CHAPTER - I

INTRODUCTION

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INDIAN INSURANCE IN RETROSPECT

Although indicators are available from the writings of Manu, Yagnavalkya and others that the insurance business existed in India even in ancient times, "it has been established that village co-operative insured against loss of profit in an industry in the early days of Aryan Civilization. There were contracts safeguarding the risk of transport by sea or land. Further, the well renowned joint-family system rendered services similar to those of present life insurance. However, excepting the joint-family all other waned with the passage of time."[1] But the early historical background of insurance in this country, has not been published widely.

The modern form of insurance business, was brought to this country from England as it was brought to European countries, the U.S.A. and Canada at different period of time.

The actual origin of modern life insurance is, however, hidden in the mists of antiquity though life assurance policies are known to have been granted, during the reign of Elezabeth.[2]

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1 Malhotra, R.P., Elements of Insurance, Macmillan (India), 1975, pp 16-17

2 Tyler V.W. & Tayler H.H., Life Assurance, Sir Isaac Pitman & Son Ltd., 1954, p 6.

The insurance business emerged in England sometimes in the sixteenth century even before the invention of mortality table.[1] In India, upto the end of the nineteenth century, the insurance was in the inceptional stage. Therefore, no legislation was required till that time. Usually the Indian Companies Act 1883 was applicable in business concerning banking and insurance companies. New Indian Insurance Companies and Provident Societies started at the time of national movement, but most of them were financially unsound. It was asserted that Indian Companies Act, 1883 was inadequate for the purpose. Therefore, two Acts were passed in 1912, viz., Provident Insurance Societies Act V of 1912 and Indian Life Insurance Companies Act, VI of 1912. These two Acts were in pursuit of the English Insurance Companies Act of 1909 with the difference that the Indian Life Insurance Companies Act related to the life insurance only and excluded the non-life business from its fold. The Act put the life insurance business in India on sounder footing and resulted in creating a healthier atmosphere than before. It was also instrumental in the dissolution of some unsound Indian as well as non-Indian life offices or in the merging of some of them with the others. The legislation in India was confined to life business because there were very few general insurance companies. To prevent financial weakness the insurers were required to keep certain stated deposits. The Indian insurers

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1 Desai, G.R., Life Insurance in India - Its History and Dimension of growth, Macmillan (India) 1973, pp 1-6.

p. 3

were required to submit returns giving particulars of their business. The foreign insurers were exempted from submitting separate particulars relating to the business done in India. Some English companies ceased to underwrite further business with a view to avoid submission of Reports to the Govt. of India. Some Indian Companies which conducted business on assessmentism or on acturially unsound basis, either dropped or mortgaged them to conform to acturial requirements. The aim of the Provident Insurance Societies Act, 1912 was to govern the Provident Insurance Societies which were engaged in issuing life policies worth Rs.1000 or less and marriage and disease policies of very nominal amount. This Act was purely based on Friendly Societies Act.

A number of societies disappeared from the scene of operation particularly in Gujarat and Bengal with the introduction of the above mentioned Acts. These societies were collecting massive funds in the form of subscriptions promising large attractive benefits. 'It is said that only 90 out of 1200 such societies existed by the year 1915.'

When we look at the history of life insurance in India, we find that the authoritative data on Indian insurance began to be recorded only from 1914 when the government started publishing the returns of life insurance companies in India.[1] Therefore, very little is known about the early history of Indian insurance companies. Perhaps the Oriental Life Assurance Company founded in 1818 in Calcutta, mainly by Europeans, was the first to start insurance

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1 Desai, G.R., Life Insurance in India (Madras: Macmillan India, 1973), p.1.

business in India.[1] We also note that prior to 1912, there was no insurance law in India.[2]

To check the unhealthy competition between foreign companies and provident societies, the Government of India placed a bill for the necessary amendment in 1912 Act. But as the enactment of insurance business in England were in the active contemplation, the Government of India thought it fit to watch the course of new legislation in England. Since no action was taken the Government of India in 1928 passed a stop-gap legislation with the main object of collecting statistics regarding insurance matters so that the information collected would be of value when the time would come to pass comprehensive Act. This Act was not very comprehensive. The government of India wanted to wait the English legislation which was expected to be passed in 1929 or so and base the law for India on the British model but the legislation was not passed in Britain. Though the Act of 1928 was enacted on a consistent public demand it did not fulfil the hopes and aspirations of the policy-holders. The Government of India, therefore, appointed a special officer to go through the details of insurance in India and to recommend ways and means to protect the interest of the policy-holders to the maximum. The report submitted in the year 1935, was referred for opinion to a consultative committee, consisting of representatives of various interests. The committee made several changes and passed on their recommendations, the

1 Sarkar, M.R. Excerpt from the speech delivered as the Chairman of the Reception Committee of Indian Insurance Conference held at Calcutta in 1937.

2 Mishra, M.N., Law of Insurance (Allahabad: Central Law Agency, 1977) p.3.

Indian Insurance Act was passed in 1938 which came into force on July 1, 1939. This Act provided for a detailed control mechanism our life insurance companies' investments. Commenting on the Insurance Act, 1938, S.R. Bhave writes: "Departing from the principle of minimum control which was the basis of U.K. Insurance laws and maximum control provided by the Canadian and American laws, the Act embraced the whole-field of insurance and was first comprehensive measure to control the business and direct its growth on sound limes."[1]

Since then the Insurance Act, 1938 has been amended several times. In 1946, the Government of India wanted to introduce a new Bill[2] to provide for adequate control over expenses, capital structure, voting rights, excessive remmunera-tion, part-time and common executives and various other matters. Certain political developments and unrest in the country at that time contemplated the introduction of the Bill. Again an informal committee consisting of S. Ranganathan, Secretary, Ministry of Commerce, M.A. Ansari, Superintendent of Insurance, L.S. Vaidya-nathan (Oriental), J.C. Setalbad (Vulcan), P.K. Shah (New India), T.C. Kapoor (Bombay Mutual), N. Dutta (Hindusthan), N.V. Naidu (United India), S.C. Ray (Aryasthan) and N.G. Gore (Presidency Life) was set up to review the position of Indian insurance companies and their assistance to Indian industries. Insurance (Amendment) Act, 1950 was the result of their recommendations.

1 Bhave, S.R., Decade of Transition, Saga of Security, Vakil and Sons (pvt) Ltd., Bombay, p. 191

2 This Bill was designed to give affect to the recommendations of Cawasjee Jahanger Committee.

This Act also redesigned the Superintendent of Insurance as the Controller of Insurance giving more powers to him including a keen supervision of the investments of the Life Funds.

Life Insurance and Nationalism

Though the LIC was formed on 1.9.1956 and an Ordinance for nationalisation of life insurance business was promulgated on 19th January, 1956, the climate for national ownership was really building up over many years prior to these events. It was in the Lahore Congress in 1929 that Pandit Jawaharlal Nehru spelt out 'Swaraj' to mean "complete independence" both political and economic, in the Karachi Congress held in 1931, he stated clearly that the state would have control over "key industries" which was to include Banking and Insurance.[1]

The National Planning Committee Report (1938-46) while commenting on the role of insurance in the national economy had explained that the "Recognition of insurance as a social service.. ... and mobilisation of its funds will much better enable capital to be found for other development projects far more effectively."[2] The clamour for nationalisation of insurance was accentuated after India achieved her independence in the year 1947. The Avadi Congress in 1955, perhaps, provided a turning point, as it was at this session that the ruling party declared "Socialistic Pattern of Society" as its goal. This was followed by nationalisation of

1 LIC: Towards a Secure Future, Central Office, Bombay, September 1986, p.3

2 Ibid. p 4 (quoting National Planning Committee Report 1938-46).

the Imperial Bank (1955) and life insurance business (1956).[1]

However, there were people in the ruling party who scoffed at the suggestion of nationalisation of life insurance business. According to them there was no parallel and no precedent. Till then life insurance industry was not nationalised anywhere in the world. The only time it was attempted in France, the experiment failed and the industry was returned to private sector. The moral, therefore, according to the sceptics, was that life insurance industry was not capable of being managed through public sector. But these prophesies of negation have proved wrong, and the institution has not only survived and thrived for 30 years it has also been successful enough to provide inspiration to other developing Afro-Asian countries to go in for nationalisation of their life insurance business. In any case, the founding fathers of this institution and all those who were associated with this could be proved that "LIC represents the first successful experiement in the nationalisation of life insurance business."[2]

THE LIFE INSURANCE CORPORATION OF INDIA

The Life Insurance Corporation of India (LIC) was formed by an amalgamation of 245 independent insurance companies[3] whose life insurance business was acquired by the Government of India in January, 1956. This was really a great event for Indian

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1 Ibid. p. 4
2 Ibid. p. 4
3 Desai, G.R., Life Insurance in India - Its History and Dimension of Grbwth. Macmillan Company of India Ltd., Madras, 1973, pp 71-76.

Capital Market not only because the ownership of such insurers stood transferred from the private sector to the public sector but because nationalisation vested concentration of investible funds in a single authority. It is this concentration of investible funds that has made LIC so much influential institution in the Indian Capital Market.

The decision of the Central Government to establish the LIC and permit it to function as on such gigantic scale was, indeed, a courageous step as in most of the countries, the governments have preferred either not to touch this industry or allow to compète the private companies with state owned Corporations.[1]

Objectives of the LIC

Over years LIC, like other progressive business enterprises, has formed its corporate objectives. A 'Silver Jubilee Review' by LIC inter-alia envisages the following as its corporate objectives:-

1. To spread life insurance much more widely and in particular to rural areas and to the socially and economically

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1 The insurance industry in Canada is predominantly under the free enterprise system (Rhind, J.C. & Dandridge, L. Canada, Insurance in the World Economics, p. 117). In Japan all the insurance companies are mainly managed by private companies (Japan Insurance News, Tokyo, No. 64, November, 1984, pp.20-23).

The insurance business in Netherlands is handled by the private sector of the land (Mulder, H.L., The Netherland, Insurance in the World Economics, p. 610). Insurance is totally controlled by the private companies in the U.K. (Insurance Facts and Figures, 1983, British Insurance Associations, London, p. 24). All insurance companies except one are owned by private capital in Singapore (Ting, P.K., Insurance in World Economics, Republic of Singapore, p.610). Similarly, the insurance industry in the U.S.A. is heavily captured by the private sector units (Horn, R.C., Insurance in the World Economics, the U.S.A., p. 787).

backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death ab a reasonable cost.

2. To maximise mobilisation of peoples' savings by making insurance-linked savings adequately attractive.

3. To bear in mind, investment of funds, the primary obligations to its policy-holders, whose money it holds in trust, without losing sight of the interest of the community as a whole, the funds to be deployed to the best advantage of the investors as well as the community as a whole; keeping in view the national priorities and obligations of attractive return.

4. To conduct business with utmost economy and with full realisation that the moneys belong to the policyholders.

5. To act as the trustee of the insured public in their individual and collective capacities.

6. To meet the various life insurance needs of the community that would arise in the changing social and economic enviroment.

7. To involve people working in the Corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy.

8. To promote amongst all agents and employees of the Corporations a sense of participation, pride and job satisfaction

through discharge of their duties with dedication towards the achievement of Corporate Objectives.

Objective of the Study

The present study is an attempt to appraise the activities of Life Insurance Corporation of India during the past three decades, encompassing its birth, growth strengths, weaknesses and tasks before it. One of the objects of the nationalisation of the life insurance business in India was to spread the message of life insurance to the remotest corner of the country - particularly to the rural areas, and to the socially and economically backward strata of our society and putting the people's money to good use by investing it to promote the welfare of society by working on business principles. LIC was to fulfill these responsibilities without ever losing sight of its primary obligation to the policyholders, that of providing absolute security with reasonable return and best possible service. Therefore, we, propose to make an overall appraisal of the Corporation's performance - how well it has been able to tackle the tasks entrusted to it? What are the achievements and failures of the Corporation and what more it has to achieve?

Period Covered

The study has devoted itself to a period of eleven years- 1st April, 1975 to 31st March, 1986. For the purpose of comparison, performance for the earlier years had also been studied. Similarly the study has been updated with the information available till December 31, 1987.

Sources of Data

The study is mainly based on data collected from secondary source - Annual Reports and Accounts of Life Insurance Corporation of India, Reports and publications of Reserve Bank of India and various reports of the committees appointed by the Government of India. Learned publications(including unpublished dissertations) and journals were also studied for collection of material. Besides, data has also been collected from primary source, unpublished records of LIC. The information has also been gathered through structured and unstructured questionnaires and personal interviews of managerial cadre, office staff, agency force and policy holders.

Methodology

The study is based on historical method of research. Data collected from various sources have been processed, collated and interpreted to analyse the performance of the Corporation. In a limited manner, questionnaire and personal interview approaches had also been employed to gather relevant information. Statistical tools such as percentage, average and index numbers have been used to obtain precise results.

Plan of the Study

The study is divided into two broad headings : i) Management of Risk Cover, and ii) Management of Funds. In Part I of our study, we have examined the operational performance like income and expenses, growth of life insurance business under individual and group insurance, size of policies according to sum assured, lapsation of business, growth of business in force and life fund, settlement of claims, monthwise variance in business proposed and converted into policies, planwise distribution of new business, bonus rates of LIC, percentage of insurable population covered by the Corporation and so on. In addition, we have also made a comparative study of the some of the comparable aspects of LIC with that of Postal Life Insurance (PLI) and Unit-Linked Insurance Policy (ULIP) - especially the charge of risk cover by the LIC and PLI. Moreover, we have also examined the likely amount payable on premature death of a person who takes a policy on certain age under LIC, ~~and~~ PLI and ULIP. The organisational set up including split up of the Corporation has also been examined.

In Part II of the study, we have encompassed items like statutory control on the management of life funds, principles of management of life funds, investment in government securities, corporate securities and investment in socially-oriented schemes. In other words, we have made an appraisal of the investment portfolio of the Corporation. Though the present study does not examine the LIC's role in the management of investee companies but in light of the importance of this topic in recent years, we have cursorily examined the LIC's role as on institutional investor in the investee companies. This has been done to locate the problems and prospects of LIC's active involvement in the management of public limited companies financed by the Corporation. Finally, an overall appraisal of investment pattern of LIC has been made to find out the trend and pattern of investment.

Structure of the Dissertation

In view of the objects and scope of the work, an attempt has been made to appraise the overall performance of the Corporation through the chapters mentioned as below :-

Part - 1 : MANAGEMENT OF RISK COVER

Business of the LIC

We have concentrated in this chapter on procurement of business and different aspects related to risk cover. These aspects have been evaluated in the following broad headings : (a) procurement of new business, (b) regionwise distribution of new business (c) procurement of business under first insurance (d) rural business and problems of rural agency force in procuring rural business (e) salary saving schemes (SSS), (f) group insurance and (g) segmentwise coverage of life insurance.

Insurance Plans and Related Matters

In this chapter we have noted salient features of the various insurance plans marketed by the LIC including the new thrust areas. An attempt has also been made to evaluate marketing success of various plans in terms of new business assured (both according to sum assured and number of policies). We have also focussed attention to month-wise variance in business proposed and proposals converted into policies as it reveals a disturbing trend. The settlement of claims and complaints together with lapsation matters also occupy our attention in this chapter.

Income and Outgo

In this chapter we have dealt with growth of the Corporation. The net income of the Corporation for each individual year has been divided into three main categories viz., premium income, investment income and miscellaneous income. Thereafter, the total outgo or expenses of the Corporation have been examined to monitor its growth. The total outgo of the Corporation for the purpose of our study has been divided into three categories - (a) benefits to policyholders which include payment of claims, annuities payment, payment through surrenders, bonuses etc; (b) managerial expenses - comprising of payment of commission to agents, payment to employees through salaries and other allowances and other management expenses and (c) transfer to different reserves under the provisions of different sections of Life Insurance Corporation Act, 1956. Finally, after meeting the above mentioned expenses and transfer to different reserves the net accretion to life fund of the Corporation has been examined to find out the trend and rate of growth of Life funds over the period under study. This chapter has also analysed the expenses ratio of the Corporation for this period.

Life Insurance Cover : An inter-institutional Assessment

In this chapter we have made a comparative study of LIC, Postal Life Insurance (PLI) and Unit-Linked Insurance Policy (ULIP) in respect of :-

(i) Rates of premium under LIC, PLI and ULIP;

(ii) Likely amount payable on premature death under LIC, PLI and ULIP;

(iii) Impact of Income-tax Relief or charge for life risk;

(iv) Bonus rates of LIC, PLI and ULIP.

Part - II : MANAGEMENT OF FUNDS

In this part of study, we have concentrated on the investment portfolio of the LIC. The performance of the Corporation in managing its investible funds has been evaluated as under :-

Management of Life Insurance Fund

First of all, we have discussed in brief the generally accepted principles and channels of investment of life insurance funds. The generally accepted principles of investment of life insurance funds are - safety of capital, reasonable return on investment, degree of liquidity of investment and diversification of investments. After a brief discussion on these general principles of investment, we have concentrated on analysing the channels of investment like government securities, corporate securities (shares, debentures and loans), mortgage loans, loans to policyholders, investment in real estate, sectorwise investment etc.

In this chapter we have also dealt with the investment of life insurance funds prior to nationalisation of life insurance business and government control on the investment policy of the Life Insurance Corporation of India i.e., after nationalisation.

LIC's Investments in Government and Government Approved Securities Socially Oriented Schemes

The reasons for dominating position of government securities in the investment portfolios of the Life insurers form the main thrust of this chapter. LIC's investments in the government securities have been analysed as follows - composition of government securities - central and state government securities, approved securities, state-wise distribution of approved securities, investment in foreign government securities etc.

The LIC, under the slogan of the socialistic pattern of society of the government of India, has of late given utmost importance to socially-oriented schemes sponsored by the state governments. Huge amount of the LIC's funds is being channelised to such programmes in recent years. In this chapter, we have evaluated the LIC's investment in socially-oriented schemes like Electricity, Housing, Water Supply, Sewerage, Road transport, loans to policy-holders, loans to industrial estates, investment in real estates etc.

<u>LIC's Investment in Corporate Sector</u>

LIC plays a very important role in the industrial finance of Indian economy. In view of LIC's dominating role in the sphere of industrial finance, we have examined its recent trends, investment pattern and capital market activity of the Life Insurance Corporation of India. The Corporation finances the Indian industries in two ways - first it extends financial assistance to public limited companies by contributing to the shares and debentures of such companies directly and secondly through extending special financial assistance to specialised financial institutions like, IDBI, IFCI, ICICI, SFCS, SIDCS, etc. established for providing financial assistance to companies in the private sector. Hence, we have examined the LIC's role in the industrial finance.

Before investing its funds in the corporate enterprises, the LIC has to go through a number of paraphernalia which is called project appraisal. We have, therefore, examined the criteria for project appraisal in general and those used by the LIC in particular. LIC's investment in corporates securities has been examined in the following broad headings - (a) composition of corporate securities - (i) shares - equity and preference, (ii) debentures; (b) zone-wise distribution of corporate securities, (c) state-wise distribution of corporate securities, (d) industry-wise investment in corporate securities, (e) investment in 'large groups' of industrial undertakings, (f) investment in Big Business Houses (according to size of investment), (g) composition of investment in large undertakings and (h) underwriting operations of the LIC.

To begin with and for a quite a long time, LIC was the biggest institutional investor in India. In recent years it has been relegated to the second position. Since the Corporation holds a fairly a large interest in many public limited companies it is expected to play some role in the management of the investee companies. The LIC was acting as a passive shareholder till early seventies. Since then Corporation has started taking active role in the management of selected companies as per government policies. This has generated a fair amount of deliberations both inside and outside Indian Parliament. We have, therefore, also examined the prospects and problems of LIC's active participation in the management of investee companies, by the LIC.

PART - III

Organisational Structures

In this chapter we have studied the organisation and re-organisation of the Corporation. We have also examined the tenure of Chairmen, Managing Directors and Members of the Corporation, problems related to the agency force have also been taken up.

Our main observations and humble suggestions constitute the concluding part (chapter) of this study.

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