests of the policyholders, and that it would canalise the savings of the small man and will assist in accelerating the tempo of development.

But what do we find? The Select Committee has also made a change in clause 6 to the following effect.

> ".....the Corporation shall so exercise its powers under this Act as to secure that life insurance business is developed to the best advantage of the community."

I hope that the supremacy of the interests of the policyholders will be the chief aim of this corporation, and that their interests will not be overdominated by the other interests. For, I feel that the policyholder's interest is usually in the nature of a trust, and therefore the corporation has to function as a trustee for the savings of the people who have invested in this corporation by taking out insurance policies. The principle of trusteeship should be valid and applicable whether the insurance business is in private hands or in Government monopoly.

It is therefore to be regretted that this Bill does not contain any reference to the policyholders' interests, much less any provision to safeguard them. On the one hand, you are taking away the freedom of a person to insure with an insurer of his choice. On the other, you are also depriving him of his rights *vis-a-vis* the insurer. It is further to be regretted that as there would be a setback from the practice prevalent before nationalisation, in the absence of a clear directive to the corporation to ensure the supremacy of the policyholders' interests, and further in the absence of the policyholders' representatives on the corporation, their interests are likely to be ignored or superseded in favour of extraneous interests. Further, it is also not in the interests of the corporation or the interests of the country that the corporation should lose the confidence of its prospective policyholders on this account.

In order that the policyholders' interests are sufficiently protected and safeguarded, it is absolutely necessary to have their representatives on the corporation and on the boards at the zonal level. I have suggested that though it is rather difficult to have an elected representative of the policyholders on the main board of the corporation, because that would be an election by millions of policyholders, yet on the zonal boards at least, there must definitely be the elected representatives of the policyholders. On the main board of the corporation, I have suggested that a particular person should be nominated by Government as a representative of the policyholders, the reason being that at least he will look to and safeguard the interests of the policyholders and not merely look at things from the point of view of the extraneous interests.

If a company like the Orientals which was controlling more or less 20 per cent. of the life insurance business in this country could have an elected representative of the policyholders on their board, why should not the zonal boards have the representatives of the policyholders on them, that is to say, the elected representatives of the policyholders? I for one do not see any difficulty in accepting this position. It is often stated that these directors claim to be the representatives of the policyholders, and criticisms are made as to the manner how they are elected and so on. But in any democracy, the franchise is the essential thing. If the public do not exercise it, then that is their lookout. But there is always that right of exercising the franchise, and the person who is authorised to come on the board on behalf of the policyholders would be elected by those interests, and therefore,

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he has to safeguard their interests. That is why I have suggested that at least on the zonal boards, there should be elected representatives of the policy-holders.

Shri R. P. Garg (Patiala): Why not on the corporation?

Shri Tulsidas: On the corporation? That will be rather difficult, because there will be millions of policy-holders, and the election will become something like our general elections. Today, there are about 5 million policyholders, and in the near future, the number may even go up to 10 million. That is why I have suggested that a person could be nominated by Government, so far as the main corporation is concerned.

Shri K. K. Basu (Diamond Harbour): For every five lakhs, you have one.

Shri Tulsidas: I do not know whether that is possible. But I feel that we cannot have it that way.

I now come to another important aspect which has been neglected in this Bill. When the public sector is expanding at a terrific rate, and State undertakings are being created for various activities in the economic sphere, it must be accepted as the basic principle of policy that these undertakings created out of public funds sanctioned by the representatives of the people sitting in Parliament must be fully accountable.

I heard the Finance Minister's reference to the Comptroller and Auditor-General. But as you will see from the Bill, the corporation will have the right to appoint auditors with the approval of Government. I cannot understand the objection to having the Comptroller and Auditor-General as the auditor of this corporation, for after all, he will naturally appoint some other auditor to go into the accounts according to his instructions. The plea that has been put forward by the Finance Minister is that if the Comptroller and Auditor-General were to be brought in, there will be no flexibility. He has said in this connection, that even in the State Bank Act, there is a similar provision as what we have here, and the Comptroller and Auditor-General does not come in.

In this respect, I do not know whether all the Members of this House have got the note circulated by the Comptroller and Auditor-General himself, wherein he has pointed out that in other countries where funds are provided from the consolidated funds, similar to our Consolidated Fund, the Comptroller and Auditor-General automatically comes into the picture to look into the affairs of whatever undertakings Government are running. The other day, the Minister of Revenue and Civil Expenditure stated that in U.K. it is not so.

The Minister of Revenue and Civil Expenditure (Shri M. C. Shah): What I said is correct still.

Shri Tulsidas: The Comptroller and Auditor-General has already replied to that point.....

Shri M. C. Shah: You should study it.

Shri Tulsidas: .....and he has pointed out that in U.K. no funds have been supplied from out of public funds. There, the Government corporations get their funds from the public, —and the Government give funds only in the form of debentures and they get only an interest thereon—and not, as in India, get all their funds from the Consolidated Fund. So, the Comptroller and Auditor-General has already replied to this point, and I have nothing further to add.

My point is that this House has every right to see that the only person who could look after the interests of this House, namely the Comptroller and Auditor-General.....

Mr. Chairman: Is there a note circulated by the Comptroller and Auditor-General?

The Deputy Minister of Finance (Shri B. R. Bhagat): To all the Members?

Shri Tulsidas: I believe so. I have got the note here. There are two notes. One was circulated to the Members of the Select Committee.

Shri B. R. Bhagat: To which note is the hon. Member referring? We do not have any note.

Shri Tulsidas: I have got his note which has been circulated to every Member.

Shri Mohiuddin (Hyderabad City): I have also received a note.

Shri C. R. Narasimhan (Krishnagiri): Probably, the Auditor-General circulated this note to the Financial Committees of this House, in his capacity as their constant adviser.

Shri Tulsidas: No. There was one note circulated to the Members of the Select Committee. I am not referring to that at all. But there is another note, and that is what I am referring to.

Shri B. R. Bhagat: I do not think that note was circulated to all the Members of the Select Committee. May be it may have been circulated privately to some Members. It has not been given to me. I was a Member.

Shri Tulsidas: He can get it from the Comptroller and Auditor-General.

Shri C. R. Narasimhan: Whether the note is from the Auditor-General or not, the subject-matter is there for answer.

Shri Tulsidas: I do not understand this shyness on the part of Government to accept the audit of the Comptroller and Auditor-General. The plea is that there is not going to be flexibility, the business of insurance is such that it is flexible and therefore, the auditors appointed by the Corporation itself will do the audit. The Comptroller and Auditor-General, according to the Constitution, as the hon. Finance Minister said, has the right to do it, and the House will also get the report and so on.

My point is that the accountability of any undertaking undertaken by Government to this House can only be through the Comptroller and Auditor-General. Therefore, the Comptroller and Auditor-General must be the person who should look into these things on behalf of this House. Whether the Government like his auditing or not, the pre-condition for Government nationalising any undertaking is the acceptance of the Auditor-General as the auditing authority for the undertaking. It is only on that condition that Government should nationalise undertakings.

The Finance Minister has said that there is one undertaking which is not audited by the Auditor-General, that is, the State Bank of India. If that is so, it is a mistake. We should have the Auditor-General audit the accounts of the State Bank of India. We have also seen that we had to amend the Industrial Finance Corporation Act and bring in the Auditor-General. But this has not been done in the case of the State Bank of India. I do not understand why this has not been done. I think the appointment of the Comptroller and Auditor-General as the auditing authority is the pre-condition for Government nationalising any industry. I am sure the House will take this as a matter of prestige of this House. If the Government want to by-pass the Comptroller and Auditor-General, then the prestige of the House must count, and it must be more supreme than anything else. I am sure the House will look into this matter.

Now, I will come to the question of how this particular piece of legislation has been framed in the light of the Indian Companies Act and the Insurance Act. A number of salutary provisions have been made in those two enactments in order to see that corporations and companies function properly. It may be that there are a number of companies, a large number of companies, in the non-State sector, whereas this is only one Corporation. But this Corporation has no provision applicable to it of statutes like the Indian Companies Act and the Insurance Act. I am glad that the Select Committee has made certain provisions with regard to applying certain sections of the Insurance Act.

I have already put in my Minute of Dissent wherein I have referred to sections 27, 27A and 40B. The Finance Minister just now gave the reasons why these provisions were not required to be applied to this Corporation. The reasons which he has given are, to my mind, not at all satisfactory. He says that the expense ratio is bound to come down, and therefore, it is not necessary. But if this restriction was there in the case of the companies that were functioning, why should not the same restriction be extended to this Corporation? If the Government have a definite idea, and are assuring us, that the expense ratio will not go up, why should they feel shy of applying this particular section to this Corporation? I do not see any reason why the Government should not agree to this proposition.

[Shri Tulsidas]

There are other provisions like sections 27 and 27A dealing with investments. One has to view the question of investment not merely from the point of view of how the investment is done. This has also a bearing on the interests of the life insurance policy-holders. In fact, both these questions of expense ratio and investment have a bearing on the interests of policyholders. You know that with-profit policies are taken out. There they are interested in future bonuses. As regards past bonuses, the Government have already given a guarantee. But future bonuses will depend on the yield by way of interest that the investments of the Corporation will bring. It will also depend on the expense ratio kept up by the Corporation. Then there is the question of mortality ratio.

My feeling is that this particular restriction regarding expense ratio and investments must be made applicable to this Corporation, because it is the interests of the policyholders that are involved. In normal circumstances, 55 per cent. of the investments are in government securities, and the balance is to be invested, according to section 27, in approved securities. There is also the question of yield as well as the diversification of investment. Here though there is a committee, whether it has any directors or not, the Government's instructions will have to be carried out. Therefore, in the interest of policyholders, what I have suggested is that up to the maximum of 55 per cent, the investment may be in government securities, but the balance should be in other types of investment in such a way that the yield to the policyholders will not be affected. If this is done, the yield to the policyholders will be higher and the bonus which the policyholders expect to get will be higher. To that extent, sections 27, 27A and 40B should be made applicable to this Corporation, particularly in view of the assurance given by the hon. Minister as regards investments and the expense ratio.

Another important aspect I would like to deal with is the question of the Corporation's taking over of the subsidiary companies of the present life insurance companies. The main aspect in this connection is the general insurance business. I know some hon. Members to my right would naturally like to have general insurance also nationalised. But I do not see why that portion of insurance should come into this piece of legislation. If in the future, Government decide to nationalise general insurance business, they might bring in another Bill for the purpose.

The main difficulty, as you must have seen, is even with transacting life business in foreign countries. The Select Committee was told, and we have now also been told, that life insurance business transacted outside India will be handed over to the life insurance companies or to other companies who are willing to carry on that business. The reason is that in other countries, they do not like any nationalised institution to function. This difficulty will also arise in the case of general insurance business carried on by these subsidiary companies which are being taken over. In general insurance business, there is much more of international business than internal business. If you see the balance-sheets of a number of big general insurance companies, the larger part of the premium income comes from outside India than from inside. Therefore, I suggest that just as they are handing over the life business in foreign countries to the present companies or other companies who are willing to carry on that business, they should also hand over the general insurance business of the subsidiary companies to the present companies, if they so want, or to any other companies who would like to take that business over.

Now, I come to the question of compensation. Here, I would like to point out that though the Select Committee has made a certain change—and from the face of it, it looks as if the change has been a concession—one aspect which has been lost sight of is that whatever compensation Government are paying, they are paying from the funds which they will take over from these companies and which funds ultimately will belong to the Corporation. Therefore, it is nothing coming out of Government.

The next aspect is that when you take over certain business, you pay the price as on the day you take over and not the price four years behind. On the basis of the proposal in the Bill it is the average of 6 years which means that it will be actually 1952 price. You will see that in 1952, the total business in force was Rs. 800 crores while at

the end of 1955, it was Rs. 1000 crores. So, you would be paying 22 to 24 per cent. less.

Then, the companies have been allowed, under the law, to allocate 7½ per cent.....

Mr. Chairman: The hon. Member has commenced his speech at 2·24. As the hon. Speaker said, leaders of groups and certain important persons will get half an hour. You have already exceeded half an hour.

Shri Tulsidas: No, Sir; I began at 2·24 and it will be half an hour at 2·54. I have come to the last point. I am coming to the end.

Mr. Chairman: I am just reminding the hon. Member.

Shri Tulsidas: I am only putting this point. Those companies which have allocated 7½ per cent. are to be paid on the basis of 5 per cent. and that too on the previous 1952 valuation. Because if you take the average of 6 years, it comes to the 1952 figures. Therefore, by that they are getting only 41 per cent. of the present valuation. I do not see any reason why the Government is feeling that they should not give those companies whatever they have allocated. There is always a feeling that compensation is being paid to people who have got something; there is always the expropriation mentality on the part of those persons who pay compensation.

I may tell you that in this particular question, there are 50,000 shareholders of the different companies and it is these 50,000 people who will benefit and not a few individuals—2, 3, 4 or 5. Therefore, if the compensation paid is less, there are more than 50,000 persons who are affected.

The other aspect is that when the Corporation will function they want to take 5 per cent. of the allocation surplus. That is, the Corporation wants 5 per cent. of the surplus to be allocated. It is the shareholders' money which the Corporation would be utilising. But, while paying compensation, they want to pay only 5 per cent. even though 7½ per cent. has been allocated out of the surplus of the shareholders. I feel that this compensation is too low. They have increased it from 3 to 3½ per cent. for those companies who have not allocated anything. But for those who have allocated 7½ per cent. according to law, if you do not want to penalise them, I would say, let us pay them at least 6½ per cent. if not 7½ per cent. Who are affected? The big companies have allocated less than 3½ per cent. I do not want to go into the details of the question of merits, into prudence. But, I do feel that it was not a question of prudence. If they had allocated more the policy rates would have gone up. It would have affected the question of bonus. These are technical questions and I do not want to go into what happened in other big companies who have allocated only to the extent of 3½ per cent. But, those who have allocated 7½ per cent. will get only 5 per cent. I feel that it is illogical, it is discriminatory and it is not fair. The Corporation should pay them at least 7½ per cent. which is allowed by the Act.

The surplus must be valued on the day the Corporation takes over all these companies. Either it must be the value of that year's normal insurance business or it must be the average of 3 years and not the average of 6 years.

I do feel that the most important aspect is that the expropriatory mentality is not going to help our society, whether it is the socialistic type of society or any other type of society. Unless you protect the rights of property, it is not going to help the interests of any society. But, I do feel that in the long run only a society in which the property rights of the individual or groups are honoured can prosper and none else.

Shri Sadhan Gupta: At the obsequies of the private sector in life insurance business, I am not filled with any sense of remorse at having to participate in the obsequies. On the other hand, I am filled with a deep sense of regret that the extinction has not been complete, that the extinction has been confined to the life sector alone and is not extended to the general sector of the business.

There was more than one reason which necessitated the obliteration of the private sector in life insurance business and which equally apply to the case of general insurance business also. In the first place, we are a country which is desparately seeking resources for the purposes of developing the national economy, for the purposes of rapid industrialisation. We are trying to get foreign aid which is an unpredictable quantity and on the basis of which no plan can

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be formulated. In order to meet our demands, we are resorting to deficit financing and the prices are going up. With all these difficulties, how can we refuse to utilise the huge funds that are at the disposal of life insurance companies and the fairly sizable funds which are also at the disposal of general insurance companies?

Coming to the life insurance companies, we have a fund of about Rs. 380 crores, which is available today for use for national development and, so there is every reason that this fund should be taken over and used for the purposes of national development. Even though nationalisation has been made, yet I shall show later on that the utilisation of the funds which is promised under the Bill is not quite to the interests of national development. Even then, something will come for national development and that is cause for some satisfaction.

I have also further reasons to regret the omission of general insurance. The malpractices mentioned in the Statement of Objects and Reasons of this Bill apply with equal force and, in some cases, with greater force to general insurance companies.

3 P.M.

Malpractices like rebating are more rampant in general insurance concerns than in life insurance concerns. Therefore, I again say that I am deeply disappointed that general insurance companies have been left out of account. Even if you leave out all that, from the point of view of the employees, it is absolutely essential that general insurance companies should have been taken over. Many of the general insurance companies are composite companies. The general insurance business receives a large amount of support from the life insurance business, and I can assure you that most of these companies are going to be liquidated as a result of life insurance business being taken over. I have received frantic telegrams from many insurance employees' organisations saying that retrenchment has already started in the general insurance wing. There was a telegram from Vishwabharati. I understand the same thing is happening in Andhra Insurance When the life insurance business is being taken over, they are deciding to close general insurance business. Even for the sake of relieving the employees, even for the sake of securing employment to the employees or giving them security of service, the Government should have taken over the general insurance sector. The Government cannot plead that it was unaware of the problem, it did not know that many employees would be thrown out of their employment when the life part of the concern was taken over by the Government. I charge the Government with callousness in this matter and of deliberately ignoring the interests of the employees. I want to know what steps they propose to take if large-scale retrenchment of employees in the general insurance sector occurs.

With these remarks, I would assure you that the Bill, so far as it goes and as far as the principles are concerned, has my complete support. Of course, we have important differences regarding various aspects of the Bill, but generally we are in agreement with the principle —the principle of nationalisation of life insurance companies. However, our differences are major and very fundamental with certain provisions of the Bill. Take the provision for compensation. The idea of compensation, the principle on which compensation is to be fixed, is that the shareholders must be guaranteed in perpetuity an amount of income which would bear some approximation to the amount that they would reasonably expect to earn as dividend in the future. That is the principle of compensation adopted. The shareholder would earn something from the shares and that earning should be guaranteed in perpetuity. Shri Tulsidas's complaint is that some of us are out for expropriating. I am not for expropriating anyone whose business is being taken over. We, the Communist Members, are for granting a fair compensation to anyone whose property is taken over in the national interest. But what is the fair compensation? Is it a fair compensation to guarantee your earnings in perpetuity? That would have been a fair compensation if every other class in the society was being compensated on that basis? A workman today, if he loses his earning capacity completely by an injury suffered in course of employment, by an injury suffered while carrying on his duty and serving the community, has to sit idle for the rest of his life. He has to feed his children and to educate them, what does he get? When he loses his earning capacity, you give him wages equivalent to 3½ times his annual earnings; that is under the Workman's Compensation Act, and that, I can assure you, is a very generous compensation because

under the Industrial Disputes Act, if a person, after serving 20 years, loses his job, what he gets is a total of 11 months' wages—15 days for each year of service and one month's notice pay. Under this very bill if the Corporation by way of rationalisation reduces the salary of an employee, all he is given is three months' wages unless some arrangement for provident fund or gratuity is provided for by the company in which he is serving. I can tell you that many of the companies do not provide for gratuity or provident fund. For all practical purposes, a man, even after years of service, if his wages are reduced, can get only three months' compensation. When you are giving 3½ years or 11 months or even three months to an employee or to a worker who has rendered years of service, how can you give a greater compensation to a shareholder? What has he done? He has only put in some money, and he earns an income while sitting idle. He does not take any risks. Hardly any risk he takes, because an insurance company, as I will show presently, is the soundest venture. When we assume a reasonable efficiency in its management, there is hardly any chance of its coming to grief. An investor obviously tries to ascertain that the company will be managed with reasonable efficiency. After that is assumed, what risk does he take? Nothing at all. I have shown that from the point of view of the community as a whole, this heavy compensation is uncalled for, because we cannot treat all classes of society in the same manner. Let us look at it from the point of view of the capitalist. The compensation to the capitalist is supposed to be a compensation for the risk that he takes. As I just said, the investor in an insurance concern, and particularly in life insurance business, takes very small risks. The life insurance business can never come to grief. It has been seen that in an earthquake in Japan when one-third of the population of that country was destroyed, the life insurance was not very much affected. This is the kind of thing that life insurance concerns are. There is hardly any risk. Then, the insurers in this country claim all the credit for developing the insurance business in India, for spreading insurance to the people. But can they claim all the credit to themselves?

Mr. Chairman: The hon. Members' time is up. I can give him half an hour's time if he is the representative spokesman of his party.

Shri Sadhan Gupta: I have been a Member of the Select Committee....

Mr. Chairman: But that is no reason why he should have more time. If he speaks as the spokesman of his party, I will give him half an hour.

Shri Sadhan Gupta: Very well, Sir. I do so. I was saying that the investor in an insurance company takes no risks. What about the credit for expanding the insurance business? Is it all due to the insurance concern? You know that recently many measures have been taken by the State to facilitate the expansion of the insurance business. Income-tax relief has been granted to assessees in respect of insurance premium paid. A huge public expenditure has recently been undertaken and that inevitably has its repurcussions in the development of insurance business because a section of the population increases its income thereby. Naturally they become prospective policyholders of the insurance companies. All these contribu'ed to the development of this. So, the insurance companies cannot claim the whole credit for the spreading of the business. We have to look at other criteria to decide whether the compensation is fair or not. I venture to suggest that the only criterion is to see whether the compensation is so excessive as to be disproportionate to what other classes in society can expect under similar circumstances or on the other hand, whether it is too meagre as to offer a reasonable chance of rehabilitation to one who depends exclusively upon this income, the income from the investment in insurance companies. When we cannot pay the other sections of the community more than 3½ years wages, the shareholders cannot expect more. Similarly, we should not pay them so meagre an amount that they cannot rehabilitate themselves. Therefore, I have said in my minute of dissent that ten years average earnings may be given to the shareholders instead of twenty years. That would be fair. They are guaranteed their income for the length of ten years and within this time they can rehabilitate themselves and find out alternative avenues of earnings. They are protected for ten years. I would even go further and say: let them have ten times the last dividend that they have had. The last dividend must be the greatest. And that should be enough. In fact that is an outrage on the conscience of society. If I had my own way, I would order it in a different way. I would look to individual cases. But it is not

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in my hand. I would venture to say that this formula is a bit too liberal to shareholders but I would be prepared to abide by that. Now this is one aspect.

There is another aspect which is in striking contrast to this—compensation to employees. Unless a company has provided for guarantees, an employee who does not find it possible to accept the scheme of rationalisation must quit with three month's remuneration. It is said that if the contract provides for a shorter term of remuneration, he will get the shorter remuneration. I do not understand how, on the one hand, we can afford and agree to pay an immense amount of money to people who deserve to be paid certainly much less than the employees and on the other hand we cannot agree to give to the employees more than a small pittance. Everything that applies to shareholders applies, with greater force, to the employees. Do you talk of the development of business? I think it is the employees who have contributed most to it. Do you talk of the spread of insurance? It is the employees who have done it. But, when you are discharging them, you are discharging them with a miserable pittance.

It is the same kind of treatment that is given to the policyholders. Policyholders in companies which are insolvent run the risk of having their policy value reduced. That is clause 14. There have been many cases when the deficit has been the result of under-valuation of assets or over-valuation of liabilities. Assets have been under-valued in order that the authorities in charge of the company may buy them for a song. The liabilities have also been over-valued either due to caution or due to other motives. By these means, deficits have been created. But apart from this, let us not forget the psychological reaction which this will create. The policyholders will lose the confidence in the Corporation's ability or willingness to observe their liabilities and to honour their policies. I know there are guarantees in the Act but you do not expect every policyholder to read the law. When they know that their policies are being reduced in value, they will lose their confidence in the Corporation. It may not always be on a reasonable basis. When you are asked to put in your money you do not expect quite so much reason from the policyholders. You do not expect them to understand the Government's interpretation of the law. Therefore, for a nationalised undertaking this sort of thing is very inauspicious.

Dr. Rama Rao (Kakinada): May I point out that there is no representative of the Finance Ministry here?

The Deputy Minister of External Affairs (Shri Anil K. Chanda): I am taking notes on behalf of the Finance Minister.

Shri T. B. Vittal Rao (Khammam): There are four Ministers in the Ministry of Finance. One of them should be here.

Shri H. N. Mukerjee: The Deputy Minister of External Affairs has a very specific job in the Government to do and he is not a member of the Cabinet who has a joint responsibility for other Ministers in charge of departments like Finance. That being so, with all my respect for the Deputy Minister of External Affairs, I feel that his presence is by no means adequate.

Mr. Chairman: The hon. Minister in charge of this Bill was all along present. He must have some time. Moreover, no new points are made. The hon. Member is stating in the House practically what he has given in the minute of dissent. Therefore, I do not think that many things are missed by the absent Minister. The other Minister is taking notes.

Shri C. R. Narasimhan: Shri M. C. Shah is here.

Shri M. C. Shah: I had been away for just a minute or so, Sir.

Shri Sadhan Gupta: The issue of fair compensation was raised. At one stage it has been said that the State cannot be expected to guarantee the policies of imprudent policyholders who had acted without circumspection in insuring with bad companies. I shall try to show you that this is a wrong idea. But I submit that this doctrinaire approach is quite unjustified.

It may be that many companies have gone insolvent. I am aware, perhaps even more than the hon. Minister, how many companies have gone insolvent and in what circumstances. There is a company for instance that has lost Rs. 30 lakhs of the Rs. 32 lakhs of the life fund. It is asked: "Do you expect us to guarantee the policies of such a company?"

Perhaps if the Government takes up this responsibility then every depositor shall be guaranteed his deposits if the Government decides to nationalise banking. That is what is said. Perhaps the same arguments will be advanced.

But, the whole approach is different here. They were insuring with the company which was operating under a licence from the Government itself. Government recognised that it had a right to operate. There is the Controller of Insurance and his department with enormous powers. He is supposed to keep a check on all kinds of mismanagement and mis-application. And, what is more. The policyholders have all along been paying premium even after 19th January in the hope that their policies will be honoured, particularly by the Government when the business is taken over. Why should the policyholders suffer, because the Government departments could not check these corruptions because they could not check these misappropriations? They had all the powers if they wanted to check such things. But they did not check it, obviously, either due to inefficiency or under-staffing of the Controller of Insurance office. Why should the policyholders be made to suffer for it.

Then, there is the question of audit. A few points have been made by the Finance Minister as to why the audit by the Comptroller and Auditor-General has not been provided for. He says that in a commercial concern like this Corporation, this kind of audit is not necessary. I shall come to that later on. But, on principle, in a Corporation of this kind, where huge public funds are invested in the shape of capital provided by the States, it is but natural that the Comptroller and Auditor-General should be allowed to audit the accounts. The Minister has tried to mislead us—I hope not deliberately—by saying that in the United Kingdom the Comptroller and Auditor-General does not claim any inherent right to audit public corporations. That is only a half truth. In the first place, in the United Kingdom every public corporation depends on loans from the public and all that the Government guarantees is interest from that loan by way of debentures. Secondly, even in the United Kingdom, in respect of public corporations of this kind, a Select Committee has enquired of the Comptroller and Auditor-General as to whether he would agree to audit the affairs of these public corporations and the Comptroller and Auditor-General has replied that he is willing to do so if his staff is expanded. Therefore, firstly, investment of public funds or investment from the Consolidated Fund is not there and, secondly, the Comptroller and Auditor-General, even in spite of it, has been asked to consider auditing of those corporations and he has agreed. So, in our country it is all the more desirable that the Comptroller and Auditor-General should come in, in these matters.

There are the Air Corporations. There are the Industrial Finance Corporations. All of them are being audited by the Comptroller and Auditor-General. What is the difference with this one? What is the difference in this Corporation? Here it is said that it is a commercial concern and the executive has to act with some amount of discretion. How does the Comptroller and Auditor-General prevent discretion? All that can happen is that the Comptroller and Auditor-General can keep check when that discretion goes on and the discretion takes the shape of committing waste of the funds at the disposal of the Corporation. Do we not want it? Do we not want wastes to be pulled up?

Sir, it is not difficult to understand why the Government has taken up this attitude. When the Comptroller and Auditor-General had uncovered certain very shady things in the Industrial Finance Corporation, the Government tried to shield the officers involved rather than to bring them to book. I think it is the same kind of attitude, that the auditor should be tractable, the auditor should be amenable to being manipulated by the Government, that has induced the Government to refuse to have audit by the Comptroller and Auditor-General. We cannot accept it. We cannot accept a tractable audit. We want independent, exacting audit and no honest man who conducts the affairs of the Corporation honestly will have anything to fear from such an audit. We have seen, the Comptroller and Auditor-General's audit has been independent and so we want it.

Regarding investment policy, what we find is that the Government has given the private sector promise of continuing the investment pattern; that is to say, it has given the private sector promise that the percentage of investment, the proportion of investment, which was so long being made in the private sector will be maintained. This promise is entirely uncalled for. Of course, we are not against investment in the private sector, but such investments should not be made

[Shri Sadhan Gupta]

merely because it is the private sector. investments should be made in accordance with national priorities, priorities in the interests of national economic development, and the private sector should come in according to that priority. If any undertaking in the private sector is important for national purposes, let the Government invest adequate funds in that undertaking, but not in any undertaking because it belongs to the private sector. Therefore, what I would suggest is that the investment of the Corporation's funds should be, in the first instance, in Government securities. Government should guarantee an interest of 3½ to 4 per cent. on those securities. After guaranteeing that, they should take over all the funds of the Corporation and invest those funds according to priorities in the interest of national development. This will have the advantage of guaranteeing adequate interest for the policyholders, which Shri Tulsidas has desired, and, at the same time, of promoting the national development. In this connection, it is well to remember that most of the big ventures now operating had been investing about 80 per cent. of their funds in Government securities. Therefore, no danger to policyholders is involved.

Now, there are certain matters about employees. I would desire that the surplus under clause 28, which is revealed after actuarial investigation, should be allocated to the extent of at least 2½ per cent. for paying valuation bonus to employees. The provision about transfer of employees should be very sparingly used and, in particular, employees should not be ordinarily transferred outside the zone without their consent. When transfer is ordered within the zone or outside the zone, care should be taken to see that they receive adequate compensatory allowance to compensate for the loss they may incur. No reduction of remuneration should take place in case of nationalisation in the case of employees who are workmen under the Industrial Disputes Act; that is to say, clerical or subordinate staff, and all disputes arising between the employees of the Corporation and the management should be adjudicated upon by the Tribunal and the Central Government's decision should not be final.

I would also urge that the privilege of absorption, which has been extended to the staff of chief agents, should also be extended to the staff of private actuaries, because the staff of private actuaries would be thrown out of employment by nationalisation, and they had been rendering service to insurance business as the staff of the chief agents had been doing.

Lastly, I would urge that section 44, which guarantees hereditary commission to agents should be automatically applied to the Corporation and it should not be placed in the second group in section 44, which the Government can bring into force subject to modification. Section 44 should apply in full and so should sub-section (1) of section 40-A in respect of commissions to agents. The Corporation has been authorised to make regulations under clause 49 and Parliament has been given no control over those regulations. It is urged that the regulations relate to the day-to-day administration. If you look at clause 49, you will find that the regulations not only relate to matters of day-to-day administration but to very important matters like the differential groupings of policies for the payment of different bonuses, the forms in which policies are to be issued, that is to say, for specifying policy conditions, etc., and these are matters in which the country has a very vital interest. Therefore, Parliament should have a control over those regulations and like the rules made under this Act, the regulations made under this Act should also be subject to annulment or modification by Parliament.

Mr. Chairman: It is now 3-30 P. M. We shall take up private Members' business.

COMMITTEE ON PRIVATE MEMBERS' BILLS AND RESOLUTIONS

Shri Altekar (North Satara): I beg to move:

> "That this House agrees with the Fifty-third Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 16th May, 1956".

In this report, there are two points which have been discussed. One is in regard to the classification of the Bill by Shri T. B. Vittal Rao regarding the Factories (Amendment) Bill. After considering all the issues concerning it, it has been classified under category and three hours have been allotted for the discussion of the Bill.