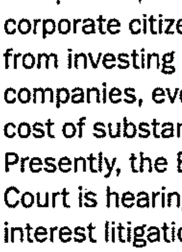
INSIGHTS – VIEW FROM INDIA

Insurance investments – Ethics or profits?

Profit is usually the sole purpose of investment. However, should investment instead be ethical and socially responsible? Should insurance companies, especially public-sector companies, as good corporate citizens, keep away from investing in tobacco companies, even at the cost of substantial profits? Presently, the Bombay High Court is hearing a public interest litigation on these aspects and public-sector insurance companies including LIC are in the dock!

By Anoop Khanna



Is it always right to be on the right side of the law? Can something legal be unethical? Is it wrong for a business to increase its profitability, by means which are legal but do not meet social approval?

These are some questions that are currently being debated, especially in the context of Indian public-sector insurance companies. One pertinent question now is: Is it right for insurers, especially public-sector insurers, to invest in tobacco companies?

Bombay High Court is currently hearing a public interest litigation (PIL) that questions investment by public-sector insurance companies in tobacco companies and seeks directions for them to divest their holdings in these companies.

Public interest litigation

The PIL was filed in April this year by Ms Sumitra Pednekar, widow of a former minister of Maharashtra who died of oral cancer in 2011, and six more eminent citizens, including Tata Trusts' Managing Trustee R Venkataramanan and Mumbai's Tata Memorial Hospital's surgeon Dr Pankaj Chaturvedi, in their individual capacities.

The PIL states that: "While on one hand, the government is committed towards tackling the problem of tobacco and the ill effects caused by it, the insurance companies, in complete disregard to the government's policy, continue to invest in ITC and other tobacco companies."

Public-sector insurers hold one-third stake in ITC

ITC is a conglomerate which is also the market leader in cigarettes in India. ITC's tobacco business contributed over 60% of its revenue from operations and 75% of net profit in the three months ended 31 December 2016.

According to the latest data available in public domain, Specified Undertaking of the Unit Trust of India (SUUTI) has a 11.1% stake in ITC, along with public-sector insurance companies Life Insurance Corporation (14.3%), General Insurance Corporation of India (1.8%), New India Assurance (1.8%), Oriental Insurance (1.5%) and National Insurance Company (1.2%), totalling a combined stake worth INR1.07 lakh crore (US$16.6 billion) (around 32%) in the company..

New India Assurance also has a 1.7% stake in another cigarette manufacturer VST Industries that is valued at INR81 crore. Thus, at stake are investments worth INR1.1 lakh crore. According to an estimate, the government earns a tax revenue of INR20,000 crore annually from tobacco companies.

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The five public-sector insurance companies, IRDAI, the Indian government, Ministry of Finance, Ministry of Industry and Commerce and Ministry of Agriculture, ITC and SEBI have been included as respondents.

Investment in tobacco companies is legal

As things stand today, IRDAI investment guidelines for insurance companies do not speak about refraining from any specific industry, tobacco industry included. Hence, legally, the public-sector insurance companies are on firm ground as far as their investment policy is concerned. Moreover, substantial investments of these companies are of vintage variety that were made when the social health environment did not consider such ethical issues.

India is a signatory to WHO FCTC2003

The PIL states that despite government's continued commitment to reduce tobacco consumption and undertake initiatives to curb its harmful effects, the acts of the five public-sector insurers, by continuing their huge investments in tobacco companies, are against the spirit and intent of the WHO Framework Convention on Tobacco Control, 2003 (FCTC) to which India is a signatory.

India signed the WHO FCTC in 2005 and since then has implemented a series of measures leading to increased social awareness about the hazards of use of tobacco in any form, including smoking.

Several Indian mutual funds and private sector insurance companies have over the years either exited or at least pared their investments in sectors like tobacco and liquor as part of a "responsible investment strategy" as investors value such measures these days.

There is however, a view that if the Indian government allows tobacco companies to continue with their business in the country, there should be nothing wrong in its insurance companies investing in tobacco companies. Also, it is felt that the insurance companies need to invest such that the returns for the policyholders' funds are maximised and tobacco companies are one of the best investment avenues for decent returns.

Ethical investment vs Profitable investment

It is, however, open to debate, whether most policyholders of these insurance companies, if given a choice, would be agreeable to any unethical investments of this kind to maximise their returns. Indian stock markets are, however, not new to ethical investing. Jain and Muslim communities avoid investments in such ventures whose business goes against their religious beliefs.

Moreover, can a larger social good be sacrificed for the profit of a limited number of policyholders?

Global trends

Globally, there have been concerted moves by the insurance industry to divest and exit tobacco and cigarette manufacturing companies.

French health insurer AXA, which had around US$2 billion tied up in the tobacco industry, exited it in 2016. Mr Thomas Buberl, CEO of AXA, had then said: "Insurers should always be a part of the solution rather than the problem when it comes to health risk prevention. Hence, it makes no sense for us to continue our investments in the tobacco industry."

Australian health insurer Medibank also sold investments in tobacco and related industries from its investment portfolio of $2.4 billion beginning 2016.

This trend though, has not caught up with the insurance industry internationally and some insurance companies are still invested in tobacco firms. They are private commercial entities and profit is a motive, but their stake in the tobacco industry is very minimal, usually beloweven 1%.

The Indian situation, however, takes up a different dimension altogether as the SUUTI and Indian public-sector insurance companies, including LIC, hold a 32% stake in ITC.

Tobacco in India

India is the second largest producer of tobacco in the world, with 800 million kilograms produced annually.

Thirty-six million Indians are dependent on income from tobacco, and India is home to 12% of the world's smoking population. Tobacco accounts for nearly a million deaths every year in the country. Around 10% of the smoking-related deaths in India are caused by passive smoking alone. 35% of Indian adults use tobacco in one form or other.

Tobacco use is also a major risk factor for many chronic diseases, including cancer, lung diseases, cardiovascular diseases and stroke. India loses INR1.04 lakh crore a year because of tobacco consumption, according to a "Economic Burden of Tobacco-Related Diseases in India" report released by the Health Ministry in May 2016.

Good corporate governance

Even if Indian public-sector insurance companies divest from tobacco companies, things will not change overnight.

But with two of these public-sector general insurance companies lined up to go public very soon, good corporate governance in the ethical conduct of their business should be practised.

Tobacco investment may not be sustainable

Moreover, it would also seem prudent for the public-sector insurance companies to divest their investment in tobacco companies as the industry is deleterious to human health and in turn brings in more claims for the insurers, and is a strain on their profitability.

With increasing public awareness of tobacco and its harmful effects on health, and of course, the ever-increasing financial and regulatory pressure on tobacco companies, investment in these companies would become unsustainable over time. This is why tobacco companies are aggressively pushing for diversification.

In any case, the last word on this issue would be said by the Honorable high court of Bombay.

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