Employees' State Insurance Scheme

A Critique of the Utilisation of Reserves

V Jagannadham

K S R N Sarma

This article reviews some aspects of the utilisation of reserves under the ESI Scheme in the context of the implicit objectives of a social security scheme. The scheme is at present administered with extreme caution in financing and conservatism in implementation, which lacks the imagination necessary to attract the workers. A shift in emphasis from calculated conservatism to liberal humanism need not necessarily spell disaster to the financial soundness of the scheme.

It is suggested here that the policy regarding accumulation of reserves should be changed and the excess incomes should be spent on additional social benefits.

THE Employees' State Insurance Scheme that came into operation in 1951-52 under an Act of the Parliament in 1948, is intended to provide a sense of security to certain classes of workers. The Scheme at present is confined to the workers in factories using power and employing 20 persons or more and whose monthly remuneration is Rs 400 or below. The benefits provided include, medical care and treatment, cash benefit for sickness, maternity, disablement and for the surviving dependants in case the insured dies of employment injury. The Act also provides for extending, in due course of time, the coverage under the scheme to workers in other organised sectors such as mines, plantations and shops and establishment.

The 'Contribution' Approach

The building up of reserves against the liability undertaken in the case of future benefits and the investment of these reserves is a characteristic problem in social security schemes based on 'contribution approach', as under the Employees' State Insurance Scheme. Under the 'contributions' or 'insurance' approach, the premium is determined in respect of each risk in such a manner that it is sufficient to cover the estimated expenditure on that risk irrespective of whether the risk is of short term or of long term duration. This practice gives rise to the phenomenon of accumulation of reserves as under the ESI and EPF Schemes. Here the contributions made by the insured are allowed to accumulate before he could finally begin to realise the benefits. Another possibility under the contributory system is, for funds called "excess incomes" to get accumulated when the expenditure in any year on a particular benefit is less than that was provided in the calculation of its premium. In a social security scheme based on taxation or 'pay as you go' approach, large funds are not accumulated. Only relatively small reserves are kept to provide for variations in expenditure from year to year. This is because government would guarantee the payment of future benefits as it does in the case of public debt. The controversy as to the building up of reserves or otherwise as between the tax and contributory systems need not detain us here. We are interested in the ways in which the reserves accumulated in a social insurance programme can be best utilised. This problem is of considerable importance in countries like India which wish to develop the social security schemes acceptable to people from out of scarce and competing resources.

Three Basic Requirements

Different types of reserves funds lend themselves to different forms of utilisation. Some need short term planning and some long-term planning depending upon the benefits with which they are associated. The ILO publication entitled "The Investment of the Funds of Social Insurance Institutions" made a detailed study of this problem. According to this publication, whatever may be the type of reserve fund, the securities in which it is invested should satisfy the following conditions viz.

(1) Safety: Safety is the primary consideration to be satisfied by the securities chosen for investment of social security funds. Safety implies not only the guarantee as regards the repayment of capital and the interest at the agreed rate but also the provision for the maintenance of the purchasing value of the returns thus planned against possible devaluation etc.

(2) Yield: Investment of social security funds need not generally fulfill any special conditions as regards the yield except in the case of reserves built up against the future liabilities wherein the yield should not be less than the rate assumed in the actuarial calculations. It is sufficient if the average yield from all the investment is not less than that is generally obtained by similarly placed funds. However, a lower rate could be justified in the case of investments which procure some advantages for the insured persons.

(3) Liquidity: Liquidity of an investment may be taken to mean its potentiality to get realised in money terms at any moment or at a particular date fixed in advance. The first kind of liquidity is of capital importance to the contingency reserve funds. The second kind of liquidity is the one that is sought in the case of actuarial reserves for the provision of future benefits.

The Adarkar Report

Among the securities that satisfy these three basic requirements of safety, yield and liquidity, preference should be given to those which have an economic and social purpose to serve the community at large.

Under the ESI Scheme the benefits that necessitate the building up of reserves are only the permanent disablement benefit and the dependants benefit. The expenditure on other benefits namely, medical, sickness, maternity and temporary disablement benefits, is of current nature and has to be provided for during the statutory benefit period. There is no future liability in the case of these benefits, and as such there is no need to build up reserves.

The Adarkar Report which formed a prelude to the ESI Act, recommended the establishment of two more reserve funds under the scheme viz, a contingency reserve fund to meet any sudden and excess rise in the claims, and an epidemic re-
serve fund to meet epidemics in particular areas or years.

Adarkar’s view was not shared by the ILO experts Rao and Stack who reviewed the above mentioned Report at the request of the Government of India for the following reasons:

(1) There will be a time gap of about six months between the payment of contributions and the payment of cash benefits in the case of sickness and maternity; and

(2) the contemplated provision of medical care to the families of the insured takes some time to materialise. The experts therefore, believed that there would be a large possibility of getting sufficient excess incomes under the scheme and consequently there is no need to set aside a portion of the reserves specially for the purpose of accumulation of the two reserves advocated by the Adarkar Report. Further they said that if unexpected increases occur in the incidence rates of sickness or employment injuries in a particular area or year, they can be met through “subsidiary levies” by the State governments concerned.

More Benefits for the Insured

However, both reports agreed that: if a substantial amount of excess income becomes a regular feature under the scheme, they should be utilised for an improvement in the benefits for the insured under the scheme. This suggestion was incorporated in Sec 99 of the ESI Act. It says that “At any time when its funds so permit, the (ESI) Corporation may enhance the scale of any benefit admissible under this Act and the period for which such benefit may be given and provide or contribute towards the cost of medical care for the families of the insured persons.” The Act does not, however, spell out in detail the pattern of investment to be adopted with regard to both, namely, excess incomes and “other reserves”. Attention however, may be drawn to Section 29 of the Act in which it is stated that the details of the policy in the above matters would be prescribed from time to time by the Central Government. Clause (1) of Rule 27, for example, mentions the various items for investment. According to this clause “All moneys belonging to the (ESI) Fund which are not immediately required for expenses properly defrayable under the Act, may, subject to the approval of the Standing Committee, be invested by the Director-General (i) in Government securities including Treasury Deposit Receipts or (ii) in securities mentioned or referred to in clauses (a) to (b) of sec 20 of the Indian Trusts Act 1882 (ii of 1882); or (iii) as fixed deposit in the Reserve Bank or the Imperial (State) Bank of India.”

ESI Corporation

An idea of the build-up of reserves during the past twelve years under various heads of the scheme could be obtained from an observation of the balance sheet of the ESI Corporation. This shows that annual additions to assets under ESI Scheme are broadly under two categories, viz (i) those which have a corresponding account in the same name on the liability side of the balance sheet and (ii) those which do not have such liability item attached. The former category includes (a) Permanent Disablement Reserve Fund, (b) Dependents’ Benefit Reserve Fund, (c) Depreciation Reserve Fund of buildings for the offices of the Corporation, (d) Repairs and Maintenance Reserve Fund of buildings for the offices of the Corporation, (e) Employees’ State Insurance Corporation Provident Fund, (f) Depreciation Reserve Fund for equipment in Hospitals and Examination Centres, (g) Depreciation Reserve Fund for Hospitals and (h) Depreciation Reserve Fund for Staff Cars. The second category of additions to assets include (a) Investment in the construction of hospitals etc or advances for that purpose to the State Governments, (b) Advances or loans etc to the staff of the ESI Corporation and working cash balances and (c) Funds in the account of “general cash balances”. The data regarding this second category of assets (investments) and the 'excess incomes' from which these are mostly met, are given in the Table on page 788. In every organisation the provision for items mentioned in category 2(b) namely advances or loans to the staff and the general working cash balances is an administrative necessity and therefore cannot be dispensed with. However, as can be observed from the data given in the Table, the amounts that may be required annually for these purposes are very small when compared with the funds available under the ESI Scheme. It was therefore rightly decided in October 1954 to give priority in the utilisation of the 'excess incomes' under the ESI Scheme to construct hospitals etc, under category 2(a). But because of some administrative difficulties such as the difficulties of the State Governments to procure land for the ESI Corporation to construct hospitals etc, much progress could not be made in that direction. Meanwhile large funds from the annual excess incomes were allowed to accumulate, under the account “general cash balances” (category 2(c) of investments). Since 1960 however, the construction of hospitals has gathered momentum. In order to finance the commitments made under the programme of construction of hospitals etc, some withdrawals have been made in each succeeding year (since 1962) from the reserves under "general cash balances" account in addition to the utilisation of annual excess incomes. The reserve funds built up under the General Cash Balances account, as on March, 1964 are still substantially very high.

Choice of Investment Restricted

As regards the problem of utilisation of investible funds with the ESI Scheme, the Corporation has freedom of choice in the selection of securities except in the case of the working balances and advances to the staff (which are an administrative necessity and are of small proportion to the total) and except as regards the commitments already made such as investment in the construction of hospitals etc. But by clause (i) of the rule 27 (see footnote 7) this freedom is restricted as these investments are to be made in the securities of the government or its banks. This operates as a limitation on the autonomy of the Corporation in the choice of the fields of investment. However clause (2) of the same rule provides for alternative channels of investment with the prior approval of the Central Government. This concession was not utilised and so far no investments have been made anywhere else than those mentioned in clause 1 of the above rule. We are of the opinion that the Corporation should obtain the necessary freedom to invest under clause 2.

When such freedom is obtained, the Corporation has a two-fold choice: either to invest in commercial securities which yield more profit but have an element of risk in them, or to invest in channels that promote the social and economic objectives of the scheme. The first method is not generally favoured and therefore, the Corporation should search for channels of investment that promote the second objective. We suggest that some portion of the funds under the ESI may be used for the promotion of house construction for the insured employees.
on easy terms of mortgage loans. The need for a proper housing programme to secure better results under the ESI Scheme was emphasised by the Mudaliar Committee in its report in 1960. Another possibility which would be worth exploring is to use the funds under the scheme through appropriate grants or loans to the State Governments for the specific purpose of getting the required number of medical personnel trained exclusively for the use of the ESI Scheme. The shortage of medical personnel is the Achilles heel in the speedy implementation of the scheme. The ESI Corporation has, in our view, the necessary power under Sections 28, 58 and 59 of the Act to take steps to meet the above shortage. The experience during the last 11 or 12 years, resulting in slow implementation and not so high standard of medical service, dictates the necessity to adopt a dynamic approach in securing the medical and paramedical personnel for effective and rapid extension, under the scheme.

Better Medical Services

Further, the choice of investment by the Corporation must be exercised with considerable imagination so as to promote the "social objectives" of the scheme. These objectives may be furthered by (a) giving better satisfaction under the present benefits, (b) by enhancing the scale and period of the existing benefits (c) by the adoption of new measures permissible under law and (d) by the introduction of new benefits. A few illustrations are given below.

The area studies and special review reports have brought to light many shortcomings in the administration of medical service and cash benefits. The Mudaliar Committee Report suggested many improvements in the provision of medical services under the Panel and Service systems which await action. Their suggestion about the establishment of polyclinics and cottage type dispensaries is worth implementation. The employment of sick visitors under Regulation 101 still remains ineffective. Though not connected with investment, the simplification of existing procedures add to a greater satisfaction of the present benefits. Some of the amendments suggested by the Corporation are helpful in this direction. These suggestions may mean an effective reorganisation of the way the medical benefit is administered. The dual responsibility for medical benefit, under which the Corporation provides the bulk of the finances and the States provide the services is a statutory impediment for any effective reorganisation of medical benefit. This subject of elimination or minimisation of the impediments arising out of dual responsibility deserves a thorough review by a competent Committee and quick action by Parliament. These changes, both in the content of services and in procedures in administration may involve additional administrative costs which are worth incurring for providing better satisfaction under the present Scheme.

The scale and period of benefits as fixed under the Act no longer serve the initially conceived purpose owing to the spiral rise in prices. Extended sickness benefit rates have been revised periodically but the other benefits have not received the same attention. The amendments proposed by the Corporation contain some suggestions on these aspects. These deserve implementation. The relationship between wages, contributions and benefits do not in any way affect the validity of this suggestion because of the very conservative approach in the initial fixation of benefit rates.

The law permits the adoption of preventive measures against accidents, sickness etc. As a result of a decade of experience in the provision of medical benefit, considerable data on morbidity and sickness has been collected and classified by the Corporation. A more detailed analysis of this data may provide clues regarding the appropriate preventive measures for the improvement of the health and welfare of the insured as contemplated under sub section XI of section 28. Without amending the Act it may also be possible to provide loans, on appropriate guarantees, for higher educational purposes for the children of the insured persons. Such measures as these cumulatively enhance satisfaction with the Scheme and help to promote a feeling of security in other areas than mere cash benefit.

<table>
<thead>
<tr>
<th>Excess of Income over Expenditure (From the Revenue Ac)</th>
<th>(a) Investments in buildings, etc in the Year</th>
<th>(b) Investments Which are of an Administrative nature</th>
<th>(c) Investment (at cost) under Ac General cash balances &quot;</th>
<th>(i) Total Reserves (ii) Net Addition during the Year to Column 6.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(March 56)</td>
<td>305.80</td>
<td>0.45</td>
<td>.....</td>
<td>37.45</td>
</tr>
<tr>
<td>March 57</td>
<td>325.44</td>
<td>.....</td>
<td>2.86</td>
<td>65.64</td>
</tr>
<tr>
<td>March 58</td>
<td>229.12</td>
<td>1.18</td>
<td>3.29</td>
<td>61.89</td>
</tr>
<tr>
<td>March 59</td>
<td>234.91</td>
<td>4.01</td>
<td>3.02</td>
<td>75.14</td>
</tr>
<tr>
<td>March 60</td>
<td>170.91</td>
<td>3.79</td>
<td>20.60</td>
<td>73.22</td>
</tr>
<tr>
<td>March 61</td>
<td>277.27</td>
<td>4.48</td>
<td>72.85</td>
<td>75.97</td>
</tr>
<tr>
<td>March 62</td>
<td>177.27</td>
<td>7.50</td>
<td>267.03</td>
<td>70.39</td>
</tr>
<tr>
<td>March 63</td>
<td>206.91</td>
<td>52.31</td>
<td>426.15</td>
<td>125.00</td>
</tr>
<tr>
<td>March 64</td>
<td>320.30</td>
<td>40.12</td>
<td>758.64</td>
<td>166.11</td>
</tr>
<tr>
<td>781</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
New Benefits

The Corporation has recommended the introduction of funeral benefit not exceeding Rs 100 by amending the Act. We suggest a benefit which is similar but slightly different. Our suggestion is as follows: To grant, on the death of an insured person, whatever are the reasons for the death, for the insured person's family a lump-sum of Rs 100 to tide over the immediate liabilities. This suggestion is the same as that of the Corporation's but not necessarily tagged on to funeral expenses. In addition, we also suggest the children of such deceased persons should be declared eligible for financial assistance for continuing their education on the same conditions as are available under the dependants benefit scheme on account of death due to employment injury. The condition as to the insured status of the deceased person applies in this as in other case. We suggest this educational benefit for two reasons. The investment on education is in the national interests. It is part of an overall national social policy. Secondly, the educational benefit to the dependent children only of workers whose death is caused by the technical phrase "employment injury" is unfair because it acts more as a penalty upon the children than a drain upon the resources of the Corporation. If funds permit, the amount of hundred rupees may be raised gradually so as to enable quick rehabilitation of the family to the circumstances after the death of the breadwinner-

All these would no doubt involve some additional expenditure. Fears might be expressed about using either the 'excess incomes' or the 'excess income reserve funds' for the following reasons: (1) The commitment to construct separate hospitals for providing better medical service as well as the liabilities arising out of the extension of medical care to the families of the insured are likely to create unforeseen financial burdens on the present reserves, (ii) The rate of growth in reserves may not be enough to meet these mounting liabilities.

These fears find expression in the Report of the Study Team in 1958 and also in the First and Second quinquennial Valuation reports. These fears are genuine but they have to be considered in the whole context of the objectives of an overall social security scheme. The following points deserve consideration here:

(1) The full rate of contribution from the employers is yet to be realised.
(2) The motivation to opt voluntarily for the scheme on account of satisfaction derived from the old and new benefits, could not be calculated in financial terms but contributes to a smooth functioning of the scheme and its expansion.
(3) The rates of contribution initially fixed are high enough to ensure financial solvency when it is extended to the workers in all organised industries.
(4) The table 25 of the Second Quintennial Report indicates the possibility of surpluses of income over expenditure on benefits when the full rates are collected.

The proposals made here for improvement in the existing benefits or the creation of new benefits, would, in our view, not be such as to lead to a financial breakdown of the Corporation. The details, however, have to be worked out.

The social insurance scheme is at present administered with extreme caution in financing and conservatism in implementation. It lacks the necessary imagination to attract the workers wholeheartedly into the scheme because of the absence of a heavy dose of "social" spirit in the whole scheme. The shift in emphasis from the present bias of calculated conservatism to liberal humanism need not necessarily spell disaster to the financial soundness of the scheme. We, therefore, suggest a revision in the accumulation policy of reserves and an imaginative expenditure of excess incomes upon additional social or fringe benefits. These suggestions are made with a view to render the scheme attractive to the workers, beneficial to the employers and ideologically satisfactory for the nation committed to the development of a social order based on concepts of social justice and welfare state.

Notes

1. E S I Act 1948, Sub-Section (5) of Section 1.
3. An insured person will be entitled to the benefits under sickness and maternity for a period of about 6 months called benefit period for the contribution paid in the corresponding contribution period of about 6 months that precedes it irrespective of whether he is in employment or not.

8. Employees State Insurance Corporation—Summary of important decisions of the ESI Corporation and its standing committee up to August 15, 1957. Issued by The Director General, ESI Corporation, New Delhi, p 33.
9. Sub-section iv. Section 28 describes the purposes for which ESI Fund may be spent; These include establishment and maintenance of hospitals, dispensaries and other institutions and the provision of medical and other ancillary services for the benefit of insured persons and where the medical benefit is extended to the families, their families. Sub-section 4 of Section 58 says, “In default of agreement between the corporation and any State Government, the nature and extent of medical treatment to be provided by the State Government, the cost thereof... shall be determined by an arbitrator. Sub-section 1 of Section 59 says "the corporation may, within the approval of the State Government; establish, and maintain a State such hospitals, dispensaries, and other medical and surgical services as it may think fit for the benefit of the insured persons and (where such medical benefit is extended to their families) their families".

Reports of the General Purposes Sub-Committee on the Working of the ESI Scheme at Bombay, Kanpur, Delhi and Amritsar (ap-
pointed in February 1955; Nagpur, Hyderabad and Coimbatore (appointed in December 1955); Calcutta and Howrah, Assam, Madras, Madurai and Bangalore (appointed in July 1959). All issued by the Director General, Employees' State Insurance Corporation, New Delhi.

"Report on Employees State Insurance Scheme" by A L Mudaliar

* Government of India, Ministry of Labour and Employment.
  1. Employees' State Insurance (General) Regulations notification No R S 5/48, New Delhi, October 17 1950.
  14 The E S I fund may be expended for "defraying expenditure within the limits prescribed, on measures for the improvement of the health and welfare of insured persons and for the rehabilitation of and re-employment of insured persons who have been disabled or injured".

FROM THE LONDON END

Renationalisation of Steel

THE publication of the Steel Nationalisation White Paper (which will be fiercely debated in Parliament) is a clear indication that despite its slender majority of four, the Labour Government has the courage and determination to push ahead with one of the most controversial items in the Labour manifesto. Ever since his election, Wilson has held that the Government had been a mandate to govern which they proposed to exercise. Accordingly, with great political courage, no important issue has been baulked despite the fact that it might have been electorally less dangerous to compromise on controversial issues. The determination to proceed with the Bill inspite of the majority of four, the Labour Government where two members - Woodrow Wyatt and Desmond Donnelly may register their discontent by either voting against the Government's Steel White Paper or abstaining in the debate and thereby reducing the already slender majority, are certainly creditable. Indeed, they give evidence of what Britain has been most in need of, particularly during the last years of the Conservative regime—a firm Government.

In contrast with the 1949 Steel Nationalisation Act, where the take over was to cover a large range of firms, the present White Paper proposes to restrict itself to the main firms in the industry. In 1949 all companies with production over a given tonnage of pig iron, ingot steel, or hot rolled steel, were nationalised, together with their subsidiaries, regardless of activity. Thus, the Act transferred nearly 250 companies to the Iron and Steel Corporation.

The present White Paper merely proposes to take over 14 large companies, i.e those that produced more than 475,000 tons of crude steel in the twelve months from July 1963 to June 1964. The securities of these companies, or in some instances the securities of the relevant holding companies will be vested in a new National Steel Corporation. Remembering the speed with which the Tories denationalised steel when they were returned to power, the present Bill proposes a public steel corporation which would have its own single marketing organisation and powers equivalent to those of the Electricity Board, which in effect, would make it very difficult to unscramble the steel firms and return them to private ownership. Accordingly, no loopholes or ambiguities are being left in this field. The National Steel Corporation will have considerably wider and more unitary powers than those of the Iron and Steel Corporation set up by Strauss in 1950. At that time the commercial and managerial functions of the separate steel companies were left to men who were relying on the fact that they would be denationalised once the Tories took power; the Iron and Steel Corporation's main function was to act as a holding company. The National Steel Corporation, on the other hand, while permitting the individual companies in the first phase to retain their names and separate identities, will see to it that these will gradually be merged in the process of rationalisation which will make any future unscrambling very difficult indeed.

Control of "Commanding Heights"

The 14 companies that are to be taken over—Colvilles Ltd., Consett: Iron Co Ltd., Dorman, Long and Co Ltd., English Steel Corporation Ltd., G K N Steel Co Ltd., John Summers and Sons Ltd, The Lancashire Steel Corporation Limited, The Park Gate Iron and Steel Co Ltd., South Durham Steel and Iron Co Ltd., Steel Company of Wales Ltd., Stewarts and Lloyds Ltd., United Steel Companies Ltd., and Richard Thomas and Baldwins Ltd., which is already nationalised, account for the lion's share of the industry, producing 90 per cent of British steel. They own or control all the 22 integrated iron and steel works in the United Kingdom, and 42 other iron and steel works; they control about 60 per cent of known reserves of iron ore in the U K and they employ about 70 per cent of the total manpower of the iron and steel industry. The private sector will consist of about 210 companies with an annual output valued at about £200 million, employing nearly 100,000 people. The private sector will still have an important role to play, particularly in specialised finishing operations on the borderline between steel and engineering industries. In introducing the White Paper at a press conference, the Minister Lee said: "We want to see a viable and thriving private sector".

There is no doubt that in taking over so large and important an industry as steel, the Labour Party has now achieved control over the "commanding heights" of the economy, and the fact that the National Steel Corporation, through taking over, for example, Dorman Long, will engage itself in important engineering interests, makes this even more significant, particularly, as under the Bill it will be free to diversify its activities outside the field of steel with the consent of the Government.

The Government's case for nationalisation rests on the basic argument that the British steel industry is split into too many units to be efficient. Existing private steel firms are just not big enough to compete with overseas rivals. The new Government proposal will create a single unit of more than 30 million tons capacity a year—comparable in size to the mammoth concerns in the Continent and the U S.

Further support is given to the case for nationalisation as a considerable degree of public control and finance