Insurance set in Financial Sector Reforms

*Sonika Sharma

ABSTRACT

The aim of this paper is to give a detailed description of the reforms that have taken place in the insurance sector starting from a regime of deregulation with mushrooming insurance companies both general and life, then to nationalisation of life insurance business in 1956 and general insurance business in 1972, the opening up of this sector in 1999 to private and foreign players and finally, the delinking of the four subsidiaries of the General insurance Corporation of India. A brief outline of reforms happening in other sectors like baking sector, debt and equity market, foreign exchange markets, foreign institutional investors, etc has also been given so as to give an insight into the actuality that the entire reform process is interlinked and reform in one sector calls for a simultaneous reform in other sectors so as to make the entire process most effective.

Keywords: Life Insurance, General Insurance, nationalization, reforms.

JEL classification: G2, G22

INTRODUCTION

The globalization and liberalization of the economy which started in 1991 needed a strong financial and banking sector to be able to compete. As a result a series of reforms were introduced in these sectors to boost the growth of the economy.

Before the starting of the reform process the financial sector in India was a classic example of excessive government controls, regulations and monopoly. It was characterized, inter alia, by micro-regulation directing the major flow of funds to and from financial intermediaries, administered interest rates, shallow foreign exchange market as the transactions had low limits and high approval requirements. Insurance companies were publicly owned and offered limited products. The primary market of securities was governed by too many regulations and the secondary lacked transparency. The predominance of government ownership of financial intermediaries and restriction on entry of new players left little scope for competition. They were made to invest a major portion in government and other public sector securities. There was not much of commercial consideration in the giving of loans and recovery was low which resulted in a number of non-performing loans. The distortions were much more severe than what the statistics indicated because government involvement in intermediation was much more severe than mere ownership. At the onset of reforms in the banking sector there was very limited market based decision making. Statutory pre-emption and directed lendings left very little for commercial lending. There was no debt market as such and government debt was only there which was structured by the RBI. The Controller of Capital Issues used to determine the prices of primary issues and broker owned stock exchanges manipulated share prices.

These controls, however, were instituted with the positive objective of development of areas which would have been neglected by private bodies like rural areas, economically weaker sections of the society and non-lucrative areas like agriculture and small-scale industries and to instill confidence among the general public on the infallibility of the financial intermediaries. These objectives were met to a large extent but a greater need was felt for creating an efficient, productive and profitable financial industry, injecting competition and allowing the market forces to operate freely, giving more autonomy to the financial sector and thereby preparing it for international competition and finally, through this, meeting the social objective of providing a wide range of products, transparency, quick service, and safety of the consumers at most competitive prices.

The reform process was not sudden but a steady one which happened after long deliberations with experts and market participants and on the recommendations of many committees and working groups. As pointed out by governor Reddy (Reddy, 2002), the approach towards reforms was based on five principles:

1. Cautious and appropriate sequencing of reform measures.
2. Introduction of norms that are mutually reinforcing.
3. Introduction of complementary reforms across sectors (most importantly, monetary, fiscal and external sector).
4. Development of financial institutions.
5. Development of financial markets.

* *Assistant Professor, Department of Commerce, Shaheed Bhagat Singh College, University of Delhi*

OBJECTIVES OF STUDY

The objectives of undertaking this study have been outlined as follows:

1. To understand what reforms have taken place in various sector of the economy namely, banking sector, debt and equity market, foreign exchange market, foreign institutional investors, etc.
2. To explore in detail about the development of insurance sector from an unorganized scenario with several mushrooming private insurance companies to nationalization and finally, to opening up of this sector to private participation from India and abroad.
3. To interlink the insurance sector reforms with reforms in other sectors of the economy so as to assess its position in the broader frame.

The entire study has been divided into nine sections. The first seven sections are devoted to introduction, objectives of study, banking reforms, debt and equity market reforms, foreign exchange market reforms, opening up to foreign institutional investors and reforms in other segments of the financial sector, respectively. The eighth section is about insurance reforms, with three sub-sections on insurance before nationalization, nationalization and opening up. The ninth section which has been given as a conclusion throws light on the rationale for reforms and the place insurance sector reforms hold in the entire reform process.

BANKING REFORMS

The reforms were first introduced in the commercial banks since it constituted the biggest segment of the financial sector. Later on these reforms were extended to other sectors. Measures were introduced to ensure flexibility, operational autonomy and competition in the banking sector through introduction of international best practices and prudential regulations. The approach was to increase the capitalization of the banks from government resources to bring them up to a certain level of capitalization and then allow them to increase the capitalization by allowing private investment up to 49 percent. Meanwhile new private sector banks were introduced and number of foreign bank branches was increased to induce competition into the banking system. The reforms that were undertaken have been summarized below:

1. Granting of operational autonomy to public sector banks, reduction of public ownership of public sector banks by allowing them to raise equity from the market up to 49 percent of their paid up capital.
2. Introduction of international best practices and norms on capital adequacy requirement, accounting, income recognition, provisioning and exposure.
3. Transparent norms for entry of Indian private sector, foreign and joint-venture banks and insurance companies, permission for foreign investment in the financial sector in the form of foreign direct investment (FDI) as well as portfolio investment, permission to banks to diversify product, portfolio and business activities.
4. Reduction in reserve requirement, market determined pricing for government securities, disbanding of administered interest rates with a few exceptions and enhanced transparency and disclosure norms.
5. Introduction of pure inter-bank call money market, auction-based repos-reverse repos for short term liquidity management.
6. Setting up of debt recovery tribunals, asset reconstruction companies and promulgation of Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI), Act.
7. Setting up of Credit Information Bureau for information sharing on defaulters and other borrowers.
8. Setting of the Clearing Corporation of India.
9. Establishing of the Board of Financial Supervision for supervising the commercial banks, financial institutions and non-banking finance companies.
10. The RBI initiated a Prompt Corrective action scheme in 2002.

The lending rates have been linked to PLR and PLR is itself the benchmark rate. Banks are permitted to lend below the PLR so actual lending rates of top borrowers would even be lower. The subsidization in priority sector lending has also been reduced though SSI, agriculture and sports still have some direct lending.

REFORMS IN THE DEBT AND EQUITY MARKET

The interest rate on government securities was artificially pegged at low levels which were unrelated to market conditions. The government securities market lost its depth as a result. Charging of low interest rates from certain borrowers due to social and economic concerns lead to cross subsidization which means higher rates were charged from other borrowers who were not getting loans at concessional rates. Deposit rates were also regulated because of the regulation of lending rates so that the spread between cost of funds and return of funds was maintained. The non-performing assets were also high due to lack of transparency and prudential norms in the banking sector.

The reforms in this sector were a move to have a more market oriented system instead of the strategy of pre-emption of funds by government at administered interest rates. The following reforms took place:

1. Administered interest rates on government securities were replaced by an auction system for price discovery.
2. Automatic monetisation of fiscal deficit through th issue of ad hoc Treasury Bills was phased out.
3. For ensuring transparency in the trading of government securities, Delivery versus Payment (DvP) settlement system was introduced.
4. Repurchase agreement (repo) was introduced as a tool for short-term liquidity adjustment. Later on the Liquidity Adjustment Facility (LAF) was introduced.
5. In order to increase the number of instruments available to RBI for managing surplus liquidity in the system Market Stabilization Scheme (MSS) was introduced.
6. Zero Coupon Bonds, Floating Rate Bonds, capital indexed bonds, exchange traded interest rate futures and 91-day Treasury bill was introduced.
7. Foreign institutional investors were allowed to invest in government securities.
8. Government securities were allowed to be traded on the stock exchange to promote retailing in such securities.

A large part of government securities are held by government owned financial institutions especially in banking and insurance sector. RBI has prescribed an investment fluctuation reserve for banks and is pursuing retailing of government securities. Pension liabilities are also a part of public debt management besides government borrowings. Trading in derivatives began in June 2000. Index futures also started. This was followed by approval of trading in options based on these two indices and option on individual securities. Institutional hedging instruments like forward rate agreement and interest rate swaps increased rapidly after the amendments to SCRA Act in 2000.

FOREIGN EXCHANGE MARKET REFORMS

The foreign exchange market was under high government control, foreign exchange was made available by the RBI through complex licensing system. The move through a market based exchange rate regime in 1993 and subsequent adoption of current account convertibility were the major reforms in the foreign exchange market. The reforms which were undertaken in this sector are as follows:

1. The evolution of the exchange rate regime from a single currency fixed exchange rate to fixing the rupee against a basket of currencies and finally to market determined floating exchange rate.
2. Full capital account convertibility for non residents.
3. Replacement of FERA, 1973 by the market friendly Foreign Exchange Management Act, 1999.
4. Delegation of considerable powers by RBI to Authorized Dealers to release foreign exchange for a variety of purposes.
5. Development of rupee-foreign currency swaps market.
6. Introduction of additional hedging instruments, such as, foreign currency-rupee options. Cross-currency options, interest rate and currency swaps and forward rate agreements in the international forex market.
7. Banks permitted to fix interest rates on non-resident deposits, use of derivative products for asset-liability management and fix overnight open position limit and gap limits in the foreign exchange market.
8. FIIs and NRIs permitted to deal in exchange traded derivative contracts subject to certain conditions.
9. Foreign exchange earners permitted to maintain foreign currency accounts. Residents also permitted to open such accounts.

OPENING UP TO FOREIGN INSTITUTIONAL INVESTORS (FIIs)

The term is used to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies.

The Indian capital market was opened up to foreign institutional investors in 1992. The reform measures undertaken are as under:

(a) They were allowed to invest in government securities subject to certain limits.

(b) They were allowed to avail forward cover and enter into swap transactions without any limit subject to genuine underlying exposure.

(c) Permission was given to FIIs to trade in exchange traded derivative contracts subject of certain conditions.

(d) FIIs have been permitted in all types of securities full capital convertibility.

(e) The cabinet decided to allow 40% foreign equity in private insurance companies-26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors in 1998.

(f) In the budget of 2011-12 the finance minister allowed foreign institutional investors in mutual funds.

REFORMS IN OTHER SEGMENTS OF THE FINANCIAL SECTOR

Non-banking financial companies (NBFCs), especially those involved in public deposit taking activities, have been brought under the regulation of RBI. Development Finance Institutions (DFIs), specialised term-lending institutions, NBFCs, Urban Cooperative Banks and Primary Dealers have all been brought under the supervision of the Board for Financial Supervision(BFS). With the aim of regulatory convergence for entities involved in similar activities, prudential regulation and supervision norms were also introduced in phases for DFIs, NBFCs and cooperative banks.

The Securities and Exchange Board of India (SEBI) has been established to regulate the securities market. Another important development under the reform process has been the opening up of mutual funds to the private sector in 1992, which ended the monopoly of Unit Trust of India (UTI), a public sector entity.

The Indian corporate sector has been allowed to tap international capital markets through American Depository Receipts (ADRs), Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs) and External Commercial Borrowings (ECBs). Similarly, Overseas Corporate Bodies (OCBs) and non-resident Indians (NRIs) have been allowed to invest in Indian companies. Mutual funds have been allowed to open offshore funds to invest in equities abroad.

REFORMS IN THE INSURANCE SECTOR

Insurance in India has gone through two radical transformations. Before 1956, insurance was private with minimal government intervention. In 1956, life insurance was nationalized and a monopoly was created. In 1972, general insurance was nationalized as well. But, unlike life insurance, a different structure was created for the industry. One holding company was formed with four subsidiaries. As a part of the general opening up of the economy after 1992, a Government appointed committee recommended that private companies should be allowed to operate. It took six years to implement the recommendation. Private sector was allowed into insurance business in 2000. However, foreign ownership was restricted. No more than 26% of any company can be foreign-owned.

❖ INSURANCE IN INDIA BEFORE NATIONALISATION

Insurance in the Colonial Era. Life insurance in the modern form was first set up in India through a British company called the Oriental Life Insurance Company in 1818 followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. All of these companies operated in India but did not insure the lives of Indians. They were insuring the lives of Europeans living in India. Some of the companies that started later did provide insurance for Indians. But, they were treated as "substandard". Substandard in insurance parlance refers to lives with physical disability.

The general insurance in its present form appears to have developed in the west in the 17th century after the industrial revolution. British insurers who transacted business in India through their agencies introduced it in India. The first general insurance company was established in Calcutta under the name of Triton Insurance Company Ltd. The British mainly held its shares. Encouraged by the initial success a large number of foreign insurance companies from America, Australia, Canada, France, Hong Kong, Italy, Japan, New Zealand, Sweden and Switzerland also started business in India. Gradually, Indian companies also entered the field. The first insurance company to be set-up by Indians for transacting all classes of general insurance business was Indian Mercantile Insurance Company Ltd. in Bombay in 1907. At the time of independence the British and other foreign insurance companies shared around 40% of the market. After that this share began to decline.

The Birth of the Insurance Act, 1938. In 1937, the Government of India set up a consultative committee. Mr. Sushil C. Sen, a well known solicitor of Calcutta, was appointed the chair of the committee. He consulted a wide range of interested parties including the industry. It was debated in the Legislative Assembly. Finally, in 1938, the Insurance Act was passed. This piece of legislation was the first comprehensive one in India. It covered both life and general insurance companies. It clearly defined what would come under the life insurance business and the general insurance business. It covered deposits, supervision of insurance companies, investments, commissions of agents, directors appointed by the policyholders among others. This piece of legislation lost significance after nationalization. Life insurance was nationalized in 1956 and general insurance in 1972 respectively. With the privatization in the late Twentieth Century, it has returned as the backbone of the current legislation of insurance companies. All legislative changes are enumerated in Table 1.

Table 1

Milestones of Insurance Regulations in the 20th Century Year	Significant Regulatory Event
1912	The Indian Life Insurance Company Act
1928	Indian Insurance Companies Act
1938	The Insurance Act: Comprehensive Act to regulate insurance business in India
1956	Nationalization of life insurance business in India with a monopoly awarded to the Life Insurance Corporation of India
1972	Nationalization of general insurance business in India with the formation of a holding company General Insurance Corporation
1993	Setting up of Malhotra Committee
1994	Recommendations of Malhotra Committee published
1995	Setting up of Mukherjee Committee
1996	Setting up of (interim) Insurance Regulatory Authority (IRA) Recommendations of the IRA
1997	Mukherjee Committee Report submitted but not made public
1997	The Government gives greater autonomy to Life Insurance Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector
1998	The cabinet decides to allow 40% foreign equity in private insurance companies-26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors
1999	The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority Bill
1999	Cabinet clears Insurance Regulatory and Development Authority Bill
2000	President gives Assent to the Insurance Regulatory and Development Authority Bill

❖ NATIONALISATION

The life insurance business was nationalised in 1956 and Life Insurance Corporation was established. Nationalization was justified based on three distinct arguments. First, the government wanted to use the resources for its own purpose. Second, it sought to increase market penetration by nationalization. Third, the government found the number of failures of insurance companies to be unacceptable. The government claimed that the failures were the result of mismanagement.

Prelude to nationalization of general insurance: Birth of the Tariff Advisory Committee. The first collective measures to regulate rates and terms and conditions go back to 1896 with the formation of Bombay Association of Fire Insurance agents. By 1950, there was a set of regulation of rates, accepted by most insurers. The Insurance Act of 1938 was amended in 1950 to set up a Tariff Committee under the control of the General Insurance Council of the Insurance Association of India. Main lines of general insurance came under the Tariff Committee (they included Marine, Fire and

Miscellaneous which included auto). Over the next eighteen years, Tariff Committee prevailed as the “rate maker”. It was obligatory for all insurers.

Nationalisation of General Insurance

General insurance was finally nationalized in 1972 (with effect from January 1, 1973). Initially general insurance business was monopolised by British firms. This was during the time of East India Company. It was only in the beginning of this century that Indian insurers entered this field. Till 1971 there were 107 private sector general insurance companies doing business in India of which 55 were Indian and 52 were non-Indian. These companies were mainly operating in urban areas catering to the needs of organised trade and industry. They were hesitant to diversify in rural areas and the needs of common man and weaker sections of the society did not receive any attention from them. They were assigned to four different subsidiaries (roughly of equal size) of the General Insurance Corporation. The GIC was formed as a government company in accordance with the provisions of the Companies Act, 1956 with an authorised capital of Rs 75 crores and an initial subscribed capital of Rs 5 crores divided into 75 lakhs fully paid up shares of one hundred each. The subscribed capital was later on increased to Rs 250 crores, divided into 250 lakhs fully paid up shares of one hundred each, by the General Insurance Business (Nationalisation) Amendment Act, 1989. It is exempted from adding the word ‘limited’ to its name.

The General Insurance Corporation was incorporated as a holding company in November 1972 and it commenced business on January 1, 1973. It had four subsidiaries were: (1) the National Insurance Company, (2) the New India Assurance Company, (3) the Oriental Insurance Company, and (4) the United India Insurance Company with head offices in Calcutta (now Kolkata), Bombay (now Mumbai), New Delhi, and Madras (now Chennai) respectively. Collectively these subsidiaries are known as the NOUN for their initials.

The insurance business has made great strides since nationalisation. The LIC and GIC and its subsidiaries have extended their insurance covers for varying needs of the different sections of the society including factory workers, retail traders, transport operators, artisans and farmers. They are also an important source of finance for the corporate sector.

Despite the progress made, since a long time a need to reform this industry was being felt. There were innumerable complaints about the non-issue of policy and notices for payment of premium, non-receipt of policy documents, non-issue of claims form and non-payment of claims promptly. There have also been delays in sanction of loans. Moreover economic reforms going on in other sectors called for a need to reform the insurance sector, as well. In view of the above, the government of India appointed a ‘Committee on Reforms in the Insurance Sector’ in April 1993 under the chairmanship of Justice R.N. Malhotra.

❖ OPENING UP

How Public Insurers Reacted During the Final Countdown. During the final years of the General Insurance Corporation as a holding company, there were a number of suggestions as to what to do with the structure of the industry. The Malhotra Committee Report strongly recommended that the General Insurance Corporation should cease to be the holding company and concentrate on reinsurance business only. The four subsidiaries should become independent companies. The report also noted that the subsidiaries were overstaffed (Malhotra, 1994, Chapter XII, p. 88-89).

It was not the final word. A study conducted by the consulting company PriceWaterhouseCoopers commissioned by the General Insurance Corporation in 2000 recommended just the opposite. It argued that in the face of impending competition from the private companies, the subsidiaries should be merged to form one single company to better fight the competition. While these discussions were going on, the four subsidiaries undertook restructuring. The management of these companies negotiated a “voluntary retirement scheme” to reduce the level of staffing. In February 2004, this was implemented. Of the total 80,000 employees in the four companies, the voluntary retirement scheme option was restricted exclusively to 68,000 employees. Around 12,000 Development Officers were kept out of the voluntary retirement scheme. Of the total staff, 8,500 opted for the voluntary retirement scheme from the four companies. Of the total 13,500 officers in the four companies, 34 per cent opted for the voluntary retirement scheme as against only 11 per cent of the 36,000 clerical staff. This outcome came as a surprise to the management. They were hoping to eliminate more clerical jobs through the voluntary retirement scheme. The powerful union of clerical workers has strongly opposed a similar plan for the Life Insurance Corporation (Swain, 2004).

Introduction of the New Legal Structure

After the report of the Malhotra Committee came out, changes in the insurance industry appeared imminent. Unfortunately, instability of the Central Government in power slowed down the process. The dramatic climax came in 1999. On March 16, 1999, the Indian Cabinet approved an Insurance Regulatory Authority (IRA) Bill designed to liberalize the insurance sector. The government fell in April 1999 just on the eve of the passage of the Bill. The deregulation was put on hold once again.

An election was held in late 1999. A new government came to power. On December 7, 1999, the new government passed the Insurance Regulatory and Development Authority Act. This Act repealed the monopoly conferred to the Life Insurance Corporation in 1956 and to the General Insurance Corporation in 1972. The authority created by the Act is now called the Insurance Regulatory and Development Authority. It was decided to allow 26% foreign equity participation in insurance joint ventures.

As already mentioned government has reduced directed investments from 70% to 45% with effect from 1st April 1995. The government has also notified a scheme in November 1998 of an insurance Ombudsman. The Ombudsman will settle disputes regarding adjustment of premium and payment of claims.

One of the major recommendations that were accepted was the opening up of the insurance sector. In December 1999, the government allowed private domestic as well as foreign participation in this sector. Further, the Insurance Regulatory and Development Authority was established under section 3 of the Insurance Regulatory and Development Authority Act, 1999. The Authority was to provide for the protection of the interests of policyholders and to promote the orderly growth of the insurance industry.

Insurance ombudsman: In exercising the powers conferred by the Insurance Act, 1938, the central government, by notification, has framed the Redressal of Public Grievances Rules, 1998. These rules apply to life and general insurance in respect of personal lines insurance that, i.e., insurance taken in an individual capacity.

The rules provide for the appointment of an Ombudsman who may be selected from those who have experience in the judicial, civil or administrative service, industry, etc.

In order to regulate the insurance companies the government established the Insurance Regulatory and Development Authority in April 2000. It would be for the Authority to ensure that the insurance companies maintain adequate solvency at all times, invest their funds prudently and in conformity with law, do not invest in any affiliate of the promoters, appoint 'fit and proper' persons as managers and maintain high standards of transparency in company accounts.

General Insurance Corporation (GIC) which was the holding company of the four public sector general insurance companies has since been delinked from the later and has been approved as the "Indian Reinsurer" since 3rd November 2000. The share capital of GIC and that of the four companies are held by the Government of India. All the five entities are The minimum paid up capital for carrying on reinsurance business has been prescribed as rupees 200 crores.

The road map for de-tariffing was notified by the Insurance regulatory and Development Authority on 23rd September, 2005, based on the demand from various stakeholders that continuance of tariff regime was inconsistent with the opening of the sector to provide healthy competition. The roadmap laid down the systems to be put in place to ensure a smooth transition from tariffs to a free market. Various milestones were identified indicating time schedules in relation to underwriting functions, rating support, file & use compliance and corporate governance. The de-tariffication was finally, done from January 2008. Tariffs were removed from all lines of business except for third party motor insurance.

One of the main objectives of promoting financial inclusion packages is to economically empower those sections of society who are otherwise denied access to financial services, by providing banking and credit services thereby focusing on bridging the rural credit gap. The banking sector is focusing on financial inclusion on a priority basis. Vulnerability to various risk factors is one of the fundamental attributes of these sections of the society. Lack of protective elements may thus not serve the objective of promoting financial inclusion packages as the targeted section may fall back into the clutches of poverty in the event of unforeseen contingencies. Hence, to provide a hedge against these unforeseen risks, micro insurance is widely accepted as one the essential ingredients of financial inclusion packages.

Micro Insurance regulations issued by IRDA have provided a fillip in propagating Micro Insurance as a conceptual issue.

Consumer education and policyholder protection being two sides of the same coin, the Regulator encourages and supports consumer bodies to conduct seminars on insurance, thereby not only educating the consumer but also providing a platform for the consumer to interact with representative(s). The IRDA itself conducts/ participates in and supports national-level seminars on different topics and is also proposing to launch a consumer portal shortly.

The Insurance Laws (Amendment) Bill 2008 introduced in Parliament recently proposes to amend the Insurance Act 1938, the Insurance Regulatory and Development Authority (IRDA) Act 1999, and the General Insurance Business (Nationalization) Act 1972. The amendments to the Insurance Act and the IRDA Act focus on the current regulatory requirements; the proposed changes provide for greater flexibility in operations and are aimed at deletion of clauses that are no longer relevant in the present context. The amendments also provide for enhancement of enforcement powers and levy of stringent penalties.

Presently there are 25 general insurance and 23 life insurance companies operating in India. With life insurance premium as mere 4.73% of gross domestic product and general insurance premium as mere 0.66% of gross domestic product there is room for still more.

CONCLUSION

- A SPECIAL REFERENCE TO INSURANCE SECTOR AND ITS PLACE I N THE ENTIRE REFORMS PROCESS

With so much happening in the direction of opening of every sector of the economy, there was a need to expand the insurance sector to meet the needs of growth as the increasing business activity needed protection in the form of insurance. Moreover, it was felt that this sector, even though it had progressed well since nationalisation, needed reforms and that opening up could increase competition and thereby increase efficiency. The reforms measures in the insurance sector were introduced later than the banking sector. Inspite of the late start the sector has experienced huge changes over the past few years. A large number of private insurance companies, generally with foreign capital participation, have entered the sector. The current profile of the Indian insurance industry reflects that, notwithstanding the entry of private sector players, in terms of both assets and liabilities, insurance companies from the public sector continue to dominate the industry. Despite this, given the fast pace of growth in the insurance industry, private players have been able to market their products.

Perhaps more importantly, liberalisation of entry norms in insurance segment has brought about a sea change in product composition. While in the past, tax incentives were the major driving force of the insurance industry, particularly life insurance industry, in the emerging situation the normal driving force of an insurance industry is taking important roles. Driven by competitive forces and also the emerging socioeconomic changes including increased wealth, education and awareness about insurance products have resulted in introduction of various novel products in the Indian market. Along with the changing product profile, there have also been salutary improvements in consumer service in recent years, driven largely by the impact of new technology usage, better technical know-how consequent upon foreign collaboration and focused product targeting, dovetailed to specific segments of the populace as well as cross-selling of products through bancassurance. Insurance companies are also taking active steps to venture into innovative distribution channels for their products over and above creating strong agency network.

It is expected that the entire process goes further in the development of the insurance market, change in risk perception of the insured, in the sense, that the potentially insured views a particular risk as worth being insured. For this the companies need to educate the consumers and offer them better products at competitive prices. This is also a part of social responsibility of the companies along with other social objectives like catering to the needs of the less privileged sectors of the society like rural and agricultural sector, making insurance reach every nook and corner of the country and spreading awareness about the need for insurance.

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Globalisation and Violation of Human Rights

**Vandana Dahiya*

ABSTRACT

Broadly speaking the term 'Globalisation' means integration of economies and societies through cross country flow of information, ideas, technologies, goods, services, capital, finance and people but it leads to a more iniquitous distribution of income among countries and within countries. Globalisation may benefit even within a country those who have the skill and the technology. The higher growth rate achieved by an economy can be at the expense of declining income of people who may be rendered redundant. The present article focusses on the negative impact of globalization on the poor people . During the past years it is observed that globalization increases the gap between the rich and poor . There is lack of opportunities for the poor to be able to have access to markets due to globalization. It causes the exploitation of workers and growers, damage to the environment, economic degradation and monopoly power. Therefore Globalisation is liable for violation of human rights.

Globalisation,while essential to the success of the global market place, has a darker less visible side . It benefits some third world countries, as well as large well known MNC's. It however causes the economies of many countries and smaller companies to collapse. It has also blocked investments and growth of some poorer countries.

Keywords: Globalisation, Liberalisation, Privatisation, HumanRights,Violation, Deregulation,

INTRODUCTION

Globalisation refers to the global distribution of the production of goods and services,Through reduction of barriers to international trade such as tariffs,export fees and import quota Stephen Gill defines Globalisation as "The reduction of cost of transborder movement of capital and goods and thus of factors production and goods".

Therefore it means the global reach of new technology and capital movements, and outsourcing by domestic companies of rich countries.

Guy Brainbant definesGlobalisation as: "The process of globalisation not only includes opening of world trade,development of advanced means of communication, internationlization of financial markets, growing importance of MNCs, population migration and more generally increased mobility of persons, goods, capital,data,ideas but also infections, disease and pollution''.

On the basis of different interpretations it can be said that Globalisation creates tensions between those who have the skill and resources to compete in the global market and those who do not. For example when the internet was first introduced to the public, The richer countries in the world were able to incorporate it into their economies before the poor countries.The richer countries had already established a stronghold on the internet by the time the poorer were able to buy computers and pay for internet access.

Objectives:

The present article focuses on the issue of globalization regarding the following:-

(a) Effect of globalization on extreme poverty in India which may be viewed as a violation of human rights

(b) Impact of globalization on labour rights.

FINDINGS

People will agree that extreme poverty is a degradation of human dignity and that there is a basic human right to minimum subsistence which is the part of the "right to life". UNESCO and several human rights activists have claimed that poverty s a violation of human rights.

A common argument in the media as well as in street protests is that globalisation is making the rich richer and the poor poorer. That means globalization causes uneven development.It is true that there is a large decline in poverty in India in the recent decades of international economic integration. But no one has yet convincingly demonstrated that this decline is mainly due to globalization. It could instead be, to a large extent, due to internal factors like expansion of infrastructure or the massive land reforms or the spread of green revolution in agriculture, large anti-poverty programs or social movements in India.

In general it is empirically difficult to disentangle the effects of trade or foreign investment liberalisation from those of ongoing technological changes or reforms in macro-economic stabilization policies, deregulation, privatization, removal of capital controls, and so on.

GLOBALISATION AND POVERTY

** Assistant Professor, Department of Commerce, Shaheed Bhagat Singh College, University of Delhi*

If one goes beyond simple correlations, the causal process through which international economic integration can effect poverty primarily involve the poor in their capacity as workers, as consumers, and as recipients of public services, or users of common property resources.

The Poor As Self-Employed : The poor workers are mainly either self-employed or wage earners. The self-employed work on their own tiny farms or as artisans and petty entrepreneurs small shops and firms. The major constraints they usually face are in credit, storage, marketing and insurance, access to new technology, extension services, and to infrastructure (like roads, power, ports, telecommunication, and irrigation), and government regulations. Relieving these constraints often requires substantive domestic policy changes. Foreign traders and investors are not directly to be blamed. In fact they may sometimes help in relieving some of the bottlenecks in infrastructure and services and in essential parts, components, technology, and equipment. If these changes are not made and the self-employed poor remain constrained, then, of course, it is difficult for them to withstand competition from large agri-business or firms.

Another increasingly important barrier to trade which many small farmers of developing countries face in the world markets is that rich countries now shut out many of these imports under a whole host of safety and sanitary regulations. There are also the barriers to entry raised by the cartels of global retail chains. For example, Nestle and Wal-Mart have come to dominate supply chains for food and agricultural goods.Similarly , it may be very difficult, costly, and time-consuming for small producers of manufactures or services in developing countries to establish brand name and reputation in quality and timely delivery, which are absolutely crucial in marketing, particularly in international markets.

It is also important to keep in mind that trade liberalization, even when increasing the mean income of the poor producers, many heighten their vulnerability, particularly by increasing the variance of prices or income sources. The evidence on this is mixed, but it is clear that the capacity of the poor to cope with negative shocks is usually much weaker than the rest of population

Turning to poor wage earners, the traditional international trade theory suggests that the workers in a poor country having a comparative advantage in products intensive in unskilled labour should benefit from trade liberalization. But it is clear that poor unskilled workers get lower wages(or fewer jobs) in the presence of MNCs compared to what they will get in their absence. Sometimes the large companies, instead of hiring labour themselves, outsource their activities to smaller firms and household enterprises, where the wages and overhead costs are lower, to the detriment of the formal sector employees, but the net effect on the workers of the country should take into account the resultant improvement in wages and employment among the usually much poorer informal sector workers.

However, two important reasons why opening up of the economy may worsen the conditions of workers: one relates to the nature of technical change, and the other to that of collective bargaining. As much of technical change in rich countries is biased against the services of unskilled labour, and if multinational companies transplant those new techniques in poor countries, employment and wage of unskilled labour will go down .

Globalisation often leads to the weakening of unions. As foreign competition lowers profit margins, the old rent-sharing arrangements between employers and unionized workers come under pressure. Rents decline both for capital and labour, but labour may have to take a larger cut as internationally less mobile labour faces more mobile capital, or as companies can more credibly threaten substitution of foreign factors of production, including intermediate inputs, for domestic factors. This may lead to lower wages, and, sometimes more important, increased risk of unemployment. Until issues of general economic security for poor workers in developing countries like India are satisfactorily resolved, globalization is bound to raise anxiety and hostility among workers worried about their job security.

The general issue of the weakening of the nation state is rather complex. There is a possible loss of national policy options brought about by a poor country's participation in international trade and investment and in the framework of global institutions and rules that govern them.It is observed that many of the international organizations that define the rules and regulations are accountable more to the corporate and financial community of rich countries than to the poor and that the decision making process in these orgatisations need to be much more transparent and responsive to the lives of the people their decisions crucially effect.

THE POOR AS THE RECIPIENT OF PUBLIC SERVICES AND ENVIRONMENTAL RESOURCES:

This relates to the issue of the poor as recipients of public services. If cuts in public budgets on health, education and public works programs are necessitated by the decline in customs revenue as a result of trade reform, the poor may suffer. The low quality and quantity and quantity of public services like education and health in poor countries is, of course, not just due to their relatively low share in the public budget. To a large extent even the limited money allocated in the budget does not reach the poor because of all kinds of top-heavy administrative obstacles and bureaucratic and political corruption.

Environmentalists argue that trade liberalization damages the poor by encouraging overexploitation of the fragile environmental resources (forestry, fishers, surface and groundwater irrigation, grazing lands, etc.) on which the daily livelihoods of particularly the rural poor crucially depend.

A common charge against multinational companies is that they flock to developing country 'pollution havens' to take advantage of lax environmental standards.

The Poor As Consumers:

Impact on prices of some technology-intensive products (like life-saving drugs) which the poor buy that follows the patent regime of the TRIPS under WTO global rules. Exorbitant prices for life-saving drugs under the monopoly power for global drug companies granted with TRIPS can be a crushing burden on poor people and public health programs in poor countries.

GLOBALISATION AND WORKER RIGHTS

Many advocates of human rights worry about the implications of globalization on worker rights.

(a) Forced Labour :- Force labour, it is a clear violation of basic human rights and should not be permitted under any circumstances.The same applies to unsafe or hazardous work conditions. The wages paid for work in the global companies are often 'paltry' particularly compared to those paid in rich countries. But more often than not these wages are higher than what domestic companies pay for comparable work. The workers willing to sell themselves as serfs are not permitted, unsafe work conditions that can cause bodily injury are to be strictly regulated.

(b) Child Labour:-Globalisation has led to exploitation of labour .Prisoners and child workers are used to work in inhumane conditions. Safety standards are ignored to produce cheap goods. The issue of child labour has attracted a great deal of international attention in connection with the globalization debate.

(c) Unemployment :- Earlier people had stable, permanent jobs. Now people live in constant dread of losing their jobs to competition.Increased job competition has led to reduction in wages and consequently,lower standard of living. The churning caused by globalization causes job anxiety, and some people may actually lose their jobs. What does it imply for the right to work?

CONCLUSION

The article has pointed out the complexities and ambiguities in the impact of economic globalization on human rights, both in the matter of extreme poverty as a violation of human rights and of some basic rights of workers. In general globalization can cause many hardships for the poor but it also opens up opportunities which some countries can utilize and others do not. Largely depending on their domestic political and economic institutions, and the net outcome is often quite complex and almost always context-dependent, belying the glib pronouncements for or against globalization made in the opposing camps.

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