Changes in General Insurance Business Bill

Anchor:

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Introduction:

Lok Sabha passed the General Insurance Business (Nationalisation) Amendment Bill, 2021. The Bill seeks to amend the General Insurance Business (Nationalisation) Act, 1972. The Act was enacted to nationalize all private companies undertaking general insurance business in India.

The objectives of the bill:

- The objectives of the bill are:
    - to ensure greater private participation in the public sector companies regulated under the Act of 1972.
    - to enhance insurance penetration and social protection,
    - To better secure the interests of policyholders, and
    - To contribute to faster growth of the economy.
- General Insurance Business (Nationalisation) Amendment Bill, 2021 seeks to remove the requirement that the central government holds not less than 51 percent of the equity capital in a specified insurer.
- Along with the above-mentioned objectives, the bill also seeks to bring about changes in the definition of general insurance business, transfer of control from the government, and liabilities of directors.

What is the General Insurance Business (Nationalization) Act, 1972?

- The General Insurance Business (Nationalisation) Act, 1972, was enacted to provide for the acquisition and transfer of shares of Indian insurance firms for developing the general insurance business.
- In 2002, it was amended to transfer and vest the shares of the acquiring companies with the central government, thereby mandating it to maintain at least 51 percent shareholding in the general insurance companies.

General Insurance Business:

- The entire general insurance business in India was nationalized by the General Insurance Business (Nationalisation) Act, 1972 (GIBNA).
- The General Insurance Corporation (GIC) was formed for the purpose of superintending, controlling, and carrying on the business of general insurance.

- As soon as GIC was formed, GOI transferred all the shares it held of the general insurance companies to GIC. Simultaneously, the nationalized undertakings were transferred to Indian insurance companies.
- After a process of mergers among Indian insurance companies, four companies were left as fully owned subsidiary companies of GIC.
    - National Insurance Company Limited
    - The New India Assurance Company Limited
    - The Oriental Insurance Company Limited
    - United India Insurance Company Limited
- These companies have some notable strengths such as their wide reach and have gained the trust of people over the years. At the same time, they have weaknesses in areas of underwriting the risk with the right pricing.
- In November 2000, GIC was renotified as the Indian Reinsurer and through administrative instruction, its supervisory role over the four subsidiaries was ended.
- With the General Insurance Business (Nationalisation) Amendment Act, 2002, GIC ceased to be a holding company of its subsidiaries.
- The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with the Government of India.

Amendments under the bill 2021:

The Bill seeks to introduce the following amendments:

Threshold of government shareholding:

- The Act requires that shareholding of the central government in the specified insurers (the above five companies) must be at least 51%. The Bill removes this provision.
- The bill seeks to privatize insurance companies. Privatization means that the Government will not hold the majority of shares.

Change in the definition of General Insurance Business:

- The Act defines a general insurance business as fire, marine, or miscellaneous insurance business. It excludes capital redemption and annuity certain businesses from the definition.
    - Capital redemption insurance involves the payment of a sum of money on a specific date by the insurer after the beneficiary pays premiums periodically.
    - Under annuity certain insurance, the insurer pays the beneficiary over a period of time.
- The Bill removes this definition and instead, refers to the definition provided by the Insurance Act, 1938.

Transfer of control from the government:

- The Bill provides that the Act will not apply to the specified insurers from the date on which the central government relinquishes control of the insurer.
- Control means:

- the power to appoint a majority of directors of a specified insurer, or
- to have power over its management or policy decisions.

- The Act empowers the central government to notify the terms and conditions of service of employees of the specified insurers.
- The Bill provides that schemes formulated by the central government in this regard will be deemed to have been adopted by the insurer.
- The board of directors of the insurer may change these schemes or frame new policies. Further, powers of the central government under such schemes (framed under the Act) will be transferred to the board of directors of the insurer.

Liabilities of directors:

- The Bill specifies that a director of a specified insurer, who is not a whole-time director, will be held liable only for certain acts.
- These include acts that have been committed:
  - with his knowledge, attributable through board processes, and
  - with his consent or connivance or where he had not acted diligently.

Pros of the bill:

- The bill seeks to bring in more private capital in the general insurance business and improve its reach to make more products available to customers. The move is part of the government's strategy to open up more sectors to private participation and improve efficiency.
- The bill allows the government to cut down its stake in State-owned general insurance companies.
- It will help to bring about essential resources.
- It will help the public sector general insurers to design innovative products and services. For example, there have been many developments in health insurance.
- It will lead to an increase in the share of India in the global insurance market.
- The bill is also being seen as an effort by the government to meet its disinvestment target of 1.75 lakh crore in the current financial year.
- Other plans which the government has in achieving the disinvestment target are launching the IPO of LIC and privatization of BPCL, Shipping Corporation of India, and a few banks.

Cons of the bill:

- Opposition parties are opposing the bill on the ground that this may result in the complete privatization of the general insurance companies and the ownership will be in the hands of a few capitalists only.
- It is also being said that the trust of people will decrease as they have maximum trust in public companies. However, like banks, the insurance sector is well regulated and even in the case of privatization, people will have all the safeguards related to insurance.
- Also, it should be noted that in the general insurance sector, the private sector has almost 50% share and with time this will increase and gain the trust of people.

- With the implementation of this bill, there will be a loss of money to the government in the form of dividends as the share of the government will be reduced in the general insurance business.

Insurance sector in India:

- **Division:**
    - The Indian Insurance Sector is basically divided into two categories:
        - Life Insurance, and
        - Non-life Insurance or general insurance.
- **Regulatory Authority:**
    - The Non-life Insurance sector is also termed General Insurance. Insurance Regulatory and Development Authority of India (IRDAI) is the regulatory body in India that governs both Life insurance and General insurance companies.
- The business of insurance is very capital intensive. It requires lots of investment in putting all necessary infrastructure in one place.
- So many funds can either come through public funding or through public investment.
- Hence, the recent bill is not only focusing on attracting private investment but also on increasing insurance density.

Way forward:

There is a need for greater insurance penetration in India. The amendment is a good move in this regard. Now the private sector needs to work towards building trust among people as people have more trust in public sector insurance companies.