

# GENERAL INSURANCE AND NATIONALISATION

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FORUM OF FREE ENTERPRISE  
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**"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."**

**—EUGENE BLACK**

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The topic of nationalisation of General Insurance keeps cropping up at intervals of every few years. At the time of nationalisation of Life Insurance, the question of General Insurance was discussed and the Finance Minister of the day, who was responsible for bringing forward the proposal for nationalisation of Life Insurance, said there was no case at all for the nationalisation of General Insurance. He gave cogent reasons for it. The principal reasons were, that General Insurance was part and parcel of the Private Sector of industry and trade, and was always associated with the Private Sector of industry and trade, and that the people who used General Insurance did not require any protection. There was no case, therefore, for the State to step in. That was in 1956.

Some years later in 1961, when the question was again raised, the Deputy Minister of Finance, Mr B. R. Bhagat, spoke in very much the same terms. In fact, he was quite emphatic that there was no case at all for nationalisation of General Insurance.

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*\*The author, an authority on industrial finance, is Chairman of New India Assurance Company. The text is adapted from a talk delivered under the auspices of Bombay Insurance Institute.*

So when one applies one's mind to the proposal for the nationalisation of General Insurance, one might well ask whether one should apply logic and reason? I think one should, although there is very little logic and reason in the way which this proposal has been brought forward. The proposal was first moved in the Working Committee of the Congress. It was then presented to the A.I.C.C. at a meeting, and at the end of a long, dreary session, when there were very few members present, it was decided to approach the Government of the day to find out ways and means of nationalising General Insurance. That, in simple terms, is the background of this proposal. It does happen that big events have small beginnings. And may be that the people who thought of this had some other ideas.

But it might probably have been noticed that inspite of the fact that the Congress Working Committee, and the Congress Party as a whole, have a very effective publicity machinery, that machinery has brought forward no reasons at all for nationalisation. I have had discussions with some important members of the party. Naturally I will not disclose names. And when I asked what the reason was for bringing up this proposal, I was told: "It is the policy of our Government, of the Congress Party, that all credit institutions should be nationalised, and that the Private Sector should not possess, in its midst, any credit institutions." The answer I gave them is, that General Insurance is in no sense a credit institution, and that General Insurance is not a builder of funds. The annual accretion in our country would be about Rs. 5 crores a year. The total investible resources are about Rs. 72 crores. So there is no question of the dimensions of the funds being

the cause for its nationalisation. It is essentially a service organisation of a very specialised character.

Insurance is the hand-maiden of trade and commerce. Those who have studied insurance business in countries other than ours will find, that the range of insurance, the multiplicity of risks that are insured and are insurable, are legion. Therefore, the insurance man has to follow the trade wherever it is, in every alley, and by-way, of industry and commerce. Is such a subjective activity susceptible to nationalisation? My answer is a definite "No". Those people who have thought about this subject would give the same verdict. Of course, it is not fair to pick out the ways and methods which Government and Government institutions employ in settling matters. But I am reminded of a very humorous incident in which, in a sense, I was a party, where the widow of a retired eminent official of the Government of India was entitled to a pension. She made a claim for the pension, for a certain period and for a year she got no reply. She was willing to wait. When she wrote again, she was asked to submit her claim afresh. Now one piece of evidence which has to be produced when a widow claims her pension is that she is alive. So when she came to me I said, "Well, today is the 1st of January 1960—whatever the date was, that is hypothetical—you get a certificate from a Magistrate that you are a person alive on this date." She promptly did that and sent it in. And she was paid for three months: from October to December of the previous year! When she demanded the back payment she was told that she had not produced a certificate from a Magistrate that she was alive during that period. Apparently the Government of India occasionally thinks

that people rise from the dead like Lazarus. This is a simple instance of the way in which Government settles claims.

Those who are experts in the field of insurance know very well how claims have to be attended to and how policies have to be entered into in the first instance. Insurance is a twenty-four-hour service and a service which is international in character. Very often a risk which arises in a lane or by-lane in Bombay is covered by a multitudinous chain of re-insurers round the world. It is, therefore, both an international and a retail business and it is not possible to separate the domestic from the international character of the business. There are insurance treaties, re-insurance treaties and excess claims treaties. There are in the field of marine insurance, arrangements and treaties which cover a variety of claims, including general average, spread right round the world.

General Insurance is an industry of considerable complexity. But naturally that is not an argument against nationalisation because the Government will promptly tell us, "We have the most complex minds in existence. We have proved it by our various laws and regulations. So it is no use coming to us if that is an objection." Fair enough, I agree with that. But I do say that the Government machine is quite unsuitable for handling General Insurance. And I think I am right in saying this. The Government machine is quite unsuited to tackle problems of everyday life—problems which cover the whole gambit of existence, both corporate and individual. We, today, are really tackling only the fringe of General Insurance problems as they are understood in other countries. And no Government can act as a pioneer in that

respect. It has got to have some settled, steady rules which are applicable to everyone as much to a man who is a saint as to a sinner. And the Government will apply the same rule to everyone. We have all had dealings with Government and they have openly told us so: "We can't apply one rule to 'A' and another rule to 'Z'. We apply the same rule. We judge you by the same canon, and we will provide the same protection." General Insurance can never exist under those conditions. General Insurance distinguishes between man and man because it distinguishes between risk and risk. And if it has to distinguish between risk and risk it has got to look at all the conditions surrounding those risks. The individual risk that is involved—the fire risk in certain streets and in certain areas is compared with the fire risk, say in Tokyo, the fire risks in some areas are compared with others in Icelandic conditions. The risk of general accident; the risk of improper claims; the moral risk. All these are factors which have to be analysed and answers found every minute of the day. Very often insurances are carried out at the dead of night; not because insurance companies are thieves working in the dark, but because clients have risks which are so immediate, urgent and imperative that they admit no delays. Because when it is daylight in Bombay it is night-time in New York, and, therefore, you may have claims or you may have requests for covering risks which come from abroad. And instances could be cited from records of many companies in India where the insurance companies have gone out of their way to provide insurance cover to clients, companies, individuals, at all times of the day. I recollect one case where a company carried a risk of a cargo of gold and a cargo of currency notes worth about Rs. 50 lakhs to

a crore of rupees, which was to be carried to and delivered at a certain place, so that the institution which needed it would be able to pay its debts or pay its claims and demands. Now that risk could not have been covered by an official of a nationalised undertaking. He would have said, "Come tomorrow. There is nothing in my rule book which enables me to give you a cover. I have no initiative to go out and try and find joint insurers for this. I am an official of a single monolithic structure, where I must act according to the rules and I am sorry. You can come tomorrow morning and I'll see what I can do".

Well, in this particular instance, the individual to whom the proposal was made was a dynamic character. He got together his fellow insurers, very much like a Lloyds Club meeting when they take on insurances. He said, "How much will you stand cover" and "How much will you"? And there it went round and they provided the cover. The cargo arrived safely, the insurance company earned something, which the client paid with great willingness.

These illustrations can be multiplied. General Insurance is something which you have to cope with everyday and at all times. In India alone there are about 2½ million insurances, individual insurances in the General Insurance field carried out every year. And the claims are about 10% of the number. In other words, the claims are about 2½ lakhs in number. Now those claims have to be attended to in the shortest possible time. Because three things are involved. The credit of the client, the credit of the insurer and the efficacy of the transaction. And in all three, time is of the essence. The



General Insurance Company which is on its toes will see that that time is fully rewarded. And it is done, the job is done. That is one of the basic factors which one has got to realise when dealing with this topic of nationalisation.

It is very doubtful if the sponsors of this proposal, which is still to be sponsored by Government, are aware of all the implications of General Insurance, are aware of all the risks that are coverable or subject to cover in a general insurance proposal. It is possible that they are not. They believe that the sum-total of general insurance is how much premium can be collected a year and how much of it can be invested into diverse other fields, so that that money is available. If the proposal is analysed from that stand-point it is doomed to failure because general insurance will only produce about Rs. 5 crores a year. The aggregate of the funds today invested in General Insurance are in the region of about Rs. 72 crores, the bulk of which is already invested, and it is no use just varying the investment. That does not carry matters any further. Today the Finance Minister has mentioned that he is trying to find out ways and means of creating a supply of money for industries that require it. Surely, it would not be the policy of Government on nationalisation to take away all the money that is invested in general insurance, in the sense that it is invested in the investments held by General Insurance companies in the private sector and divert them to some other purpose. It will not serve any purpose at all. It would only mean that Government would have to then replenish those funds with other funds and create a further banking problem for the banks in this country.

Therefore, with all respect to everyone who has thought otherwise, this clearly indicates that General Insurance is not a subject which is susceptible to nationalisation. This is not saying that everything is rosy in our own garden.

We have developed quite a lot since 1956, when Life Insurance was nationalised. Since that day we have gone out into the world, we have gathered considerable information of how insurance is carried out in other parts of the world. We have redoubled our efforts at not merely re-insuring some of our own risks but also obtaining re-insurance cover for risks in other countries. But risks which we try to secure are good. The general experience of insurance in India is a good one. India is a good field for insurance and foreign insurers are very glad if they can get re-insurance arrangements. Now, it is only by hard bargaining, by understanding the subject thoroughly, by going into all the elements that go into an insurance treaty, can we drive a good bargain for re-insurance arrangements on a reciprocal basis. And that has been the sum-total of our efforts in this field.

Now let us look at it in another way, in another light. There are about Rs. 800 crores of rupees of foreign capital invested in this country. The figure is perhaps an understatement. Many of these funds are a result of collaboration arrangements between Indian business houses and foreign houses, often with the backing of the foreign government and that is important. The foreign parties have insisted—and rightly and fairly—that a part of the insurance cover for the various activities of a project that develops in this country, should be covered by insurers of their own country. And that has happened

on a large scale. This has acted as a catalyst, may be not a very effective catalyst, for the bringing of funds into this country from abroad—funds which are very badly needed for the development of industry.

If General Insurance were to be nationalised, it obviously means that these foreign companies—they are 40 in number, at present, in India—would have to cede all their insurance business in this country to the nationalised undertaking whether it is one undertaking or whether it is half-a-dozen undertakings. This could certainly be a sore point. Naturally it would be a sore point with those companies with foreign business interests in India generally. It would certainly act as a damper to further foreign investments in India. In fact, it would prove a positive obstacle to such investment. Then again Indian insurers in their enterprise have gone abroad. They have gone to forty different countries and have set up insurance offices there or insurance agencies and they gather business from these countries, in some of which there are many Indians and therefore, susceptible to our approaches.

If, therefore, General Insurance were to be nationalised, two problems arise. Whether the State Government or the State Corporation would be in a position to canvass the business which was hitherto there in the forty countries. Now, for a moment, we could look back to Life Insurance. When Life Insurance was nationalised, some Indian companies in the Private Sector had Life Insurance business abroad. In fact some of them begged of the Government to permit them to continue their insurance activities in the Life Insurance field abroad because they felt, they were better able to tap

those sources with their association in those countries. The Government refused. It took a very, very long time for the LIC to do anything in the foreign field and it is still lagging behind. Now, it is quite obvious that when dealing with General Insurance, in which there is no continuous process of insurance, where every year is a separate contract, sometimes every insurance contract merely applies to one transaction—a transaction which operates over a period of fifteen days to a month at the outside—surely you are not going to set up an organisation, an apparatus, which could take care of these in foreign countries from the word “go”, there would be a definite, dangerous set-back. While it is correct to say that General Insurance as a whole does not earn foreign exchange, because our liabilities under re-insurance and our earnings under general direct insurance carried out abroad and re-insurances of insurance carried out abroad, will not bring us any foreign exchange, because conditions have been bad in some of the other countries. There is no doubt that whatever we have spent in foreign exchange on that account has been well spent. It is going to be an asset for the future and in course of time if we develop our talents and our skills, we will be able to turn in revenues from those countries. For instance, in England there is a large Indian population and efforts are being made to mobilise insurance among the business community there. These efforts have met with partial success. They take time to develop. Now all that will come to a standstill and with what advantage to this country unless this country wishes to isolate itself from the rest of the world. And that certainly could not be the intention. We have very great need of the world. And the world naturally needs something in which it

has profited. So that if we are to do any justice to this subject of General Insurance, we must be able to look at it as a whole. From the angle of the country with its national frontiers; from the international aspect of the measure, even in regard to the national part of it; from the repercussions to its international trade, the international insurance that is involved; from the point of view of the generation of business abroad, not merely insurance business, but business of every kind in trade and commerce, when it is so necessary for us to export. When looked at it from all these angles it will be seen that the whole thing hangs together and can only hang together if in fact there is no one single monolithic structure, and that too a Government Department, or something equivalent to a Government Department, handling this whole gamut of arrangements. Therefore, I strongly feel that the case for nationalisation has not been made out. Public opinion in general, including the newspapers, have not supported the plea for nationalisation. In fact, there have been no attempts from any section of the public to justify the nationalisation of insurance, except possibly on ideological grounds, which none of us, as rational people, should hold to be good enough grounds.

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## APPENDIX

### AN EX-M.P. OPPOSES NATIONALISATION

Sir,—“Who gains if General Insurance goes?” (The “Hindustan Times” August 29) was opportune.

Our country is none the gainer today after the LIC came into being eleven years ago, when the LIC was formed

by amalgamating 250 companies. I was a member of the Select Committee of the Lok Sabha in 1956. Thinking it would be a gain in the national economy I voted in favour of the Corporation but I regret now after its results. So also in the case of the nationalization of the State Bank of India which was previously the efficient Imperial Bank of India. The State Bank has not proved a success. Other socialist countries much older and prosperous than ours such as England and Sweden have not ventured to take over banking and insurance, and they continue to be in the private sector. Are we to launch on such experiments and meddle with such enterprises in which to all appearances the private sector is doing a good job? Is it not the primary duty of our Government now to provide food, shelter and clothing to the millions of starving, homeless and unclothed men, women and children in which it has failed so far?

There are ominous signs of danger written on the walls; the Congress Party has already lost a majority in most States. This is not the opportune time for nationalizing institutions which benefit the public. If there is some mismanagement in some quarters it can easily be remedied with some constructive and tactful method. It is time to reflect that our Government pledged 20 years ago that our Government of free India would be "for the people, of the people and by the people."—Yours etc.

Simla

SUSHAMA SEN

—From "*Hindustan Times*" (New Delhi) of September 7, 1967.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*

**“Free Enterprise was born with man  
and shall survive as long as man  
survives.”**

**—A. D. SHROFF  
(1899-1965)  
Founder-President,  
Forum of Free Enterprise.**

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