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## CHALLENGES OF SOCIAL SECURITY IN DEVELOPING ASIAN NATIONS: CASE OF INDIA AND MALAYSIA

*Both India and Malaysia have a mix of labour laws, government schemes, like the Employee Provident fund, social assistance, like subsidized or free healthcare facilities, and a developed private commercial insurance industry. This paper investigates the social security systems in India and Malaysia and tries to identify the gaps which hinder the successful implementation of the schemes of the government. Filling these gaps may improve social security systems of these two developing Asian nations, to equal and even better those in the West, thereby moving one step forward in achieving their Vision 2020 mission.*

**Keywords:** social security, India, Malaysia, Employee Provident Fund, employment dole, insurance industry.

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## ВИКЛИКИ СОЦІАЛЬНОГО ЗАБЕЗПЕЧЕННЯ В АЗИАТСЬКИХ КРАЇНАХ, ЩО РОЗВИВАЮТЬСЯ (ЗА ДАНИМИ ІНДІЇ ТА МАЛАЙЗІЇ)

*У статті розглянуто низку законів про працю, урядові схеми (у т.ч. фонд підтримки працівників), систему соціальної допомоги (наприклад, послуг охорони здоров'я, що субсидуються або безкоштовні) і розвинену індустрію приватного комерційного страхування в Індії і Малайзії. Досліджено системи соціального забезпечення в цих двох країнах і виділено чинники, що перешкоджають активному впровадженню державних схем. Усунення цих чинників допоможе покращити системи соціального забезпечення, довести їх до європейського рівня і прискорити виконання стратегічних програм розвитку обох країн до 2020 року.*

**Ключові слова:** соціальне забезпечення, Індія, Малайзія, фонд підтримки працівників, виплати, індустрія страхування.

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## ВЫЗОВЫ СОЦИАЛЬНОГО ОБЕСПЕЧЕНИЯ В РАЗВИВАЮЩИХСЯ АЗИАТСКИХ СТРАНАХ (ПО ДАННЫМ ИНДИИ И МАЛАЙЗИИ)

*В статье рассмотрен ряд законов о труде, правительственные схемы (в т.ч. фонд поддержки работников), системы социальной помощи (например, субсидированные или бесплатные услуги здравоохранения) и развитая индустрия частного коммерческого страхования в Индии и Малайзии. Исследованы системы социального обеспечения в этих двух странах и выделены факторы, препятствующие активному внедрению государственных схем. Устранение этих факторов поможет улучшить системы социального обеспечения, довести их до европейского уровня и ускорить выполнение стратегических программ развития обеих стран до 2020 года.*

**Ключевые слова:** социальное обеспечение, Индия, Малайзия, фонд поддержки работников, пособие, индустрия страхования.

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**Introduction.** Social security systems financially guard people from sudden calamity, unemployment, old age and illness, among others. India and Malaysia have more or less the same systems of social security. India being still low in PCI (per capita income) with vast income differences and huge population, is more towards social “protection” rather than social “security”. Countries like USA, Canada, Australia and Germany are credited with some of the best social security systems in the world. Germany was the first to implement a modern social insurance program in 1880. USA had the social security act as early as 1935 and UK in 1942, summarized in the famous Beveridge report, which promoted the slogan “freedom from fear and want”(Jacobs, 2008; Okubo, 2006).

Within the framework of Article 23 of the Universal Declaration of Human Rights (United Nations, 1948); Convention No. 102 (Social Security (Minimum Standards), of the International Labour Organisation (International Labour Organisation, 1952) and other international instruments, social security refers to “an insurance system for human beings, without any discrimination and in all situations of their lives, aimed at protecting the members of society against any contingencies during their life time (health, housing, retirement, maternity, employment injuries, invalidity, family charges, unemployment, vocational training, recreation and death” (Seng, 2012). The most common need is the support during old age. Post retirement, with less or no regular income, people get a regular pension from government and that helps them to have their livelihood. When individuals do not have jobs, government supports them by giving a dole. Dole helps individuals manage their livelihood till they are able to regain employment. Another example of social security is the Employee Provident Fund (EPF) systems in which government collects a certain portion of individual income (as forced saving) and pays it back to individuals when they are in need or when they retire from their active jobs. Social security helps in maintaining peace, harmony and health in society. It works with the concept of collective responsibility and benefits all. It is a risk management tool by the government for its people (Holzmann & Jorgensen, 1999).

Human and physical capital both must be protected and promoted if social security system has to work in developing nations (Justino, 2007). Human capital include better access to clinics and hospitals, better nutrition, better health support, health insurance policies, improved access to schools, universal primary education among others. Physical capital can be protected by policies aimed at employment creation, promotion of rural development, research and incentives to encourage labour-intensive investments, better access to housing and land, improved infrastructures, reduction of remoteness of some population groups, measures to eliminate biases against women and other vulnerable groups by producers and consumers (minimum wages, measures against discrimination), improved access to capital through financial sector reforms of microcredit schemes, implementation of employment support schemes, provision of secure ownership of key assets and crop insurance measures (Norton, Conway, & Foster, 2001)

Both India and Malaysia have registered healthy economic growth during the last several years. However, country's economic growth is but cosmetic if it does not guard its old, unemployed and the sick against debilitating perils. Hence, the purpose

of this paper is to examine the present scenario of social security in these two developing Asian nations. The paper further explores the gaps that exist in the social security systems, filling which the nations could improve their systems to match that of developed nations.

**Social security system in India.** India is yet to devise a fail-safe and comprehensive social security system for its people. One of the biggest problems in India is its huge and growing population, which hinders a social security system that could benefit all (Ahmad, 1991). Those in government jobs do get pension when they retire and that is about it (See Fig. 1 for the basic social security system model in India). What happens to those who are not working or have worked in private sector? They do not have security from government per se. The EPF system is mandatory for all employees private sector including, however, it's the employees of the government sector who accrue true benefits of the system. What happens to those who are old and do not have regular income and are not supported by PPF? In India, they depend on their offsprings. In a typical Indian family, parents take care of children when they are young and children — when their parents are old. This works in India quite well. May be the government is able to off load this immense burden of social security because still Indian family values exist. However, with increasing Westernism among urban youth, things might be different in a few decades from now. Family values may not be as strong as they are now. It is a difficult situation to perceive. India may be heading toward a social security disaster if things are not mended fast and new stringent policies are not enacted. Managing during old age is just one of the needs. What happens to the health security and unemployment security? These systems exist in India in the form of “berojgari bhatta” (unemployment dole), however, a miniscule percentage of the population is able to get benefits from it, due to poor publicity and corruption (Guhan & Samuel, 1997). Another problem with unemployment dole is bureaucracy. Even if someone manages to avail the dole, the amount is so minuscule that is not possible to defray even bare bone expenses of a household.

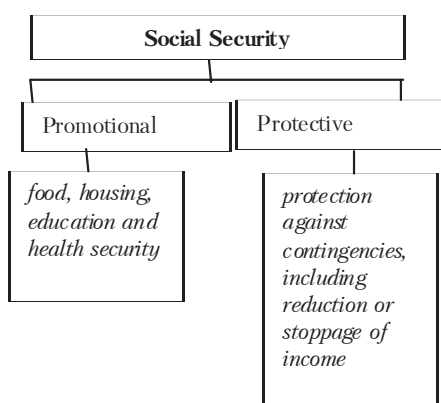


Figure 1. Basic social security model in India

*Government's effort.* It is not that the governments — the present one and the past — have not done anything about it. Because of growing concern of protection of its senior citizens, the ruling UPA government has taken several steps. There is a Ministry of social justice and empowerment that is working toward programs in the areas of social defense aimed at people who are particularly vulnerable, like elder, children and women in need of assistance and care and the victims of alcoholism. The National Policy for Older Persons has a specific agenda to ensure financial and food security healthcare and shelter and other needs of older people. During 2004-05, grant-in-aid of Rs 15.70 cr was given to 444 NGOs for running old age homes, day care centres, mobile medicare units and non-conventional service centres in different parts of the country (Rediff.com, 2006).

The key challenge for the government is to provide social security of basic needs and improve economic and environmental infrastructure. As mentioned earlier, people in the organized formal sector enjoy better social security in terms of secure jobs and receive price-adjusted salaries (dearness allowance added to their basic salaries), protected under the law in the case of illness, disability, maternity, old age and death. However, in the working population of over 400 mln., there are 93% who work for the unorganized sector (Sulzer, 2008; Tripathy, 1996). These people do not have the basic privileges of social security enjoyed by the organized sector workers. Although they contribute 60% to the national income, they are deprived of even the promotional security.

D. Rajasekhar of ISEC, Bangalore (Rajasekhar, 2007) urges the need to integrate state, market and civil society in order to have an effective social system. According to him, there are two kinds of unorganized workers. One who is ultra poor and is in immediate need of at least the promotional social security of food, health, shelter and education and the other, the upward mobile “poor” who is not as poor and looking out for protective security. There is a need to find this heterogeneity among the unorganized workers and move towards plurality of institutions and building upon micro-finance efforts. Government has been partly successful in contributory group insurance scheme where it has collaboration with NGOs and has incorporated educational scholarship within this group insurance. By 2007 it had covered 6.3 mln workers and the renewal rate is as high as 60%.

As a part of social security for older people in India, government has introduced reverse mortgage scheme. Senior citizens can pledge their property to a bank and gain a fixed sum of income from it. In simple terms reverse mortgage is a contract between a financier and a home owner enabling the latter to receive regular sum of money, particularly on retirement, from the future attainable value of the home.

*Proposal of National Security Bill.* The government is mooting a National Security bill where it is proposed to give a minimum social security cover for all the unorganized sector workers. This form of social security aims to cover health, disability, old age, maternity and death. The bill is unique in the sense it is for the first time that the government is ready to become a part to the social security by contributing in case an employer cannot be identified. Unlike the past, when no one could demand their rights, this bill gives a right to demand in case the government falters. This is a major universal approach which has tax-based financing and provision of right to

social security. However, it is unlikely to be passed in the present form because the lack of direct relationship between employer and worker would result in greater burden for government. In case the bill does not pass in the House, it would be replaced by schemes and in that case legal entitlement would be missing. However, of late government has realized that if it has to actually secure its people and have socio-economic-political development for the country, it must become a party to it.

**Social security system in Malaysia.**

Malaysia's problems are far fewer compared to India, given the fact that it has a manageable population, thriving economy and less income disparities. The country also has comprehensive Provident Fund laws. It is pertinent to note that Malaysia got its independence from the British rule in 1957 and had its first PF law enacted as early as 1951. The current laws were enacted in 1969 and 1991, and amended in 2001.

Malaysian social security is governed by a mix of labor laws, state sponsored schemes, social assistance and a developed private commercial insurance industry (Fig. 2). Labor laws protect employees and imposes requirements on employers when recruiting and the benefit they must get, for example, minimum wages and terms and conditions in case they are to be terminated.

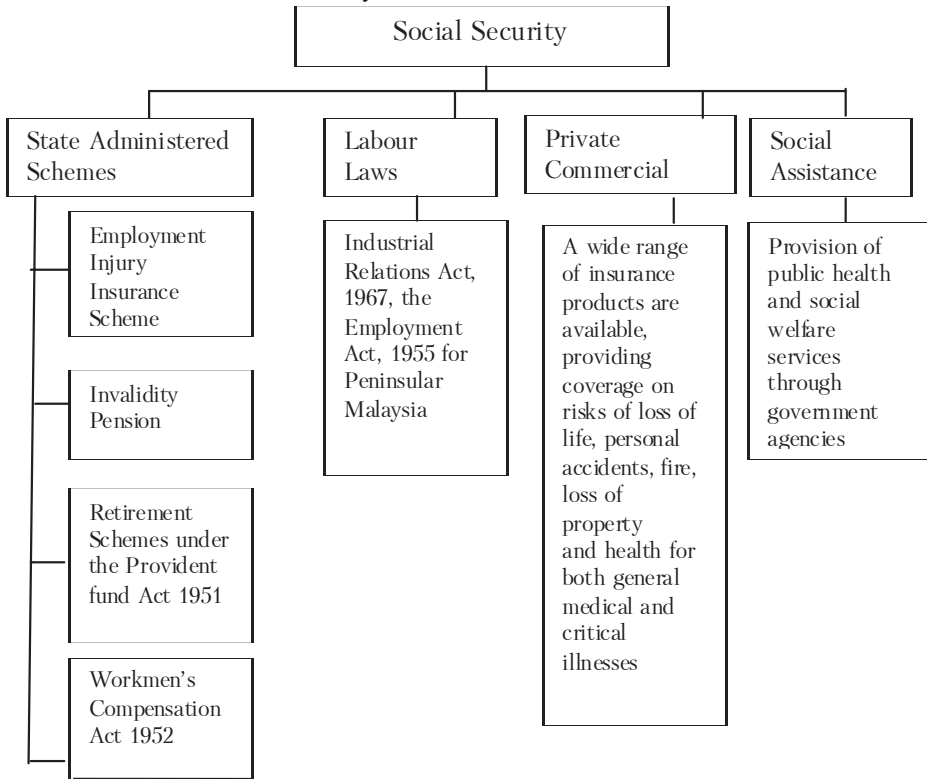
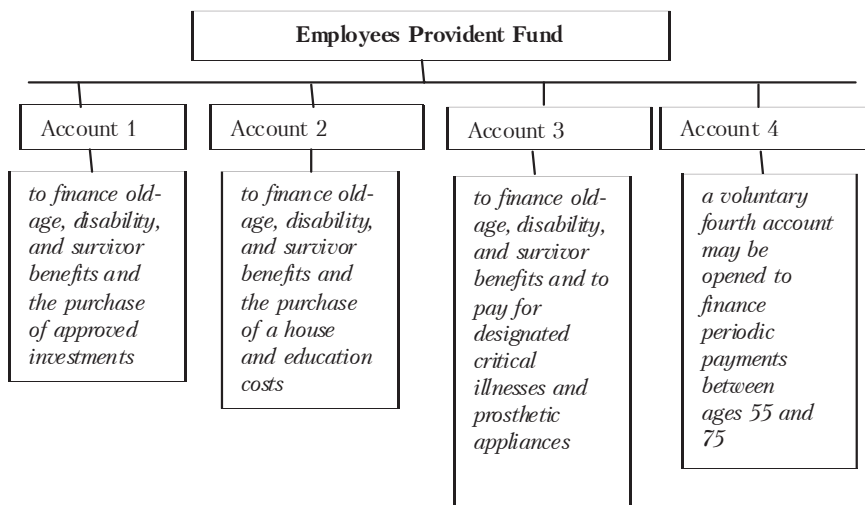


Figure 2. Social Security System in Malaysia

*The Employee Provident Fund Scheme:* The most important government scheme in Malaysia, as in India, is the provident fund scheme. This scheme protects senior citizens when they are no longer earning a regular salary. A compulsory contribution is taken from both employer and employee (12 and 11% respectively) and saved in an account. This later provides them with pension money or bulk money when they retire. There is also a provision to withdraw this money in case sudden need arises.



**Figure 3. Provident fund and social insurance system in Malaysia**

Employees' provident fund (Fig. 3) operates 3 types of mandatory individual accounts: Account 1, to finance old-age, disability, and survivor benefits and the purchase of approved investments; Account 2 — to finance old-age, disability, and survivor benefits and the purchase of a house and education costs; and Account 3 — to finance old-age, disability, and survivor benefits and to pay for designated critical illnesses and prosthetic appliances. A voluntary fourth account may be opened to finance periodic payments between ages 55 and 75 (Association, Research, & Evaluation, 2007). The forced cut seen in a salary slip is a positive aspect because it secures against contingencies and old age.

*The private insurance industry.* Malaysia has got a fairly developed private commercial insurance industry. The insurance companies operate with a profit motive, hence the protection is limited to the proportion of premium. The products though are quite large - from pure life insurance to unit linked life insurance plans, general insurance, health insurance, fire, accidents etc. Insurance companies also operate pension schemes in the form of unit-linked life insurance plans. Here one deposits a sum of money for certain number of years repaid a monthly pension or a bulk sum depending on the wishes of the insured person.

The social assistance is mainly provided either by governments or by the NGOs. These NGO in several cases are supported by the government. Social assistance comes in the form of social welfare services, such as free health clinics etc.

There are gaps in the system and lot needs to be done in order to have a social security system that could benefit one and all (Seng, 2012). The present formal system supports the contributors only up to the age of 55. After this they need to depend on their personal savings and social assistance programs. There are no formal family or child assistance programs. Apart from termination benefits, there is no unemployment insurance. Minimum wages are applicable in only certain occupations based on Wages Council Act (1947). The formal social security largely excludes the self-employed. The informal sector in which the self-employed also belong form a substantial portion depriving them of formal social security would leave them vulnerable in times of distress. Another big problem with Malaysia is (which is not apparent with India as it has a fairly developed private medical system) that the health system largely depends on government-run hospitals. This not only robs the country of better innovation in the field (because competition brings innovativeness and better service), it also brings a huge financial burden on the government.

It is important to mention that Asian developing nations cannot totally take solace in the fact the countries in the west, like Germany, USA and UK, have got a perfect social security system. Their social security, though giving protection to its citizens, has also brought tremendous burden on the state budget. In the countries of the European Union (like Germany, UK, Italy) the retired have the right to get their pension. This pension, unlike the provident fund concept of India and Malaysia, is totally borne out of tax that the state gets. With people living longer in the West, it remains to be seen if the West could keep on paying pension and not change its policy to provident fund system. Provident fund system is what the countries in the West must learn. Another problem of social security system in the West is that pension and unemployment dole brings "lethargy" and those wanting to avoid work can easily do so. It is no longer a fight for survival. Hence, instead of emulating the West both countries must try to perfect their own systems and become an example to the West.

**Conclusion.** In this paper an attempt was made to investigate the social security scenario of two fast developing Asian nations — India and Malaysia. New schemes are being carried by the governments in order to make social security reach larger masses. However, these schemes are mainly helping the workers in the formal sector and they (the formal sector employees) too are not getting full benefits of it because of the obvious gaps in the system. In Malaysia the solution to better social security is to amend the labour laws by insuring citizens till their demise and making minimum wages policy in all the sectors. The government must protect the informal sector by bringing in the Act that makes government legally responsible and must not just come out with schemes.

The governments in both these countries must take a radical approach to enact laws that gives benefit to the informal segment of society. With better social security, there will be economic growth, peace and harmony.

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