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# Fraudulent Arguments for Insurance Sector Privatisation

## I. Hunting for an excuse for foreign entry

The IMF-World Bank-dictated "structural adjustment programme" in India has sorely needed the assistance of the media. That assistance the media have given in generous measure. Thus, despite seven and a half years of what the Fund and Bank call the "reforms", we have all the problems the programme claimed it would cure: steep consumer price inflation (which has only temporarily abated during the last eight months); large trade and current account deficits; burgeoning interest payments by Government — and in addition a prolonged industrial recession. Undaunted by such facts, the media tells us that the answer to this condition is *further* liberalisation.

### The problem: how to justify the unjustifiable?

Such media assistance is even more needed now to justify the decision open the insurance business to private firms, including foreign firms.

For the Government can find little excuse to privatise India's public sector Life Insurance Corpora-

tion (LIC) and General Insurance Corporation (GIC). The two firms have done well financially. Their policies in force have multiplied many times. The LIC and GIC pay the Government substantial dividends and taxes. The pool of funds from the premiums they gather is a source of sizeable funds for State investment. Their ratios of outstanding claims to total claims, and other indicators of efficiency, are far better than international averages.

There are no doubt shortcomings in the LIC and GIC (which we will touch upon later), but their performance stands in contrast to that of the earlier, pre-nationalisation, private sector insurance industry in this country, as well as today's private sector insurance industry abroad. Private sector insurance firms have established a sordid record of fraud, gambling dangerously with policy-holders' money, and default. As a result, rather than provide a pool of funds for State investment, they have required enormous bail-outs paid for by public money (see *Aspects of India's Economy* nos. 26-27, pp. 136-155).

In the case of many other unpopular measures that it has undertaken — such as opening up to imports and reducing of subsidies — the Government has been able to plead that it is compelled to follow the dictates of the World Trade Organisation (WTO). That excuse merely raises the question of why India remains a member of the WTO; but the significant point in the specific context of insurance business is that under the WTO there is as yet no provision to force India to open up its insurance sector:



> "It should be noted that insurance is a protected market even in advanced industrial countries. In the US market, the insurance industry enjoys special protection against inroads from foreign insurance companies. Germany, France and Switzerland have kept out foreign insurance companies. Japan has also not opened its insurance sector in spite of the fact that some years back it was threatened along with Indian and Brazil by the US for action under the provisions of its trade law `Super 301'. In the WTO negotiations on financial services and insurance, a final settlement could not be reached mainly because many of the industrial countries did not agree to open up their insurance industry. Some developing countries like those crisis-affected Southeast Asian economies in need of external finance, agreed under pressure to open up these sectors. But the overall negotiations have now been postponed to the year 2000." (Jayati Ghosh, "Insurance Regulatory Authority Bill", *Alternative Economic Survey, 1998-99*.)

Since the world's rich countries have as yet arrived at no agreement about opening up their insurance sectors to each other they have not yet imposed such an agreement on the rest of the world. Hence they are exercising such pressure on third world countries bilaterally and informally, rather than through the formal, semi-judicial processes of the WTO.* India has decided to surrender in advance of the WTO agreement.

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* For example, recently, before China could get American 'permission' to enter the WTO, it had to conclude a wide-ranging bilateral agreement with the United States, one item of which was the opening of its insurance sector.

**Strange argument**

How then can the decision to allow the private sector, including foreign firms, be justified? This presents a knotty problem for the Government, the pro-liberalisation economists and the media.

After some deliberation, they appear to have decided that their usual approach — namely, to attack the public sector as inefficient and a drain on public funds — will not do here. Instead, they have settled on a different argument. They are claiming that (i) the entry of private firms with aggressive marketing will vastly increase the number of policy holders, and thus vastly increase the pool of funds from insurance premiums; (ii) this pool of funds can be tapped by private investors in the infrastructure sector; (iii) this will solve the problem of shortage of funds for infrastructure. The strange new slogan, then, is "let foreign insurance firms enter in order to boost infrastructure".

To make any sense of this argument, let us first spell out some elementary facts. The business of an insurance firm is to provide financial security to the individual (whether a person, household, or organisation) against some eventuality, such as death of a person, retirement, accident, ill-health, etc. Holders of insurance policies pay the insurance firm regular premiums, from which in the stated eventualities the firm makes pre-agreed payment to the policy holders.

However, between the time of taking the premium amount and the time (if the risk materialises) of making payment to the policy holder, the insurance firm



does not simply keep its funds idle: it invests them. It has to invest them in such a way as to ensure (i) that it gets a decent return; (ii) that its investments are not too risky, which might result in inability to make the payments to insurance policy holders when the time comes; and (iii) that it has the proper mix of maturities, ie, that its funds are not locked up in long-term loans when it has to make payments in the short term.

Thus insurance firms act to a large extent as *channels* of savings from the public to various investments. The argument being made by the pro-privatisation lobby, therefore, is that the entry of private firms will lead to greater competition in the insurance sector, and more aggressive wooing of potential customers; that this in turn will result in a larger pool of funds from premiums; which in turn will mean that the insurance firms will be able to pour much larger amounts into loans and shares.

**Two birds with one stone**

This argument is not entirely new: it had earlier been recommended in the June 1996 India Infrastructure Report (IIR), prepared by an Expert Group on the Commercialisation of Infrastructure Projects (known as the Rakesh Mohan committee). One of the IIR's chief preoccupations was how to mobilise capital and make it available to private investors in infrastructure. It is worth remembering that private entry into infrastructure was initially promoted on the ground that domestic funds were scarce and that the private sec-

tor, in particular foreign investors, had the necessary funds.

Very soon, however, it became clear that foreign investors want to bring in only *small amounts* while exercising control over a *larger pool* of domestic capital — a striking example being domestic financial institutions' lending to Enron's power project. The IIR thus recommends "reforms" in insurance, provident fund and pension funds to allow and encourage deployment of these funds in private sector infrastructure projects. In recommending this they deliberately ignore the fact that these funds were already available to the (far more secure) public sector for deployment in infrastructure (see Table 1).

The wild expectations from the opening of the infrastructure sector to private investment (which the Government initially aroused) turned out to be completely false: There has been no surge in foreign investment, no boost to infrastructure. On the other hand, the choking off meanwhile of *government* investment in the infrastructure sector has led to serious problems. For example, the Eighth Plan saw the complete failure of the much-touted private power projects to materialise, and for the Ninth Plan (1997-2002) even the most optimistic officials project private sector capacity to reach 7,000-8,000 MW — against the targeted 17,000 MW. Since State investment has been cut back, private sector failure will lead to a corresponding shortfall in the Plan target for power generation.

And so the above argument for entry of foreign insurance firms serves a double purpose, as it were:



**Table 1: Life Insurance Corporation of India: Investments (as of 31/3/99)**

| *Areas* | *Investment (Rs cr)* | *% of total* |
|---|---|---|
| 1. Govt securities | 69,825 | 58.0 |
| 2. Loans to NHB* | 965 | 0.8 |
| 3. Spl. Deposit with Govt. of India | 2,192 | 1.8 |
| 4. Debentures | 11,907 | 9.9 |
| 5. Shares | 8,335 | 6.9 |
| 6. Loans for housing | 9,011 | 7.5 |
| 7. Power sector loans | 6,112 | 5.1 |
| 8. Loans for water supply and sewerage | 1,737 | 1.4 |
| 9. Loans to State Road Transport Corporations | 343 | 0.3 |
| 10. Loans on policies | 4,177 | 3.5 |
| 11. Loans on house property & land | 656 | 0.5 |
| 12. Loans to companies | 3,684 | 3.1 |
| 13. Other social sector | 831 | 0.7 |
| 14. Others | 672 | 0.6 |
| Total | 1,20,445 | 100.0 |

Source: LIC. Figures are rounded off. *National Housing Bank.

It justifies the entry of foreign insurance firms by saying it is needed for a broader public purpose, and it raises hopes for a boost to infrastructure even without investment by the State.

**The political uses of the argument**

The political usefulness of this strange argument was evident in the controversy within the BJP in 1998. The BJP when in opposition had opposed the United Front government's efforts to allow in foreign insurance firms, and had repeatedly stated at the time that it wished to allow only Indian private firms to enter the market. However, by July 1998 the BJP finance minister was circulating a note in the Cabinet for the entry of foreign firms, and by October 1998 the Government decided to drop all pretences. On October 22, the group of Union ministers designated to study this task unanimously recommended throwing open the insurance market not only to Indian private firms but also foreign ones.

At this point, BJP MP K.R. Malkani charged the Government with succumbing to American pressure. The word "succumb" is of course inappropriate: It is unlikely the Government ever intended to resist American pressure on this issue. (Even earlier, the present finance minister and the prime minister had indicated what they really felt — see *Aspects of India's Economy* no. 25, p. 28.) But at first, the Government's answers to such questioning seemed rather weak, while those opposing the decision had marshalled their facts and arguments. By November-end



the BJP president, the BJP front organisation Swadeshi Jagran Manch, the Vishwa Hindu Parishad, the Bharatiya Mazdoor Sangh and the RSS declared their opposition to the provisions for foreign entry.

Nevertheless, it soon became evident that the real motives for this stand by certain BJP leaders and Sangh Parivar affiliates had little to do with national interest and more to do with power struggles in the BJP. So, by December 8, after discussions in the BJP, the BJP president withdrew his opposition and merely stated that the party should be consulted before taking any major decision. He issued a categorical statement that "BJP and its allies would fully back the (Insurance Regulatory Authority) Bill when it is introduced and ensure a successful passage." The other Sangh Parivar organisations appear to have dropped the matter, and concerned themselves instead with a campaign against Christians. By the time the Budget came round, the Swadeshi Jagran Manch gave it its stamp of approval.

But what fresh argument was to be adduced for the turnaround in the BJP position regarding insurance? As the *Times of India* (13/12/98) reverently reports, "(Union home minister and BJP heavyweight) Advani's interventions... were decisive. He had kept ominously silent when the insurance bill crisis erupted but when it counted he informed members of the parliamentary party that *the country needed at least $25 billion every year to upgrade the infrastructure sector. That this was possible only if foreign investment was allowed into the insurance sector. That*

*funds collected by private insurance companies were for infrastructure.*" (emphasis added)

Yashwant Sinha had declared in October 1998 itself that there had been an absence of long term resources for infrastructure development in the country" and "insurance would provide long term funds for infrastructure development". (*Economic Times*, 23/10/98) But far more dramatic was his ultimatum to a December 8, 1998 meeting of BJP MPs: "Finance minister Yashwant Sinha sounded an urgent warning yesterday, telling his party MPs that the country was on the verge of economic 'disaster' on the lines of some of the east Asian countries, according to a number of BJP legislators. *The only way to avoid a major crisis was to either pledge gold or to open the insurance sector to foreign participation*, Sinha told the MPs. The economic disaster facing Japan, Indonesia, South Korea and Argentina is knocking on India's doors as well, Sinha is reported to have said at a meeting of the BJP Parliamentary Party.... *The country needed at least $25 billion per year for eight to 10 years to meet its infrastructure needs, Sinha told the meeting....* [Parliamentary affairs minister] Khurana quoted Sinha to say that there was no reason to believe that India would remain insulated from the economic crises across south-east Asia. The economic situation was critical and *foreign investors had made this bill a test case, he added.*" (*Business Standard*, 9/12/99; emphases added)

This theme had already been played up for some time by the press. Advani's figure of $25 billion a year



was drawn from the India Infrastructure Report, which had called for raising infrastructural investment from 5.5 per cent of GDP to eight per cent (India's GDP in 1995-96 was about $330 billion). A number of articles have appeared in the press supporting this point of view. For example, two researchers* write in the *Economic Times* (21/12/98): "Now, why allow private firms to coexist with LIC and GIC? ...most importantly, for mobilising funds for infrastructure, now that other fiscal sources are drying up."

Another writer in the same newspaper**, tells us that "The Rakesh Mohan Committee estimates the total need for infrastructure investments at around Rs 400-450,000 crore (US$ 115 to 130 billion) over the next five years and about Rs 750,000 crore (US$ 215 billion) in the following five years (2001-02 to 2005-06). These estimates stress the need for a vigorous drive to mobilise internal resources. In most countries, the insurance industry has led such a drive and helped channel household savings into long-term investments. With 80 per cent of the insurable population still uncovered, there is clearly a huge potential that can be harnessed by opening up this sector." Jairam Ramesh, secretary of the Congress-I's Economic Affairs Cell, writes that "the only way India can mobilise long-term resources for infrastructure is through insurance companies and pension funds. Today, LIC and GIC set aside about Rs 5,000 crore

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* A. Ranade and R. Ahuja of the Indira Gandhi Institute of Development Research

** Naren Joshi, 17/2/99

per year for investment in power, housing and water supply and sanitation projects. This is grossly insufficient given the backlog of infrastructure needs. Each private company will be able to mobilise an additional Rs 2,000 crore to 3,000 crore per year after seven to eight years for investment in infrastructure." (*Times of India*, 13/12/98) The former U.S. ambassador to India, Frank Wisner, is quoted as saying that upon opening up insurance "$500 million would directly flow into infrastructure development" (*Business Standard*, 30/10/99). The present U.S. ambassador, Richard Celeste, says $two to $three billion would flow in after the insurance bill is passed (*Indian Express*, 23/10/99).

Advocates of foreign insurance firms are also skillfully encouraging, while never baldly stating, one more notion: that since foreign insurance firms have huge funds *abroad*, allowing them into India will mean a huge inflow of foreign funds. This is completely mistaken. The foreign firms will bring in their share (26 per cent according to the proposed bill*) of the initial capital; the minimum initial capital is set at Rs 100 crore ($23.5 mn) for insurers. Foreign investors are also expected to maintain a minimum excessof assets over liabilities of Rs 50 crore. But there is no connection between allowing foreign insurance firms to do business in India and their investing their global premium funds in India, whether in infrastructure or elsewhere. Foreign investors will decide their global

*This is certain to be revised later, after initial opposition to foreign entry is overcome.



investments based on the comparative profitability and security of investing in various countries, and their need to maintain a mix of various types of investments. They will not invest merely out of gratitude at being allowed to do business here.

The Government believes it can already put a figure on the funds that will flood in to the drought-stricken infrastructure sector once the insurance sector is opened up. "Government expects $40 billion of funds to pour in to the infrastructure sector in the next five years with the opening up of the insurance sector, as major foreign players are likely to set up joint ventures in the country. 'This is not an unrealistic expectation', insurance secretary B.K. Chaturvedi said, adding [that] as of now only $five billion (Rs 20,000 crore) funds are available from Life Insurance Corporation, which would go up by *at least six to eight times*." (*Times of India* 28/11/98; emphasis added)

No doubt, the proponents of foreign insurance firms' entry find it difficult to paint the public sector entirely black. One writer concedes that "It is also true that LIC and GIC have been contributing substantially to the national development effort. As on March 31, 1997, the LIC's total investments stood at a book value of Rs 82,665.17 crore, while those of the GIC and its subsidiaries were Rs 15,500 crore." Nevertheless, he asserts that "*Seen in terms of infrastructure needs*, there is a crying need to multiply these efforts and encourage more companies to take on this task, also bringing life insurance within the common man's reach."* Similar-

* Naren Joshi, *Economic Times*, 17/2/99

ly, the two researchers cited earlier admit that "The performance of LIC and GIC in increasing coverage and claims settlement is commendable." But in the same breath they claim that "Insurance coverage in India is less than 22 per cent of the insurable population. The rate of new policies of LIC reaches only a small percentage of the potential market. Insurance business is measured in terms of penetration (premium collection as a fraction of GDP) and density (premium collected per capita). *On both these counts India lags far behind peer countries.*" (emphasis added; *Economic Times*, 21/12/98)

Let us look at these claims carefully. Is there really a vast market for insurance in India to which the public sector has failed to cater? And has the pool of funds available for infrastructural investment been restricted as a result of this?



**II. Will opening up the insurance sector lead to a growth in long-term funds for infrastructure?**

As we will show below, contrary to the propaganda by various interested quarters, the entry of domestic or foreign private firms will lead not to a *growth* in long-term funds for infrastructure; it might even lead to a *reduction* in them.

When looking at the prospects for gathering long-term funds, one should first keep in mind that an insurance firm has not only to invest funds gathered from premium payments, but also settle claims coming in. It has therefore to match the maturity of its investments with the term of the claims it has to settle. For example, if it ties up its funds in long-term loans, but has to settle a large number of short-term claims, it will suffer a payments crisis. Unlike life insurance/pension funds, general insurance firms have to make payments in the short term. So they have to ensure that their investments can be easily liquidated in order to settle claims.

The problem is that infrastructural investments are by nature long-term. It takes time to build roads, ports, railways, power plants, telephone networks, water and sewage systems, and so on. It also takes many years before the first returns on these investments trickle in. Hence general insurance funds would not invest heavily in infrastructure. This would be especially true of relatively newer firms, which have less funds: in the words of private insurance firms' executives quoted by *Economic Times* (14/12/98), "Since we will

be building our reserves from scratch, it is always wise to keep the funds as liquid as possible; if we focus on long-term assets with a technical reserve base (ie policy-holders' premium), we could end up with problems on the claims front". The report comments that "Clearly then, the task of generating long-term fund flows will mostly be in the hands of the new life and pension funds, which don't have a short-term claims problem."

Since access to substantial long-term funds for infrastructure can be hoped for largely from life insurance, the relevant question is how far life insurance has spread in India, and whether the entry of foreign companies will lead to its further spread and consequently mobilisation of more long-term funds.

The Swiss Reinsurance Company's Economic Research division puts out a respected series of reports under the title "Sigma". The May 1999 Sigma report *World Insurance in 1997: Modest Growth in the Insurance Industry* provides data on the insurance industry in 82 countries.* The data reveals that the Indian life insurance industry has, far from lagging behind its "peer countries", outperformed them by a big margin.

**Misleading comparison**

Before we look at these figures, it is worth dealing with one comparison made commonly in the press as an argument for allowing foreign entry into insur-

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While State social insurance is not included in the survey, public sector corporations are.



ance: that per capita premium payments in India are low compared to the figures for various other countries. "Per capita premium" here refers to the total premium payments made by all policy-holders, divided by the *total* population of the country in question (not to the actual number of policy-holders). The per capita premium payments in India are compared with those of various other countries to show that total premium income in India could rise if private firms were allowed in. The following statement is typical: "The average per capita insurance premium in India in 1995 was only $six as compared to $12 in Indonesia and $181 in Malaysia.... " (M. Shetty, *Agenda, Economic Times* supplement, December 1998). Another writer complains that "The per capita premium is less than $six against $14 in the Philippines and $57 in Thailand."

This comparison is meaningless. The per capita *income* of different countries differs, and so it is natural that the amount that their citizens would be able to set aside for insurance would differ. To take the examples cited above, the per capita income of Indonesia in 1997 was $1,065, of Malaysia $4,549, of Philippines $1,132, and of Thailand $2,187, whereas India's was just *$390*. The per capita *insurance premium* in Malaysia, at $199 in 1997 was just 4.37 per cent of Malaysia's per capita income, but it was more than half the per capita income of India. Obviously one does not expect Indians of all classes to pour half their income into insurance, so to compare India's per capita premium to Malaysia's is obviously misleading.

**Comparing insurance penetration in different countries**

The next line of argument seems slightly more credible on the face of it: that, while per capita premium would vary from country to country depending on per capita income, one should compare the *share* of income that is spent on insurance premiums. That is, the figure for total premium income of all insurance companies divided by the Gross Domestic Product of the country. This ratio is what is referred to as "insurance penetration". For example, if the GDP of a country is $100 billion, and the total premium income collected by all its insurance companies amount to $five billion, insurance penetration in that country would be five per cent. No doubt, this ratio does help us to better capture the importance of the insurance industry in any particular country. But this too has its limitations, as we shall see below.

According to the privatisation lobby, India's levels of insurance penetration are very low: total insurance premiums in 1997 just 1.95 per cent of India's GDP, whereas in, say, western Europe, north America and Japan they range between four and 12 per cent of GDP. The chairman of New York Life (global assets: $122 billion) tells us that "After all, developed nations like the US, UK and Japan spend four to six per cent of their GDP on insurance products. India and other developing countries spend about one per cent (sic). *Once the sector is opened up, the figure can go up to three to four per cent.* Competition makes the local players learn new ways of doing business."



(*Times of India*, 4/11/99; emphasis added) The privatisation lobby argues that the firms which succeeded in mobilising such percentages in developed countries will be able to replicate their success here. In response to the question "why foreign investment?", Jairam Ramesh says that "Our own experience as well as international experience has shown that foreign equity brings the latest management and corporate governance expertise. We tend to underestimate the technical sophistication involved in the insurance business."

*But comparing different countries' insurance penetration levels, while ignoring their income levels, is also untenable.* It is not only per capita *premiums* that depend on per capita income. Even levels of insurance *penetration* depend on per capita income. In other words, not only the absolute sum a person is willing to spend on insurance depends on his/her income (which is obvious), but even the *share* of income he/she is willing to spend depends on the actual level of income.

This too is easy to understand when we consider it for a minute. A person who does not have enough for two square meals a day can spare zero per cent of his/her income for insurance against some future loss. Even for a person just above the poverty line, his/her savings would be very low as a percentage of income. Only the section with considerable savings would spend a substantial portion of their income on insurance. And so, in a country like India, where the per capita income itself is low and two-thirds are either

below or hovering near the poverty line, premiums as a *share* of income will be much lower than in a country where the vast majority are above the poverty line. As the Sigma report (5/1998) puts it, "Demand for insurance depends on *disposable* income", that is, income left over after taking care of basic needs.

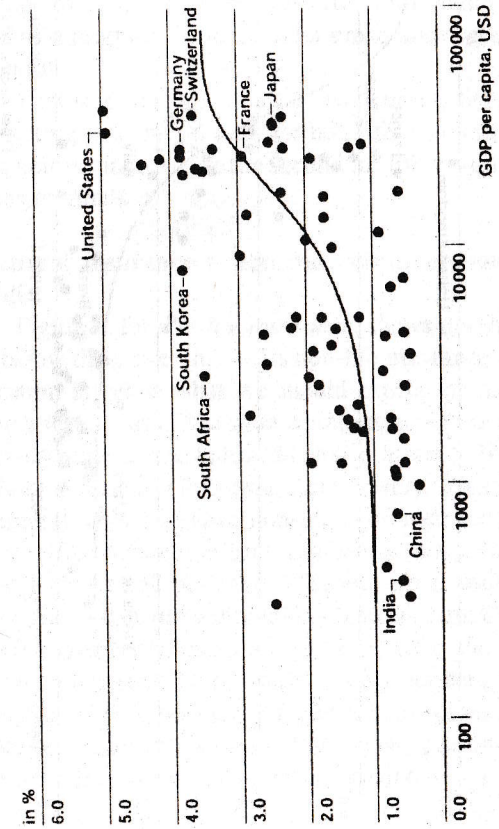
**The higher the income, the larger the share of insurance**

This is illustrated by the graph of insurance penetration in different countries in relation to income levels (see Figures 1 and 2; the data on which these graphs are based are provided in Appendix Table 1). On the vertical axis is the level of insurance penetration (share of income spent on insurance). On the horizontal axis is the level of per capita income. As can be seen, some countries are far to the right, but are in the lower part of the frame. That means that they have high per capita income but spend a low share of their income on insurance. Whereas those that are to the left but are relatively higher up in the frame have low income but much higher insurance penetration (ie, spend a much higher share of their income on insurance) than one would expect for that income level.

While the situation of each country varies, a broad pattern is visible. The unbroken lines in Figures 1 and 2 are the statistically calculated 'normal' penetration ratios for the 82 countries covered. That is, *given a particular level of per capita income*, the curve shows what share of that income one would normally

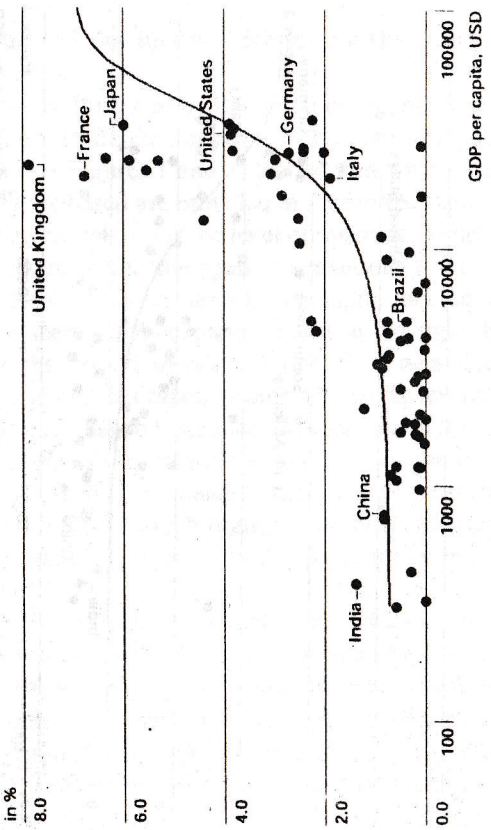


**Figure 1: Penetration of non-life insurance in different countries, 1997**




*Vertical axis represents premium income as a percentage of GDP.*

**Figure 2: Penetration of life insurance in different countries, 1997**




*Source for Figures 1 & 2: Sigma 3/1999, World Insurance in 1997.*



expect to go in premium payments.

What is noticeable first of all is that there are hardly any countries in the Sigma survey which have per capita incomes comparable to India's. Only Nigeria, Kenya and Vietnam are lower. Even Pakistan, with a per capita income of $444, is ahead of India. Hence there are very few countries with which one can meaningfully compare India's insurance penetration rate.

That said, let us look at the two curves, the first depicting penetration rates for non-life insurance, or general insurance, and the second for life insurance/ pension funds.

**General insurance penetration relatively low in India**

Figure 1, for *non-life insurance*, shows that India is below the curve, that is, its non-life insurance penetration is below what we should expect for its income level. But of the nine countries surveyed with per capita income below $1,000 (Ukraine, India, China, Pakistan, Zimbabwe, Kenya, Ivory Coast, and Nigeria), only two have non-life insurance penetration ratios over one per cent: Zimbabwe (2.1 per cent) and Kenya (2.57 per cent). The rest are as follows: Ukraine — 0.30 per cent; India — 0.56 per cent; China — 0.64 per cent; Pakistan — 0.42 per cent; Vietnam — 0.46 per cent; Ivory Coast — 0.91 per cent; and Nigeria — 0.76 per cent. There are many other low-income countries not covered by Sigma, presumably because they do not have insurance industries. Ex-

plaining "the strong relationship between how much people spend on insurance and how much they earn", the Sigma report (4/1998) says: "People's income has to reach a certain level before they even start to require insurance cover. Production is becoming more capital-intensive, there are more investments in business projects and the private sector, and more consumer durables are being purchased in the private sector. As purchasing power grows, so does demand for insurance."

At any rate, as mentioned above, general insurance firms will have to keep their investments relatively liquid (ie easy to cash so as to settle short-term claims), so a rise in their premium income would not translate into much long-term funds for infrastructure. It would at best increase the funds available for the Government's market borrowings.

**Life insurance penetration surprisingly high**

So let us look at *life insurance*. This is the sector which the insurance secretary expects to rise by "at least six to eight times", and which even the India Infrastructure Report expects to rise by another 2.5 per cent of GDP (ie, nearly triple its share of GDP). How much scope is there for such growth?

As can be seen from Figure 2, *India is already far above the curve in respect to life insurance*. Indeed, while its per capita income ranks 83rd of the 86 countries surveyed, its life insurance penetration ranks *33rd*. In other words, life insurance premium as a share of GDP in India is higher than in many countries with five, even ten, times India's income.



For example, Thailand had a per capita income of $2,187 in 1997 (compared to $390 for India). Thailand allows foreign shareholding of upto 40 per cent in domestic insurance companies. One foreign-controlled life insurance company had a 48.9 per cent share of the Thai life insurance market in 1997. Yet Thailand's life insurance penetration was just 1.22 per cent of GDP, compared to India's 1.39 per cent.

In Indonesia, with a per capita income of $1,065 in 1997, foreign insurance firms can hold upto 80 per cent in joint ventures with domestic firms. In 1997, 22 foreign-controlled life insurance firms had 23 per cent of the market. Yet Indonesia's life insurance penetration was extremely low, at 0.58 per cent.

Philippines, with a per capita income of $1,132, is open to 100 per cent foreign-owned firms. In 1997, there were 11 foreign life insurance firms operating there, with 25 per cent of the market. Yet Philippines' life insurance penetration was just 0.71 per cent of GDP.

In the 15 Latin American countries surveyed by Sigma, per capita income ranged from $1,651 in Ecuador to $5,026 in Argentina — between four and 13 times India's per capita income. Private sector life insurance has been given a big boost in many Latin American countries during the 1990s with partial privatisation of State pension systems (State social insurers, such as old age pensions, are not included in the Sigma figures, though public sector corporations are). Yet in only one country — Chile — are life insurance premiums, at 2.3 per cent of GDP, higher than

**Table 2: Foreign-controlled firms in Asian insurance industry, 1997**

| Country | No. of cos. | | % of premium income | |
|---|---|---|---|---|
| | non-life | life | non-life | life |
| China | 4 | 2 | 0.4 | 0.8 |
| India | 0 | 0 | 0 | 0 |
| Indonesia | 22 | 22 | 20.3 | 23.4 |
| Japan | 31 | 8 | 4.7 | 3.8 |
| Malaysia | 8 | 4 | 9.6 | 57.6 |
| Philippines | 13 | 11 | 13.6 | 32.6 |
| Singapore | 33 | 6 | 57.3 | 52.5 |
| S. Korea | 3 | 5 | 0.3 | 0.3 |
| Taiwan | 14 | 18 | 7.8 | 24.9 |
| Thailand | 16 | 1 | 17.7 | 48.9 |
| Vietnam | 0 | 0 | 0 | 0 |

Source: Sigma 5/1999, *Asia's insurance markets after the storm*

India's. All the rest are below one per cent of GDP — most, indeed, are less than 0.5 per cent. Argentina's life insurance penetration, at 0.56 per cent, is less than half of India's.

In other words, India's life insurance corporations have managed to mobilise a far higher share of GDP than could be expected at its income level. One should keep in mind what another recent Sigma report (4/1998) says about life insurance: "Demand for life insurance begins once a relatively high level of income is earned. Penetration has only grown slightly in populations with a per-capita income of upto $4,000, and only starts to rise sharply in the top two income brackets."



Because of the relatively high penetration of life insurance in India, the overall penetration of insurance (life and non-life) is also better than its poverty would suggest: while ranking 83rd by per capita income, it ranks 51st by total insurance penetration.

**Percentage of population covered**

This conclusion is supported by data regarding the LIC's coverage of the market. In this connection too we find a number of peculiar statements in the press. For example, in the articles cited above: "just one in five Indians who is insurable has been insured. This is the situation 42 years after insurance was nationalised. There is clearly room for more players" (Jairam Ramesh); "LIC has only 65 million policy holders out of a potential middle class of 200 million"; "With 80 per cent of the 'insurable population' still uncovered, there is clearly a huge potential that can be harnessed by opening up this sector"; and so on. None of these authors has given the basis of his calculations.

Such sweeping statements are neither new, nor unique to the insurance sector. After the introduction of the new industrial policy in 1991, great claims were made about the size of the Indian market. The size of the Indian middle classes was put at over 250 million, and the market for everything from automobiles and cellular phones to cosmetics and ice-cream was claimed to be of that order. Finance Minister P. Chidambaram told a group of multinational investors in Washington in 1996 that the "300 million strong" Indian middle class's "appetite for consumption.... will

not be satiated for the next 50 to 100 years." More recently, however, the truth is being acknowledged, in softer tones: the market is only the top 9-10 per cent of the population. For example, the managing director of the cosmetics multinational L'Oreal's Indian arm recently admitted that "the 250-million middle class is nothing but a myth. We believe that the real market is in 90 million customers" (*Business Standard*, 17/7/99) — ie, about 16 million households.

India's population in March 1999 was 991 million, or about 174 million households. From published data, it is difficult to get an idea of how many households have been reached by LIC. As of March 31, 1999, LIC had 91.7 million individual life insurance policies in force. But many households hold more than one policy, and LIC releases no data on the average number of policies held by each policy holder household. LIC does mention that of the 13.3 million new policies contracted in 1997-98, 9.3 million were individuals insured for the first time. The ratio of such first insurances to the total business completed for the year came to 69.5 per cent, about the same as the earlier year. This would suggest that a large share of the lives insured had only one policy against their name. However, even in such cases there may be other life insurance policies in the same *household*.

The LIC planning department does carry out (unpublished) studies of the 'market potential' for life insurance. For this it estimates the number of males in the relevant age group (15-49), and compares this



figure to the actual number of lives insured. According to sources in LIC, about 22 per cent of males in this age group are covered by individual life insurance policies.

Apart from individual life insurance, roughly 25 million lives are covered under group life insurance schemes by their employers. (Some of those covered under group schemes may also have taken out individual policies.) Over five million more lives were covered under special subsidised group schemes for various sections of the poor and handicapped. Even so it is clear that the vast majority, over 70 per cent, of those who should have life insurance do not. This, presumably, is the "huge potential" being referred to by journalists.

Surely it is a matter for serious concern that the majority of the Indian people have no social and economic security. However, the relevant question here is not whether these 70 per cent *need* life insurance, but whether they constitute a *market* for it, since *private insurance firms are not here for charity but in order to reach a market*. If those not covered do not constitute an attractive market, private firms will not cater to them.

In fact, on examination, the market turns out to be so narrow that LIC's coverage is surprisingly large under the circumstances.

According to a survey of the National Council for Applied Economic Research (NCAER), in 1993-94*, the lowest income category of households (with an

*The Consuming Classes*, NCAER, 1996.

**Table 3: Distribution of Households by Income Group, NCAER Survey, 1993-94**

| *Annual income (Rs)* | *No. of hholds* | *% of total hholds* | *Rural percentage ('000s)* |
|---|---|---|---|
| I. Below 20,000 | 90,540 | 57.5 | 82.5 |
| II. 20,001-40,000 | 40,775 | 25.9 | 65 |
| III. 40,001-62,000 | 15,963 | 10.1 | 54 |
| IV. 62,001-86,000 | 6,242 | 4.0 | 45.9 |
| V. Over 86,000 | 3,894 | 2.5 | 41.7 |
| Total | 157,414 | 100.0 | 72.7 |

Source: *The Consuming Classes*, NCAER, 1996.

annual income of less than Rs 20,000) constituted 57.5 per cent of the total households. Of these households, 82.5 per cent lived in rural areas. Very few of them possessed any durable goods costing over Rs 1,000. Such durables as they owned were cheap, functional, items such as bicycles and wrist watches. This is not surprising, as bare needs of survival would consume almost all their income. Their monthly expenditure per head in 1993-94 thus amounted to Rs 292 (about Rs 9.61 a day) or *less*.

Another 25.9 per cent of households fell in Category II, with an annual income of Rs 20,001 to Rs 40,000 — a per head monthly expenditure of Rs 292



**Table 4: Ownership of Durable Products by Lower Income Categories, 1993-94 (million)**

| *Products* | *Category I** | *Category II** |
|---|---|---|
| Bicycles | 36.8 | 24.79 |
| Mopeds | 0.83 | 1.82 |
| Scooters | 0.75 | 2.22 |
| Motorcycles | 0.44 | 1.01 |
| B&W TVs | 8.32 | 12.67 |
| Colour TVs | 0.96 | 2.4 |
| Cassette recorders | 8.01 | 10.85 |
| Radios (portable) | 28.13 | 21.14 |
| VCRs/VCPs | 0.11 | 0.26 |
| Pressure cookers | 7.41 | 13.43 |
| Mixer/grinders | 1.91 | 4.95 |
| Refrigerators | 0.84 | 2.48 |
| Washing machines | 0.16 | 0.57 |
| Electric irons | 4.91 | 7.91 |
| Ceiling fans | 11.44 | 16.9 |
| Table fans | 7.17 | 8.73 |
| Sewing machines | 4.24 | 4.84 |
| Watches (mech.) | 50.95 | 42.26 |
| Watches (quartz) | 13.01 | 14.62 |
| Geysers | 0.13 | 0.34 |

* See Table 3 for definitions of Categories I and II.

Source: *The Consuming Classes*, NCAER, 1996

to Rs 585, or between Rs 9.61 and Rs 19.22 a day. In this category, 65 per cent lived in the rural areas. Few in this category, too, appeared to have enough disposable income to spend on insurance. Only 14 per cent owned black and white televisions; indeed, 77 per cent did not own even radios. Less than 5.5 per cent owned the humble mixer-grinder, and only 15 per cent owned pressure cookers. The percentage who owned items costing more than Rs 5,000 — eg two-wheelers, colour televisions, VCRs, refrigerators — was negligible.* Although NCAER refers to this section as "lower middle" class, this is difficult to justify: the unorganised sector working class living in urban slums would fall in this category. Going by their ownership of durable goods, at most the top one-fifth of the households in Category II could constitute a market for insurance.

The remaining Categories III, IV, and V (Rs 40,001-62,000/year; Rs 62,000-86,000/year; and over Rs 86,000/year) accounted respectively for 10.1, 4, and 2.5 per cent of the total households — in all 16.6 per cent. It is worth comparing these income categories to the average per capita emoluments of public sector employees (Rs 72,043 in 1993-94). In fact, only the last two categories can properly be considered middle and upper class, with enough disposable income to be attractive to foreign firms.

* The NCAER data also may give us an exaggerated picture of the market for durable goods, since it only tells us about ownership of goods, not how old the goods are or how often they are replaced.



However, on the assumption that those who own durable goods have some disposable income, let us generously estimate the potential market for insurance as Categories III, IV, V, and the top fifth of Category II. That would give us a total of 21.8 per cent of the total households.* The remaining four-fifths of the Indian population do not constitute an attractive market for insurance firms.

Note that by our estimates LIC's coverage of the population in fact goes beyond Categories III, IV, and V. So, far from "under-insuring", LIC has stretched to insure even some sections who do not constitute an attractive market.

We can also get some idea of LIC's policy-holders from the break-up of policies by different segments. Of the total new business as on March 31, 1999, 19.6 per cent of the policies (22.1 per cent of the sum assured) were from the "professional and managerial group". The next category, "salary income group", accounted for 61.33 per cent of the policies (63 per cent of the sum assured). Another 15 per cent of the policies (11.9 per cent of the sum assured) were from the "self-employed group", and 4.1 per cent of the policies (3 per cent of the sum assured) were from the "agricultural workers group".

That is, the coverage of the salaried (which would include industrial workers) was heavy, and the bulk of

* NCAER data for 1995-96, with revised income categories, would yield a figure of 26.5 per cent (*Consumer Markets in India*, 16/4/98). However, as data on ownership of consumer durables was not available for the various income categories, we have used the 1993-94 data.

the policies came from this section; but around one-fifth of the policies also came from the self-employed and agricultural workers. The latter's policies were on the average for smaller sums than in the case of the first two groups.

**Effect of entry of new firms on size of the market**

A new firm, without the giant infrastructure that LIC has, would surely concentrate on the better-off sections: (i) reaching these sections costs less; (ii) the costs of the transaction are the same as for poorer persons; and (iii) the premium payments per policy-holder are much higher with the better-off. It is largely because LIC has been in the public sector, and the public sector has till now had at least some stated welfare objectives, that LIC has made an effort to target poorer sections as well. Note that LIC has since nationalisation spread its branches in rural or semi-urban areas (such branches now constitute 48 per cent of the total), where the percentage of lower-income households is greater. All this has helped reach life insurance to millions of middle and lower middle class households who would otherwise not be reached. In other words, the truth is quite the *reverse* of the charge that LIC has not catered to the market: it has gone to a certain extent beyond the profitable market, into low-profit areas.

We have shown at length that LIC has gone beyond what would be considered an attractive market by foreign firms. However, we do not mean to paint a glowing picture of LIC and GIC, or to suggest that



they have *exhausted* the potential for low-profit insurance activity. Once social objectives are given priority over profit, there is great scope for expansion. For example, GIC's crop insurance scheme has covered hardly any peasants, whereas agriculture is the single largest economic activity in the country in terms of employment. LIC, too, has yet to reach all those in the rural areas who have bank deposits — the total number of rural bank branches (including Regional Rural Banks) is almost 33,000. Such activity would be important from the angle of providing security and savings opportunities for rural labouring sections. *But no private firm, Indian or foreign, would be interested in such low-profit, perhaps even loss-making, activity.** So while this large uninsured segment may be ground for a critique of the public sector firms from the point of view of public interest, *it certainly cannot be used as a justification for private firms' entry.*

*What this further implies is that if urban, better-off sections leave the LIC for private firms, the LIC will be less able to fund its mobilisation of the*

* The Confederation of Indian Industry (CII) "expert group on insurance", dominated by representatives of foreign firms, states in its recent report: "It would not be appropriate to specify any proportion of rural business to be procured by the new entrants in the regulations (governing the insurance sector). *It should be left to the individual companies to specify their plans for rural business* in their business plan and the regulator can ensure that the applicants stick to their stated plan." (*Business Standard*, 28/11/99; emphasis added) What need of regulators, one wonders, when the regulated write the rules.

*relatively poorer and non-urban sections.* The entry of private firms would take away LIC's better-off clientele with reduced premiums and more flexible investment options. This in turn would lead to an attempt by the LIC management to focus on retaining/recovering the better-off sections with more concentrated advertising and marketing, while cutting back on loss-making or low-profit operations, such as in the north-east or in other backward areas. This would imply the *reduction* of total policy-holders and of total premium collection. This is the exact reverse of the arguments being made for foreign entry.

The real significance of the above-quoted analysis of the market for insurance is that *foreign insurance firms are not planning to expand the market*, because there is no large, *attractive*, unexploited market. Foreign firms are merely planning to take away the most profitable chunk of the existing market.

This is precisely what foreign banks in India do: they increase neither the banking system's total number of bank depositors or borrowers, nor the amount of deposits/loans. They have no poor clients. Of the 188 foreign bank branches in India, none are in the rural areas, three are in semi-urban areas, 17 in urban areas, and 168 in metropolitan areas. Foreign banks merely take away the cream of the metropolitan clientele from the public sector banks, and thus increase the burden of cross-subsidy the latter must incur in any extension of banking services to the poor and to rural areas.



**Form of savings changes, amount remains the same**

Even if the size of the insurance sector were to increase with the entry of new firms, is every extra rupee for the insurance sector going to increase the pool of funds that can be invested in infrastructure? Not necessarily: it may just mean that funds go through the channel of insurance companies rather than banks or mutual funds. For most policy-holders, purchasing insurance is one out of several savings options — bank deposits, units of Unit Trust, Government savings schemes, shares and debentures, provident/pension funds, etc. Thus aggressive sale of insurance, rather than increase the size of the total household savings in financial assets, would probably simply increase the share of the insurance sector among various financial assets. This would be at the expense of other financial assets (eg units of Unit Trust of India, shares, debentures, bank deposits, non-banking deposits).

Some share of other such financial assets too is invested in infrastructure — for example, banks receive deposits from the public and lend to infrastructural projects. A shift of funds to the insurance sector would then mean a decrease in the funds available to infrastructure via, say, banks or debentures or UTI.

So an extra rupee in the insurance sector does not necessarily mean an equivalent increase in the funds for infrastructure, as it may be just a redistribution of savings among different financial assets.

This is a real possibility: in the developed world life insurance firms are shifting from being providers of protection to providers of investment advice, in competition with other wings of the financial sector. Foreign firms may similarly offer their elite clientele in India their skills in managing investments, and thus attract such savings away from other financial instruments. No doubt we would then be told how the entry of foreign firms has made the sector grow; but the benefit would be illusory, since it would not actually add to the pool of investible funds.

The advantage of life insurance over some other forms of saving, no doubt, is that the life insurer can confidently set aside a greater share for long-term investments than a bank taking deposits, which might have to be returned at any time. But it is important to note that in India savings in the form of life insurance have in fact been steadily increasing their share of GDP. Between 1985-86 and 1997-98 they *doubled* their share of GDP from 0.7 per cent to 1.4 per cent.

There is a further reason to doubt the benefit to infrastructure from foreign entry. Foreign firms will be out to demonstrate to their clientele that they can earn higher returns than the LIC. If returns are slow and low in infrastructure, they will invest elsewhere, 'playing the money market' — shuffling money about rapidly to wherever it can get the best return. Incidentally, they may take considerable risks in the bargain: This is what has driven hundreds of insurance firms abroad to bankruptcy, ruining their policy-holders and requiring



giant bail-outs by their governments.* (Alternatively, the Government could make infrastructure a more attractive investment by ensuring rapid, high returns, but that in turn would mean higher prices for infrastructural products on the lines of Enron. Such a policy would effectively restrict access to infrastructure and deal a death-blow to the economy.)

**Government policy actively encourages the drain of savings**

The Government's supposed concern for increasing the pool of savings which can be channeled into infrastructure contrasts with many of its other policies. To take just one example, the Government has, since the repeal of the Gold Control Order in 1991, step by step liberalised the import of gold, and now gold is available through various routes, including on Open General License. India has the dubious distinction of being the world's largest importer of gold, whose purchases are so large that they are all that is preventing the international price of gold from falling even faster than it is at the moment. While

* Insurance firms are meant to err on the side of caution in making investments, since their liabilities are not strictly predictable (they have to make payments contingent on circumstances they cannot always know in advance. Therefore, they are expected to make safe, low-return investments. This would normally match the needs of infrastructure, since infrastructure has traditionally received low, fixed returns (to enable maximum benefit to the economy), which are on the other hand stable because they are usually guaranteed by the State in one way or another..

liberalisation has dramatically increased the legal import of gold, it has failed to reduce the illegal import of gold correspondingly. The illegal imports, at around 200-250 tonnes a year, have continued little changed for the past five years (probably because gold is used in illegal transactions and storing of black money, for which any record of the purchase is undesirable). But the *legal* import has exploded from 95 tonnes 1992 (January-December) to 614 tonnes in 1998. In 1998-99 (April-March) gold imports were worth *$6.5 billion — the second highest import after petroleum. This was almost the size of the entire insurance premium income (life and non-life) for that year!*

Now, while purchasing gold is a form of 'saving' from the point of view of the household, it is not so for the nation. When a household buys a postal savings certificate or a company debenture, the money goes (to one extent or another) into productive activity. But when a household buys gold, no money finds its way into productive activity. Hence expenditure on gold is treated as 'consumption' by the National Income statistics. The more Indian households 'save' in the form of gold, the more national savings are actually *drained* into a particularly useless form of consumption, which does not even create a market for any industry.

*By liberalising the import of gold, then, the Government has allowed the annual draining of savings of roughly the order of the entire life insurance sector.* It is remarkable hypocrisy, then, for the Government to claim it is opening the insurance sector in order to increase the pool of funds for productive investment.



**Public sector in the service of foreign insurance firms**

How the Government's active prejudice harms the public sector, and favours foreign investors, can be seen in a recent development: the State Bank of India (SBI) has announced on November 5 that it will enter the life insurance sector.

Now, the SBI dwarfs the rest of the Indian banking system. Along with its seven associate banks, it has a network of over 13,000 branches (over 5,500 of which are in rural areas). The SBI chairman has said that "We could use upto to 1,000 branches for marketing life insurance products" — a vast readymade infrastructure. Moreover, as a large public sector bank (and one which will remain a giant even after privatisation), it will enjoy contact and confidence among its clientele, giving it a considerable headstart over the competition.

Had the Government been genuinely interested in increasing insurance penetration, it could long ago have instructed the SBI to enter into a joint venture with the LIC. This would have greatly increased LIC's reach, and indeed could have been extended to all public sector banks. Instead, SBI is to enter as a competitor with LIC — in a joint venture with a foreign firm, enabling that firm to reap the benefits of the SBI infrastructure. Other public sector banks will no doubt follow suit. Ironically, it is the very infrastructure built

up over decades by the public sector that will be employed against the public sector. Other possible developments include joint ventures by LIC and GIC with foreign firms for particular insurance products, and the wooing away of the best of the public sector managerial staff and agent base by the private sector.

**The real rationale for 'opening up'**

The opening up of the insurance sector has nothing to do with getting more funds for infrastructure. It is the result of sustained pressure by the developed world, particularly the United States, in pursuit of the cream of the Indian insurance market. Newspapers report meeting after meeting in which American representatives demand the opening up of insurance, and say that all foreign investment will depend on this. 'Funds for infrastructure' is merely a post facto alibi.

Interestingly, the American ambassador, Richard Celeste, appears to have given insurance privatisation priority above all other agenda items. The former American ambassador to India, Frank Wisner, has been hired as a representative of the American International Group (1998 worldwide assets: $194 billion) in order to better lobby the Indian government. The lead editorial in a business paper tells us with startling candour:

> "Sooner or later, the Kargil battle will end. What will be left is an incontrovertible fact: that it was the US alone which came to India's aid in a direct manner. So India will have to sit down and think through its future relationship with the US. It will also have to decie how it might



> be expected to repay the US for its timely intervention. Obviously, it will be expected to do so in terms that matter most to the US, namely, market access and non-proliferation". (*Business Standard*, 1/7/99)

The main opposition to the bill will come from outside Parliament, not from within it. Both the ruling coalition and the Congress-I support the bill for private entry into insurance, and indeed the bill was first presented in Parliament by the United Front government. The urgency which foreign investors accord to this measure can be seen in a remarkable promise made by the finance minister at a Washington gathering *even before the recent elections were over*:

> "Finance minister Yashwant Sinha promised leading American firms that if the BJP-led coalition is returned to power and he is reappointed, he would move the insurance bill *within three days of assuming office*. This was music to the ears of American insurance companies, particularly world leader American International Group, that has been trying to get into the Indian insurance market for years and has carried on a sustained lobbying campaign....
>
> "Mr Sinha, who is here to attend the annual meetings of the World Bank and the International Monetary Fund, said, 'You are all aware of the fact that... the legislation (for the insurance sector) got derailed by almost a width of a hair. It was already listed in the business of the Lower House (of Parliament), but unfortunately before it could be taken up for discussion, the House itself got dissolved.' But, he declared to sustained applause, 'If we were to get back to power and I were to become the finance minister for a third time... perhaps in the first three days,

the agenda will be to get the insurance regulatory authority through." (*Asian Age*, 30/9/99; emphasis added)

He also promised privatisation of banks, but said that "we will have to move cautiously because of the powerful trade unions in the banking sector. We have been able to tackle them in the insurance sector, but I am not sure in the banking sector."

The surrender of the most profitable part of the insurance sector is not an issue that affects insurance employees alone. It vitally harms the national interest: it hands over control of an important part of national savings to foreign companies, allowing them to reap profits in speculative activities and remit dividends abroad. The media campaign in favour of this policy needs to be systematically exposed.

## Appendix: Per Capita Income and Insurance Penetration (Premiums as a Share of GDP)

| | Ranking by penetration* | Country | Total penetration* (%) | Non-life penetration* (%) | Life penetration* (%) | Per cap. inc. (US $) |
|---|---|---|---|---|---|---|
| *N. Amer.* | 9 | United States | 8.49 | 4.64 | 3.85 | 30,278 |
| | 12 | Canada | 7.37 | 4.30 | 3.07 | 20,948 |
| *L. Amer.* | 33 | Chile | 3.46 | 1.18 | 2.28 | 5,026 |
| | 34 | Panama | 3.43 | 2.57 | 0.86 | 3,198 |
| | 46 | Colombia | 2.30 | 1.80 | 0.50 | 2,617 |
| | 47 | Costa Rica | 2.22 | 1.99 | 0.23 | 2,914 |
| | 48 | Brazil | 2.12 | 1.74 | 0.39 | 5,024 |
| | 52 | Uruguay | 1.89 | 1.22 | 0.67 | 6,085 |
| | 54 | Argentina | 1.77 | 1.21 | 0.56 | 9,102 |
| | 57 | Venezuela | 1.64 | 1.60 | 0.03 | 3,768 |
| | 60 | Dominican Rep. | 1.58 | 1.36 | 0.22 | 1,842 |
| | 66 | Mexico | 1.29 | 0.79 | 0.50 | 4,171 |
| | 67 | Ecuador | 1.29 | 1.15 | 0.14 | 1,651 |
| | 69 | Paraguay | 1.17 | 1.12 | 0.06 | 1,966 |
| | 70 | El Salvador | 1.10 | 0.71 | 0.39 | 1,873 |
| | 72 | Guatemala | 0.91 | 0.69 | 0.21 | 1,681 |
| | 75 | Peru | 0.85 | 0.66 | 0.19 | 2,624 |

| | | | | | | |
|---|---|---|---|---|---|---|
| *Europe* | 3 | Switzerland | 11.94 | 3.61 | 8.33 | 35,926 |
| | 5 | United Kingdom | 11.22 | 3.34 | 7.87 | 21,850 |
| | 6 | Netherlands | 9.41 | 4.12 | 5.29 | 23,293 |
| | 7 | France | 9.25 | 2.91 | 6.34 | 23,823 |
| | 10 | Ireland | 8.37 | 3.04 | 5.33 | 20,476 |
| | 11 | Finland | 7.76 | 1.90 | 5.87 | 23,328 |
| | 13 | Belgium | 6.80 | 3.82 | 2.98 | 23,827 |
| | 14 | Germany | 6.53 | 3.81 | 2.72 | 25,515 |
| | 16 | Denmark | 6.22 | 2.43 | 3.79 | 32,207 |
| | 19 | Portugal | 5.42 | 2.87 | 2.55 | 10,269 |
| | 20 | Spain | 5.38 | 2.85 | 2.53 | 13,500 |
| | 21 | Austria | 5.36 | 3.34 | 2.02 | 25,549 |
| | 23 | Sweden | 4.72 | 2.29 | 2.42 | 25,743 |
| | 24 | Norway | 4.56 | 2.31 | 2.25 | 34,827 |
| | 25 | Luxembourg | 4.53 | 2.88 | 1.64 | 36,733 |
| | 27 | Cyprus | 4.29 | 2.01 | 2.28 | 11,298 |
| | 29 | Italy | 4.17 | 2.28 | 1.89 | 19,902 |
| | 31 | Slovenia | 3.73 | 2.94 | 0.79 | 9,153 |
| | 37 | Croatia | 2.94 | 2.60 | 0.34 | 4,272 |
| | 38 | Czech Republic | 2.89 | 2.12 | 0.77 | 5,042 |
| | 39 | Yugoslavia | 2.75 | 2.73 | 0.02 | 1,742 |
| | 40 | Poland | 2.74 | 1.97 | 0.77 | 3,504 |
| | 41 | Iceland | 2.61 | 2.50 | 0.11 | 27,425 |



| | | | | | | |
|---|---|---|---|---|---|---|
| | 42 | Slovakia | 2.59 | 1.87 | 0.72 | 3,610 |
| | 45 | Hungary | 2.33 | 1.56 | 0.77 | 4,412 |
| | 49 | Latvia | 2.09 | 1.84 | 0.25 | 2,230 |
| | 55 | Greece | 1.74 | 0.87 | 0.87 | 11,529 |
| | 58 | Bulgaria | 1.59 | 1.47 | 0.12 | 1,220 |
| | 64 | Russia | 1.41 | 1.10 | 0.31 | 3,050 |
| | 71 | Turkey | 0.98 | 0.83 | 0.16 | 2,980 |
| | 80 | Romania | 0.55 | 0.52 | 0.03 | 1,564 |
| | 85 | Ukraine | 0.44 | 0.30 | 0.14 | 977 |
| *Asia* | 2 | South Korea | 15.42 | 3.79 | 11.63 | 7,991 |
| | 4 | Japan | 11.87 | 2.45 | 9.42 | 32,824 |
| | 17 | Taiwan | 6.09 | 1.69 | 4.40 | 13,138 |
| | 18 | Israel | 5.89 | 3.02 | 2.86 | 16,810 |
| | 22 | Singapore | 5.14 | 1.31 | 3.83 | 25,823 |
| | 26 | Malaysia | 4.37 | 2.19 | 2.18 | 4,549 |
| | 32 | Hong Kong | 3.55 | 1.12 | 2.43 | 26,634 |
| | 35 | Lebanon | 3.32 | 2.69 | 0.63 | 4,030 |
| | 44 | Thailand | 2.44 | 1.22 | 1.22 | 2,152 |
| | 50 | Bahrain | 1.95 | 1.58 | 0.37 | 9,733 |
| | 51 | India | 1.95 | 0.56 | 1.39 | 390 |
| | 53 | Jordan | 1.78 | 1.27 | 0.50 | 1,719 |

| | | | | | | |
|---|---|---|---|---|---|---|
| *Asia (cont'd)* | 56 | Qatar | 1.69 | 1.69 | 0.00 | 15,586 |
| | 63 | U.A.E. | 1.44 | 1.17 | 0.27 | 17,590 |
| | 61 | Philippines | 1.51 | 0.80 | 0.71 | 1,132 |
| | 62 | P.R. China | 1.46 | 0.64 | 0.82 | 747 |
| | 68 | Indonesia | 1.23 | 0.65 | 0.58 | 1,065 |
| | 73 | Oman | 0.87 | 0.70 | 0.17 | 7,127 |
| | 76 | Pakistan | 0.72 | 0.42 | 0.30 | 444 |
| | 78 | Kuwait | 0.67 | 0.58 | 0.09 | 16,716 |
| | 79 | Iran | 0.56 | 0.51 | 0.05 | 2,589 |
| | 82 | Saudi Arabia | 0.53 | 0.52 | 0.02 | 7,528 |
| | 83 | Syria | 0.52 | 0.51 | 0.00 | 4,231 |
| | 84 | Vietnam | 0.46 | 0.46 | 0.00 | 326 |
| *Africa* | 1 | South Africa | 17.34 | 3.48 | 13.86 | 3,002 |
| | 28 | Mauritius | 4.26 | 2.15 | 2.10 | 3,631 |
| | 30 | Zimbabwe | 4.03 | 2.10 | 1.93 | 571 |
| | 36 | Kenya | 3.19 | 2.57 | 0.62 | 348 |
| | 43 | Morocco | 2.44 | 1.87 | 0.57 | 1225 |
| | 59 | Tunisia | 1.58 | 1.46 | 0.12 | 2,063 |
| | 65 | Ivory Coast | 1.32 | 0.91 | 0.41 | 704 |
| | 74 | Nigeria | 0.86 | 0.76 | 0.10 | 314 |



| | | | | | | |
|---|---|---|---|---|---|---|
| | 77 | Egypt | 0.67 | 0.52 | 0.15 | 1,224 |
| | 81 | Algeria | 0.55 | 0.53 | 0.03 | 1,636 |
| | 86 | Libya | 0.28 | 0.27 | 0.02 | 13,714 |
| *Oceania* | 8 | Australia | 9.12 | 3.58 | 5.53 | 21,122 |
| | 15 | New Zealand | 6.26 | 4.53 | 1.73 | 17,311 |

*) 'Penetration' refers to premium income as a percentage of Gross Domestic Product.

*Source: Sigma 3/1999,* ***World insurance in 1997.***

*Limitations of insurance as a business*

## Need for truly comprehensive social and economic security

One point is worth clarifying in any discussion of the insurance industry: Is the growth of the `insurance sector' as such a good thing? Not necessarily: we have to look at the specific historical and social circumstances in which it is taking place.

The insurance industry has to be judged as a *means* to an end, and compared with other possible means. The *end* is social and economic security, so that an individual is protected against serious financial loss in various eventualities not of his/her own making (the same applies to entities such as firms, co-operatives, etc).

Seen from the viewpoint of the whole of society, the insurance industry is not in fact the best way to ensure such protection: Only those who purchase insurance policies are protected, and those who are too poor to insure themselves are left to their own fate — even though it is through the labour of such ordinary working people that the wealth of society is created, and the revenue in the State's coffers generated.

A striking example of this irrationality is the recent treatment of Orissa. The damage caused to the state's economy by the recent cyclone runs into *tens of thousands* of crore rupees. But grants by the Centre so far run into a couple of hundred crore rupees from its National Fund for Calamity Relief. Except for those established industries and better-off individuals who were insured, the rest of the state has been simply allowed, as some magazine articles put it, to "fall off the map."



It needs to be noted that the insurance industry provides security only according to a contract, not according to objective need. The policy-holder may be denied benefits merely because he/she is unable to prove, to the satisfaction of the insurance company, that his/her claim satisfies the conditions of the policy — no matter that the *need* of the person concerned for assistance is relatively easy to establish. An insurance policy may also cover damages upto only a particular amount, which may be insufficient in the particular case.

In a rationally organised society, rather than leave it to each individual to provide for the death of an earning family member, accident, hospitalisation, retirement, and so on, society itself would make collective provision for such eventualities in the lives of individual members. (This also has other economic efficiencies: it obviates the need for an unproductive industry such as insurance, and thus results in substantial savings for society as a whole. For example, in the United States, 25 per cent of expenditure on health care is swallowed by insurance companies, which are

entirely irrelevant to the actual material provision of health care.)

Such a collective provision was an essential feature, of course, of socialist societies — which went further, and also guaranteed work, education, food, and so on, thus building 'insurance' into the very structure of society. * *This was one expression of the fundamental change in production relations in those societies.* But even many capitalist societies (particularly in Western Europe), as a direct or indirect result of workers' movements and under the impact of practice in the socialist countries, set up state pensions for the elderly, unemployment benefits, free medical care, and so on. The important thing about these forms of protection was that they were universal and were treated as a *social right*. In recent times, these rights have been coming under attack in Europe.

It is only when society suppresses the social claims of its working people, and ignores the need to provide all-round, universal social security, that the insurance business has reason for existence. However, once the provision of security is not a social right but a profit-oriented business catering to individuals, gaping holes automatically develop in the safety net. For the interests of the profit-oriented insurance firm and the policy holder are in direct conflict. It is not necessarily in the interest of a private promoter to make substantial pay-outs to policy-holders, even if the claims are legitimate. It is not necessarily in the promoter's interest to sell policies to those whose incomes are too low to afford substantial premiums. *Thus those who need a safety net most of all are often denied it.*

* As China today dismantles what little remains of its earlier system of all-round social security, the life insurance industry in China is growing at a rapid pace. Thus the growth of the life insurance industry is not a sign of greater security but greater insecurity.



Medical insurance in the United States, a giant private sector activity, is a striking instance of both these evils (as well as others which we will not go into here). American medical insurance firms bitterly contest claims precisely when the amounts involved are large — that is, precisely when the policy-holders are in greatest need. (As readers of the bestseller *The Rainmaker* know, insurance firms often use the 'fine print', the tricky conditions, in their agreements to cheat deserving policy-holders of their due.) In the United States, one of the world's richest countries, 41 million people, 15.6 per cent of the population, have no medical insurance at all (Sigma report 2/1998) — and can therefore be denied treatment at most hospitals, no matter what their condition.

Since employers have an interest in controlling the cost of medical benefits, 'medical care organisations' have developed, which undertake to provide health care services for fixed regular payments from the employers. These MCOs keep costs down by effectively restricting access to care and cutting the quality of care. MCOs do not cover treatment at *any* hospital, and so even seriously ill patients have to be transported, at considerable risk, to the particular

hospitals which are covered under their health plans.

And as pointed out in *Monthly Review* (September 1991), since more than half of American workers receive their health insurance as part of their employment, losing a job also means losing all medical coverage. Forty-five per cent of the unemployed thus lack coverage for periods of upto 28 months — a percentage that is of course higher for blacks and Hispanics. Millions of citizens of the world's most powerful country are denied medical treatment simply because they cannot afford it.

As a result of such abysmal failures of the existing system, public opinion polls in the U.S. have consistently shown a two-thirds to three-fourths majority who favour of eliminating private health insurance and replacing it with some sort of national health programme. However, so powerful are the insurance firms and associated financial interests that they have managed to block all proposals aimed at any such reform. The American insurance sector enjoyed revenues of $517 billion in 1998, and health insurance firms are major contributors to the campaigns of American politicians.

The evils of such a system are obviously particularly great when insurance firms are in the private sector. Without ignoring the failures of the public sector, it is true that when insurance firms are State-owned, the pressure of public opinion can to some extent force the Government to subject their profit motive to directives in the public interest. Before nationalisation, private sector insurance firms in India



focussed on solely urban areas and the wealthy, whereas after nationalisation the life and general insurance firms have substantially covered the urban middle, even lower-middle, class and have made a dent in the rural areas, cross-subsidising their poorer clients with the profits made on the wealthy and corporate clients. The nationalised firms have far better ratios of outstanding claims than private ones. Unlike private sector firms abroad, whose promoters simply vanish when any major natural calamity takes place, Indian public sector firms have been mobilised to carry out special activities to assist the victims of natural calamities.

All this is no substitute for comprehensive social guarantees, but it also stands in contrast to the operation of private sector firms. Thus one significance of the privatisation of the insurance sector in India is that it will effect a *further* attack on the already limited social claims of the working sections (apart from diverting a sizeable part of the nation's savings to the control of foreign firms). It has to be opposed as such, even while continuing to demand truly comprehensive insurance for all the people.