

HR Law Hotline

March 20, 2010

EMPLOYEES' STATE INSURANCE ACT OF INDIA: LABOUR MINISTRY ISSUES DRAFT RULES FOR ENHANCEMENT OF WAGE CEILING

The Ministry of Labour and Employment has recently issued¹ draft rules for enhancement of wage ceiling (salary limit) from INR 10,000 (approx US\$ 225) per month to INR 15,000 (approx. US\$ 330) per month for coverage under the Employees' State Insurance Act, 1948 ("ESI Act"). Once the draft rules enter into force, a greater section of employees would get covered under the ESI Act, a federal labour law. It is expected that this new wage ceiling will be implemented from April 1, 2010, which is the beginning of the new financial year.

BACKGROUND

The ESI Act provides insurance coverage to eligible employees in the case of work related injury, sickness, maternity, disablement and death. The ESI Act applies to all factories employing at least 10 employees. It has also been extended to shops, hotels, restaurants, cinemas, transport undertakings, etc. The ESI Act requires the employer and the eligible employees to contribute insurance premium to the Employees State Insurance Fund, which is administered by the Employees' State Insurance Corporation ("ESIC"). The contributions are to be made at specified rates which are revised from time to time. With effect from 1997, the rate of employer's contribution is 4.75% of each eligible employees' wages and that of the employee is 1.75% of the wages. These contributions are to be made during two contribution periods of six months each. In addition to the insurance coverage, to the extent an employee is already covered under the ESI Act, the employer is exempted from its financial liability under the Employee's Compensation Act, 1926 and the Maternity Benefit Act, 1961.

As of March 31, 2008, the coverage of the ESI Act extends to approximately 46.8 million beneficiaries and to approximately 0.35 million employers².

As recent as October 2006³, the ESI Act was amended to extend its coverage to employees drawing wages of up to INR 10,000 (approx US\$ 225) per month from the earlier limit of INR 7,500 (approx US\$ 165) per month.

ANALYSIS

The proposal seems to have been approved in view of the fact of the increase in cost of living index and subsequent rise in salary levels in India. Further, the Parliamentary Standing Committee on Labour has also been making recommendations in this respect. The Indian Government seems to be in favour of expanding the social security benefits to cover a wider stratum of employees. The Government continues to aggressively pursue certain other amendments under labour laws, *inter alia*, to increase their coverage or benefits. Recent examples include changes to the Payment of Bonus Act, 1965 and the Employee's Compensation Act, 1923. Further, discussions are ongoing with respect to increasing the limits under the Payment of Gratuity Act, 1972 and the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

The intention of the ESIC proposal is to provide insurance coverage to a larger section of employees. However, in recent times, employers in some of the new economy sectors have preferred to tie up with private insurance companies / third party administrators, who in turn have tied up with some of the leading hospitals which promise prompt and superior medical facilities. While the ESIC manages over 140 government funded hospitals across the country, there continue to be concerns over the infrastructure and the facilities provided in these hospitals. Besides the procedural formalities involved, some of the ESIC managed hospitals do not appear to be adequately staffed for handling emergency situations. Private insurance companies (both for life and health insurance) and third party administrators, although may be more expensive, have managed to provide customized products and services to meet their clients' needs. This has made such service providers a preferred choice for some of the progressive Indian companies, who provide extended support to their employees and their families during the times of any health crisis. In view of the background, the ESIC should focus on improving their hospitals' infrastructure and facilities and address the concerns faced by employers and employees alike. Alternatively, necessary flexibility may be provided to employers to consider private insurance arrangements. At the end of the day, as a welfare legislation, the employees' interest should be the determining factor.

- Ajay Singh Solanki & Vikram Shroff

¹ Vide notification G.S.R no. 164 (E) dated February 26, 2010

² <http://www.indiastat.com/>

Research Papers

Littleler International Guide (India) 2024

November 08, 2024

Unmasking Deepfakes

October 25, 2024

Are we ready for Designer Babies

October 24, 2024

Research Articles

The Bitcoin Effect

November 14, 2024

Acquirers Beware: Indian Merger Control Regime Revamped!

September 15, 2024

Navigating the Boom: Rise of M&A in Healthcare

August 23, 2024

Audio

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

Renewable Roadmap: Budget 2024 and Beyond - Part I

August 26, 2024

Renewable Roadmap: Budget 2024 and Beyond - Part II

August 26, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

[Click here to view Hotline archives.](#)

Video

"Investment return is not enough" Nishith Desai with Nikunj Dalmia (ET Now) at FI8 event in Riyadh

October 31, 2024

Analysing SEBI's Consultation Paper on Simplification of registration for FPIs

September 26, 2024

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.