

ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION
LIC BUILDING SECRETARIAT ROAD HYDERABAD 500 063
(E-mail: aiieahyd@gmail.com)

Cir. No. 06/2020

7th February, 2020

To
All the Zonal/Divisional/State/Regional Units

Dear Comrades,

**Listing of LIC: Wanton Destruction of a
Premier Public Sector Financial Institution**

Finance Minister Nirmala Sitaraman announced during her second Budget Speech on February 01 that the government will list LIC in the stock exchange and sell part of its stake via Initial Public Offer (IPO). In justification of her proposal she said, "Listing of companies on stock exchanges disciplines a company and provides access to financial markets and unlocks its value. It also gives opportunity for retail investors to participate in the wealth so created." The hired pen pushers of the government have gone gung-ho after this announcement. It is being claimed that listing of LIC will be of immense help to the policy holders; it will allow analysts to monitor LIC's governance; LIC will come under the Securities and Exchange Board of India (SEBI)'s direct watch and strengthen corporate governance.

This announcement has created anxiety among the policyholders and the general public. They are at a loss to understand why the government has taken this undesirable step. The workforce of LIC is shocked and concerned. They see this as the first steps towards privatisation of the most successful and premier institution of the country. The entire workforce of LIC led by AIIEA registered a very strong protest by observing a one- hour walk-out strike on 4th February 2020. The Unions and Associations of all classes of employees joined this protest. The 12 lakh strong agency force joined hands with the employees to register their protest. The entire staff and field force have decided to build up a strong resistance movement against this move of the government through massive public mobilisation.

ARGUMENTS ARE HOLLOW

The arguments advanced to list LIC in the stock market are hollow. The LIC is a transparent and efficient Board managed institution. It comes out with Public Disclosures every quarter. It submits Report of its functioning every month to the Regulator IRDAI. It places its accounts in the Parliament for scrutiny. If this is not transparent functioning, what else is it? The LIC is the largest investor in the Indian economy. The reason that listing will help LIC access funds from the market is laughable. LIC generates investible funds to the extent of Rs.3.5 to 4 lakh crore annually and therefore there is no necessity for LIC to access the market for funds. It is common knowledge that only around 3% of the total participants in the stock market are retail investors. To say listing will enhance the value for retail investors is far from truth. It

will enhance value and profit for the rich, foreign capital and domestic institutional investors. This simply means handing over the finest financial institutions for enhancement of value for the rich. To say that listing will protect the interests of policyholders means that LIC is lacking in this aspect which again is not true. The LIC has fully protected the interests of its policyholders. While ensuring total safety of the funds of policyholders, it has the track record of giving the best returns in the form of bonus. It has set very high servicing standards and its claim settlement performance is the best in the global insurance industry. It has the lowest operating cost in the entire life insurance industry in India. Therefore, the arguments of better transparency, policyholders' interests etc. totally fall flat in the face of existing reality.

REAL REASONS

The real reasons for the decision to list LIC are the economic compulsion and ideological position of the present government. The government is starved of resources due to its mishandling of economy. It has been lowering the corporate taxes to make investment profitable and to attract the foreign capital. It has recently doled out tax concessions to the tune of Rs.1.5 lakh crore to the corporate sector and has proposed perhaps the lowest corporate tax in the world for the year 2020-21. Therefore, starved of resources it has been concentrating on disinvestment of public sector units and extracting increasing dividend from them. The recent transfer of reserves from the RBI is a classic example. Therefore, the decision to list LIC is to raise resources to meet the budgetary expenses. This is akin to selling the most valuable asset of the family to meet the day to day expenses.

The second reason is ideological. The BJP traditionally has been against the public sector. The Prime Minister is on record showing his dislike for the public sector units. It is not the business of the government to be in business is the oft repeated slogan of the present government. It must be remembered that it was during the first NDA government in 1999 that the insurance industry was opened up for private sector though the process was initiated by the Congress Government. Again, it was under NDA I under Modi that Insurance Laws Amendment Bill was pushed through the Parliament hiking the foreign equity limit and paving way for disinvestment in the general insurance industry. That LIC was on the radar for quite some time was never in doubt. The Former Finance Minister Late Arun Jaitly had indicated of things to come when he pointed out during the Diamond Jubilee Celebrations of LIC in 2016 that if listed it could be the most valuable company in the country.

An immoral exercise

The LIC was formed with Rs.5 crore initial equity given by the government in 1956 and this was subsequently enhanced to Rs.100 crore in 2011 to meet the policy guideline laid by the Regulator. This was more in the nature of working capital than real capital. It must be noted that government did not invest any capital for the expansion of the institution nor to meet the solvency requirement. The funds for this purpose were internally generated. Therefore, LIC can be called a Mutual Benefit Life Insurance Company with all its policyholders acting as shareholders and the government acting as a trustee with a minor shareholding. The profits of LIC are shared among its participating policyholders in the ratio of 95:5. Naturally, with policy holders providing almost 95 per cent of the capital LIC is a Mutual insurance company

where the policy holders are the real owners of the Corporation. With an ownership of only 5%, the government is at best a minority shareholder. It is therefore outrageously immoral that the minority shareholder is now seeking to unilaterally change the structure of the LIC and wants to profit by leveraging its value.

LIC is the golden goose:

Listing of LIC will amount to wanton destruction of the premier public sector financial institution in the country. The LIC mobilises small savings of the people and makes them available for national development. Since its inception in the year 1956, the LIC has earned the trust and goodwill of millions of Indians and has crossed many milestones. The LIC has set unprecedented performance records in various aspects of life insurance business. Commencing its operations with a paltry sum of Rs. 5 crore in the year 1956, the LIC today commands over an astronomically huge asset base of over Rs.31 lakh crore. It is the largest life insurance company in the world in terms of number of policies with a customer base of over 40 crore. It has 30 crore individual policies in force and another 12 crore are covered under its group policies. Even after over two decades of competition in the life insurance business, the LIC stands tall with a market share of more than 73 per cent. The LIC has the proud distinction of contributing more than 25 per cent to the total budgetary efforts of the government of India. The LIC has recently paid a dividend of Rs.2611 crore to the government of India against an initial equity of Rs.100 crore. It is pertinent to mention here that the total dividend paid by LIC till date since its inception is a huge Rs.26,005.38 crore. The contribution of LIC to independent India's planned development process and its investments in the social sectors of the economy have simply been phenomenal. Selling part of LIC's stake to private interests and its disinvestment would be a surest blow to the resource mobilization efforts of India. At a time when the government is faced with a severe resource crunch because of dwindling tax revenue collections, selling part of government equity in LIC would be akin to killing the golden goose that lays golden eggs.

Impact of privatisation

The Government is yet to decide the percentage of stake it wants to sell. As per the present rules any listed company should have 35% of its shares floating in the market. This makes it clear that in the next few years the government will have to disinvest around 35% of its stake in LIC. With increasing cries of total privatisation of public sector banks, there is a real danger for the very existence of LIC as a public sector company.

Therefore, this move will severely impact the economy and vulnerable sections of the Indian people. The objectives of nationalisation will recede in the background and LIC will have to concentrate on delivering increasing profits to the shareholders. The LIC like the private companies have to target the big policies which bring greater profits. In the process the small size policies which the poor, vulnerable and lower middle classes purchase will no more be attractive. The social objective of providing insurance cover to the weaker sections will receive a set-back. The aim to expand insurance in the unprofitable rural areas too will suffer.

Therefore, disturbing the character of LIC will harm the interests of the national economy and the poorer sections of the Indian population.

Insurance employees under the banner of the All India Insurance Employees' Association (AIIEA) are committed to protect the interests of the policyholders. They are equally committed to an equitable economic growth in which public sector has a great role to play. Public Sector is the property of the people. The rulers therefore have no right to sell it. The insurance employees are determined to protect LIC and the nation's economic sovereignty. The AIIEA seeks the support of all trade unions, progressive organisations and the general public to build up a strong resistance movement against the LIC IPO which ultimately would lead to the dismantling of the finest financial institution of the country.

With greetings,

Comradely yours,

Shreekanth Mishra

GENERAL SECRETARY.