CHAPTER V

FINANCIAL IMPLICATIONS

FINANCE AS A SINE-QUA-NON FOR THE SCHEME

It has already been observed in the previous chapter on Administration of Benefits' that the Employees State Insurance Scheme provides certain benefits to the insured persons in the event of materialisation of the Contingencies covered by it. This provision needs elaborate financial resources for the system to work. Under the Scheme the insured persons have to pay for the benefits that they have been promised; but they cannot afford to bear the whole incidence of the cost incurred. This economic problem leads to an anomaly, 'the class which needs social insurance can not afford it, and the class that can afford it does not need it.' The financial arrangements under the Scheme are so devised that an equilibrium is maintained between its resources and outlays.

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1 Rubinow, I.M., Social Insurance, New York, 1913, p. 157-158
1. CONTRIBUTION STRUCTURE:

The primary question regarding the contribution structure of a Scheme of Social insurance necessitates an appropriate allocation of the financial responsibility among the various parties. The study of the Contributory principle adopted in the Employees' State Insurance Scheme is very significant, since it inculcates a sense of self respect among the insured persons, encourages thrift, confers a basis for participation of the insured persons through their representatives in the administration of the Scheme. It also saves the beneficiaries from the stigma of charity and poor relief.²

(a) TRIPARTITE CONTRIBUTORY PRINCIPLE

The Employee's State Insurance Scheme is based on tripartite contributory principle and derives its revenue from the following sources:

1. Contributions - From employees and employers;
2. Aid From Central and State Governments; and
3. Other sources - Such as income from interest on investments, donations and gifts from Central Government,

² Burns, E., Social Security and Public Policy New York, 1956, p,§57-158
State Government or any other body of individuals.

A discussion in detail, regarding each of the above sources is initiated in the following pages.

1. CONTRIBUTIONS — FROM EMPLOYEES AND EMPLOYERS:

The insured employees and their employers bear the major portion of the cost of the Scheme. The theoretical considerations, underlying the liability of the employees and employers to contribute, are based on the assumption that participation in the burden depends on the responsibility in the widest sense, for the occurrence of the event insured against or on the advantages received in the shape of benefits, from the working of the scheme.

Employees' contribution to the social insurance schemes has become an almost universal feature. In the E.S.I. Scheme contributions are wage-related like cash benefits. The contributions payable by the worker, have been so devised as to ensure that all the employees with different income levels, bear the burden equitably. The

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3. Russia is a notable exception where the workers are not required to pay any contribution towards the Social Insurance Fund.
whole class of covered employees has been divided into
nine wage groups and a flat rate of contribution has been
fixed for each group. The insurance contributions from
the employees serve to be the best form of raising funds
from the insured persons of low income. Since the
employees know that they are getting much more than what
their contributions warrant, they do not resent to
compulsory deductions made from their wages towards the
Scheme. This may also prevent unreasonable demands for
larger benefits.

For industrial accidents and diseases, the
employers' liability principle has been legally recognised
almost everywhere. Employment injury benefits are financed
exclusively by employers in more than three quarters of
the countries surveyed by the I.L.O. The employers'
liability principle may better be substituted by the
principle of the responsibility of the industry. Employers

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4 Originally they were divided into eight wage
groups, The E.S.I. Amendments Act, 1966 has added the 9th
group.

5 Robson, W.A., Social Security Allen and Uawin,

6 Burns, E.M. op.cit., p.159

7 I.L.O., International Survey of Social Security
Geneva, 1950 p.72
contributions have been regarded as deferred wages, a contention which seems quite justified in view of the low level of wages ordinarily paid to a considerable section of the employees. Employees' participation in the cost of the Scheme has also a salutary effect on the attitude of employees towards the payment of their own contribution.

(b) RATE

As stated earlier, the Scheme is financed mainly by contributions from the employees and employers at the rates specified in the First Schedule appended to the Act. Under this Schedule the employees have been divided into nine wages groups and a flat rate of contributions have been fixed for each group. The maximum rate of contributions is Rs. 3.75 per worker per week. The employees drawing wages below Rs. 2.00 per day are not required to contribute.

Under the transitory provisions of the Act, the rate of Employers' Special Contribution is to consist of a percentage not exceeding 5 percent of the total wage bill of the employer as may be specified by the Central Government from time to time. The current rate of employers' contribution under the said Schedule ranges from 75 paise to a maximum of 7.50 per week. The table shown on next page brings out the rate of employers' and employees' contribution under the scheme.
### TABLE XV

**Rate of Employers' and Employees' Contribution Under the Scheme**

<table>
<thead>
<tr>
<th>Group of employees whose average daily wages are</th>
<th>Employee's weekly contribution (recoverable from employees)</th>
<th>Employer's weekly contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In paisa</td>
<td>In paisa</td>
</tr>
<tr>
<td>1. Below Rs.2/-</td>
<td>Nil</td>
<td>75</td>
</tr>
<tr>
<td>2. Rs.2/- and above but below Rs.3/-</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>3. Rs.3/- and above but below Rs.4/-</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>4. Rs.4/- and above but below Rs.5/-</td>
<td>70</td>
<td>140</td>
</tr>
<tr>
<td>5. Rs.5/- and above but below Rs.6/-</td>
<td>95</td>
<td>190</td>
</tr>
<tr>
<td>6. Rs.6/- and above but below Rs.8/-</td>
<td>125</td>
<td>250</td>
</tr>
<tr>
<td>7. Rs.8/- and above but below Rs.12/-</td>
<td>175</td>
<td>350</td>
</tr>
<tr>
<td>8. Rs.12/- and above but below Rs.16/-</td>
<td>275</td>
<td>550</td>
</tr>
<tr>
<td>9. Rs.16/- and above</td>
<td>375</td>
<td>750</td>
</tr>
</tbody>
</table>

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When an insured person leaves or changes employment during the currency of a contribution period, he is required to obtain a certificate of the rate of contribution from the employer and this is invariably furnished to the new employer. It ensures the deduction of the contribution by the new employer at the current applicable rate.

2. AID FROM CENTRAL AND STATE GOVERNMENT:

When the Government of India appointed Prof. B.P. Adarkar, the officer on special duty to prepare a 'Scheme of Health Insurance' for the industrial workers, it had not clear vision of its own obligations in this respect. Prof. Adarkar held that 'the State is fully justified in making contributions from the general revenue for the benefit of a particular section of population.'[8] Prof. A.N. Agarwala also pleaded for a substantial State Subsidy on the same ground.[9] Prof. Adarkar's views were further upheld by Messers. Stack and Rao who recommended that:

1. The Central Government should bear two third of the cost of administration.

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[8] Adarkar, B.P. *op.cit.*, p.10
2. Each State Government should bear that part of the cost of medical care not covered by contributions of employees and employers and the excess cost of sickness benefit over actuarial estimates.

The E.S.I. Act has incorporated these recommendations in the administration of the Scheme. The Central and State Governments also subsidise the scheme by meeting a part of the cost of administration and the medical benefit respectively. The Central Government advanced loan initially in connection with the expenditure for the setting up of the corporation which was adjusted against the grant made subsequently. The Central Government met two thirds of the administrative expenses of the enforcement of the scheme during the initial five years. The State Governments are contributing towards the cost of medical care in a ratio agreed to between them and the Corporation. Initially it was fixed 1:2; but in 1954 it was revised to 1:3; subsequently in 1958, when the medical care was vouched for to the families of the insured persons in certain areas, the ratio was further revised to 1:7 for these areas.

It is obvious from the above that the State Governments do not make any contributions to the E.S.I. Fund
but meet one-fourth of the cost of medical benefit in case it is provided only to the insured persons and one-eighth, in case it is extended to their families. Besides, the State Governments are also required to share in an agreed ratio the expenditure on sickness benefit if it is found in excess of the all India average. 10

3. OTHER SOURCES

The Corporation may also derive its income from gifts and donations made by Central Government, State Governments, local authorities or any other body of individuals, but these sources are by their very nature only of a casual character. However, income from interest on investments and dividends constitutes an appreciable part of revenue of the Scheme.

2. MECHANISM FOR COLLECTION

The mechanism for the collection of contributions is based on the following fundamental principles:-

(a) RESPONSIBILITY OF THE PRINCIPAL EMPLOYER:-

The liability for payment of both the employees and employers' contribution, in respect of every employee whether

10 Sec 58 of E.S.I. Act has made this provision.
directly employed by him or through an immediate employer rests, in the first instance, on the Principal employer. He is, however, entitled to recover the employees' share by deduction from wages.

(b) RECOVERY FROM IMMEDIATE EMPLOYER:—

The principal employer is also entitled to recover from the immediate employer the whole of the contribution to be paid on behalf of the employees employed by him. However, the immediate employer is entitled to recover from their wages but the recovery can be made only from the wages paid during the period to which the contribution relates and not otherwise.

(c) CONTRIBUTION CARD:—

The employers are required to prepare and maintain a separate contribution card in respect of each employee. The contribution card remains current till the end of the contribution period in respect of the persons to whom it relates.¹¹ The old cards are surrendered by the employer in exchange for the new ones, at the end of each

¹¹ The card has 26-27 columns. Each column represents one week (unit of contribution).
contribution period (six months). Though the employer is the custodian of contribution cards, every employee has a right to inspect his card, but not more than once in a calendar month.

(d) UNIT OF PAYMENT:-

The week has been reckoned as a unit for the payment of employees' contribution. The Employers' Special Contribution is however, payable quarterly by the employer by depositing the amount in the Corporations account with its bankers. The contribution is to be paid for the whole week even though the wages were paid to an employee only for a part of the week, during the periods of authorised leave, lock-out or otherwise.\(^{12}\) Thus the liability to pay contribution is not co-terminus with the liability for payment of wages.

8. ADHESIVE STAMPS:-

The employees' contribution is paid by means of adhesive stamps of various denominations corresponding to the relevant Scheduled wage groups. These stamps are

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\(^{12}\) While interviewing the employees during my visits to various covered factories in PUNE Region it was noted that in many cases the employers successfully avoid their liability to pay contribution during periods of authorised leave or lock out.
affixed on the contribution cards of individual employees at the end of each wage period. Bigger employers have been allowed the use of Franking Machines. 38 new licences were issued and 18 were cancelled during 1975-76 for the use of Franking Machines for franking contribution cards. The total number of licences issued as on 31-3-76 was 739.\textsuperscript{13} Besides this, the system of payment of contributions in cash has also been introduced on an experimental basis in DELHI Region with effect from 30-11-75.\textsuperscript{14} Contribution stamps are available with the various branches of State Bank of India against deposits on chalan form filled in duplicate. One copy of the form is sent to the Corporation for information and the other is retained by the bank for record.

(i) THE EXEMPTION LIMIT:-

Under the Scheme, an employee whose average daily wage is below Rs. 2.00 is not required to pay any contribution though he, too, is compulsorily insured. It may be pointed out that Prof. B.P. Adarkar had not devised any non-contributory class in his Health Insurance Scheme simply because he held that:-

\textsuperscript{13} Annual Report, E.S.I.C., 1975-76, p.21

\textsuperscript{14} Ibid
"The worker should feel that he has a stake in the insurance fund which is built up partly with his own contributions." 15

(g) DETERMINATION OF CONTRIBUTION IN TYPICAL CASES:

The fixation of the contribution in respect of a factory or establishment, where no returns, particulars, registers or records are submitted, furnished or maintained, creates a problem. In such cases the factory inspector or any other official of the Corporation visits the factory and on the basis of the available information or evidence, the amount of contribution payable is determined. Where the employer refuses to furnish any information or record or the matter is not decided amicably, it is referred to the E.S.I. Court. The decision of the court is binding and the amount thus determined can be realised as arrears of land revenue. 16 If any employer obstructs an inspector or any other official of the Corporation in discharging his duties, he can also be prosecuted simultaneously.

3. EMPLOYEES' STATE INSURANCE FUND:-

The Scheme is financed by the Employees' State

15 Adarkar, B.P., Ibid, p.42

16 This has been an insignificant source of revenue of the Corporation.
Insurance Fund which is built up of contributions from employees and employers, grants from Central and State Governments and gifts and donations from local authorities, any individual or body or individuals. The State Governments share the cost of the Scheme by contributing towards the expenses on medical treatment and attendance on the insured persons and their dependents.\(^{17}\)

(a) INCOME FROM CONTRIBUTIONS:

The foregoing discussion reveals that contributions from employees and employers constitute a major part of the income of E.S.I. Fund.

(b) UTILISATION OF THE FUND:

The Employees' State Insurance Fund can be expended only for the following purposes:

1. Payment of cash benefits and provision of medical care;

2. Payment of fees and allowances to the members of the Corporation and other statutory bodies;

\(^{17}\) The agreed ratio has already been explained in Chapter IV 'Administration of Benefits'.
3. payment of salary and allowances to the employees of the Corporation.

4. establishment and maintenance of hospitals, dispensaries and other institutions for the provision of medical benefits;

5. payment of contributions to a State Government local authority or any private body or individual towards the cost of medical treatment and attendance including the cost of any building and equipment;

6. defraying the cost of auditing the accounts and of the valuation of its assets and liabilities from time to time;

7. defraying the cost of Employees' Insurance Courts;

8. payment of sums under any court decree, order or award.

9. defraying the cost of instituting or defending any civil or criminal proceeding;

10. defraying expenditure on measures for the improvement of the health and welfare of insured persons and for the rehabilitation and re-employment of insured persons who have been disabled or injured; and

11. any other expenses authorised by the Corporation with the prior approval of the Central Government.
(c) RELATIVE COST OF ADMINISTRATION:

The administrative machinery of the Corporation has to deal not only with the provision of cash and medical benefits to a large number of insured persons and their dependents but also with the collection of contributions from and through employers. The latter part of the work involves a lot of expenditure by way of payment of bank charges, the cost of printing, contribution stamps and all other relevant forms, the administrative work of watching the payment of contributions, keeping the contribution cards in order and the visiting by inspectors to employers' factories and establishments for inspection of their records. Expenditure incurred on the organisation in connection with the collection of contributions is, therefore, quite substantial and accounts for a considerable proportion of the administrative expenditure. 18

The table on the next page shows the relative cost of Administration during the past five years (1971-72 to 1975-76).

18 Prof. B. P. Adarkar recommended a margin of 12.50 percent for administrative expenditure in his 'Scheme of Health Insurance'. 
### Table XVI

**Administrative Cost Compared with Benefits Paid Etc.**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Total Administra-</td>
<td>4,77,39,056</td>
<td>4,40,34,287</td>
<td>7,34,57,795</td>
<td>6,60,68,976</td>
<td>7,77,62,505</td>
</tr>
<tr>
<td>tive cost.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>II. (i) Employee's &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer's share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Employer's</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Contribution.</td>
<td>33,34,80,630</td>
<td>39,61,61,207</td>
<td>21,41,95,502</td>
<td>2,12,80,542</td>
<td>1,78,07,427</td>
</tr>
<tr>
<td>(iii) Employees' Contribution</td>
<td>17,70,05,192</td>
<td>19,16,27,812</td>
<td>22,76,57,964</td>
<td>1,00,74,058</td>
<td>1,00,09,537</td>
</tr>
<tr>
<td>Total Contributions</td>
<td>51,04,85,822</td>
<td>58,77,89,019</td>
<td>64,56,39,680</td>
<td>63,52,29,595</td>
<td>75,94,03,303</td>
</tr>
<tr>
<td>III. Total outgoings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Expenditure on Revenue Accounts)</td>
<td>47,61,40,297</td>
<td>47,23,75,970</td>
<td>59,90,70,572</td>
<td>62,49,05,056</td>
<td>75,58,05,845</td>
</tr>
<tr>
<td>IV. Percentage of Administrative cost to-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Total Contribution income</td>
<td>38,16,11,406</td>
<td>37,13,48,489</td>
<td>45,14,88,325</td>
<td>46,45,26,360</td>
<td>57,23,86,508</td>
</tr>
<tr>
<td>(b) Total outgoings</td>
<td>9.35%</td>
<td>7.50%</td>
<td>7.72%</td>
<td>10.40%</td>
<td>10.24%</td>
</tr>
<tr>
<td>(c) Total benefits</td>
<td>10.03%</td>
<td>9.32%</td>
<td>8.32%</td>
<td>10.57%</td>
<td>10.29%</td>
</tr>
</tbody>
</table>

**Note:** IV does not include share of benefit expenditure borne by the State Governments.

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19 E.S.I.C. Annual Report 1975-76 p.108
(d) VALUATION OF ASSETS AND LIABILITIES:

Under section 37 of the Act, the Corporation is required to have, at intervals of five years, a valuation of its assets and liabilities by a valuer appointed with the approval of the Central Government. The Central Government may also direct a valuation to be made at such other time as it may consider necessary.

In pursuance of the above provision, these complete quinquennial valuations have so far been made in the years 1954, 1959, 1964, 1969 and 1974 by the valuers appointed by the Central Government. The reports submitted for the above valuations deal in general with the following four aspects:

1. An elaborate examination of the assets and liabilities of the Corporation.

2. An estimation of the various factors which enter into the calculation of the adequacy of the contributions such as rates of sickness, disablement, mortality etc. This aspect, therefore, deals with the actuarial basis on which the adequacy of contributions has to be assessed.

3. It provided certain general observations based on the result of the valuation work and gives a picture of the
financial dealings of the Corporation; and

4. It contains general comments and draws attention to the possibility of simplification of certain aspects of the scheme.

4. **INVESTMENT PATTERN**

The problem of investment of social insurance funds attracted the attention of the International Labour Organisation, which called in 1937 and 1938, two meetings of the experts and sought advice on this problem. In 1939 the International Labour Office published a detailed study on this subject. The report deals with the basic, principles and aims of the regulation of investments, conditions of safety, yield and liquidity, permissible classes of investments and bodies responsible for selecting investments.

In the context of conclusions adopted by the I.L.O. Committee, the Indian regulations regarding investment of funds are not only precise but they place restrictions on

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20 The Investment of Funds of Social Insurance Institutions, Studies and Reports, Series No. 16
the freedom of the Corporation. Under the rules framed by
the Central Government, the surplus funds of the
Corporation can be invested only in Government Securities,
Treasury Deposit Receipts and in securities mentioned in
the Indian Trusts Act. The Corporation can, however, invest
its funds in any other manner with the prior approval of
the Central Government but this facility has never been
availed of so far and all the investments have been
confined to Government and Trust Securities.

While safety of funds is of paramount importance, and
it has to be ensured that no investment is made in equity
shares, the avenues for earning higher rates of interest
on funds, not immediately required, should not be closed. 21
The income from investments is a valuable addition to the
funds for providing benefits to the insured persons and,
therefore, every effort is being made to earn the maximum
rate of interest compatible with the security of funds.
Clear regulations are necessary in case of short term and
long term investment.

5. ACCOUNTING ARRANGEMENTS:

The accounting system of a social insurance scheme

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21 Hallen, G.C., Dynamics of Social Security, 1966,
p. 327
cannot be similar to that of an insurance office where individual accounts are maintained in respect of each policy. The main fact is that it is a social measure for the benefit of those who are exposed to various contingencies of sickness, employment injury and maternity. It is a cooperative venture where all employees get together to alleviate the miseries of their fellow workers. Therefore, the accounts of the Employees' State Insurance Corporation are maintained partly on the Commercial accounting system, and partly on the Governmental basis. The Income and Expenditure Account and the Balance Sheet are prepared every year in the prescribed form by the Financial Adviser and Chief Accounts Officer of the Corporation.

(a) REVENUE FINANCING:

In terms of the method of financing, the social insurance schemes may be classified as those which are financed on current basis, and those which are financed through reserve funds. The method of current financing or the 'pay-as-you-go' method, is one in which the annual expenditure is met out of the revenues of that year. In the case of reserve financing a fund is developed from the contributions received, as the beneficiaries qualify to receive the benefits only after having paid the
contributions for a certain period.

The Employees' State Insurance Scheme is financed on reserve financing basis. The system appears to be more desirable for a developing country like India, because of the time-lag between the payment of contributions and the receipt of benefits, the Government derives the benefit of compulsory savings and the reserve fund can be used for developmental purposes, which is expected to serve as the 'built-in-stabiliser' for the economy. The reserve fund fosters a sense of confidence in the people towards the programme and increases its relative permanency. It is also agreed that the reserve fund takes away the burden of the future generations, as those who receive benefits have actually paid for it.22

(b) BUDGET ESTIMATES

The budget estimates of the Corporation for each financial year are prepared by the Financial Adviser and Chief Accounts Officer in the form prescribed by the Central Government. After the estimates are prepared the Director General presents them with his recommendations before the Standing Committee. The Standing Committee analysis the

estimates as approved by the Standing Committee are presented before the Central Government, which before according approval can make such alterations in the budget estimates as may be considered necessary. After the approval of the Central Governments they are published.

(c) **SUPPLEMENTARY ESTIMATES:**

The Standing Committee may ask the Director General to prepare such estimates, if in respect of any financial year expenditure beyond original estimates is likely to be incurred. The procedure to be followed is similar to that of the original budget estimates.

(d) **BANKING OPERATIONS:**

The E.S.I. Corporation is authorised to maintain its accounts with the Reserve Bank of India or with such other banks as may be approved by the Central Government. The Central Governments have approved State Bank of India for this purpose. The accounts can also be opened with the subsidiaries of State Bank of India, only at places where the branches of State Bank of India are not functioning. Accounts at such places may also be opened with United Commercial Bank.

(e) **AUDITING OF ACCOUNTS:**

The audit of accounts of the Corporation has been
entrusted by the Central Government in consultation with the Comptroller and Auditor General of India, to the Accountant General Central Revenues, New Delhi. The latter conducts the audit through the respective State Accountant Generals acting as Sub-Audit Officers. The cost of audit is to be paid out of the E.S.I. Fund as determined by the Central Government.

**RESUME:**

The tripartite contribution principle of the scheme ensures availability of adequate funds for the stipulated benefits. Employees' contribution represents the responsibility of the industry towards its workers, the workers' contribution represents their responsibility towards themselves and their families. The State subsidy represents the responsibility of a Welfare state towards its needy citizens. In respect of economic insecurity the position of the white collar employees is not much different from that of the industrial workers. They are, no doubt, less exposed to the factors which endanger the health and safety of the manual workers in the factory,

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23 Datta B.N. Social Security and Economic Development, article appeared in 'Indian Worker' May 1965 p.45-46

but they are not immune from the same. The inclusion of the white collar employees has obviated the irrational distinction between manual and non-manual labour and has offered security to a really needy class whose false sense of prestige prevented it from asking for protection.

By allowing certain exemptions, the scheme has left undisturbed, the existing arrangements as they were equally beneficial to the employees concerned. The cost of insurance of the employees of the lowest wage group is being partly met by the remaining higher groups. The contributions have been related to the earnings of the insured employees. The whole class of covered employees has been divided into nine wage-groups and a flat rate of contribution has been fixed for each group. The conditions of a qualifying period restricts the benefit of the Scheme to the permanent members of the industrial labour force of the country and also tends to make it stable. The institution of the Employees' State Insurance Fund has fostered a sense of confidence among the working class. The investment pattern of the scheme fully satisfies the actuarial tests. The financial arrangements of the Scheme are, on the whole, sound and rational.