CHAPTER - VI

SUMMARY AND CONCLUSION

To search for security is an instinct in human being. Insurance is an outcome of the same. It is a modified form of mutual risk-sharing and has taken the present shape through changes over time. The Life insurance is a specialisation in insurance business. It concerns only sociable men with rational thinking and economic earning. The main spell of Life Insurance lies in the uncertain certainty of death. Since death will occur to everyone and hence is the certainty. But the exact time when it will come is quite uncertain. Death cannot be avoided, but the economic consequence of death may be compensated. Life insurance deals with the act of compensation. The additional benefits it offers are the disability benefit, accident benefit and the benefit of savings. In a modern state insurance is regarded as an essential social service. A welfare state should make it available to a maximum possible number of people if not all members of the community.

But, prior to independence, insurance business in India was confined mostly among the elite of the presidency towns under private ownership and had become subjected to private speculation. After independence, India embarked upon a mixed economy with a goal of 'socialistic pattern of society'. Thus, Government realised the necessity and state of insurance affairs and took

the task to offer the benefits of insurance to people at large. The nationalisation of life insurance business in India was one of the many attempts to this score.

Chapter-I of our present study depicts a brief picture of the search for security and emergence and evolution of the concept of insurance. While studying the history and perspective of nationalisation of life insurance business in India, it has been found that the idea was brought in India from England and fostered under the aegies of private management and control. Gradually, many domestic and foreign insurance companies embarked upon life insurance business in India and thus made a competitive field for procuring business. Since profit was the 'be-all and end-all' motive of all the private insurers, in its pursuit malpractices were rampantly resorted to. Many of the companies ultimately failed or were liquidated or amalgamated with other companies and thus public moneys were being dissipated. It is actually the circumstances that called for Government intervention. Accordingly, the Government of free India took over all the 243 Private insurance companies doing business in India by promulgating an ordinance. Thus, the Life Insurance Corporation of India came into existence from September 1, 1956. The babe organisation of late 1950s absorbed many shocks for almost 14 years to consolidate and stand erect in the 1970s. But it passed through a decade of stagnation spread over the 1970s and as such the real break through into speed and progress of the

industry commenced in the 1980s. In 1989 it adopted the shape of a multi-dimensional organisation. Today it touches many fringes of the economy and as such it has become an important institution for financing planning and development of the country. Its manyfold importance and relevance to the nation attracts researchers too to evaluate its performance and estimate its contribution to the national economy. The Corporation has taken almost 14 years to prepare its take-off. This, assuming the gestation period upto 1970, we have selected our coverage of study over a period from 1971 to 1990. We have then stated the problem, overviewed the relevant literatures and chosen some specific questions to be brought under the main foci of our study.

In Chapter -II we have drawn a brief outline of the international scenario which has directly or indirectly influenced the national environment. Then in the background of the two we have examined the performance of the LICI over time. During seventies the international economy had passed through rigidity in trade and exchange and therefore, experienced a more or less stagnant economic situation. But right from the early eighties the rigidities had been loosening and a trend of liberalisation, globalisation and reorganisation came to the fore. Consequently, market forces gained momentum. In the political arena too, sea-changes emerged in the spheres of nuclear arms reduction, German unification and emergence of multi-party democracy in East Europe, to mention a few. The national environment has often been influenced by such changes in the international field. The national environment

of India may be best evaluated through her industrial policy resolutions and planning. It has been observed that frequent changes in Government at the Centre imply political instability and policy changes. Each new Government announced a new industrial policy of its own. But whatever be the changes, the basis remains the same as the first industrial policy adopted in 1948. It suggests a mixed economy comprising a public sector as well as a private sector and contemplates that both the sectors should act for achieving the avowed goal of a 'socialistic pattern of society'. The subsequent policies are but the moderated forms of the 1948 policy. Prior to independence, there was virtually no public sector and thus the age-old private sector had been singly controlling the economic movements. Hence, to raise a strong public sector the Governments of free India contemplated to nationalise the banking, insurance and a few investment and financial organisations. In 1985, the liberalisation policy of Rajib Gandhi has brought forth further speed and competition in the domestic market. As a result, reorganisation, mechanisation and market orientation have been set in and continuing still.

In the field of planning it is seen that the country entered into planning era in 1951. The First Five Year plan was made in a haste and regarded as a rehabilitation plan devoid of any recognised strategy. But the unprecedented success of the plan, particularly in the agricultural sector, made the Planning Commission enthusiastic to formulate the Second Five-Year Plan. It was

designed on the basis of Mahalanobis Strategy which laid emphasis on heavy basic and capital industries pertaining to the public sector. The subsequent plans have followed more or less the same strategy with some readjustment and moderation.

Thus, it may be observed that the nationalisation of life insurance business in India was preconceived in the policy resolution of 1948 and matured in the Second-Five-Year Plan. It speaks that the mechanism of finance should be increasingly fitted into the process of economic development. Accordingly, the LICI has been investing more than 80% of its funds in the public sector at a very low rate of interest. It also contributes to finance the five-year plans. But thanks to changes in the national economic climate as well as in the actual performance of the LICI we may divide the whole period into three phases viz. the era of consolidation over the years 1956 to 1970, the era of stagnation over 1970s and the era of growth and orientation over the 1980s and onward. It may be observed that the LICI has been investing its funds in consonence with its objectives of its nationalisation and national economic policy. But earning maximum possible yield has not been ascertained by it.

Chapter-III has dealt with how the LICI does mobilise savings from the community through marketing its products and thereby accumulates the Life Insurance Fund. The LICI markets intangible products (the plans of assurance) and mobilises community savings from the household sector in the form of premium. It is the nature of the LIC products that speaks for rapid industrialisation, spread

of education and mass awareness. Because, these will help moving LICI from selling proposition to marketing strategy which is necessitated to cope with market competition and market penetration We have dealt with the pro rata components of premium and found that the element of savings forms the major portion of premium. Therefore, it may be said that the life insurance plans are the product-mix of risk and savings. The main motivation of life insurance is that LIC premium is the first charge on the life assured's earning and hence it helps practising thrift. It constitutes almost 80% of income of the LICI. The other components of income are the investment income and miscellaneous income. The yield from investments that the LICI earns is much lower than the market rate. This is because of the LICI's investment policy leading to more allocation of its Controlled Fund in the public sector at low rates of interest. Hence, investment income constitutes unexpectedly low proportion of total income.

Chapter-III also deals with how the Life Insurance Fund is generated and how it is expanded. To earn an income we have to spend something. The LICI too earns income vis-a-vis incurs some expenses and thus the difference between income and outgo adds to or adjusts in a fund knownas the Life Insurance Fund. This fund resembles to LICI's net liability. The health of this fund is a golden test of the LICI's growth and performance. The fund can be generated through sales maximisation vis-a-vis cost minimisation. However, the LICI has afforded to minimise cost but has failed to maximise its selling. As such only 11% of the

insurable population has so far been covered and almost 89% has still left untapped. So LICI should give more emphasis on its marketing policy. However, entering into the 1980s the LICI has adopted certain reorganisation programmes e.g. decentralisation of works, market research and market segmentation, HRD philosophy, mechanisation and management information system etc. Consequently, it has experienced a break-through in business growth and a declining trend in cost. The LICI has sustained these trends in the 1990s too. But it has now faced with market competition, the threat of privatisation and split. So, the Government recognised model PSU-the LICI now requires to cope with the threats and competitions firmly.

In Chapter IV we have focussed on the investment activities of the LICI. From all the assets of the Corporation it raises an investible fund called the 'Controlled Fund'. It has been the constant endeavour of the Corporation to provide its benefits to a maximum possible number of people and to channelise the savings mobilised by it for the welfare of the society. The LICI meets this end with its socially purposive investments. Its investment activities may be classified as : Security-wise, sector-wise, zone-wise/region-wise, state-wise and industry-wise patterns of investments. But allocation of Controlled Fund is being strictly regulated by the provisions of Section 27A of the Indian Insurance Act 1938. Under this Section it is stipulated that 50% of the Controlled Fund should be invested in Government or Government approved securities, 15% may be held in 'other investments' and

the balance 35% requires to be invested in 'approved investments' as specified in the Section. The prima facie aim of the Corporation is to ensure maximum possible yield from investment subject to security of capital. While the ab initio goal of the national economic policy of the country is to reduce regional imbalances in growth and development of the different States comprising the Indian Union.

In order to ensure security of capital, the LICI diversifies its investments on the basis of class, character and geographical location of the industries but within the provisions of Section 27A. Hence, security of capital is though ensured, maximum return from investments may not be ascertained and therefore policy-holders' aspirations can not be fulfilled. From the decadal variation in industry-wise pattern of investments it has been observed that it does not conform with plan-strategy and industrial policy prescriptions, while the sector-wise pattern of investments does conform. The stratified investments over zones and States do reflect that flow of the Controlled Fund is more towards the already better-off States and Zones than in the lagging States or Zones. This implies that the LICI has failed in reducing inter-State or inter-Zonal imbalances in respect of allocation of its funds and in fulfilling policy-holders' aspirations as regards maximum possible return from investments.

The Chapter-V has dealt with the economies and diseconomies of the LICI. The significance of estimating the economies of

scale lies in regulatory, functional and management decisions. We have estimated efficiency of the Corporation conventionally by using some of the critical ratios as well as estimated the scale economy emperically by applying the translog cost function. From the cost function analysis it can be asserted that operating economies tend to increase till 1985 as the activity of the LICI grew. But thence a tendency toward diseconomy is discernible. This result almost confirms the results we have obtained from the conventional method. The critical ratios viz. the Renewal Expense Ratio and Overall Expense Ratio show economies of scale as the costs decline with the increase in output or new business. Of late, the LICI has been doing multi-product business, the multi-facet impact of which needs to be analysed under scope economies along with scale economies. But we leave it for our future endeavour. However, from our study it may be inferred that at least with regard to loans, investments and total assets there exists further scope for economising in future.

Conclusions:

Last but not the least we may conclude that in the face of present-day consumer profile and tough competition from like institutions, the LICI should right now think for product differentiation, cost minimisation and market orientation. Pari passu, it should also modify the mortality table on the basis of up-to-date statistics on birth and death and offer insurance cover at a lower cost and should undergo further amendment in Section 27A of

Insurance Act 1938, so as to ensure maximum yield from investments. All these have now become indispensible to cope with the threat of de-nationalisation and split of the industry. Because, LICI's monopoly in the market is at stake, unless otherwise, the LICI will have to loose a vast untapped market potential. However, we may offer a few suggestions for arresting the lapsations we pointed out and for further improving the activities of the industry.

Suggestions:

The present study has made an evaluation of the various aspects of life insurance business in India and has put forth the successes, failures and drawbacks of the Life Insurance Corporation of India. It is almost imperative for a study to prescribe some suggestions to overcome the drawbacks pointed out and thereby to enhance further business, lest the study suffers incongruity. A few of the suggestions are:

(1) Revision in premium bases stands over due. After April 1980, there has been made no further revision in premium rate. But in a sharp contrast, substantial development has occurred in science and technology leading to higher life expectancy. Therefore, in conformity with the present mortality experience premium rate should be revised.

(2) With the advancement in education, technology, urbanisation and mass-media, consciousness grows in people. Some conscious people, now-a-days, purchase LIC policy without demonstration by an agent. So, there should have been scope for them to purchase

LIC policy directly from office and thereby some rebate on premium may be allowed to them as in case of employees of the Corporation.

(3) The rate of interest as realised by the LICI on its Mean Life Fund is far below the market rate of interest. This is because of its 80% investment in the public sector at a very low rate of interest. Therefore, the LIC of India should urge upon undergoing an amendment under Section 27A of the Insurance Act 1938 towards liberalisation of its provisions in order to compete with other financial organisations in the market.

(4) The Government should give up its share of dividend for constituting a fund to offer free insurance cover to socially and economically deprived sections of the community.

(5) The Government should allow the LICI to invest funds in attractive bonds/securities to earn more yield and fulfil the aspirations of policy-holders for higher returns.

(6) The LICI should reduce paper-works through mechanisation and thereby should minimise stationery expenses and other management expenses.

(7) The LICI should introduce a system of manpower planning in order to reduce the discrepancy in allotment of staff to different offices.

(8) The Corporation should ensure better co-ordination between the sales and servicing wings for prompt customer services.

(9) It should liberalise its valuation process considering higher life expectancy and market competition as being experienced

in recent years.

(10) The Corporation may encourage scale and scope economic analysis which will point out the pros and cons of its multi-product business.