

**THE LIFE INSURANCE (EMERGENCY PROVISIONS) BILL, 1956.**

THE MINISTER FOR REVENUE AND CIVIL EXPENDITURE (SHRI M. C. SHAH):  
Sir, I move:

"That the Bill to provide for the taking over, in the public interest, of the management of life insurance business pending nationalisation thereof, as passed by the Lok Sabha, be taken into consideration."

The Bill seeks to convert into an Act of Parliament the Life Insurance (Emergency Provisions) Ordinance, 1956, which was issued on the 19th January last. This Ordinance was the preliminary step towards nationalisation of life insurance business in this country. The normal procedure to implement the decision to nationalise would have been to bring forward the necessary legislation before Parliament. We felt, however, that the inevitable time lag involved in the passage of legislative measures would enable the less responsible section of insurance managements to act in the intervening period against the interests of the policy-holders. Our experience of the ways of this section over several years indicated that during this interval the insurance managements might easily adopt a number of methods to enrich themselves at the expense of the policy-holders. With nationalisation in the offing, even the managements of the better-run companies could not be expected to evince the same degree of interest as before. The interests of the policy-holders would thus be jeopardised. Further, the Ordinance, by enabling Government to take over the management immediately, would help to maintain the normal working of the business and also facilitate a smooth transition to the new order.

In terms of the Ordinance, the management of all life insurance business vested in the Government and it was also provided that until a Custodian was appointed, the existing managements would continue in charge of the business, as agents of

Government. There was, therefore, no dislocation in the normal functioning of these companies. Within a matter of hours of the promulgation, of the Ordinance, Custodians were appointed to manage most of the companies. These Custodians have been chosen from amongst senior salaried staff of the insurance companies themselves and they are now working enthusiastically under the general guidance of the Ministry of Finance.

I shall now explain briefly why Government felt that it was imperative to nationalise life insurance business. With the Second Five Year Plan in the offing, it was essential that the savings of every section of the people should be mobilised to the full. In this task, insurance had a vital part to play. We therefore, examined whether life insurance, as it was organised in this country, could be relied upon to play the role expected of it. Unfortunately, the conclusions of our careful departmental examination conducted over an extended period of time, revealed that life insurance, as it was organised, did not have the capacity for mobilisation of savings on the scale demanded. What the defects of the existing organisation were, I shall now elaborate. Perhaps, I could do that best by explaining the more important characteristic which distinguishes a well-run insurance industry—economy of management, low premiums, sound investments, efficient service, and above all, a realisation that the managements are trustees of the policy-holders.

The average expense ratio in India was 27 per cent, in 1953; the corresponding figures in the U.K. was 15 per cent and in the U.S.A. 17 per cent. These figures amply demonstrate the extravagance in management expenses which even statutory imposition of expense limits has failed to check. The heavy expenses are due to wasteful and nonproductive expenses in the field. The 'code of conduct' framed by the industry itself was intended to curb

such extravagance but the industry soon got round these. The result is that out of every rupee paid by the policy-holders as premiums less than even annas twelve went to build up his savings.

The premium rates in our country are about the highest in any advanced country in the world, even allowing for the fact that our mortality rates are high. The high premiums are due mainly to heavy expenses of management.

It is in the matter of investments of life insurance funds that the greatest deviation from correct standards is found. Concentration of economic power in a few hands has even normally its dangers. But where there is a propensity on the part of the managements to use the hold over the company's insurance funds for personal gains, the consequences can well be imagined. Policy-holders' moneys were used in the guise of investment to get control over joint stock companies or prop up other concerns of the managements. Purchases and sales were often indulged in more to benefit the managements or their friends than to serve any real needs of the policy-holders. Often properties were purchased at inflated prices, in some cases, from persons who had no title to them. Loans were granted against *u* insufficient security. I could multijy instances but the ones I have given would serve to show that the interests of the policy-holders were by no means the paramount consideration.

No wonder, with high expenses and poor investments many companies went to the wall. As has been stated on many occasions during the decade 1944—1954 as many as 25 insurers went into liquidation and another 25 had to transfer their business to other companies in most cases with a reduction in the policy contracts.

Nor can it be claimed that the service rendered by the companies to the policy-holders was good by any standards. Post-sale service was completely absent with the result **that** lapses were very high. Even

the premier companies of India have a lapse ratio of over 33 per cent. It will not do to attach blame in this matter to the so-called ignorant policy-holders. If the policy-holders in India were alone to blame, we could not have had the instance of a foreign insurer experiencing a lapse ratio of under 10 per cent. In the matter of settlement of claims too, the policy holders or rather their have to contend with the apathy, or worse, of companies. A number of companies systematically postpone or avoid payment of claims until their hands are forced by threat of legal action. Government received every year numerous complaints from policy holders alleging delay. If not non payment of claims; the number of such complaints received in the Department of Insurance during the year 1954 was over a thousand.

I would like next to examine the past record of the insurance industry in the matter of popularising insurance among the public. Some tall claims have been made by them that they have done a good deal in this matter and in fact, better than the insurance companies in other countries. Even a cursory examination discloses how hollow this claim is. In other advanced countries, insurance compaies have played a vital part in mobilising the savings of persons of low economic means through their industrial assurance schemes. Under this class of business, premiums are payable weekly, fortnightly or monthly and are collected from door to door. This class of business account for 40 per cent, of entire life insurance business done in the United Kingdom and 35 per cent, in Germany. In India, this business has not even been attempted. The many provident societies which transact business among the poorer classes are only small insurers; they are small in size, but big in malpractices. Even if we forget industrial assurance and consider only ordinary life insurance business, the progress made is far from satisfactory. The

[Shri M. C. Shah.]  
*per capita* insurance in force in this country is only Rs. 25 as compared with Rs. 8,365 in U.S.A., Rs. 6,647 in Canada, Rs. 2,544 in Australia and Rs. 1,840 in the U.K. of.....

SHRI H. N. KUNZRU (Uttar Pradesh) :  
What is the difference in *per capita* income in these countries?

SHRI M. C. SHAH: I am coming to that. Of course, I am aware that our *per capita* income is low. But even if allowance is made for this fact the conclusion emerges that the record of life insurance companies in India compares very unfavourably indeed with those in other countries.

What I have said till now would demonstrate to you that we are as far away as ever in attaining the standards associated with the name of insurance in countries like the U.K. It is not merely a question of technical efficiency. It is something more— something fundamental that is lacking. Insurance managements have failed to look upon their task as an opportunity to serve the policy-holders; they failed to approach the task in a spirit of dedicated service.

It has been suggested by some that the proper remedy for the evils besetting the industry was not nationalisation but further legislation and control. The obvious answer is that one cannot make angels out of men by mere legislation—at least that has been the experience of insurance legislation in India. Legislation and control can only foster the growth of standards if the industry itself strives towards that end. But if that effort is lacking, no amount of Government control can result in building up a strong and sound industry.

The earliest insurance legislation in India, the Life Assurance Companies Act, 1912 was an exact copy of the U.K. Act. Our experience during the next quarter of a century demonstrated to us that the principle of 'Freedom and Publicity' on which the U.K. Act was based was unsuited

to Indian conditions. Therefore, the Insurance Act, 1938 was then enacted and it was hoped, at that time, that it would put an end to all mismanagements. The fact that the Act had to be amended on as many as a dozen occasions, and in spite of that we are still as far away as ever in attaining the high standards associated with the name of insurance in other countries, has amply demonstrated that the solution to the problem did not lie in legislation and control. The amendments introduced by the 1950 Act were both numerous and important but even at that time there was a powerful section of the country which thought that no legislative fence would prove high enough to prevent malpractices and that nationalisation was the only remedy. I do not want to take the time of the House by listing the various provisions of the Act and how each one of them has been evaded by resourceful managements.

Hon. Members would, probably, like to know the steps that have been taken by Government subsequent to the promulgation of the Ordinance. As I said earlier, in a large number of cases the Custodians were in position on the morning of the 20th January itself. More appointments followed very soon. And, today Custodians have been appointed to as many as 120 insurance companies. In addition to that, there are 7 companies under the management of Administrators appointed under section 52A of the Insurance Act. The companies under the direct management of Government account for 97 per cent, of the life insurance business done in this country.

To remove the uncertainty in the minds of intending policy-holders with regard to the future of premium rates and also to make the ultimate integration of existing companies into the Corporation smooth, we thought it necessary to introduce uniform rates of premia. The matter was immediately taken in hand and on the recommendation of a committee of actuaries the premium rates were

revised. These rates are lower than the rates quoted by the foremost Indian insurer—the Oriental, and in fact, these reduced rates would confer a benefit on the policy-holders in 93 per cent, of cases. These new reduced rates would be applicable with retrospective effect from the 20th January, 1956, the day after the promulgation of the Ordinance.

I have been getting information from the Custodians from time to time about the progress of business in the country. I myself had been to Bombay and had invited the Custodians in Bombay, Calcutta, Madras and Delhi and I had seen great enthusiasm among those Custodians and also on enquiry^ I found that there was no fall in business though initially there was some because of the rumours spread by interested parties and due to certain uncertainties. The animosity of some towards nationalisation had gone to such an extent that they had even spread a scare that Government would settle claims, not in cash, but in bonds. Once the agents and the public saw through this, business began to flow in and today, I am happy to report, the new business is better than ever. In fact, I have reason to believe, that the new business written till the 1st March is more than the business transacted during the corresponding period of the previous year.

SHRI H. P. SAKSENA (Uttar Pradesh) : May I know who is this "I"? Is it this hon. Minister or the Finance Minister?

SHRI M. C. SHAH: "I" means the Minister who is reading this speech. Sir, nationalisation of life insurance is a great experiment. No country where there is a private sector of trade and industry has so far attempted it. What other countries have so far done is only to run State schemes in competition with private companies or to nationalise a part of the insurance business. Ours is the first attempt at full-fledged nationalisation and in undertaking this a great responsibility devolves on the Govern-

ment and on every single individual associated with this industry. There are hopeful signs already. Enthusiasm prevails among all the people connected with this business. The Ordinance and subsequent actions were greeted with a warm welcome and active co-operation. In the insurance companies, among the technical, administrative and other officers and staff, who actually do the work and among the salaried men and commission agents who do the field-work of soliciting new business and servicing existing business, there prevails a spirit of co-operation and great expectation for the future. All this hope and zeal, if carefully regulated into proper channels, may indeed lead us towards a bright future when insurance spreads to every nook and corner of the country and when every class of people, however low their income, has some insurance protection. There is this further effect—in spreading insurance all over the country we will be advertising the present and future National Plans, giving every citizen an opportunity to share in the building up of the New India.

Sir, with these words, I commend the motion to the House.

MR. DEPUTY CHAIRMAN: Motion moved:

"That the Bill to provide for the taking over, in the public interest, of the management of life insurance business pending nationalisation thereof, as passed by the Lok Sabha, be taken into consideration."

SHRI B. M. GUPTE (Bombay): Sir, the Finance Minister deserves to be congratulated on the great efficiency with which he has taken over the management of life insurance business and thus defeated the ingenuity of mischief-makers. Now our main concern should be to ensure the smooth transition to a permanent arrangement so that no unnecessary hardship or trouble is inflicted on any interest, either on the staff of the companies or on the new

[Shri B. M. Gupte.] policy-holders or on the old policyholders. In this context, Sir, I want to make certain suggestions. Government has now enforced the standardisation of premium, but this, I think, has been done rather prematurely. It would have been better if this had been left to the Corporation that is to be formed, because the corporation would have looked more carefully into the business and done the needful. What has happened is this. The rates have been fixed and of course, the Government claims that these rates are very low. But I have to submit that they are higher at least than some of the rates prevailing in my part of the country, namely Maharashtra. I shall take an example of an endowment policy for 20 years, taken by a person who is 25 years of age. The rate fixed for that policy by Government is Rs. 52/9/-. But I have got the rates of some six companies in Maharashtra which are below that. The lowest among them is Rs. 51/9/-, which is actually one rupee less than what has been fixed by Government. So, this necessarily entails some burden on the new policy-holders. If these companies had been allowed to continue their business at their usual rates the new policy-holders would not have been required to pay this higher premium. I would not have minded if this had been an unavoidable thing, but I do not think this is unavoidable. These companies are even now allowed to continue their normal business and all the new business could have been continued at the old rates. There was no necessity at this stage to enforce this hurried uniformity in the rates of the premium. Therefore, I submit this was rather premature and this has entailed not only a burden on the new policy-holders but it has meant also a lot of waste. Many of the forms and many of the tables and circulars are printed by these companies in their respective languages and all this printed stuff will now be useless. If these companies had been

allowed to function for some time more, these printed stocks of forms, tables and circulars would have been exhausted and there would have been no such waste. This is another result of enforcing uniformity at this stage.

I am not suggesting this only for this one purpose. Even in the interests of the staff, it is desirable that these companies should be allowed to function separately under the overall control of the Corporation. I do not wish to quarrel with nationalisation. Nationalisation must be there and the control, the overall control of the Corporation must be there. Under this Corporation the units should be allowed to function separately. Otherwise I am quite sure the lower staff will be faced with unemployment and starvation. Take the case of one place like Poona. There are so many life insurance companies in Poona and at least a hundred peons are employed by them. If all these companies are merged into a Corporation, then one branch will be opened at Poona and I am sure all these hundred peons will not be employed by that one branch. And the lot of the clerks will be still worse. I submit that these persons will be faced with retrenchment, unemployment and starvation. I may be told that "they will find employment somewhere else, because the Second Five Year Plan is there and it will be in operation. But the actual results of this Plan will not be felt unless it is implemented for five years and so far five years this poorer section of our population will suffer unnecessarily. I submit that even permanently these bodies could be allowed to function. This will be more in accord with our cry for decentralisation, decentralisation of wealth and decentralisation of industries. Nationalisation does not necessarily mean that there should be centralised management. Even a nationalised industry can be conducted in a centralised manner. So even permanently it would be beneficial to allow these bodies to function. If that be not possible, then the merger should be phased and spread over a

SHRI B. C. GHOSE (West Bengal):  
Sir, I listened to the inspired speech  
made by the hon. Minister .....

SHRI H. N. KUNZRU: The hon. Member was not in his seat.

SHRI B. C. GHOSE: I was in the House anyway.

SHRI SATYAPRIYA BANERJEE  
(West Bengal): But he was inspired  
wherever he might have been.

SHRI B. C. GHOSE:..... but I should like to say that what often puzzles me is the peculiar phenomenon that the Government even when they wittingly or unwittingly do a right thing, adduce either wrong or involved, confused and halting explanations in support of their action. I was trying to find out the reason why the Government nationalised insurance, a measure which I wholeheartedly support—the action of nationalisation—and the main argument seems to be—although other arguments have been advanced, they are advanced in an indirect manner—that the companies were not conducting themselves properly. The Finance Minister stated That "the misuse of power, position and privilege, that we have reason to believe occurs under existing condi-

tions, is one of the compelling reasons that have influenced us in deciding to nationalise life insurance" and the hon. Minister also today has referred to many of the abuses of which the insurance management has been guilty. Sir, a question was raised in the other House and it also exercised the minds of many people as to why with all the powers that the Government had they could not control or regulate the insurance business. Although the point has been, as I said, often mentioned, it would bear repetition and it is important and interesting to realise that the answer that the Government has given is something extraordinary. What the Government has stated—at least the Finance Minister has stated—is this. The Insurance Act had been repeatedly amended to prevent mismanagement. "Each time a provision was tightened the resourceful managements managed to find a way round it". And incidentally listening to the hon. Minister, as also when I read some of the observations of the Finance Minister, I felt as if I were listening to my friend Shri Bhupesh Gupta speaking in a more dignified language. This is what the Finance Minister stated: "Had the poor standards of management been confined to a small minority of companies, further legislation might perhaps have been worth attempting. But I am sorry to say truly well-managed companies are a very small minority. Legislation and control therefore can no longer be regarded as giving us a reasonable chance of achieving our objective". If that is true, I should like to ask as to what the Government is doing in other spheres, for example in relation to the managing agency system, because it is the same people who are involved in all these spheres of activity, whether it is insurance, or banking or company management. They are not different people. If it is the Government's contention that the management in the insurance companies had been so bad and the powers that they had were so insignificant or so ineffective and if it is also their contention that whatever law you provide they

[Shri B. C. Ghose.] are so resourceful that they can circumvent that law, then the hon. Minister should have supported us when we stated that the managing agency system should be abolished. I do not understand these confused reasonings. If these people are really bad, if these people cannot be trusted, if these people cannot be controlled by legislation, why give them power which they will abuse? Similarly in the case of general insurance when I read the Minister's arguments I get a little confused. The reason why general insurance was not nationalised was stated to be this: "The consideration which influenced us most is the basic fact that general insurance is a part and parcel of the private sector of trade and industry and functions on a year to year basis". I understand the year to year basis; that is different from life insurance. But in one sense life insurance is more a part and parcel of the private sector of trade and industry because the general insurance does not give financial assistance to the private sector. It is the life insurance business which has been assisting the private sector and in that sense the life insurance companies are more a part and parcel of the private sector than the general insurance companies. Then the hon. Minister went on to say that the life insurance companies, by contrast, directly concerned the individual citizens whose life savings, so vitally needed for economic development, might be affected by any acts of folly or misfeasance on the part of those in control or by a lack of an imaginative policy. If on that account life insurance has to be nationalised, I ask the hon. Minister, 'why not banks?' because the banks also deal with the life savings of the vast masses of people. If these are the people who cannot be trusted, who abuse power, who take advantage of the funds over which they have control, then certainly the depositors' moneys with the commercial banks are also not safe. Therefore, as I said, I do not understand the logic which is being adduced in support of nationalisation

I support nationalisation, because in the first place, I believe in certain principles and I would have liked the Government to state that it is because they believe in those principles, for example, the socialist pattern of society, that they are taking recourse to such action; not that they did not mention that but they mentioned it in a very incidental manner, as if it was an ancillary consequence and as if Government were afraid or even sorry that they should go further towards the goal of socialist pattern of society. They did not emphasize that factor. They did not say that because they believed in the principle of socialism, that because there should not be any concentration of economic power, that because they thought that this would reduce inequalities, they thought that this industry, this essential service should be nationalised. If the principle is accepted and if it is decided to nationalise a particular industry or a particular economic activity, it does not necessarily follow that it will be at once nationalised because we may not have the necessary technical personnel or other relevant circumstances, may not be favourable. So I can understand that the timing may differ. If the hon. Minister had stated that they wanted to nationalise insurance because of those principles, that they found that this was the proper time because abuses had been going on and they felt that this should not be continued further, I could understand that it would be a logical case.

As a matter of fact when the insurance business was nationalised in France, the argument given was understandable and logical. The Government stated before the National Constituent Assembly that the existing regulation of insurance had led to the concentration of capital on a large scale, which was not really necessary for the compensation of risks; the accumulation of capital in the hands of private enterprise gave private-individuals a considerable power which was a potential threat to the inde—

pendence of the State; it would not appear natural to leave the administration of such large capital sums in the hands of private companies, sums which did not really belong to the shareholders, but constituted the actual guarantee of insured persons. Since such funds should be considered as the property of all users of the insurance industry, they should be handed over to the State, which is the legal representative of the nation and consequently the only representative of the community of users as a whole. And the Minister there in France also argued that insurance, as a result of the large capital which it represented, was, like the banking industry, one of the elements of the national life which should be absorbed into the general economic administration of credit and investment. Of course, this fact was also mentioned by the Finance Minister when he quoted what was stated in the first Plan where it was stated that the banking system and in fact the whole mechanism of finance, including insurance, stock exchange and other institutions concerned with investment would have to be fitted increasingly into the scheme of development visualised in the economy as a whole, for it was only thus that the process of mobilising savings and utilising them to the best advantage became socially purposive. Because it is 'socially purposive', nationalisation is necessary according to us. And that applies also to banking.

I might here remind the hon. Minister of what was stated in the first Plan. It was stated that "banking development through the normal incentives of private banking is apt to be a slow process, particularly in a country in which deposit banking and the use of cheques is likely to take root only slowly among the masses of the people. In this field the profit motive might stand in the way of extension of credit facilities to sections of population which need them for rapid development". So, on the same argument, the banking industry is

does not mean that it has to be nationalised straightway. It does not follow, because we may not have the technical personnel, we may not have the organisation and the machinery and, therefore, we might have to go slow. But that is a quite different proposition to what the Finance Minister had stated, viz., that his present thinking was that it was not a fit case for nationalisation. That is where I join issue with him. If you nationalise insurance, I think, the arguments are the same and on those same grounds you have to say that banking is a fit case for nationalisation, although the present may not be the proper time for giving effect to such a proposal. As I said, I do not appreciate this "facing both ways" policy of the Government and using arguments to suit the proposition which they bring forward. For example, take the case of management expenses. It has been adduced as one ground for nationalising insurance. It is said that here the expense ratio is about 29 per cent, as against 15 per cent, in the U.K. and 17 per cent, in the U.S.A. But then the Government themselves had fixed a very high expense ratio for the insurance companies. Why did they fix it so high? If they felt that it was a very high expense ratio, they should not have provided that in the Insurance Act. And may I incidentally mention that when we were arguing the case of the managing agency system, we said that the expense of management was very high? It varied between 12 and 15 per cent, or 10 per cent. Even under the existing Act—if I remember it rightly, the other day the Finance Minister said—it would be about 8 per cent.; whereas in foreign countries it is 2 per cent, or 1½ per cent, or 2½ per cent. That alone would be a fit reason, I think, for the abolition of the managing agency system. That argument was not good then, but this argument is good in the case of insurance companies.

Then, with regard to premium rates,

also a fit case for nationalisation. It is of course, they are high, but we should



not say that we can at once bring down the premium rates very appreciably.

SHRI M. C. SHAH: We have never said so.

SHRI B. C. GHOSE: You have brought it down by one rupee compared to the Oriental rates, but Oriental rates are not necessarily the lowest rates. There were other companies whose rates were lower than the Oriental. "Why did you not accept those rates?"

SHRI M. C. SHAH: Ninety-three per cent, will get the benefit of this reduction by one rupee. There may be very few small companies somewhere here or there who may have lower premium rates than Oriental, but so far as the premium rates of Oriental are concerned, the benefit is going to be to 93 per cent, of the business.

SHRI B. C. GHOSE: I do not agree. Is it the hon. Minister's contention that taking table by table, the Oriental table—each table—is lower than the rate table of any other insurance companies? A an insurer I have a freedom of choice. If you adduce that argument, I had a freedom of choice to go to that particular company which had the lowest rate table for the policy that I wanted to take.....

PROF. G. RANGA (Andhra): But they may not be dependable.

SHRI B. C. GHOSE:..... whereas today I have no choice as between different rates. If I am taking a whole life endowment, I have a accept today the Oriental table. But previously I had all the insurance table rates before me and I could choose the particular company that I wanted.

PROF. G. RANGA: But you run no risk in the State insurance.

SHRI B. C. GHOSE: Question of risk? I say that the Government is certainly more secure, but if anybody says that the policy with the Oriental or with the New India or with the Hindustan, was at all risky, I am sorry, I would not admit that.

PROF. G. RANGA: You are talking about lower rates. Your argument is that the premium rates would be higher. It is so because the risk is less and the safety is more. We will answer you later.

SHRI B. C. GHOSE: Those arguments are not convincing. The main argument should have been—and it would have appealed to me—that because we are trying to bring about a particular state of society, because we have a Plan for which savings are essential to be mobilised, and as we feel that the insurance companies as at present administered are not subserving those purposes, therefore, we feel that the insurance industry should be nationalised.

SHRI M. C. SHAH: That is what I have said also, when I introduced the Bill.

SHRI B. C. GHOSE: I did not say that you have not said it. I never said that. I said that they were the incidental arguments put forward.

SHRI M. C. SHAH: These are the direct arguments that I gave just now. I do not know whether the hon. Member was here to hear all those arguments.

SHRI B. C. GHOSE: The argument was the malpractices resorted to by the insurance companies.

SHRI M. C. SHAH: That was one of the arguments. The other arguments perhaps, I am afraid, the hon. Member may not have heard and I can give him a copy of my speech.

SHRI H. N. KUNZRU: But frankly they seemed to be incidental.

SHRI M. C. SHAH: I am sorry if it is so. I supported all these premises which my hon. friend now puts before the House.

4 P.M.

SHRI B. C. GHOSE: Yes, you started by saying that the insurance business had not been able to mobilise savings to the extent that it should have. But having stated that, in the whole speech you were cataloguing the abuses and the malpractices of insurance management. My

contention is that, if this is the position on which you stand, then you should nationalise banking and abolish the managing agency system and everything that goes with it in this country. I do not know about other countries. Here the same sort of people are engaged in all these businesses. If you cannot rope them in through regulations and rules in insurance, I cannot see how you can rope them in in regard to managing agency system or banking companies.

Now, having said that and having also said that I support the nationalisation proposal, the real issue that faces us is: What is going to happen in future? That is the main issue, because we are extremely interested that this venture should not fail.....

SHRI P. T. LEUVA (Bombay): Will not fail.

SHRI B. C. GHOSE:.....though the private sector is interested that this does not run so efficiently as it was run so long. Now, there is the danger .....

SHRI H. P. SAKSENA: For not being run efficiently. That is the whole complaint.

SHRI B. C. GHOSE:..... that it may be run with greater inefficiency than the inefficiency with which it was run so long. I put it that way, if you like it.

There are three things which we have to take note of. The first and the foremost is service to policyholders. On that score, there is ground for real apprehension as to whether there would or would not be bureaucratization, whether there would be sufficient flexibility, decentralisation and efficient service rendered to policy-holders. As everybody knows, a policy-holder, after he has taken a policy with an insurance company, is interested in getting loans or in having his claim settled. Today, these things are done very expeditiously. The apprehension is that, when you have Government control, you

would be hide-bound by regulations and the officer in charge will not exercise his discretion and be willing to take risks. I can give a small instance, because I happen to know something of insurance for example, revival of lapsed policies. Now, it is laid down that, as soon as a policy lapses, apart from the medical certificate or a health declaration whatever may be necessary, interest has to be paid at the rate of, say, 6 per cent, for the period during which a policy has remained lapsed. Now, it often happens that very poor people come to revive their policies. Sometimes, the interest—the overdue interest—runs up to hundreds of rupees, say, Rs. 500. A man may have come after three or four years to revive his policy. Today, an insurance executive, taking the facts into consideration, may remit Rs. 400 or so and revive the policy for a nominal overdue interest. I do not know if these facilities will continue and if the executives will be able to give these facilities to the poor insurers.

That brings me to the question of the organisation that might be set up for the management of insurance business. It appears that the idea is that a Corporation would be set up and there would be four or five regional offices. I do not know if the Government have thoroughly considered an alternative suggestion which, say for example, obtains in France where about 34 companies have been nationalised. And all the 34 companies exist and there is a sort of socialist competition as between the 34 companies which the Government own. They are run by a Board of Directors on which sit insurance experts, representatives of the State, representatives of employees and representatives of policy-holders, three of each category. The point is whether we could not have a system similar to that even though we might have a Corporation and whether we could not have five or six of the big companies working under a Corporation which would be in the nature of a

[Shri B. C. Ghose.] holding company, the smaller companies being merged with the bigger ones. The bigger companies may be permitted to use their own names. (Interruption). Pardon?

SHRI M. C. SHAH: Here we are listening to you very carefully.

AN HON. MEMBER: It is a novel scheme.

SHRI B. C. GHOSE: I am not quite sure. I ask the Government to examine this alternative scheme. One advantage would be that there would be six or seven companies which would be operating although, maybe, on the same table. But there would be some element of competition as between the companies as obtains in France today.

In France, there is another important feature. There is also a private sector.....

AN HON. MEMBER: In insurance?

SHRI B. C. GHOSE: In insurance also, Government sector and private sector. In Government sector, there is not one company, there are 34 companies which the Government have taken over. I would ask the hon. Minister to examine it. If he comes to the conclusion that there is no particular advantage, of course, he will accept the other alternative. But the advantage of accepting this alternative firstly is this. If it should prove a failure, you can amalgamate and get one company. But if you start with one, it becomes difficult to make six or seven companies later out of that one company.

Now, the question of service to policy-holders is, of course, the most important one and I hope that Government will give sufficient powers to any Corporation that may be set up, so that it may function on business and commercial lines. That is absolutely essential because if that is not done, then the service rendered to policy-holders will not be up to the standard that would be expected, and therefore, it might later on be

stated that nationalisation had proved ineffective or a failure.

The next question is that of em-I ployees. That is also very important. It will be necessary to start branching out into rural areas if all the employees who are now employed by all the different insurance companies are to be maintained in service. If that is not done, I cannot see how all the employees can be maintained. If the same number of employees are maintained, then the cost of management would be higher because, now, in a particular place, there are a large number of insurance companies and so many offices would not be required after nationalisation. So some amount of rationalization would be desirable. Therefore, immediately a very large expansion of branches will have to be undertaken. I am quite mre that in future years critics may point out that the expense ratio under Government has also »ot materially decreased, now that the hon. Minister has made so much of expenses on management. The reason is this. If you branch yourself out into rural areas, the policies would be of small amounts. The expenses involved would be higher. So, it may not come about that your expenses would be lower than they are today. As a matter of fact, the expense ratio was decreasing over the last few years, although it is unfortunate that in 1954 — I do not know the reason why— the expenses were higher than in the previous two or three years. A main reason why they were decreasing is the fact that the average sum assured of policies was increasing. And the reason why it is lower in foreign countries is also the fact that the sum assured per policy is higher. If the sum assured per policy is lower, the expenses would proportionately be higher. And, therefore, to think that the management expenses, when it comes under Government, will be very much lower, is an expectation on which we should not rely too much.

Now, the last point is about investments. And here the private sector has expressed apprehension. Now,

we are likely to think mostly of the business people. Of course, they are an important consideration in view of the funds that are invested, say, in different kinds of stocks and shares. That means investment in private business. The Finance Minister has assured that the amount will not be lower than what it is today. And I believe he later on explained that the percentage will not be lower, because if the business increases, if the life fund increases, proportionately the amount will be higher. But more than that what I am concerned with is the smaller and the middle-class people who take loans from insurance companies to build houses of their own, *i.e.*, house-building loans. Now, I am particularly anxious that the amount that is now provided by insurance companies for this purpose should not be reduced, but on the contrary, more impetus should be given to this process, so that the lower middle-class people who really are in a difficult situation in regard to housing may get sufficient funds from insurance companies to help them in building houses, because that is the only source made available to them for obtaining finance for the purpose of building their own houses.

Sir, that brings me practically to the end of my observations. I have stated already that I support the measure.

SHRI M. C. SHAH: Thank you.

SHRI B. C. GHOSE: I want this measure to be a success. That is my anxiety.

SHRI M. C. SHAH: With your cooperation it is surely going to achieve success.

SHRI B. C. GHOSE: I am willing to co-operate. But you are not cooperating. I am anxious that this measure should achieve success. But if the way in which Government enterprises have been run in some cases is repeated here, then I have my apprehensions. In that case I am extremely apprehensive, because if it

does not succeed, not only Mr. Parikh, but all his friends also, will come up and say "Now see what you have done. Was it not tried in Italy? Was it not tried in Denmark? Was it not tried in Sweden? They had all given it up". There is also a controversy on that issue. The Finance Minister would have us believe that the Governments in those countries did not seriously pursue this matter, and that is why it had not achieved success. Those who uphold the private sector say that the experiment was honestly tried, but it failed. And they hold it out as a warning to us. So, I would request the hon. Minister to take that as a warning and to see to it that the scheme which is going to be launched is made a success. And in order to make it a success, the most essential thing is that there should be flexibility, that there should be decentralisation, and that enough powers should be given to the organisation, whether you call it a Corporation or call it by any other name, so that it may run on efficient lines and it may have sufficient initiative to get things done.

SHRI JASPAT ROY KAPOOR (Uttar Pradesh): Mr. Deputy Chairman, Sir, I extend to this measure a wholehearted welcome, harbinger as it is of nationalised insurance in this country. Though the substantive Act is to come before us at a later stage, this measure replaces the Ordinance which initiated nationalised insurance in this country.

Sir, the demand for insurance being nationalised has been made in this country fairly consistently for some time past, but the Government wanted to proceed slowly and cautiously. And during the past several years, the Government attempted to impose restrictions and regulations in the management of insurance, but at last they found that those steps had not been very effective in putting insurance on a right footing. And now that we are in the need of all possible sources for financing our *second* Five Year Plan, it was found that **the**

[Shri Jaspat Roy Kapoor.] occasion had arrived for taking a definite step in the matter of nationalisation of insurance.

Sir, a criticism has been levelled by-private insurers that this Ordinance has been sprung upon them as a surprise and that they have not been consulted in this respect. This criticism appears to me to be without any I foundation whatsoever. Has not this subject been before the country for a pretty long past? Has not this subject been debated in Parliament and outside Parliament, as also in the Chambers of Commerce and Industry time and again? And that being so, it surely does not lie in the mouth of the private insurers to say that this measure has been sprung upon them as a surprise and that they have had no opportunity to place their point of view before the Government and before Parliament.

Sir, while I entirely agree with the hon. the Finance Minister who has piloted this Bill that there have been great irregularities committed by private insurers, and for that they deserve our condemnation, I certainly regret, Mr. Deputy Chairman, that not one good word has been said about the very good service that the private insurers have rendered to the country so far. And let us not forget that insurance has been made popular in this country to the extent to which we find it today by the successive efforts of private insurers, and let us also not forget that many a big person and many a great patriot have been associated with the establishment of sound insurance companies in the country. The late Lala Lajpat Rai, the late Pandit Motilal Nehru of revered memory and Mr. Aney—to name only a few big patriots of the country—have been associated with insurance business in this country. Now that we are going to nationalise insurance, let us pay our homage to the great patriotic service which all these great patriots have rendered to the cause of insurance in this country. I should have thought,

Sir, that a balanced speech and a balanced review would be given to us by the Finance Minister while piloting this measure. He has painted before us a very dark, a very dismal and a very blurred picture of the whole situation, ignoring absolutely the other beautiful side of the picture. They say that even the devil must be given its due.

SHRI B. C. GHOSE: He gave the devil its due, according to him.

SHRI JASPAT ROY KAPOOR: I do not know who is the devil that Mr. Ghose has in mind. Let me turn from the Finance Minister to my friend, Mr. Ghose. While I listened to the speech of my friend, Mr. Ghose, he evoked my sympathies, my sin-cerest sympathies, and I found him feeling that he was in a tight corner.

SHRI B. C. GHOSE: Why? Because I supported you?

SHRI JASPAT ROY KAPOOR: He was supporting as well as regretting the support which he was giving to this measure. I can very well understand the difficult position he found himself in. He had to satisfy two loyalties, loyalty to the principle of Socialism to which he and his party profess to be wedded, and also loyalty to the cause of the private insurer about which he has had, it appeared to me, considerable experience.

SHRI B. C. GHOSE: I have experience but I have no loyalty to private insurance.

SHRI JASPAT ROY KAPOOR: I do not know why then he was denouncing the Finance Minister's denunciation of the private insurers, unless he had some loyalties. If that is not correct, then in addition to my sympathies I will extend my pity also to him. My friend, Mr. Ghose, asked why, if banking was not going to be nationalised immediately, if the managing agency system was not going to be scrapped altogether immediately, the Government should have laid its hands on insurance.

SHRI B. C. GHOSE: I did not say that.

SHRI JASPAT ROY KAPOOR: It appears to me that later on when my friend Mr. Ghose reads and re-reads his speech, he will perhaps regret having made contradictory and conflicting remarks. I do not feel happy that he should have said things in contradiction of each other.

SHRI B. C. GHOSE: If I may remind the hon. Member, what I said was this. In principle it should have been accepted although there may be difference of opinion in regard to the timing. If that was not what I said, I will stand corrected.

SHRI JASPAT ROY KAPOOR: So, my friend's position is that in principle it should be accepted but in practice it should not be adopted. That is what he means to suggest. I may submit that I am at one with some of the suggestions which my hon. friend, Mr. Ghose, has made. One good suggestion with which I am in complete agreement is that rather than having one Corporation taking over the entire insurance business, it would be advisable, it would be in the interests of the business itself and in the interests of all the policyholders, if we had a number of Corporations or a number of companies all under Government management. That will lead to a certain amount of competition and will not have the defects of a monopolistic character.

SHRI M. C. SHAH: Life insurance business is going to be a monopolistic business.

SHRI JASPAT ROY KAPOOR: It is not as if Mr. Shah is pointing out something new to me. Obviously, when you nationalise insurance the implication is that it will be a monopoly concern of the Government but then what I was suggesting was: while retaining partially the monopolistic aspect of it, could not an element of competition also be introduced by accepting the suggestion which Mr. Ghose has made, that is, by having a number of Corporations instead of one

to manage the insurance business in the country? Of course, all these will be under Government management and Government control. This will enable the agents and the managers of various companies to vie with each other in securing larger and larger amount of business and to show to the Government that their company is doing better business than the other. This is very necessary if we do not want this nationalisation to lead to any regrettable results.

My friend, Mr. Ghose, is not very happy at the rates which have been fixed by the Government for the time being. I say 'for the time being' because obviously we have just taken the first step of nationalisation and some rates have got to be fixed by the Government. Let us not think that these rates shall be final. I am sure the whole thing will be carefully looked into by experts who will advise the Government as to what, consistent with the financial aspect of the business, should be the premium rates. In any case I have no doubt in my mind that these rates will be reduced further.

Sir, before I sit down I would like to make a few comments. I was not very happy when the hon. Minister said that he had invited all the Custodians to Bombay recently and had a talk with them—I suppose he called them from Calcutta, Madras and other places—and he had found those Custodians very enthusiastic. That is but natural because overnight these Custodians found themselves lords virtually of all that they surveyed in respect of the insurance companies that they were put in charge of. Naturally, therefore, they were very enthusiastic, but I would like to hear from him as to whether he found in them a real and earnest spirit of service or whether they were enthusiastic merely because of the big powers that they were going to wield over the insurance companies, the custodianship of which has been conferred on them. I had an occasion to talk to one or two managers of important insurance companies. Of course, I

[Shri Jaspal Roy Kapoor.] do not want to generalise from that but they did not seem to feel very happy over the conduct of the Custodians and they seemed to think that things would not go on so smoothly as they had been going until now. Of course, they were hoping for better times to come. They did appreciate that things had to be done in a hurry in a haphazard manner, but I think that strict efforts must be made to see that no slackness creeps into the administration of the insurance companies. They told me that the staff of those insurance companies had already begun to act slowly and that slackness had already crept in. If that is so, surely, it is something regrettable and immediate steps must be taken to check the deterioration. Immediate warnings must be given to all the staff concerned that if they slackened in their effort they shall be severely dealt with. But while I would like them to be warned against any slow tactics, against slackness, I would like that their interests should be safeguarded also. There should be no retrenchment so far as possible. Of course, we cannot lay it down that no one man shall be thrown out, but so far as possible, all the persons who are employed in insurance business, it should be seen, are not thrown out of jobs. Even the persons who are working as chief agents and in their offices should not be thrown out of employment.

SHRI B. C. GHOSE: The Government has already given that assurance.

SHRI JASPAT ROY KAPOOR: The Government must see to it that the red-tapism which prevails in the various Departments of the Government does not take hold of the insurance business also.

One word about investments. Here also I am glad to be in agreement with my friend, Mr. Ghose, that the private sector has begun to feel a little nervous about the investment policy which the Government might adopt. No doubt, the Finance Minis-

ter, Mr. Deshmukh, has assured in his broadcast that the private sector is not going to be ignored, while investment of insurance fund is being made by the Government or by the Corporation hereafter, but in spite of that, the private sector is feeling nervous, and they have reason for it, because even during this short time demands have been sent out by the Custodians to some private industrialists for the refund of the loan granted to them, and in some cases letters have been sent demanding the return of the loan within such a short period as seven days. Would you believe it that demands have been sent out and legal proceedings have been threatened that if within seven days—only seven days, mind you—the amount, sometimes a big amount, is not refunded, legal proceedings would be taken? Now, this is not the way to keep the assurance given to the private sector that they will be dealt with fairly and properly and their interests will be properly safeguarded. I am not one of those who would like huge amounts to be wasted in the private sector, because one of the objects of nationalisation of insurance is the securing of funds for the Second Five Year Plan, but then undue hurry should not be adopted in this respect and the Government should proceed slowly and gradually and they should not try to withdraw all the money which has so far been invested in the private sector all at once, nor should they stop further investment altogether. They should proceed cautiously and slowly in this respect.

SHRI M. C. SHAH: Have you enquired into those cases? Were the loans fixed for certain periods? Did they fall due? Were notices given in cases that did not fall due, etc?

SHRI B. C. GHOSE: They may be suspicious investments.

SHRI JASPAT ROY KAPOOR: Well, I cannot give all the details, whether the loans had fallen due or not or they were for fixed periods. After all, let us not forget that while





[Shri Jaspat Roy Kapoor.] Sir, I wish all good luck to this nationalised insurance, and I hope that Government will be able to render a very good account of this new sphere of their activities.

SHRI KISHEN CHAND (Hyderabad) : Mr.- Deputy Chairman, Sir, I welcome the idea of the nationalisation of life insurance and I will go a step further and say that the Government has very rightly chosen the proper moment for nationalisation. Some hon. Members who preceded me pointed out that some insurance companies had done very good work and the hon. Minister in his speech had passed a wholesale condemnation of the insurance companies. One can not deny that there are 4 or 5 top companies in our country doing life insurance business whose management is very good, whose approach and after-sale service is also very very good but on the other hand there are over hundred companies whose management is bad in varying degrees—some very bad, some medium bad, some little less or more than that. The fact is well-known that, in any administration, in the running of any industry, there will always be very good units and a fairly large number of bad and indifferent units. The question arises that when you nationalise insurance it will take a long time for the nationalised insurance to raise up its efficiency to the level of those top 4 or 5 companies, but the level of efficiency of the nationalised insurance will be far better than that of the remaining 100 who are in the bad and the indifferent category. Even in public administration, a benevolent autocracy is sometimes better than democracy; but the latter is the best possible method that is available to human beings. Similarly, when we are nationalising life insurance business, it is possible that the Government may not be able to attain that efficiency level as attained by these 4 or 5 very good companies, but I am confident that, given the time and enthusiasm and

proper organisation, it is quite possible for the nationalised life insurance business to excel the best insurance companies in our country and in the latter part of my speech, I will try to indicate the methods, if adopted by the Government, will help in the achievement of that ideal.

Sir, it has been suggested that if the insurance companies are allowed to retain their identity though merged in the nationalised business, it will lead to healthy competition. I beg to submit that I don't agree with that view and I will point out that it is not practicable. Just now the insurance business is carried on by the large number of companies with their varying tables, their various agents going to the same person, each agent representing the good points of his insurance company and the bad points of the other insurance companies and thereby securing the business. If it becomes all nationalised insurance with one standard premium rates, with one common bonus, with one common standard of security and investments, the agents of various companies going round to the same man and offering the same terms will not lead to competition. I cannot see how it is going to bring any benefit. So naturally, we must have one organisation. We can attain decentralisation, as I shall point out later, by having main offices in every district headquarters, possibly branch offices in taluka headquarters and so on.

An objection was raised by an hon. Member that the rates of some insurance companies—about 5 per cent, insurance companies—were Re. 1 or 8 annas less than the standard rates fixed by the Government and that the Government had been too hasty in fixing its standard rate of premium. I think it was an urgent matter for the Government because if the varying rate had been kept and an agent had gone and asked for insurance, the would be insurer would have been frightened that in the near future the rates will come down and if he pays a higher, he will be a loser. It was very

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It is just possible that in nationalised insurance there may not be so much of after-sale service. But when the insurance agents get the proper business, the lapse ratio would be less. At present, the agent in spite of the prohibitions and restrictions, actually pays something out of his commission and induces a person to take a policy. He thereby tempts the man to take a policy, but the result is that within a year or two the policy lapses. But when the insu-

[Shri Kishen Chand.] ranee agent goes to the person and presents the case properly and does not canvass beyond the man's means. I am sure the lapse ratio will go down.

An hon. Member said that the private sector of industries was going to suffer and that certain persons who had borrowed money had been served with notices to immediately pay back the amounts lent to them. Sir, probably the hon. Member does not know the scale of investments by insurance companies in the various fields. I may draw the attention of the House to the fact that till the end of 1954, the total life insurance funds of Indian companies came to Rs. 301 crores and that of foreign companies came to Rs. 37 crores. So in all the sum comes to only Rs. 338 crores. Out of this sum of Rs. 338 crores as much as 41 per cent, was in Government securities, 6 per cent, in securities in Part A States and about 1½ per cent, in something else and so on. Therefore, in all nearly 60 per cent, was held in Government securities. About 8 to 10 per cent, was lent to policy holders on the security of their policies and the total amount lent to persons on landed property or otherwise was barely 10 per cent, being the total of two or three items. That means that about Rs. 25 or 30 crores was the total amount for the whole country. Well, I do not know how many people out of these have been asked to pay back their amounts. I do not think this is such a great hardship.

Sir, the annual premium income is about Rs. 50 crores.

SHRI M. C. SHAH: Rs. 60 crores.

SHRI KISHEN CHAND: Yes, I have got the figures. It comes to Rs. 58.9 crores in the case of the Indian companies and this includes interest on dividends and other receipts. The total is.....

SHRI M. C. SHAH: Seventy crores.

SHRI KISHEN CHAND: Yes, I can give the exact figures. It is nearly Rs. 68 crores inclusive of all incomes. Out of this sum, nearly Rs. 38 crores goes away either in expenses or in payment for policies that have matured. This leaves a balance of Rs. 30 crores. Out of this sum of Rs. 30 crores, under the present Act, about Rs. 24 crores has to be invested in Government approved securities and that leaves only about Rs. 5 or 6 crores. This is not such a big amount that the private sector should feel starved for the lack of it. In other countries the whole amount would have been invested or at least a major part of it would have been invested in the private sector. But under the present arrangements in our country, as the laws stand at present, only about Rs. 5 to 6 crores can be invested in industries and if that small amount is not available, it is not going to be such a great hardship that the entire structure would fail and the private sector would not be able to carry on.

Sir, as I said before, these insurance companies were formerly run in the private sector and they are now to be nationalised. I submit that the Government have to be very careful and see that this nationalisation succeeds. In the case of other industries that the Government had started in public sector, they did not have a past and so the Government did not have a competition. But here, as Mr. Ghose has pointed out, the Government will have to put in the greatest possible effort to make it a success so that the people later on may not say that the insurance business was not successful in the public sector in its nationalised form. They have to take very great precautions in the management and in the running of this insurance business. The hon. Minister is going to bring forward, a consolidated Bill forming the proposed Corporation. That Bill is before the other House and after it has passed through that House it will come to our House and possibly it will be too late at that stage to make any suggestions and the hon. Minister will not

SHRI S. VENKATARAMAN (Madras)  
: No, no agent is paid salary.

SHRI B. C. GHOSE: That is actually commission, though they may be getting it monthly.

**SHRI KISHEN CHAND:** Yes, it is commission being paid, but it is paid in the shape of salary. The whole calculation is made at the end of the year on the basis of commission, but the payments are made monthly. Therefore, it looks like salary, though actually it is only commission. But in the case of supervisors and other officers, they are paid regular salaries. When the Government is going to have it as a nationalised industry,

MR. DEPUTY CHAIRMAN: Are you likely to take more time?

MR. DEPUTY CHAIRMAN: You may continue tomorrow.

The House then adjourned at five of the clock till eleven of the clock on Wednesday, the 14th March 1956.