

PART - ONE

MANAGEMENT OF RISK COVER

CHAPTER II

BUSINESS OF THE L.I.C.

CHAPTER - II

BUSINESS OF LIC

In measuring LIC's achievements vis-a-vis the important objective of spreading the message, which in fact is the raison-d'être for its existence, a few questions have to be answered. What has been the overall growth of the Corporation in terms of business - the vertical growth? Is it satisfactory? Has there been a sufficient horizontal spread of business encompassing the rural areas, penetrating all layers of the society including the weaker section? We shall try to appraise the performance on major counts.

BUSINESS IN FORCE

One of the prime reasons for nationalisation of life insurance business was to extend the umbrella of social security to as large section of the society as possible. In the words of C.D. Deshmukh "The nationalisation of life insurance will be another milestone on the road of the country has chosen in order to reach its goal of socialistic pattern of society. Into the lives of the millions in rural areas it will introduce new sense of awareness of building for the future in the spirit of calm confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people."¹ It was,

¹ Statement given in the Parliament by the then Finance Minister, Dr. C.D. Deshmukh while introducing the Life Insurance Corporation Bill on 19th January, 1956.

therefore, quite natural that the LIC would cost its net wide to secure as much business as possible. Though business in force includes both individual as well as group insurance, we have considered here only the former. The growth of group insurance business does not require as much initiative and dynamism by the LIC as in the case of individual business. The policies of the state primarily influence growth in group insurance business. But growth in group business does make securing of individual business for organised working force a difficult task as they already stand covered for reasonable risk.

Sum Assured

The business in force under individual assurances as on 31st December 1957 was Rs.1,474 Crores (sum assured) under 56.86 lakhs of policies,¹ which rose to Rs.48,151 Crores under 298.60 lakhs policies as on 31st March, 1987. Thus during three decades the LIC has secured a 32.67 fold increase in sum assured and 5.25 fold increase in its insurance policies. We have presented a picture of growth rate for our study period in TABLE II.1. During this period though growth of business (sum assured) registered an increase of 3-6 times, the number of policies in force increased by 1-5 times only. The business growth rate was, however, very much uneven - (i) it fluctuated between 6.63% and 19.63% and (ii) a higher rate of increase (%) was without fail followed by a lower rate of increase. This lower rate of increase was again followed by a higher rate of increase and so on (Graph II.1).

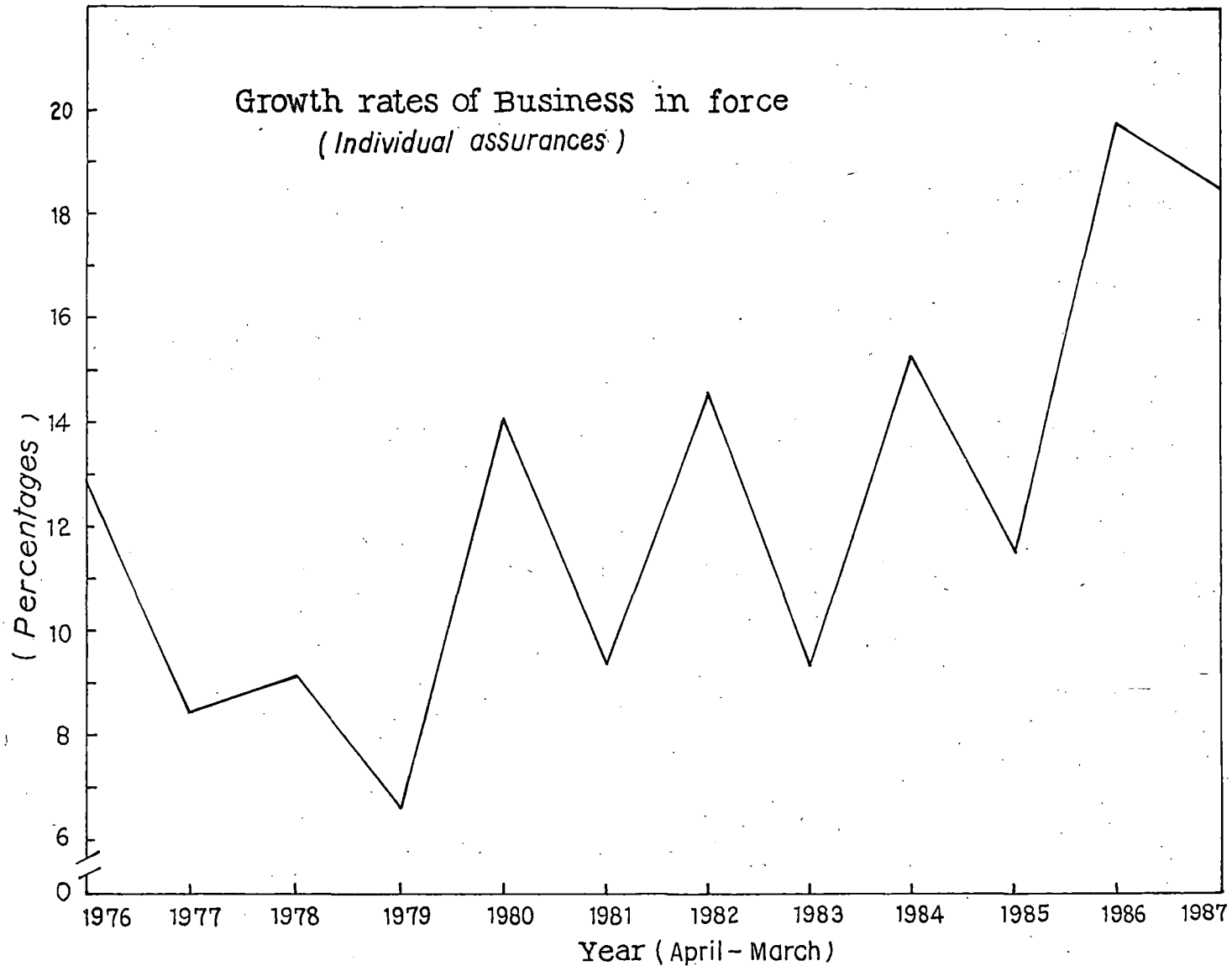
1 Towards A Secure Future, Life Insurance Corporation of India, Central Office, Bombay, September, 1986, p.6.

TABLE II.1

GROWTH OF BUSINESS IN FORCE
(INDIVIDUAL INSURANCE)

Year	Sum Assured (Rs. crores)	No. of poli- cies in force (In lakhs)	Average sum assured In 000 per policy	Percentage growth(%) over previous year	
				Sum Assured	No. of Policies
(1)	(2)	(3)	(4)	(5)	(6)
1975-76	13,372	196.77	6.79	12.82	4.55
1976-77	14,498	203.43	7.14	8.42	3.38
1977-78	15,818	207.69	7.60	9.10	2.09
1978-79	16,866	212.30	7.95	6.63	2.22
1979-80	19,243	220.94	8.80	14.09	4.07
1980-81	21,057	228.12	9.23	9.43	3.25
1981-82	24,133	236.57	10.18	14.61	3.70
1982-83	26,402	244.31	10.82	9.40	3.27
1983-84	30,426	253.24	12.03	15.24	3.66
1984-85	33,951	265.31	12.61	11.59	4.77
1985-86	40,617	280.47	14.51	19.63	5.71
1986-87	48,151	298.60	16.10	18.55	6.46

Source : Compiled and computed from LIC's Annual Reports
and Accounts.



(Fig. 11-1)

The highest rate of business growth was recorded during 1985-86 and though this rate could not be maintained during the next year, the growth rate of each of these two years was the highest for our study period.

Number of Policies

The rate of increase in sum assured is not reflected in the rate of increase in the policies. The rate of increase in policies is about 1/3rd of the rate of increase in the sum assured. It fairly indicates the inability of the LIC to bring potential investors into its folds. Though, like sum assured, rate of increase in number of policies in force witnessed fluctuations, its magnitude was of a low order. The lower rate of increase in number of policies in force is also explained by the sum assured (S.A. ÷ no. of Policies) per policy. Like sum assured and number of policies in force, the average sum assured per policy has also shown a continuous upward trend. Average sum assured has gone up by 6.22 times in three decades, the rate of growth being 2.37 times for our study period.

The foregoing analysis in absolute terms stands blurred when related with the concerned variables. The following observations are worth record in this connection :

- (i) Though per capita sum assured stood at a low amount of Rs.218.14 during 1975-76, it recorded a constant growth trend (at current price level) and cover amount goes by 2.43 times

during the study period (TABLE II.2). But when considered at adjusted prices (base 1970-71) not only cover amount was a little more than half of the current price cover it showed a mixed growth trend during seven years the value of cover was less than what it stood at the beginning. Only the remaining three years witnessed a rise in cover value. At the end of the study period (1985-86) it increased by only 1.1 time (at 1970-71 price level) against 2.43 times at current prices.

(ii) An increase of 1.5 times in number of policies in force during study period was brought down to lower level by population explosion. Relating of policies cover with population shows only 1.14 times rise in number of policies issued per thousand of population (TABLE II.2).

Thus relating of growth with concerned variables shows an unenviable record of the LIC's growth profile.

However, if we include group insurance in the growth profile (though as stated earlier group-business results more from state policy prescriptions than from the LIC's efforts) the observed trend does not differ materially. It simply shows an improvement (TABLE II.3) in growth profile for per capita sum assured - 1.12 times rise (at 1970-71 based price in per capital sum assured as against 1.1 time increase in individual insurance business). In relation to population coverage the situation is not so happy - there has been only 1.25 times increase (as against

TABLE II.2

Business (individual insurance)
in Force: Relative Growth Factors

Year	Population (in crores)	Index No. of whole- sale prices (1970-71 = 100)	Per capita sum assu- red	No. of poli- cies issued per thousand of population	Per capita sum assu- red to whole- sale price base(1970- 71 =100)
(1)	(2)	(3)	(4)	(5)	(6)
1975-76	61.30	162.6	218.14	32.10	134.16
1976-77	62.60	182.1	231.60	32.50	127.18
1977-78	63.80	182.7	247.93	32.55	135.70
1978-79	65.10	191.1	259.08	32.61	135.57
1979-80	66.40	232.0	289.80	33.27	124.91
1980-81	69.00	270.7	305.17	33.06	112.73
1981-82	70.50	277.1	342.31	33.56	123.53
1982-83	71.20	295.3	370.01	34.51	125.57
1983-84	73.60	321.7	413.40	34.41	128.50
1984-85	75.10	345.3	452.08	35.33	130.92
1985-86	76.60	359.3	530.25	36.62	147.58

Source : Column 2 - Report on Currency and Finance 1985-86,
pp. 5-8

3 - Economic Survey 86-87 p. 5 48

4 - Table II.1 Column (2) ÷ Column (2)
of this table.

5 - Table II.1 Column (2) ÷ Column (2)
of this table

6 - Column (4) figures adjusted to index
No. (column 3) of this table.

TABLE - II.3

GROWTH OF BUSINESS IN FORCE
(INCLUDING GROUP INSURANCE)

Year	Sum Assured (Rs.Crores)	Per Capita Business in Force		No. of Policy-holders under Individual Business plus no. of members under group insurance (In lakhs)	No. of Policies issued (including group insurance per 1,000 of population.
		At Current Prices (Rs.)	At 70-71 Prices (Rs.)		
(1)	(2)	(3)	(4)	(5)	(6)
1975-76	16,869	275.19	169.24	241.91	39.63
1976-77	17,942	286.61	157.39	244.22	39.01
1977-78	20,190	316.46	173.21	252.09	39.51
1978-79	22,667	348.19	182.20	268.20	41.20
1979-80	25,380	382.23	164.75	278.97	42.01
1980-81	28,017	406.04	150.13	292.08	42.33
1981-82	31,919	452.75	163.40	305.40	43.32
1982-83	35,374	496.63	168.24	318.57	44.74
1983-84	39,677	539.09	167.60	329.06	44.71
1984-85	44,170	588.15	170.33	345.13	45.96
1985-86	52,361	683.56	190.25	378.12	49.36
1986-87	60,794	N.A.	N.A.	401.82	..

Sources: Columns 2 and 5 compiled and computed from annual account and reports for the relevant years

Column 3 - Column (2) of this table - Column (2) of Table II.2

Column 4 - Column (3) of this table adjusted to index no. Column (3) Table II.2

Column 6 - Column (5) of this table - Column (2) of table II.2.

1.5 times increase in individual insurance business) in number of policies issued per thousand of population.

Though the study of relative growth is more meaningful, for the sake of comparison we have confined ourselves with absolute growth pattern. This enables us to compare our work and also draw inferences in light of the following studies :

- (i) Bajpai, O.P., Life Insurance Finance in India
- (ii) Singh, S.P., Investment Pattern of Life Insurance Corporation of India
- (iii) Rai, O.P., Income and Expenses Pattern of the Life Insurance Corporation of India
- (iv) Mishra, A.K., Investment Pattern of Life Insurance Corpn. of India
- (v) NCAER, Attitudes Towards Life Insurance

NEW BUSINESS

The performance of the Corporation in respect of acquiring new business was quite satisfactory during the first two decades of its nationalisation. Prior to nationalisation in 1955 the total business written by the erstwhile 245 companies amounted to Rs.260.84 Crores¹ whereas the same went upto Rs.4,385.34 crores in the year 1975-76. The total new business written by the Corporation during the period under study registered a tremendous growth in its volume. For instance, the aggregate business (inclusive of group insurance) transacted by the LIC in the year 1975-76

¹ Pradhan, R.B., LIC, Chairman in capital, Calcutta, February, 1977, pp 137-38.

was Rs.4,385.34 crores which galloped upto Rs.19,958.09 crores in the year 1986-87. In other words, the new business registered an increase of 455 percent during the study period (1975-76 - 1986-87). During the recent past, both number of policies and sum assured have shown an improving growth percentage over previous years. The trend during second, third, fourth and fifth years of our study does not indicate the growth pattern as first three years of this period had strain of poor employees and agents relations on achievement of new business. The fourth year perhaps represents extra efforts to make up part backlog. During the last three years of our study, the ^{re} quantum jump, though with a fall during 1986-87 (TABLE II.4).

The rate of growth in policies is less than growth rate in sum assured which is a fair indicator of increasing size of insurance cover. This can also be demonstrated through the TABLE II.5. In 1960 policies with sum assured of Rs.5000 or less constituted as much as 81.60% but this has steadily declined to 19.80% in 1985-86. Policies with sum assured of more than Rs.5000 but Rs.10,000 or less constituted only 12.40% of the total number of policies (individual insurance). Their percentage, however, increased to 25.10 percent during 1985-86. Similarly, policies of more than Rs.10,000 but Rs.25,000 or less accounted for 5% of the new policies whereas their class accounted for 25.20% of the policies during 1985-86. In 1960 policy covers exceeding Rs. 25,000 accounted for as little as 1% of the policies issued but percentage for this category shot up to 19.90% during 1985-86.

TABLE - II.4

**GROWTH OF NEW BUSINESS
(Individual Insurance)**

Year	Number of Policies (in lakhs)	Sum Assured (Crores of Rupees)	Percentage growth over previous year		Average sum assured per new policy (Rs.)
			Policies	Sum Assured	
1975-76	20.12	2,116.30	11.8	19.39	10,518
1976-77	20.56	2,112.02	2.2	-0.20	10,272
1977-78	18.58	2,020.71	-9.6	-4.32	10,876
1978-79	17.59	2,073.32	-5.3	2.60	11,787
1979-80	20.98	2,744.33	19.5	32.36	13,081
1980-81	19.58	2,896.95	7.3	20.57	14,795
1981-82	21.06	3,492.89	6.3	14.37	16,585
1982-83	22.35	3,994.77	6.1	10.52	17,674
1983-84	23.70	4,415.28	14.1	22.27	18,630
1984-85	27.04	5,398.57	21.8	31.30	19,965
1985-86	32.94	7,088.45	21.8	31.30	21,519
1986-87	36.76	9,107.59	17.6	28.48	

Source :- Compiled from Annual Reports and Accounts
of the LIC for years 1975-76 to 1986-87.

TABLE - II.5

PROPORTION OF NEW POLICIES ACCORDING
TO SUM ASSURED

Year	Rs.5,000 or less	Rs.10,000 or less	Rs.25,000 or less
1960	81.60	94.00	99.00
1964-65	79.80	88.70	97.70
1969-70	51.50	79.60	95.80
1974-75	49.80	77.00	94.20
1979-80	38.80	68.00	92.10
1980-81	34.40	63.90	89.70
1981-82	31.50	60.40	87.30
1982-83	28.50	57.20	86.00
1983-84	26.70	54.10	84.60
1984-85	23.60	49.70	83.00
1985-86	19.80	44.90	80.10
1986-87	N.A.	N.A.	N.A.

Source :- LIC - Towards A Secure Future, p. 7.

Considering the falling value of rupee this rising insurance cover is not surprising. As on 31st March, 1986 only 4.4% of the policies issued were for more than Rs.50,000. LIC holds that "the majority of the policy holders of LIC come from the middle class or lower-middle class strata and the Corporation does not depend only as the affluent or the very rich for its custom."¹

This, however, does not stand much to reason as taking of multiple policies is very common and the fact that policies of more than Rs.50,000 are less than 5% does not mean that upper-class does not avail of insurance facilities in a big way. Of course, due to inadequate information on policy-holders through multiple policies profile we cannot disprove LIC's contention also ("Corporation does not depend only on the affluent or the very rich for its custom"). Nonetheless, the fact remains that only less than 1/5th of its policies have a cover value of Rs.5,000 or less whereas even now purchase of an insurance cover of this modest amount is a distant dream to millions of bread winners.

Region-wise Distribution of New Business

The study of region-wise distribution of new business under individual insurances for the years 1975-76 to 1985-86 indicates that the performance of Southern Region has been far better than the other regions - both in terms of number of new policies as well as the total sum assured. (The same trend conti-

¹ LIC: Towards A Secure Future, p.7.

nued during 1985-86. Accounting for 24.11% of the population, the region contributed 33.3% of new policies with 31.3% of the business assured). The picture was quite different during the decade ending March 1975. During that decade the Western Region dominated the scene followed by the Southern Region. Both regions competed with each other for occupying first position. The Southern Region overtook the Western Region in the year 1975-76 both in number of policies and sum assured and the gap went on increasing. The Southern Region left the Western Region far behind during the year 1983-84 when the total business of the Southern Region in terms of sum assured was Rs.1,377.54 crores under 7.90 lakhs policies whereas the new business under individual insurances in respect of Western Region was Rs.798.47 crores under 5.30 lakhs of policies (TABLE II.6).

It is observed that the share of Southern Region continued to be the highest both in respect of number of policies and sum assured. The percentage of this region ranged between 29 and 33 in respect of number of policies and between 27 and 31 percent in respect of sum assured. The Western Region occupying the second position claimed between 22% to 25% in respect of number of policies and more or less the same proportion in respect of sum assured. There was no change in the share of Northern Region which remained constant about 15 percent in respect of sum assured and 12 per cent in respect of number of policies. Central Region showed slight fall in its business during the entire decade; its share declined from around 15 per cent to 14 per cent (sums

assured). In terms of policies its share went down from 17 per cent to 15 per cent. Business in Eastern Region also indicated a downward tendency but it could recover towards the end.

Analysis of region-wise distribution of new business indicates that the higher rate of new business in Southern Region is due to higher percentage of literacy in the south—especially in Kerala. Education is one of the basic infrastructure for spread of life insurance business. Education creates aptitude for savings and educated persons are more conscious about their future financial security. This is one of the most important reasons for slow progress of life insurance business in Eastern and Northern regions as most of the states falling in these regions are educationally backward. But if we compare per capita sum assured (according to 1981 Census figures) of different zones, the position of Western Zone has been on the top followed by Southern Zone (TABLE II.6).

The per capita insurance trend is not reflected in average sum assured per policy. The Northern Zone accounts for the highest sum assured per policy though it contributes the lowest new business (both in terms of sum assured and number of policies). Even in terms of per capita insurance it ranks the third amongst the five zones. Similarly, Southern Zone contributing maximum new business (sum assured as well as number of policies) fares hardly in terms of average sum assured per policy.

TABLE II.6

Statement Showing Trends in Region-wise Distribution of New Business
(Individual Insurances)

Year	NORTHERN		CENTRAL		EASTERN		SOUTHERN		WESTERN		Total for all Regions	
	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in (Lakhs)	Sum assured (Rs. crores)	No. of Policies (in lakhs)	Sum assured (Rs. crores)
1975-76	2.39 (11.9)	304.31 (14.5)	3.16 (15.7)	359.26 (17.1)	3.75 (18.7)	359.35 (17.1)	5.79 (28.8)	5.15 (27.2)	4.97 (24.9)	508.85 (24.1)	20.08 (100.0)	2104.00 (100.0)
1976-77	2.37 (11.6)	306.62 (14.6)	3.08 (15.0)	336.19 (16.0)	3.65 (17.8)	345.06 (16.5)	6.25 (30.4)	590.71 (28.22)	5.16 (25.2)	516.75 (24.7)	20.52 (100.0)	2095.40 (100.0)
1977-78	2.27 (12.2)	303.13 (15.1)	2.81 (15.1)	313.41 (15.6)	3.19 (17.3)	313.36 (15.6)	5.62 (30.3)	568.41 (28.4)	4.63 (25.0)	506.46 (25.3)	18.53 (100.0)	2004.86 (100.0)
1978-79	1.97 (11.2)	282.28 (13.7)	2.56 (14.6)	311.31 (15.1)	3.23 (18.4)	342.42 (16.6)	5.45 (31.0)	601.73 (29.3)	4.32 (24.8)	519.52 (25.3)	17.55 (100.0)	2057.40 (100.0)
1979-80	2.85 (13.6)	451.92 (16.5)	2.98 (14.2)	401.66 (14.7)	3.46 (16.5)	407.74 (14.9)	6.44 (30.7)	788.88 (28.9)	5.20 (24.8)	682.80 (25.0)	20.95 (100.0)	2733.11 (100.0)
1980-81	2.61 (13.5)	486.50 (16.9)	2.76 (14.1)	426.26 (14.8)	3.38 (17.3)	442.97 (15.4)	6.15 (31.5)	844.13 (29.3)	4.62 (23.6)	682.70 (23.6)	19.54 (100.0)	2882.72 (100.0)
1981-82	2.65 (12.6)	554.67 (15.9)	3.08 (14.7)	545.76 (15.7)	3.74 (17.8)	559.52 (16.0)	6.59 (31.4)	1007.19 (29.0)	4.95 (23.5)	811.81 (23.4)	21.03 (100.0)	3478.92 (100.0)
1982-83	2.88 (12.9)	642.23 (15.7)	3.15 (14.1)	607.48 (15.3)	3.94 (17.7)	634.50 (16.0)	7.12 (31.9)	1152.47 (29.0)	5.20 (23.4)	937.53 (24.0)	22.31 (100.0)	3974.39 (100.0)
1983-84	2.88 (12.2)	659.39 (15.2)	3.43 (14.5)	670.63 (15.4)	4.13 (17.5)	700.84 (16.1)	7.90 (33.4)	1377.54 (31.7)	5.30 (22.4)	798.47 (18.6)	23.66 (100.0)	4346.98 (100.0)
1984-85	3.24 (12.0)	749.20 (13.9)	3.92 (14.5)	840.79 (15.6)	4.92 (18.2)	907.20 (16.9)	8.86 (32.8)	1665.93 (31.0)	6.04 (22.5)	1212.51 (22.6)	26.99 (100.0)	5375.98 (100.0)
1985-86	3.89 (11.8)	977.14 (13.9)	4.67 (14.2)	1062.96 (15.1)	6.11 (18.6)	1231.49 (17.5)	10.93 (33.3)	2213.90 (31.3)	7.25 (22.1)	1569.88 (22.2)	32.86 (100.0)	7055.97 (100.0)

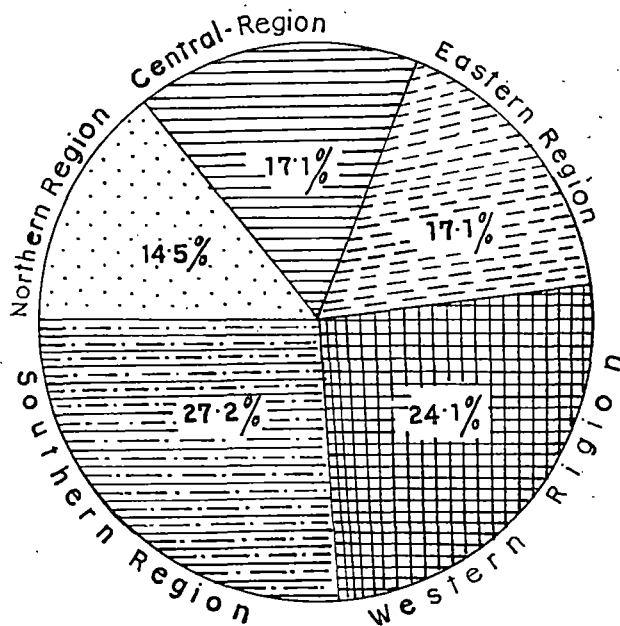
Source: Compiled from LIC Annual Reports and Accounts.

Note: (1) The new business assured along with number of policies as appearing in the table one exclusive of (1) Indian registered business from foreign countries.

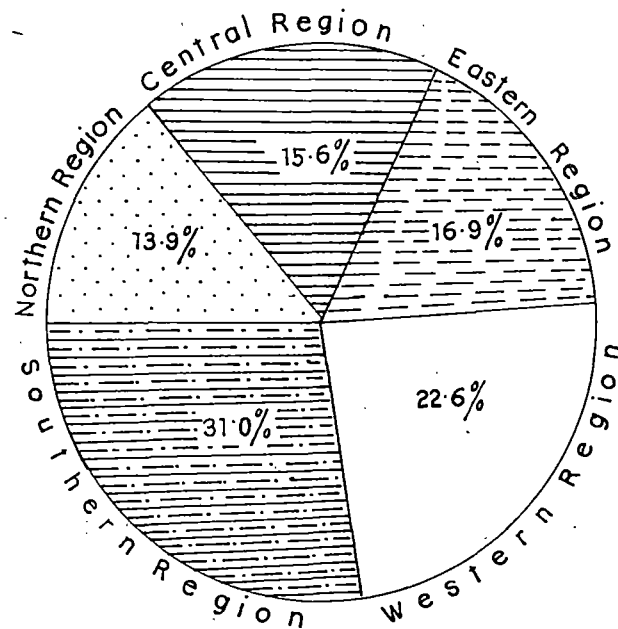
(2) Figures in brackets represent the percentage to total policies and total sum assured for the year concerned.

LIC: Region-wise distribution of new business (Individual insurance)
 (according to sum assured)

As on 31st March, 1976

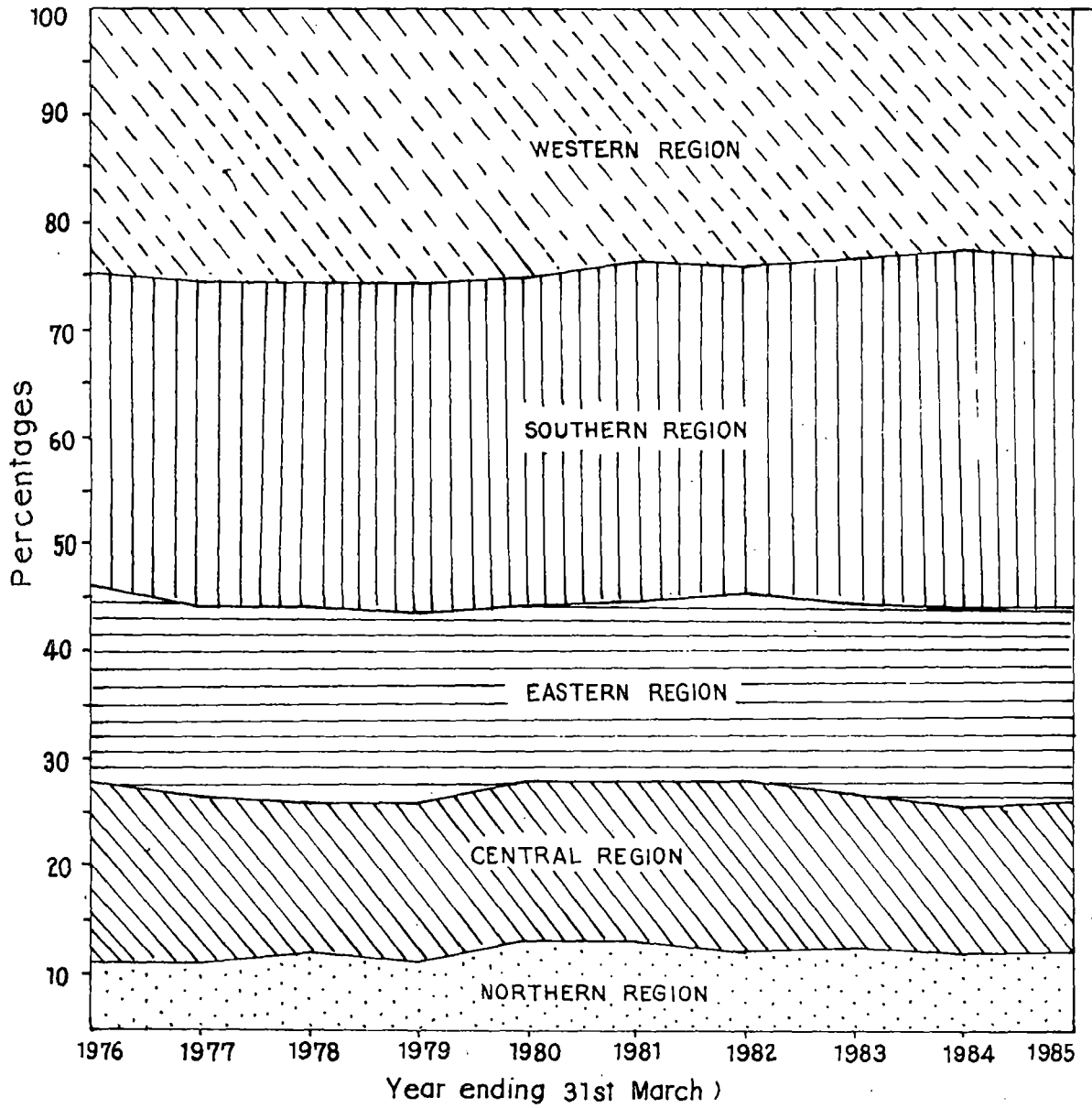


As on 31st March, 1985



(Fig. II-1A)

LIC: Region-wise trends in new Business (Individual)
(Number of Policies)



(Fig. II.2)

It ranks the fourth in five zones. In per capita new insurance business it ranks next only to Western Zone. It is an indicator to suggest that Northern Zone has not done much to create insurance consciousness and has confined it to relatively better of class of society whereas Southern Zone has set a commendable example for others (TABLE II.7).

Though Western Zone has been relegated to the second place by Southern Zone in aggregate terms (new business and policies issued), 'it still occupies top position in 'per capita new business' and 'number of policies issued per thousand of population.'

A further breakup and analysis of new business confirms the general belief - there has not been sufficient horizontal spread of business encompassing the rural areas, penetrating all layers of society including the weaker sections. As shown in TABLE II.8 business is very unevenly distributed in 43 Divisions of LIC. Bombay and Delhi Divisions (Group-A) taken together account for only 3.24% of India's population but for as much as 13.38% of new business assured in our country. The next four divisions (Group-B, Udupi, Ahmedabad, Hyderabad and Madras) account for 6.55% of our population but 13.33% of new business. Taken together the above six divisions covering 11.79% of population secure 26.71 per cent of new business.

On the other extreme fall nine divisions (Group-G, Muzaffarpur, Patna and Lucknow with 5.07% business from 13.75% of

TABLE - II.7

INDIVIDUAL INSURANCES NEW BUSINESS
DURING 1985-86

Zone	Per capita New Business (Rs.)	No. of Policies per thousand of population	Average Sum Assured per policy (Rs.)	% of Indian population
NORTHERN	120.84	4.81	25,105	11.81
CENTRAL	65.20	2.86	22,770	23.80
EASTERN	69.19	3.43	20,167	25.97
SOUTHERN	134.02	6.62	20,247	24.11
WESTERN	160.09	7.40	21,648	14.31
ALL INDIA	102.98	4.80	21,476	100.00

Source:- LIC's Annual Reports and Accounts for
the year ended 31st March, 1986.

TABLE - II.8

Business-wise break-up of Divisions

Division	% of Indian population	New insurance business assured during 85-86 (in %)	Average sum assured per policy
<u>(Group A)</u>			
Bombay	2.06	9.03	25,850
Delhi	<u>1.18</u>	<u>4.35</u>	30,253
	<u>3.24</u>	<u>13.38</u>	
<u>(Group B)</u>			
Udupi	1.05	1.86	17,665
Ahmedabad	2.22	3.72	20,101
Hyderabad	2.95	4.24	21,749
Madras	<u>2.33</u>	<u>3.46</u>	22,848
	<u>6.55</u>	<u>13.33</u>	
<u>(Group C)</u>			
Calcutta	4.00	5.38	20,247
Jamshedpur	1.46	1.73	21,144
Surat	1.22	1.91	21,301
Bangalore	2.07	3.15	20,052
Coimbatore	1.63	2.29	21,778
Cuddapah	1.95	2.42	20,845
Kozikhode	1.83	2.51	20,886
Masulipatnam	1.46	2.25	22,153
Trivandrum	1.89	2.06	21,045
Vishakhapatnam	<u>1.47</u>	<u>1.59</u>	19,195
	<u>18.98</u>	<u>25.29</u>	
<u>(Group D)</u>			
Chandigarh	3.02	3.05	26,550
Rajkot	1.55	1.54	18,621
Madurai	<u>1.88</u>	<u>1.91</u>	17,608
	<u>6.45</u>	<u>6.50</u>	

/Contd.

Table II.8 (Continued)

Division	% of Indian population	New insurance business assured during 85-86 (in %)	Average sum assured per policy
<u>(Group E)</u>			
Jallunder	2.61	2.29	25,579
Nagpur	2.09	1.90	18,669
Nasik	1.12	1.05	19,018
Pune	2.10	1.70	20,292
Thanjavur	1.31	1.23	17,160
Jalpaiguri	1.42	0.85	16,177
Asansol	2.61	1.90	17,075
Ajmer	2.42	2.02	19,635
Jaipur	2.58	2.14	21,275
Agra	2.43	1.55	22,973
Meerut	2.67	1.87	22,960
Silchar	0.73	0.43	20,763
Satera	1.95	1.40	17,642
Dhaxwar	2.30	1.82	16,634
Kanpur	<u>2.12</u>	<u>1.93</u>	23,502
	<u>30.46</u>	<u>24.08</u>	
<u>(Group F)</u>			
Jabalpur	2.47	1.37	19,811
Raipur	2.04	1.29	23,776
Indore	3.10	2.28	23,724
Varanasi	3.88	2.28	22,686
Cuttack	3.85	2.36	17,193
Guwahati	<u>3.15</u>	<u>2.10</u>	25,830
	<u>18.49</u>	<u>11.70</u>	
<u>(Group G)</u>			
Muzaffarpur	4.38	1.08	22,518
Patna	4.37	1.50	25,140
Lucknow	<u>5.00</u>	<u>2.49</u>	22,564
	<u>13.75</u>	<u>5.07</u>	

population and Group-F Jabalpur, Raipur, Indore, Cuttack, Guwahati and Varanasi with 11.70% of business from 18.49% of population, covering one-third of India's population but contributing only one-sixth of new insurance business.

Only three divisions (Group-D - Chandigarh, Rajkot and Madurai) provide new business corresponding to their population spread. Rest of the divisions may be divided into two groups falling on the two sides of these 'even business divisions.' Each of these groups account for almost one-fourth of new business but whereas one of these groups (Group-C) raises it from 18.98% of India population, the divisions in the other group(E), raise it from far bigger segment of the society (30.46% of the population).

The above grouping of divisions has a geographic peculiarity. All of the divisions falling in groups F & G belong either to Central or Eastern Zone. Rest of the divisions belonging to group E (also a poor performer) are constituent of Central and Eastern Zones.

The most backward zone (business-wise) - Central consists of most backward divisions and some of these reach near all India averages of per capita new business and number of policies per thousand of population TABLE II.9. The Eastern Zone is a close follower. But for Calcutta and Jamshedpur divisions with performances above all India average, the zone is characterised with poor performers. It has dubious distinction of possessing the

TABLE II.9
ANALYSIS OF NEW BUSINESS (1985-86)

Divisions	Per Capita New Business	No. of New Policies per thousand of population
<u>CENTRAL ZONE</u>		
1. Kanpur	93.75	3.99
2. Indore	75.83	3.20
3. Meerut	72.03	3.14
4. Agra	65.80	2.86
5. Raipur	65.07	2.74
6. Varanasi	64.80	2.67
7. Jabalpur	57.09	2.88
8. Lucknow	50.50	2.24
<u>ZONAL AVERAGE</u>	<u>65.00</u>	<u>2.86</u>
<u>EASTERN ZONE</u>		
1. Calcutta	138.39	6.83
2. Jamshedpur	122.54	5.80
3. Asansol	78.63	4.61
4. Guwahati	68.50	2.65
5. Cutack	63.79	3.79
6. Jalpaiguri	61.56	3.81
7. Silchar	60.98	2.94
8. Patna	35.38	1.41
9. Muzaffarpur	25.38	1.13
<u>ZONAL AVERAGE</u>	<u>69.00</u>	<u>3.43</u>
<u>ALL INDIA AVERAGE</u>	<u>102.98</u>	<u>4.60</u>

Source:- LIC's Annual Reports and Accounts 1985-86,
pp. 52-55.

two lowest performers - Muzaffarpur and Patna.

This poor performance record becomes all the more unenviable as geographical spread of these two zones covers half of the Indian population. To claim the horizontal spread of life insurance message the LIC must face and solve bottlenecks in these zones. That Central Zone books second largest sum assured per policy in India shows ample scope for more policies with lower cover value. Only a vigil and direction in this regard is the need of the hour.

First-Insurance

We propose to discuss here trend in policy holders brought under the umbrella of the LIC for the first-time during our study period. The total number of policies issued to the individuals for the first time was 13.26 lakhs for a sum assured Rs.1,278.4 cores during the year 1975-76; the policies issued to individuals formed 66.6 per cent of the total policies issued under individual insurance. The total number of individuals insured during the review period ending 31st March 1986 was 1.61 crores under individual insurance plans of the Corporation; the corresponding assured sum being Rs.23,684.12 crores.

The average sum assured per policy has shown a phenomenal increase in its size. From Rs.9,441 in 1975-76 it has shot upto as high as Rs.20,420 per policy in the year 1985-86 (Table II.10). This growth in the size of policy points to people's preference

TABLE II.10

Statement showing the New Business under First Insurance

Year	No. of policies (in lakh)	Sum assured (Rs.crore)	Percentage of total individual policies	Percentage of sum - assured	Average sum - assured per First policy (Rs.)	Average sum - assured per sub-sequent policies (Rs.)
1975-76	13.26	1,278.42	64.6	60.4	9441	12,214
1976-77	13.97	1,318.01	67.9	62.4	9434	12,049
1977-78	12.05	1,187.18	64.8	58.7	9852	12,765
1978-79	11.31	1,202.01	64.3	58.0	10,628	13,874
1979-80	13.39	1,603.23	63.9	58.6	11,973	15,034
1980-81	12.59	1,747.68	64.4	60.6	13,881	16,442
1981-82	13.60	2,094.83	64.7	60.2	15,302	18,867
1982-83	14.25	2,373.91	63.8	59.7	16,659	20,011
1983-84	15.88	2,713.82	67.0	61.9	17,089	21,456
1984-85	18.54	3,501.18	68.7	65.1	16,996	22,296
1985-86	22.84	4,663.83	69.5	66.1	20,420	24,005

Source :- Compiled from LIC's Annual Reports and Accounts.

for policies of higher denomination. It further indicates that the rise in national ^{and} per capita income and income-tax concession on life insurance premiums (80 cc of Income-Tax Act) have induced the people to go for policies of higher denominations. Inflationary trend is also to a great extent responsible for a rise in average sum assured per first policy. As a matter of fact if we adjust policy values to constant prices (1970-71 price being the base), the size of the policy cover during 1975-76 was only Rs. 5,806.27 and instead of registering an increase cover size has declined to Rs.5,683.27. Though the first insurance policies consistently dominated the new insurance scene their contribution to sum assured has been relatively lower. This can be further confirmed if we compare average sum assured under first policies and subsequent policies; the later policies have a higher cover value than the former and during the study period - range varies anywhere between 17.5% (during 1985-86) and 31.1% (during 1984-85). This has two implications. First, the existing policy holders are trying to hedge against inflation through further policies of higher value. Second, fresh clientele is not as better off as the existing (It is also possible that even this, to an extent, may represent subsequent (and not) insurance cover by the people otherwise covered under group insurance). In any case, the point merits consideration and probe with further data.

The Zonal and Divisional break up of first insurance figures would have been of much analytical use but the same is neither published nor furnished on request.

Size of Policies

The size of policies issued by the LIC is an important indicator of the class availing of this instrument and nature of shift in the policy size and investment pattern.

In 1960, policies with sum assured of Rs.5,000 or less constituted as much as 51.6% of the policies issued during the year (out of these policies for sum assured upto Rs.1,000 were more than 20%). But this sum declined to 19.8% in 1986¹. The percentage of policies upto Rs.1,000 fell to as low level as 3.8% (Table II.11). Two decades ago the modal policy amount lied between Rs.3,001 and 5,000²; now it lies between 10,001 and 25,000.

The changes in the recent past, however, have been more interesting and at the same time conflicting when compared with long term changes. The policies with insurance cover upto Rs.1,000 did not indicate significant fall in the recent decade. On the other hand, it showed a trend towards stability in the region of 4% and 5%. But the same cover witnessed a deep decline in its share from 20% to 9.3% during 1961 and 1967-68.

Though during this period covers upto Rs.1,000 showed a stable trend, a steep decline was noticed in covers of Rs.1001 to 2000 and Rs.2,001 to Rs.3,000. The former registered a fall from 7% to 2% and the later declined from 8% to 2%. Even covers

1 LIC - Towards a Secure Future p.7

2 Bajpai O.P., Life Insurance Finance in India p. 3

TABLE 11.11

New Business Distribution According to The Size of Policy

Sum Assured Group Rs.	Percentage of Total New Business on The Basis of Number of Policies.										
	1975- 1976	1976- 1977	1977- 1978	1978- 1979	1979- 1980	1980- 1981	1981- 1982	1982- 1983	1983- 1984	1984- 1985	1985- 1986
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Upto Rs. 1000/-	4.1	5.3	5.1	5.4	4.4	3.9	4.0	4.1	4.4	4.1	3.8
1001 to 2000/-	7.5	7.8	6.7	6.0	4.6	3.8	3.4	3.1	2.8	2.5	2.1
2001 to 3000/-	8.4	8.5	6.5	7.4	5.0	4.1	3.8	3.0	2.5	1.9	1.7
3001 to 5000/-	30.0	29.7	26.9	28.0	24.8	22.6	20.3	18.3	17.0	15.2	14.4
5001 to 10,000/-	27.2	26.5	27.9	28.3	29.2	29.5	28.9	28.7	27.4	26.1	25.6
10,001 to 25,000/-	17.2	16.9	20.6	18.7	24.1	25.8	26.9	28.8	30.5	33.3	34.2
25,001/- to 50000/-	5.3	5.8	6.7	5.8	7.9	10.3	12.7	14.0	10.8	13.1	14.3
Over 50,000/-	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	4.6	3.9	3.9
TOTAL =	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Compiled from LIC's Annual Reports and Accounts.

between Rs.3,001 and Rs.5,000 registered a fall but its intensity was less - from 30% to 14%. Covers between Rs.5001 and Rs.10,000 did not undergo any appreciable change.

Against the background of falling shares of insurance covers between Rs.1,001 and Rs.5,000, shares of covers between Rs.10,001 and Rs.25,000 and Rs.25,001 and Rs.50,000 have registered improvement - share of the former cover has doubled from 17.2% to 34.2% and the share of the later has nearly trebled from 5.3% to 14.3%. In the absence of sufficient data, no conclusions can be drawn about policies exceeding Rs.50,000.

The L.I.C. sums up size changes to suggest '... that the majority of the policy holders of LIC. Come from the 'middle-class' or 'lower middle-class' strata and the Corporation does not depend only on the affluent or the very rich for its custom.¹

We, however, beg to differ. Almost stable percentage of business in the lowest policy size indicates desire of a class bordering poverty line for social security howsoever, insignificant in amount. On the other hand, shifting trend towards higher policy sizes between Rs.1,001 & Rs.5,000 and Rs.25,001 & Rs.50,000 indicates hedging effort of lower class and lower middle class against steady erosion in money value. The middle class even a section of lower middle class has to go for higher insurance cover due to insecurity and housing loan considerations.

That there is scope for far more policies in the lowest size is evident from the fact that a decade ago only 5% of the

1 LIC - op. cit. p. 7

rural household was covered under insurance schemes¹ (and situation has not changed materially since then).

The LIC has failed in its objective to spread the message of life insurance among the poor masses. The main reason for this state of affairs seems to be the negligent attitude of the agency force of the Corporation who really does not bother to approach the unprivileged class of population. This class of population needs extensive persuasion for bringing them under the umbrella of the life insurance security which was the primary goal behind the nationalisation of the Corporation. Once this class comes to understand the benefits and security of life insurance, it is for certain that the business of the Corporation will increase by leaps and bounds. But this is not an easy task because on the basis of our past experiences during the 30 years of nationalisation very little progress has been achieved in this direction and the life insurance industry has restricted its area of operation within the urban middle and upper class.

Group Insurance

Group term insurance is the best method of providing life insurance protection to large number at low cost as it avoids the cost of individual selling. Also, as it precludes individual selection it is possible to provide insurance cover to large numbers who would not be eligible for insurance under individual insurance plans. Therefore, the best way to ensure that life

1 NCAER : Attitudes towards Life Insurance Cover, Dec.'79 p. 32.

insurance, is spread much more widely and in particular the rural areas and among the socially and economically backward classes is through a wider spread of group term-insurance.

Before nationalisation, group insurance schemes were transacted; primarily to provide benefits to senior executives of multinationals or leading business organisations. The business taken over by LIC under group schemes was just Rs.5 crores and Rs.21 lakhs of annuities per annum. From the small beginning and the "top hat" types, group insurance has transcended itself into a mass insurance activity. On March 31, 1987 business in force was as high as Rs.12,644.53 crores covering 1,03,22,000 lives under 21,182 schemes. The annuity per annum amounted around Rs.40 crores. The future outlook for this business is indeed bright. TABLE II.12 given below gives decennial progress of LIC in group insurance. The progress made by LIC in the first decade was rather hesitant and halting. The concept that group insurance benefit in any form was an important component of employee benefit package was not very much ingrained either among employees or trade unions. But inflationary pressure and escalation in taxation eating into the growth in current income, prompted many to opt for a larger portion of benefits through deferred wages in the form of retirement benefits. Government legislation also helped this progress.

In fact, this class of business will be the vehicles that will enable the LIC to reach the weaker sections of the society, which it has not been able to do through individual assurances alone.

TABLE II.12

PROGRESS OF GROUP INSURANCE IN THE FIRST TWO DECADES

Progress at the end of 1st Decade (31-3-1966)	No. of schemes in force	189.35 superannuation schemes
	Sum assured in force	Rs.47.29 crore (1.08% of individual assurance)
	Annuities per annum	Rs. 35 lakhs
Progress at the end of Second Decade (31-3-76)	No. of schemes in force	4,383 (inclusive of superannuation schemes)
	No. of lives covered	46,13,667
	Sum Assured	Rs.3,497 crores (26.15% of individual assurances)
	Annuity per annum	Rs.764 lakhs
Progress at the end of Third Decade (31-3-1986)	- No. of schemes in force	18,147 (inclusive of superannuation schemes)
	- No. of lives covered	92.65 lakhs
	- Sum Assured in force	Rs.11,763.11 crores
	- Annuities per annum	Rs.3,489.83 lakhs

Source :- LIC: Towards A Secure Future, September, 1986.
p. 11.

VARIOUS GROUP SCHEMES

The Corporation offers life insurance protection and retirement benefits under group schemes which are in the nature of employee benefit schemes.

(A) Group Gratuity Scheme

The scheme provides a scientific method for funding gratuity liability as the premiums are based on actuarial principles. The attractive feature of the scheme is the life insurance protection. In the event of the death of an employee, instead of gratuity actually earned, the scheme provides for an amount equal to gratuity which he would have received at the time of normal retirement (on the basis of his salary at the time of his death). Thus, in the event of premature death of an employee his dependents gets substantially higher benefits.

(B) Group Superannuation Scheme

The scheme is designed to provide regular income in the form of pension to the employee on his retirement from service. The pension payable on retirement can be Life Pension and guaranteed for a period of 5, 10, or 15 years so that in the event of death soon after retirement the family would be entitled to the payment of instalments during the balance of guaranteed period.

(C) Group Term Insurance Scheme

The scheme is designed to provide low cost life insurance to the employees while they are in service. The life insurance

cover is granted on the basis of simple insurability conditions and upto certain limit the insurance cover is granted without any medical examinations

(D) Group Savings Linked Insurance Scheme

The Group Savings Linked Insurance (GSLI) is offered to employees of government, quasi-government bodies and public sector undertakings, such as Corporations, Boards and also to the local bodies. The scheme is also available to public limited companies, subject to certain conditions being satisfied. Under this scheme out of the contribution received in respect of each member, an amount is utilised for the insurance cover and the balance, known as contribution for savings, is calculated year to year separately.

Growth of Group Insurance

It is observed (TABLE II.13) that the total number of new schemes written during the year 1975-76 was 2014 (Group Insurance 1966 and Group Superannuation 48) which went on declining from the year following. The total number of new schemes written during the year 1978-79 came as low as to 969 (Group Insurance 897 and Group Superannuation 72), less than even half of the number written three years ago (1975-76). It was only in 1983-84 that the number of new schemes rose to 1975-76 level.

Notwithstanding decline in the new schemes granted by the Corporation under Group Insurance, the sum assured under these schemes registered a steady growth during the entire period covered

TABLE II.13

New Business Under Group Insurance and Superannuation Schemes

Year	Group Insurance scheme				Group Superannuation Schemes			
	No. of schemes	No. of members (in lakhs)	Sum assured (Rs. crores)	Average sum assured per member (Rs.)	No. of schemes	No. of members (in lakhs)	Annuity per Annuer (Rs. crores)	Average Annuity assured per member (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975-76	1966	21.38	1,853.88	8,671	49	.03	.25	731
1976-77	1045	4.63	432.38	9,149	57	.01	.17	1,264
1977-78	932	7.76	750.48	9,671	70	.03	.22	733
1978-79	897	11.22	1,197.41	10,672	72	.03	.45	1,462
1979-80	1,049	6.19	664.80	10,740	101	.02	0.32	1,668
1980-81	1,302	4.38	463.52	10,575	141	.07	0.62	846
1981-82	1,644	4.10	402.49	9,829	181	.03	0.51	1,875
1982-83	1,783	3.57	355.20	9,943	186	.07	0.89	1,217
1983-84	1,853	4.18	390.81	9,331	163	.05	0.40	793
1984-85	2,231	2.90	303.59	10,437	120	.02	0.37	1,594
1985-86	2,726	11.54	1098.15	8,728	134	.02	0.32	968

Source: LIC's Annual Reports and Accounts.

under present study. The total sum assured under Group Insurance schemes amounted to Rs.1853.88 crores during 1975-76 which declined to Rs.1008.15 crores during the year 1985-86. During the entire study period the sum assured witnessed erratic trend. The level of sum assured during 1975-76 was never touched again. The trend in average sum assured was much steady. It witnessed a steady trend till 1979-80 and since then there was a slight downward trend except during 1984-85. The bottom level was touched during 1985-86.

On the contrary the number of schemes implemented under group superannuation showed a consistent trend; it rose from 48 in 1975-76 to 134 in 1985-86 (with a set back during the last three years of our period). The trend in annuity amount per annum and average annuity assured per member was, however volatile.

Growth of business in force under group insurance schemes indicates that number of schemes and number of lives covered under this type of insurance increased by around 314% and 100% respectively during 1976 and 1986. Growth in number of lives covered was not as pronounced as the growth in number of schemes, sum assured and annuity received. The percentage increase in sum assured and annuity premium on business in force under the scheme were 240.70(%) and 368.35(%) respectively during the same period. Analysis of business in force under group insurance schemes indicates that the rate of growth in number of schemes, number of lives covered, sum assured and annuity per annum was slow between

1975-76 and 1980-81 whereas the growth rate in succeeding years (1981-82 to 1985-86) have been more prominent (TABLE II.14).

There is a vast scope for development of this class of business particularly if the employer can be persuaded to pay a part of the premium for each insured employee. It may be suggested here that government as employer should take a lead in this direction to foster the development of this class of business under the banner of LIC, if necessary, by a legislation. The principal reason, as disclosed by Administrative Reforms Commission for slow progress of this class of business is that "the Corporation's premium rates for this class of business are unduly high and unattractive"¹. According to A.R.C. Group Insurance leads to savings in expenditure on administration, medical fees and underwriting and, therefore, the rates should be only nominally higher than the net cost of life insurance.

Comparing the rates of premium under Group Insurance of the LIC and British Life Offices, the Administrative Reforms Commission found that the LIC's rates were 200 to 250 per cent higher than the U.K. rates² and therefore, there is no wonder that Group Insurance Scheme has not become popular as it should have been and brought under its scope all the employed population in the country. The Commission had suggested that the Corporation

1 A.R.C. : Report of the working group on Life Insurance Administration, October, 1968, p. 18, para 3.1.16.

2 A.R.C. on Life Insurance Administration. op. cit. p.19, para 3.1.17.

TABLE II.14

GROUP INSURANCE AND SUPERANNUATION SCHEMES - BUSINESS IN FORCE

Year	Group Insurance Schemes				Group Superannuation Schemes			
	No. of Schemes	No. of members (in lakhs)	Sum assured & Bonuses (Rs. crores)	Average sum assured per person (Rs.)	No. of schemes	No. of members	Amount of Annuity per annum (Rs. crore)	Average Annuity assured per person (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975-76	3,967	45.90	3,496.90	7,618	416	23,606	7.64	3,237
1976-77	4,915	40.53	3,443.75	8,503	453	25,567	9.03	3,527
1977-78	5,739	44.40	4,371.89	9,846	496	30,352	10.83	3,610
1978-79	6,504	55.90	5,801.05	10,377	559	34,491	13.23	3,891
1979-80	7,442	58.03	6,137.46	10,576	639	37,730	15.46	4,068
1980-81	8,537	63.95	6,960.32	16,882	783	48,847	20.14	4,110
1981-82	9,786	68.83	7,786.91	11,313	958	57,764	26.40	4,551
1982-83	11,184	74.25	8,972.04	12,081	1,123	69,939	27.22	3,894
1983-84	12,624	75.82	9,231.33	12,201	1,287	81,898	27.93	3,410
1984-85	14,521	78.90	10,218.56	12,951	1,391	92,658	31.93	3,448
1985-86	16,635	91.65	11,764.22	12,836	1,512	99,833	34.90	3,497

Source: LIC's Annual Reports and Accounts.

should reduce the premium rates and should intensify its efforts to bring the employed population under the Group Insurance scheme.¹ The Corporation is yet to act effectively on this suggestion.

Salary Savings Scheme (SSS)

Salary savings scheme provides for payment of premiums by monthly deductions from the salary of the employees by the employer. Under this scheme, the usual additional charge of 5 per cent of the premium, generally added for the monthly mode of payment, is waived. In addition, a reduction of 75 Paise per thousand sum assured per annum is allowed in the annual premium. This scheme is of great value to the employees who are induced to save and get the insurance cover. This is probably based on the psychology that a man finds it difficult to save after his salary comes into his hands but will not mind much if the premium is deducted from his salary.

Commenting on the salary savings scheme, the A.R.C. Working Group on Life Insurance Administration considered one of the desired result of the life insurance as an increased provision of social security and if "this is to achieved, it does not appear to be desirable to leave out of consideration the possibility of introducing compulsory life insurance to Central Government Employees. There is no reason why it cannot be done by the Central Government where it is possible for a number of State Governments to do so."²

1 Ibid.

2 A.R.C. : Report of the Working Group on Life Insurance Administration (1968) vol.II (Appendices) p.8, Serial Number 27.

The main advantages of this scheme is that it reduces lapses and also collection expenses. In its memorandum to Working Group, the Life Insurance Agents' Federation of India had expressed its view as follows "It (Government) must introduce, the system of 'pay-deduction facility' in all Government Departments, Central as well as State, and streamline collection from members, crediting such collections monthly to the LIC. This may be extended to all the undertakings and establishments in the public & private sectors. It must make it compulsory to convert major share of "employee quota" in the provident fund schemes towards insurance."¹

New Business in Salary Savings Scheme (SSS)

The procurement of new business under salary savings scheme for the years 1975-76 till 1985-86 has been shown in TABLE IV-15. The total new business under this plans procured in the year 1975-76 was Rs.394.61 Crores under 5.91 lakhs policies. It represented 18.8% of the total sum assured during the year. In terms of policies these accounted for roughly 30% of the policies issued. It is observed that during the first eight years of our study the Corporation had failed to make any headway. The new policies issued showed diminishing trend except in the year 1979-80 which showed a marginal increase. The total number of new policies during 1975-76 was 5.91 lakhs, the number which never crossed till 1982-83 (except 1979-80). The policies issued showed a

1 A.R.C. Report of the Working Group on Life Insurance Administration, 1968, vol.I, p. 17.

TABLE- II.15

Statement showing New Business under Salary Savings Scheme of the LIC.

Year	No. of policies (lakhs)	Sum Assured (Rs.Crores)	% of SSS Policies to Total policies issued	% Sum Assured under SSS to total sum assured	Average sum assured per SSS policy.
1975-76	5.91	394.61	29.4	18.8	6,677
1976-77	5.85	373.88	28.5	17.8	6,391
1977-78	5.67	423.73	30.6	21.4	7,473
1978-79	5.51	444.37	31.4	21.6	8,065
1979-80	6.44	585.31	30.7	21.3	9,098
1980-81	5.58	551.67	28.5	19.1	9,887
1981-82	5.66	601.77	26.9	17.3	10,632
1982-83	5.79	691.00	25.9	17.4	11,934
1983-84	6.07	833.63	25.6	19.0	13,734
1984-85	7.44	1112.65	27.6	20.7	14,955
1985-86	9.25	1535.62	28.1	21.8	16,605

Source:- Compiled and computed from LIC Annual Reports and Accounts from 1975-76 to 1985-86.

stable rise only in 1983-84 and since then a satisfactory progress has been recorded. As a matter of fact, number of policies issued rose by 50% in a short span of two years.

When analysed in terms of percentage SS policies fare better during the first eight years because their percentage in total policies issued was higher during three year (1977-78, 1978-79 and 1979-80) of the first eight years. Only the growth in number of policies has not been able to keep pace with overall growth in policies issued, the share of the first five years has never been achieved during the next six years. The trend in policies issued is equally a good indicator of trend in sum assured upto 1983-84. Only in subsequent years sum assured has registered an improvement.

The growth in sum assured per policy under salary savings can be meaningfully compared with sum assured under other policies. It is noticed that the size of policies under salary savings is lower than that of policies under other schemes. During the year 1975-76 the later was 1.81 times in value as compared to the former. During 1985-86, the size of non-salary savings policies was 1.41 times of the policies under the salary savings. Thus, though a significant differential between sizes of policies under the two schemes is continuing, it has reduced in magnitude. This is also evident from increase in average size of policies under the two schemes, whereas average size of policy under SSS has

gone upto 2.49 times during our study period, the growth in average sum assured is only 1.93 times in policies under schemes other than salary savings (TABLE II.16).

Finally, it may be concluded that the performance of the Corporation's business under this scheme cannot be said to be satisfactory as it has neither been able to retain its share in growing number of salary earners nor in continuous increase nor in the earnings of the salaried class during the period under review.

RURAL BUSINESS

The paradox of Indian life insurance business lies in the fact that 80 per cent of population living in rural areas contributes about 26 per cent of the total sum assured and 20 per cent of urban population contributes 74 per cent of the total business. If we appraise the rural business of the LIC during the 30 years of its existence, we find that nothing concrete has been done in this connection. The type of insurance offered by the LIC for rural areas is based on western pattern where majority of population has a regular income.

The Corporation so far has not evolved any genuine scheme suited to rural population. Evaluating the performance of the LIC in rural areas the National Federation of Insurance Field workers opined, "Masses live in rural areas and Rural India lives on land (agriculture). How will the insurance go to masses?"

TABLE -II.16

New Individual Business (Salary Saving Vs. Other
Schemes)

Year	No. of New Policies under SS Scheme (in lakhs)	No. of individual policies under schemes other than SSS	Sum Assured under SS scheme (Rs.Crores)	Sum Assured under Schemes other than SSS (Rs.Crores)	Avg. size of policy under SSS (Rs.)	Avg. size of policies under scheme other than SS. (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975-76	5.91	14.21	394.61	1721.69	6,677	12,116
1976-77	5.85	14.71	373.88	1738.14	6391	11,816
1977-78	5.76	12.82	423.73	1596.98	7473	12,457
1978-79	5.51	12.08	444.37	1628.95	8065	13,485
1979-80	6.44	14.54	585.31	2159.02	9098	14,849
1980-81	5.58	14.00	551.67	2845.28	9887	16,752
1981-82	5.66	15.40	601.77	2891.12	10,632	18,774
1982-83	5.79	16.56	691.00	3303.77	11,934	19,950
1983-84	6.07	17.63	833.63	3581.65	13,734	20,316
1984-85	7.44	19.60	1112.65	4285.92	14,955	21,867
1985-86	9.25	23.69	1535.62	5552.83	16,605	23,440

Sources:- LIC's Annual Reports and Accounts.

Actuaries and Insurance Experts will have to take up the challenge of finding out methods and procedures of taking insurance policy within the reach of the poorest of the poor. The rich only should not be reached by insurance, if socialism and socialistic pattern and all that talk has any meaning¹. On the basis of this criticism of the field workers of the LIC, the A.R.C. had recommended a number of measures to improve the LIC performance in rural areas. Though these recommendations were made 17 years ago very little progress has been achieved in this connection.

Rural business is a great challenge which must be accepted to provide some sort of security to rural masses. As the majority of villagers have seasoned and uncertain income, the Corporation has to evolve some special type of insurance policy which will cater to the needs of rural masses.

Defective system of collection of renewal premiums is one of the most important reasons of higher lapses of life policies in the rural areas. Collection of renewal premiums from the rural areas deserves the same degree of intensive efforts as the selling of policies and collection of the first premium. The collection of renewal premiums should be made at the door of the policy-holders at some intervals specially when they have funds. But unfortunately such arrangements is not there. Of course, the LIC has made an

1 A.R.C. Working Group on Life Insurance Administration, 1968, vol. I, p. 23.

arrangement to collect the renewal premiums through co-operative banks and selected post offices but this measure does not seem to be sufficient and effective.

Lack of Agency Force in Rural Areas

Another important drawback in spreading the concept and benefits of life insurance business in rural areas is a complete lack of effective agency force. A study (1980) conducted by the National Council of Applied Economic Research (NCAER) showed that only 55.7 per cent of rural population has some knowledge about life insurance even after 25 years of its nationalisation.¹ The publicity given by the LIC is least effective since it reaches to only 3.6 per cent of the earners. Though not much has been achieved on the rural front, the LIC is very much aware of the problem and it has taken some measures to extend security cover to rural population. The following schemes deserve mention in this connection:

(a) Rural Career Agency Scheme

The agents under this scheme, introduced in 1980, are specially trained for rural areas and bound to deliver goods in years to come. The total number of Rural Career Agents on the roll of the LIC was 4,063 as on 31st March, 1986. The total new business procured by them during the year 1985-86 was Rs.86.68 crores under 61,977 policies.

1 Indian Economic Diary, Jan. 29 - Feb. 4, 1980, p. 77-81 under caption "Majority Ignorant about Life Insurance."

(b) Jana Raksha Policy

The Jana Raksha Policy was introduced by the LIC in the year 1981 which was mainly meant for rural areas. The special characteristics of this policy is that it remains in full force for the life cover and does not lapse even its premiums are not paid for a period of three years from the first unpaid premium due date, provided that the policy-holder has paid premiums for the first two years. This policy specially meets the needs of the rural population who often find difficult to pay their premiums because of fluctuating nature of their earnings. In spite of its novel feature, the policy has not yet become popular. It accounted for less than 2% of the total policies issued during 1985-86.

(c) Rural Business Subsidy

In accordance with the recommendations of the A.R.C. (1968) and Era Seshiyar Committee (1980), the Government of India came forward with a very benevolent proposal to augment the life insurance business in agricultural sector of the economy. The Government decided to forgo a portion of the return receivable from the LIC and utilize the same as subsidy for the improvement of rural business of the Corporation.¹ Accordingly, the LIC, sets aside a portion of its surplus (5%) after valuation once in every two years.

1 DATA INDIA, NEW DELHI, March 24-30, 1980, page 147, quoting Business Standard, March 25, 1980.

Rural Business during 1975-76 - 1985-86

The earliest data available in respect of rural business pertains to the year 1961. The Corporation had written business worth Rs.182.59 crores under 5.34 lakhs policies from rural areas contributing 30 per cent of the total business during that year. The total business written during 1975-76 was to the tune Rs. 563.53 crores under 6.50 lakhs policies. The percentage of new rural business written accounted for 32.3% in terms of policies and 26.63% in terms of total business under individual insurance. Thus, not much headway was caused during the first fifteen years. Even thereafter, new business did not show any improvement during the first seven years of the period under review. A marginal increase was observed in the number of policies in the year following 1975-76, but thereafter, the total number of policies written showed a downward tendency for four consecutive years. It was only in the year 1981-82 that the number of policies increased to some extent and showed an upward trend. This was due to some special measures taken by the LIC and the government to accelerate rural business in light of the recommendations of the Era Seshiyar Committee.

The rural business increased by 89 percent in respect of policies and 286 per cent in terms of sum assured during 1975-76 and 1985-86 (TABLE II-17).

The above analysis of the rural business indicates that during the decade of 'seventies,' the performance of the LIC in

TABLE - II.17

Statement Showing Rural New Business of the LIC.

Year	No. of Policies (Lakhs)	Sum Assured (Rs.Crores)	Rural Policies as percentage of Total policies	Rural Sum Assured as % of Total Sum Assured
1975-76	6.50	563.53	32.3	26.63
1976-77	6.86	575.34	33.3	27.24
1977-78	5.71	494.87	30.7	24.49
1978-79	5.15	461.35	29.3	22.25
1979-80	5.91	603.77	28.1	22.00
1980-81	5.80	675.32	29.6	23.31
1981-82	6.89	926.51	32.7	26.53
1982-83	7.33	1,037.98	32.8	25.99
1983-84	8.30	1,260.24	35.0	28.54
1984-85	9.52	1,569.62	35.2	29.07
1985-86	12.27	2,176.79	37.2	30.71

Source:- Compiled and computed from LIC Annual Reports and Accounts for the years concerned.

LIC: Trends in new rural business

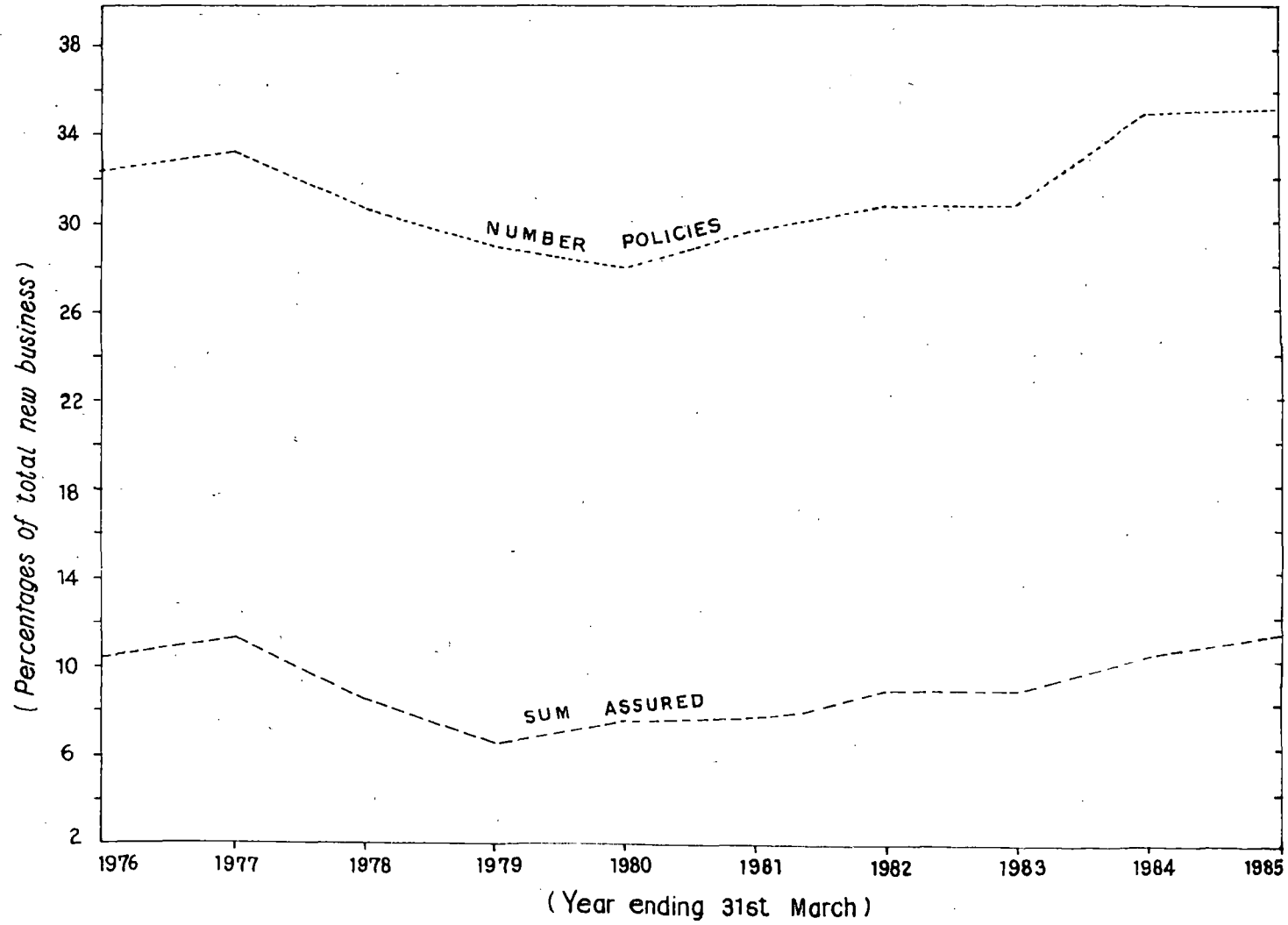


Fig. II-3

writing new rural business was unsatisfactory. However, during 1981-82 - 1985-86 marked improvement has taken place. The aggregate amount of sum assured showed a continuous rise since 1979-80. As compared to 1982-83 business, the amount of sum assured increased by about 110 per cent during 1985-86. However, the increase in the number of policies during the same period was about 67 per cent only. Ratio of rural policies to total policies under individual insurance ranged between 28.1 per cent and 37.2 per cent during the period under study. On the other hand, the proportion of sum assured (rural business) to total sum assured ranged between 22.25 per cent and 30.71 per cent during the same period. This improvement in the rural business has been possible due some important measures like : introduction of Rural Career Agents' schemes, subsidy for rural business, introduction of some special endowment policies for rural population taken by the LIC and the Government of India.

The provision of group scheme for weaker sections of society (Rickshaw puller, weavers, fishermen, tailors, shop assistants, milk producers etc.) with low cost insurance cover has also gone a long way in covering rural population. In spite of all this problem of rural business is a great challenge and deserves an intensive care. The present ratio of rural business does not commensurate with the rural population. This proves the general belief that LIC is an organisation for better placed and privileged class of urban areas. In fact, the life insurance business should be shifted from 'class' to 'mass' to serve the best interest of

the nation as a whole.

The covering of rural masses would become as a reality as in pursuance its objective of spreading benefits of life insurance to the poorer sections of the society. LIC has designed a scheme of insurance cover for the benefit of 3 crores families of landless agricultural labourers throughout the country. Under this scheme LIC will cover all landless agricultural labourers who are in the age group of 18 to 60 years and who are not having land or inheritable right to land and are heads of their families. A sum of Rs.1,000 will be payable to the nominee of the eligible landless agricultural labourers in the events of his death. The premium for life cover, Rs.10 per member, will be fully borne by the government of India.

Segment-wise Coverage of Life Insurance

To find out whether LIC has been able to reach all segments of the society, and formulate its marketing strategies and targets, it had undertaken certain exercises, in the recent past at the grass root level. Every Branch was asked to assess from the Census figures of 1981, and other statistics available through state government sources detailed estimates of "insurable" population within their area (taking age, income etc.) in different market segments in which the population was divided for the purpose. The marketing segments are :-

- 1 Managerial and Professional class.

TABLE - II.18

**SEGMENT-WISE COVERAGE OF LIFE INSURANCE
(All India)**

Segments	Total Insurable Persons (in Lakhs)	Total Persons Insured (in Lakhs)	% Covered
Seg. 1 : Professional,			
Managerial class	73.65	30.09	40.86
Seg. 2 & Seg. 5: Regular Income			
Salary Earners (includ- ing SSS)	414.20	109.24	26.37
Seg. 3: Self-Employed Farmers,			
Hunter, Fishermen, Small Traders	794.35	42.65	5.37
Seg. 4: Agricultural Labour	414.50	2.93	0.71
Total	1,696.70	184.91	10.90

- Notes :**
- (1) Population Estimate as per 1981 Census.
 - (2) Insurable population now must be larger.
 - (3) SSS policies may be duplicates of some ordinary policies. These have been included in Segment 2.
 - (4) The total policies in India as on 31-3-1986 are 280.47 lakhs. As against this, total estimated policyholders are 184.91 lakhs.
 - (5) This study is a pioneering effort and like all pioneering efforts has its own limitations which should be kept in mind. But it certainly highlights the enormity of job yet to be done even after making allowance for lives covered by group insurance schemes.

**Source :- LIC: Towards A Secure Future, Central Office,
Bombay, September, 1986, Table 2.4, p. 8.**

LIC: Segment-wise coverage of insurable population
(Population in lakhs)

□ Total insurable population
▨ Population covered

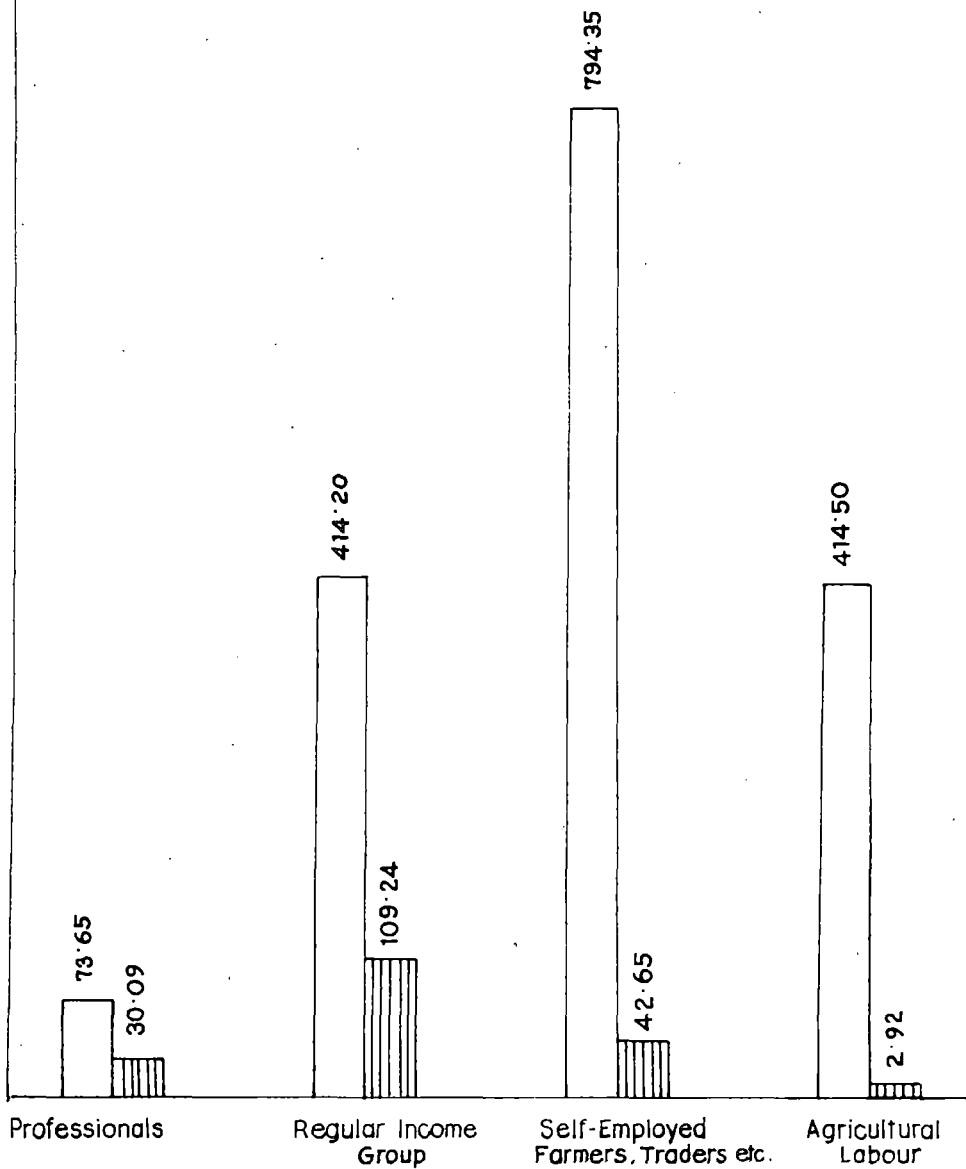


Fig. II-4.

- 2 Regular Income class like salary earners.
- 3 Self-Employed like farmers, fishermen, small traders etc..
- 4 Agricultural Labour.
- 5 Salary Saving Scheme Business and
- 6 Group Insurance.

This was followed by another study through a sampling exercise of existing policyholders as to extent to which each segment has been covered. The result of the study for the country as a whole has been presented in a table (TABLE II.18).

It is evident that the LIC has been able to cover about 11 per cent of insurable population in the country as a whole, which indicates the enormity of job yet to be done. The proportion of insured in the managerial and professional class as also among salary earners and people with regular income (segments 1 & 2) is at a relatively high level, but the penetration among self employed such as farmers or fishermen and agricultural labour is rather poor and highly unsatisfactory. The LIC should take a painstaking endeavour to spread the life insurance amongst this class by methods such as better product - market fit, realignment of marketing forces and through vehicle of group insurance.

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