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Malingering giants

Reforms in the banking and insurance sector cannot brook further delay, says **Uttam Gupta**

EVEN as the government preaches reforms to the private sector, it has dragged its feet when it comes to the PSUs, thereby giving the impression that it is loathe to relinquishing control.

Although by converting ONGC, Air India and Indian Airlines into autonomous corporations, the government gave some indication of its intention to move ahead, restructuring in the real sense of the term is still a distant prospect. The maximum disinvestment contemplated for ONGC is just about a third of the total equity, and 25 per cent for Indian Airlines. Undoubtedly, commercial banks are also unloading their equity but to a limited extent. The objective is to mop up funds from the capital market, predominantly through premium, and not broadbasing their ownership pattern.

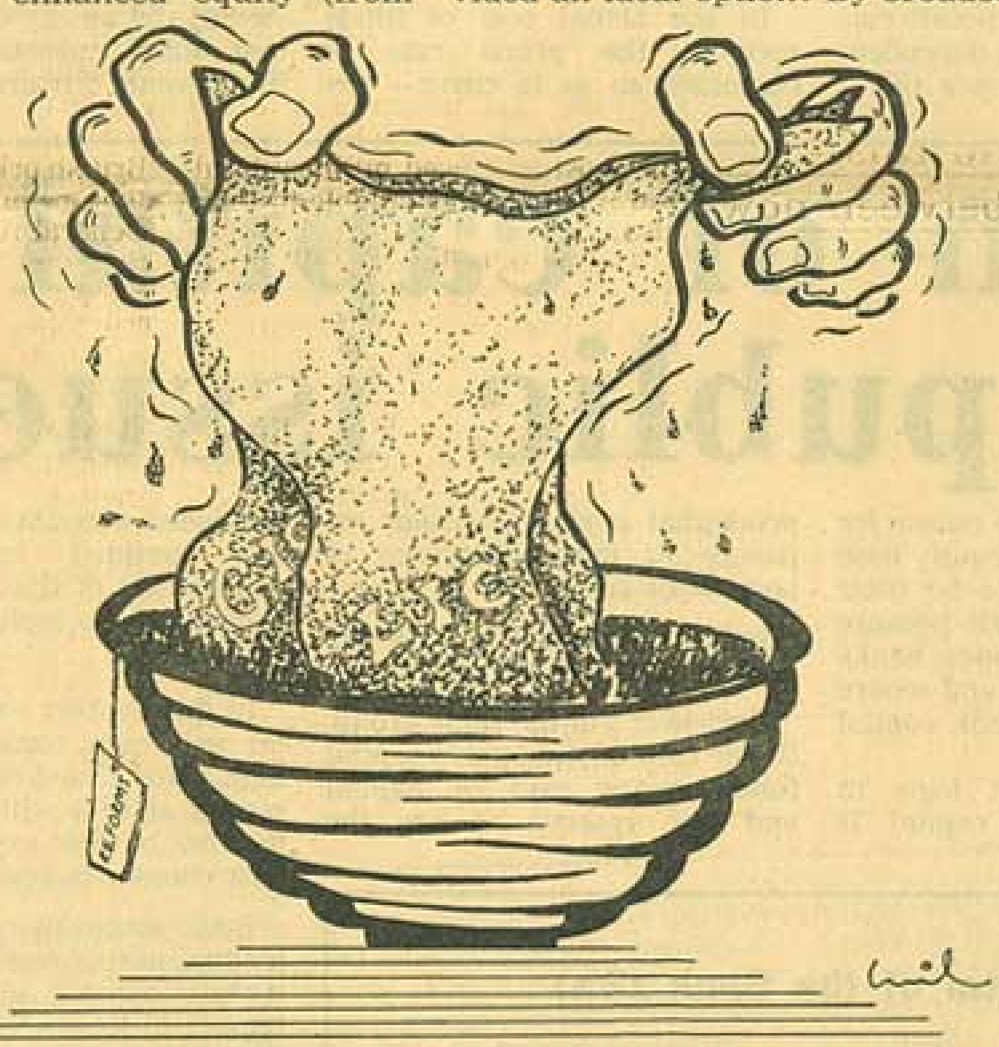
A more recent manifestation of the government's procrastination is its decision to put the Malhotra Committee's recommendations on restructuring of the insurance sector on the backburner. In a note submitted to the cabinet, the finance ministry has recommended opening of the insurance business to the private sector besides establishing a regulatory body for the industry. Allowing private sector's entry in insurance, even if finally approved, is likely to be subject to long delays.

The crux of the matter is that even after an overall policy decision, there would be nothing like automatic entry as prospective applications will be considered and scrutinised, on case by case basis, at multiple levels in the government's hierarchy. The Malhotra Committee's recommendation for a 'gradual' approach has added to the possibility of 'go slow'.

This raises a piquant question. With very few private companies entering the insurance business even by the turn of this century (a very probable situation keeping in view the snail's pace advance even at the stage of policy formulation), what will the suggested regulatory authority do? The authority's job is expected to be one of monitoring, surveillance, formulation of overall insurance policy, fixing of tariff schedule, etc.

All these functions are redundant in the absence of significant involvement of private companies. With no worthwhile function to carry out, the suggested body would be yet another monolith seeking to provide lucrative employment to high profile retired government servants.

The two key recommendations of the Malhotra Committee are: (a) the government should retain only 50 per cent of the equity in both GIC and LIC and disinvest the rest, (b) the four subsidiaries of GIC i.e. National Insurance Company, New India Assurance, Oriental Insurance Company and United Insurance, should be stripped from GIC, and converted into autonomous corporations. Further, as in the case of GIC and LIC, 50 per cent of the enhanced equity (from existing Rs 40 crore to a recommended level of Rs 100 crore each) only should be retained by the GOI after disinvesting the balance 50 per cent.



Unfortunately, both these recommendations have been completely bypassed. The finance ministry has not deemed it appropriate even to consider partial disinvestment in the insurance sector which it is seeking to implement in respect of public sector manufacturing enterprises. What this means is that the government is not willing to let even a single Director from amongst the public to sit in the board rooms of the insurance companies.

Interestingly, the equity base of GIC, LIC and the former's subsidiaries is very low with bulk of the networth constituted by reserves. Consequently, it is the management control that matters, particularly when they are having access to a captive market and the business generated by them is monumental apart from enjoying monopoly in fixing premium compensation rates etc. Allowing one or two directors from outside the government (implicit in partial disinvestment) also appears to be unacceptable as that would lead to some degree of accountability and transparency in the functioning of the boards.

The Malhotra Committee has provided an ideal option. By broadbasing the equity base and consequently, changing the composition of the board of directors, 50 per cent disinvestment would give operational flexibility and autonomy to the management. Besides, enhanced accountability to the public would bring in an element of professionalism.

The unions representing the employees of the GIC, LIC and former's subsidiaries have raised the bogey of threat to employment, which is far-fetched in the present context. It is unlikely that a few non-government directors on the board of LIC and GIC would force the management to retrench the employees en masse.

But, the fear is genuine for those who do not work, or are inefficient and consider customer satisfaction as the most unimportant element of their responsibilities. Unfortunately, such elements constitute the majority and they feel threatened because restructuring of the management would take away the perverse job security.

But, to eliminate such employees or make them work is one of the main objectives of the restructuring, and there is hardly any scope for regrets on this score. The change would also help in better utilisation of the hard-earned savings of millions of policy holders and, in turn, facilitate reasonably attractive returns besides lowering the cost of the policy.

Presently, an overwhelming share of the corpus of GIC and LIC is mandated for investment in low yielding government securities. The Malhotra Committee has suggested some reduction in this share to provide better investment opportunities to the companies to serve their customers effectively. This recommendation should be implemented immediately as that would also force the government to use the resources more judiciously.

Another disturbing aspect of the existing arrangement is the government's indirect control even over the private enterprise because of the FIs' (including the GIC and LIC) majority equity holdings. Besides, with huge funds at their disposal, the latter may even produce destabilising effect in the capital market, causing erratic movement in share prices sometimes even unrelated to fundamentals. It would be prudent to distance the government from these developments by debureaucratising and depoliticising the board of directors of the insurance giants.

Disinvestment upto 50 per cent would be a positive step forward in that direction. This would also help render the financial sector reforms more effective. The recently announced takeover code has no meaning so long as FIs are not covered by the said norms, which will not happen unless the FIs are distanced from the government.

For the reform process to have the maximum effect and in terms of the overall sequencing, reform in banking and insurance should have received topmost priority. This was not done even as the government merrily went about liberalising trade and foreign investment. Reforms in the insurance sector cannot brook delay any longer.