Life Insurance Corporation of India:

AN EXERCISE IN THE PERFORMANCE APPRAISAL

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BY
BALARAM SINGH, M. COM.
HEAD
DEPARTMENT OF COMMERCE
SIKKIM GOVERNMENT COLLEGE
GANGTOK (SIKKIM)
INDIA

NORTH BENGAL

Supervisor :
Professor **R. C. SHARMA,** *M. Com., I.C.W.A., L.L.B., Ph. D.*
(Presently Head & Dean, Faculty of Commerce, Kashi Vidyapith)
Department of Commerce
UNIVERSITY OF NORTH BENGAL
Dt. Darjeeling (W.B.) India.

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P R E F A C E

The name 'LIC' is now not unknown to an Indian of average intelligence. The Life Insurance Corporation of India has taken pains to see that every district is represented by one or more members of its field staff. The magnitude of LIC's activities is large enough to impress anyone. It collected on average about Rs. 5.75 crores per day as premiums during 1986-87 and added during this period a new business over Rs.19,958 crores of sum assured. The LIC is servicing about 300 lakhs of policies under individual insurance; besides, it covers 1.03 crores lives for a sum assured of Rs.12,644.53 crores under the group insurance (as on 31st March, 1987).

Utilisation of people's moneys invested in life insurance for planned economic development may be said to have begun 30 years ago on 1st September, 1956, when the LIC was formed. One of the objectives of nationalised life insurance was the canalisation of its funds for the benefit and welfare of the nation. In pursuance of these norms, over the years, LIC has been investing its funds primarily, in the public sector and it now constitutes more than 80 per cent of its total investments as at 31st March, 1987.

The LIC has been in a position to accumulate a massive Life Fund of Rs.14,502.20 crores as at 31-3-1987. Major portion

of this investible fund is invested for the benefit of the community. These comprise, by and large, investments in the field of electricity, housing, water-supply and sewerage, agriculture, agro-industries, industrial estates and bonds and shares of various financial corporation of the state, as well as all-India level. Whereas at the end of 1957, LIC's investment in these socially-oriented sectors were of the order of only Rs. 8 crores because of the purposeful efforts made subsequently such investments as on 31st March, 1987 exceeded Rs.6445 crores. They now constitute more than 51 per cent of the total investments. This is in addition to Rs. 5092 crores invested in the Central and State Government securities which are also utilised for nation-building activities.

The LIC is now on the threshold of commanding high heights of social performance. While presenting the Union Budget for 1988-89, the Finance Minister proposed a major new initiative for extending system of social security to the weaker sections of our society. To quote the budget speech, "the Life Insurance Corporation of India, which has done so much to spread insurance culture throughout the length and breadth of our country, will be setting up a separate 'social security fund' with a corpus of Rs. 100 crores. Certain changes are being made in the income-tax payable by the Life Insurance Corporation of India to make this possible. The fund will be used for financing life insurance

schemes for weaker and vulnerable sections of the population at subsidised rates .... the creation of such a fund will provide a solid foundation for extending insurance cover to the toiling sections of our society. In respect of these group insurance scheme , 50% of the premium will be adjusted from the newly created social security fund, the balance 50 per cent of the premium being payable by the beneficiaries concerned."

"Group insurance schemes will also be introduced for groups with regular incomes like primary school teachers, co-operative milk-producers, and workers in shops and commercial establishments. Schemes will also be formulated for the benefit of artisans, tailors, barbers, masons, carpenters and other similar groups."

Such a gigantic, as well as monolithic organisation as an instrument of the State, owes its performance appraisal. There are two pre-requisites. First, we must have an appropriate criterion for evaluating their performance, i.e., we must be able to distinguish 'good' performance from 'bad' performance using an appropriate criterion. Second, we must devise appropriate incentive schemes so that the public enterprise managers

will be willing to do their best in terms of this criterion.

The focus of the present work is on performance appraisal based on published information-annual reports, statements, studies, etc. We have purposely chosen not to devote ourselves either on the meaning and the search for the appropriate criterion or on the appropriate incentive schemes and other institutional requirements necessary for ensuring good performance. Our study is, therefore, very limited like any other time bound unfunded project.

We have approached our case in a conventional manner as we envisaged possibility of some meaningful conclusions within the traditional framework. We believe to have succeeded through our study in establishing appropriate criterion within the existing framework. However crude, it does provide private 'profit' as a measure of the public enterprise management's performance. By doing this we do not suggest that public enterprises should be evaluated on the basis of the same criteria as private enterprise. What we advocate is, like private enterprises they must be evaluated and evaluation should not wait, our so long futile search, for the appropriate criterion.

An appropriate criterion has to avoid the danger of hollow purism that has made so much of modern economics unfit for actual use and a conceptually sound and practical criterion can emerge through an empirical exercise. A beginning has to

to be made and, hence, this down to earth effort devoid of all jargons and jugglories.

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Balaram Singh

(Balaram Singh)

North Bengal University

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ABBREVIATIONS USED

A.R.C. - Administrative Reforms Commission.

A.F.C.I.- Agricultural Finance Corporation of India.

C.E.R.C.- Consumer Education Research Centre.

C.P.U. - Committee on Public Undertakings

C.T.D. - Cumulative Term Deposits.

D.A.B. - Direct Agent Branch

D.C.B.II- Duplicate Cash Book II.

G I V E - Give Insurance Value Element.

G. O. I - Government of India.

G.S.L.I - Group Savings Linked Insurance.

H U D C O -	Housing Urban Development Corporation.
I C I C I -	Industrial Credit and Investment Corpn. of India.
I D B I -	Industrial Development Bank of India.
I F C I -	Industrial Finance Corporation of India.
L I A F I	Life Insurance Agents' Federation of India
L.I.C. -	Life Insurance Corporation of India
M.I.S. -	Management Information System.
M.R.T.P. -	Monopolies and Restrictive Trade Practices.
N.S.C. -	National Savings Certificate.
O.I.C -	Organisation Improvement Cell
O.Y.A. -	Own Your Appartment
O.Y.H. -	Own Your Home
P.H.S. -	Policy Holder Service.
P.L.I. -	Postal Life Insurance
P.P.F. -	Public Provident Fund
R.B.I. -	Reserve Bank of India
S.F.Cs -	State Financial Corporations.
S.S.S. -	Salary Savings Scheme
U.L.I.P.-	Unit Linked Insurance Plan.
U.T.I. -	Unit Trust of India.

CHAPTER - I

INTRODUCTION

CHAPTER - I

INTRODUCTION

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 Civilisation. 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. & Taylor 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.

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

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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 lines."[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 remmuneration, 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. Vaidyanathan (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.

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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

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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 compete 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 environment.

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 compatison, 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 an institutional investor in the investee companies. This has been done to locate the prob-

lems 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

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(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.

LIC's Investment in Corporate Sector

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 speciallised 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 reorganisation 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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PART - ONE

MANAGEMENT OF RISK COVER

C H A P T E R II

B U S I N E S S O F T H E 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,

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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.

20 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).

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

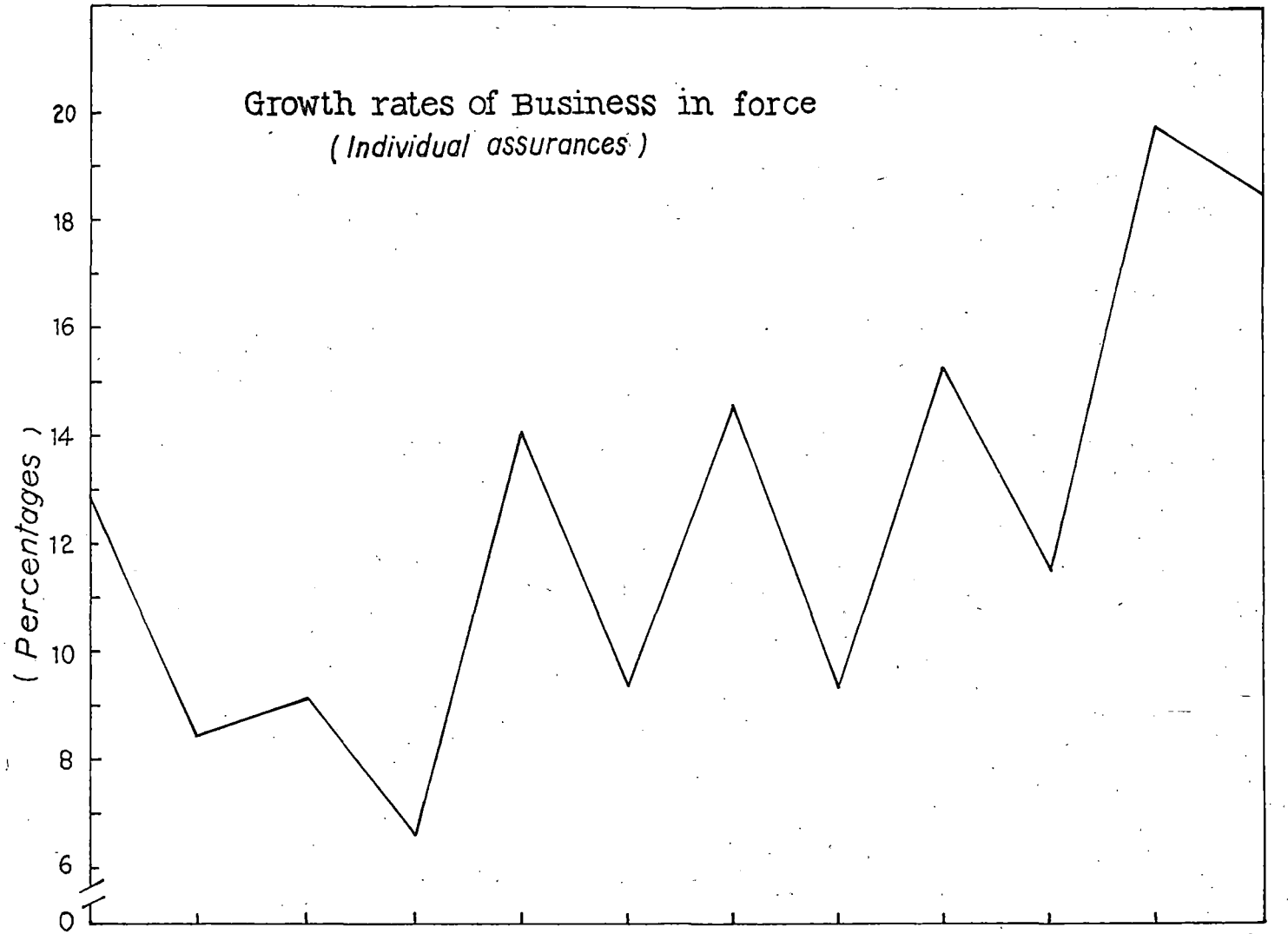
TABLE II.1

GROWTH OF BUSINESS IN FORCE

(INDIVIDUAL INSURANCE)

Year	Sum Assured (Rs.crores)	No. of policies 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	12.81	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.


Growth rates of Business in force
(Individual assurances)
(Percentages)
20
18
16
14
12
10
8
6
0
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
Year (April - March)

(Fig. II-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 wholesale prices (1970-71 = 100)	Per capita sum assured	No. of policies issued per thousand of population	Per capita sum assured to wholesale 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	35.27	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	370.81	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. S 5-8

3 - Economic Survey 86-87 p. S 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	..

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

Column 3 - Column (2) of thistable - 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 Crores[1] 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

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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 past backlog. During the last three years of our study, the was 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	17,874
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	38.76	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 insurancecover 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 porportion 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 bbusiness 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 bbsiness (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)

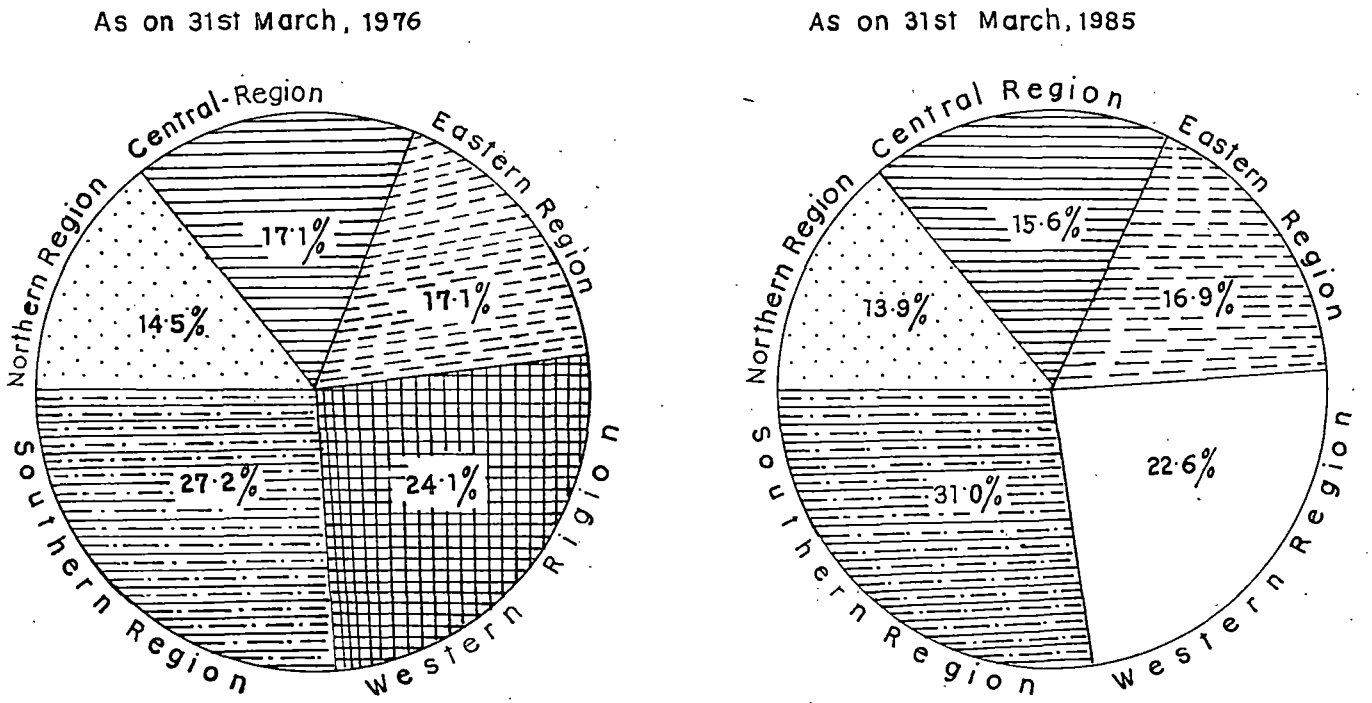
Year	NORTHERN		CENTRAL		EASTERN		SOUTHERN		WESTERN		Total for all Regions	
	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in(lakhs)	Sum assured (Rs. crores	No. of policies in (lakhs)	Sum assured (Rs. crores)	No. of policies in (Lakhs)	Sum assured (Rs. crores	No. of Policies (in lakhs)	Sum assured (Rs. crores)
1975-76	2.39	304.31	3.16	359.26	3.75	359.35	5.79	5.15	4.97	508.85	20.08	2104.00
	(11.9)	(14.5)	(15.7)	(17.1)	(18.7)	(17.1)	(28.8)	(27.2)	(24.9)	(24.1)	(100.0)	(100.0)
1976-77	2.37	306.62	3.08	336.19	3.65	345.06	6.25	590.71	5.16	516.75	20.52	2095.40
	(11.6)	(14.6)	(15.0)	(16.0)	(17.8)	(16.5)	(30.4)	(28.22)	(25.2)	(24.7)	(100.0)	(100.0)
1977-78	2.27	303.13	2.81	313.41	3.19	313.36	5.62	568.41	4.63	506.46	18.53	2004.86
	(12.2)	(15.1)	(15.1)	(15.6)	(17.3)	(15.6)	(30.3)	(28.4)	(25.0)	(25.3)	(100.0)	(100.0)
1978-79	1.97	282.28	2.56	311.31	3.23	342.42	5.45	601.73	4.32	519.52	17.55	2057.40
	(11.2)	(13.7)	(14.6)	(15.1)	(18.4)	(16.6)	(31.0)	(29.3)	(24.8)	(25.3)	(100.0)	(100.0)
1979-80	2.85	451.9?	2.98	401.66	3.46	407.74	6.44	788.88	5.20	682.80	20.95	2733.11
	(13.6)	(16.5)	(14.2)	(14.7)	(16.5)	(14.9)	(30.7)	(28.9)	(24.8)	(25.0)	(100.0)	(100.0)
1980-81	2.61	486.50	2.76	426.26	3.38	442.97	6.15	844.13	4.62	682.70	19.54	2882.72
	(13.5)	(16.9)	(14.1)	(14.8)	(17.3)	(15.4)	(31.5)	(29.3)	(23.6)	(23.6)	(100.0)	(100.0)
1981-82	2.65	554.67	3.08	545.76	3.74	559.52	6.59	1007.19	4.95	811.81	21.03	3478.92
	(12.6)	(15.9)	(14.7)	(15.7)	(17.8)	(16.0)	(31.4)	(29.0)	(23.5)	(23.4)	(100.0)	(100.0)
1982-83	2.88	642.23	3.15	607.48	3.94	634.50	7.12	1152.47	5.20	937.53	22.31	3974.39
	(12.9)	(15.7)	(14.1)	(15.3)	(17.7)	(16.0)	(31.9)	(29.0)	(23.4)	(24.0)	(100.0)	(100.0)
1983-84	2.88	659.39	3.43	670.63	4.13	700.84	7.90	1377.54	5.30	798.47	23.66	4346.98
	(12.2)	(15.2)	(14.5)	(15.4)	(17.5)	(16.1)	(33.4)	(31.7)	(22.4)	(18.6)	(100.0)	(100.0)
1984-85	3.24	749.20	3.92	840.79	4.92	907.20	8.86	1665.93	6.04	1212.51	26.99	5375.93
	(12.0)	(13.9)	(14.5)	(15.6)	(18.2)	(16.9)	(32.8)	(31.0)	(22.5)	(22.6)	(100.0)	(100.0)
1985-86	3.89	977.14	4.67	1062.96	6.11	1231.49	10.93	2213.90	7.25	1569.88	32.86	7055.97
	(11.8)	(13.9)	(14.2)	(15.1)	(18.6)	(17.5)	(33.3)	(31.3)	(22.1)	(22.2)	(100.0)	(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 (i) Indian registered business from foreign countries.

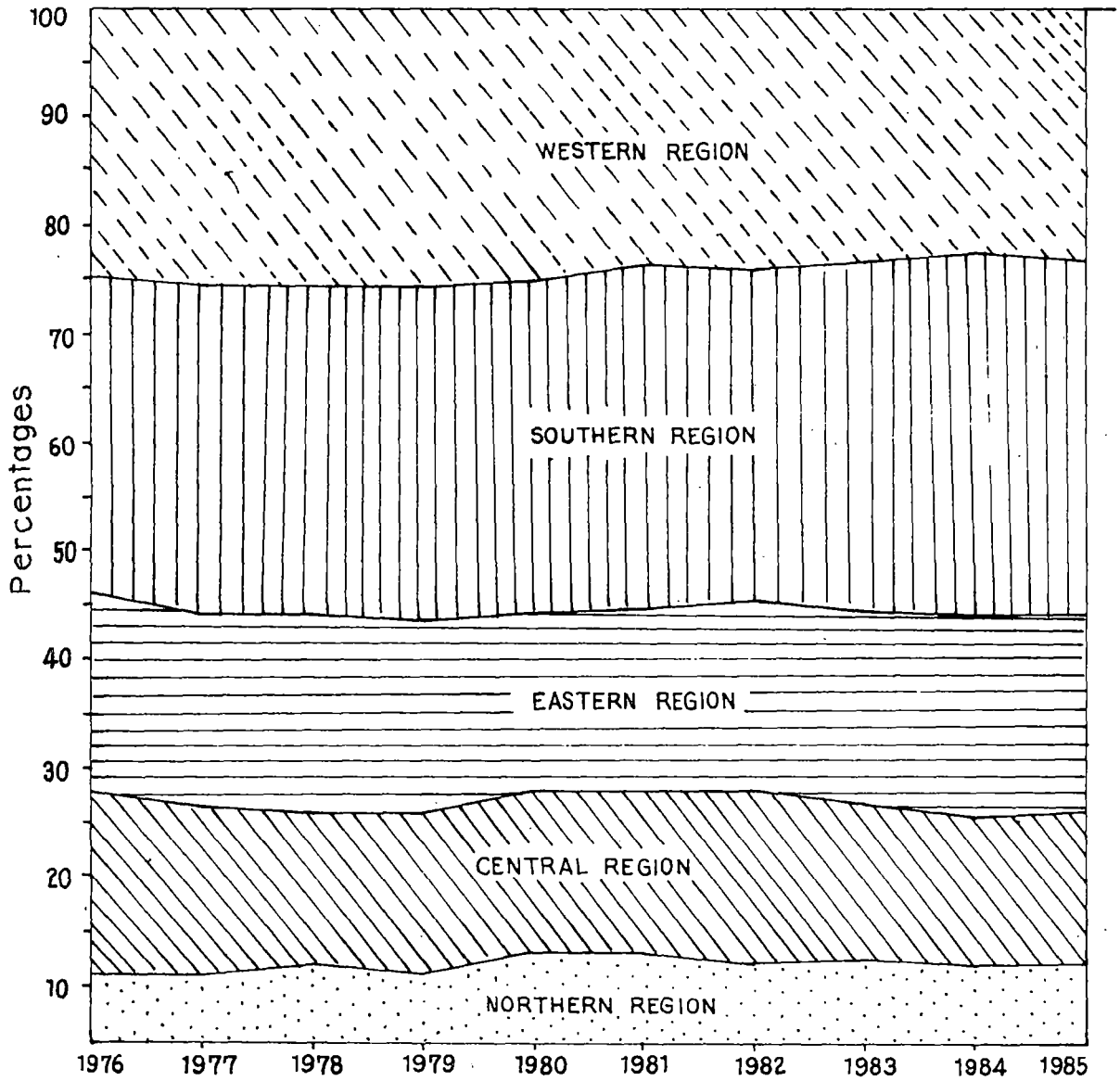
(2) Figures in brackets represent the percentage to total policies and total sum assured for the year concerned.

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



(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 conciousness 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 8.55% 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
(Group A)			
Bombay	2.06	9.03	25,850
Delhi	1.18	4.35	30,253
	3.24	13.38	
(Group B)			
Udupi	1.05	1.86	17,665
Ahmedabad	2.22	3.72	20,101
Hyderabad	2.95	4.24	21,749
Madras	2.33	3.46	22,848
	8.55	13.33	
(Group C)			
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	1.47	1.59	19,195
	18.98	25.29	
(Group D)			
Chandigarh	3.02	3.05	26,550
Rajkot	1.55	1.54	18,621
Madurai	1.88	1.91	17,608
	6.45	6.50	

/Contd.

Table II.8 (Continued)

Division	% of Indian population	New insurance business assured during 85-86 (in %)	Average sum assured per policy
(Group E)			
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
Satara	1.95	1.40	17,642
Dharwar	2.30	1.82	16,634
Kanpur	2.12	1.93	23,502
	30.46	24.08	
(Group F)			
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	2.38	17,193
Guwahati	3.15	2.10	25,830
	18.49	11.70	
(Group G)			
Musaffarpur	4.38	1.08	22,518
Patna	4.37	1.50	25,140
Lucknow	5.00	2.49	22,564
	13.75	5.07	

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
	CENTRAL ZONE	
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
ZONAL AVERAGE	65.00	2.86
	EASTERN ZONE	
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. Cuttack	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
ZONAL AVERAGE	69.00	3.43
ALL INDIA AVERAGE	102.98	4.80

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 bottleneess 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 64.6 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 81.6% 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 1986[1]. The percentage of policies upto Rs.1,000 fell to as low level as 3.8% (Table II.11). Two decades ago the model policy amount lied between Rs.3,001 and 5,000[2]; 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

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1 LIC - Towards a Secure Future p.7

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

TABLE II.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/-to25,000/-	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 Rs110,000 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 ofthe 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

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1 LIC - op. cit. p. 7

rural household was covered under insurance schemes[1] (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 unpriviledged class of population. This class of population needs extensive pursuasion 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

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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 acturial 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	48	.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	1008.15	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. rates[2] 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

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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	10,882	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]

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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 to1985-86 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

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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 1986-86.

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 Nationational 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	14,953	21,867
1985-86	9.25	23.69	1535.62	5552.83	16,605	23,440

Source:- 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 meaning"[1]. 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

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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.

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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. Inspite of its novel feature, the policy hasnot 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 Seshiyan Committee (1980), the Government ofIndia 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.

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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 Sezhiyan 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	461.38	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

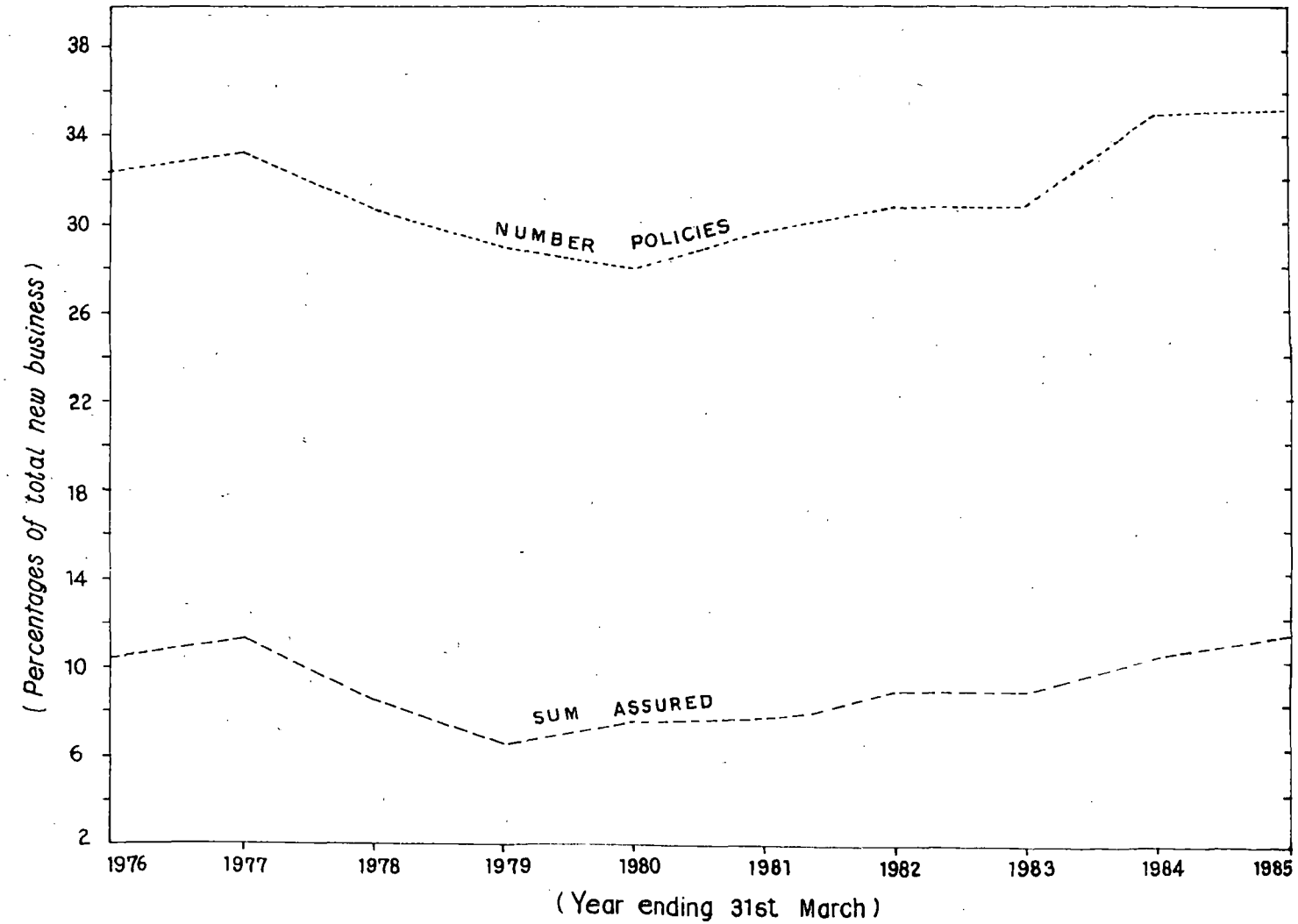


Fig. II-3

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. Inspite 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 (including 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.

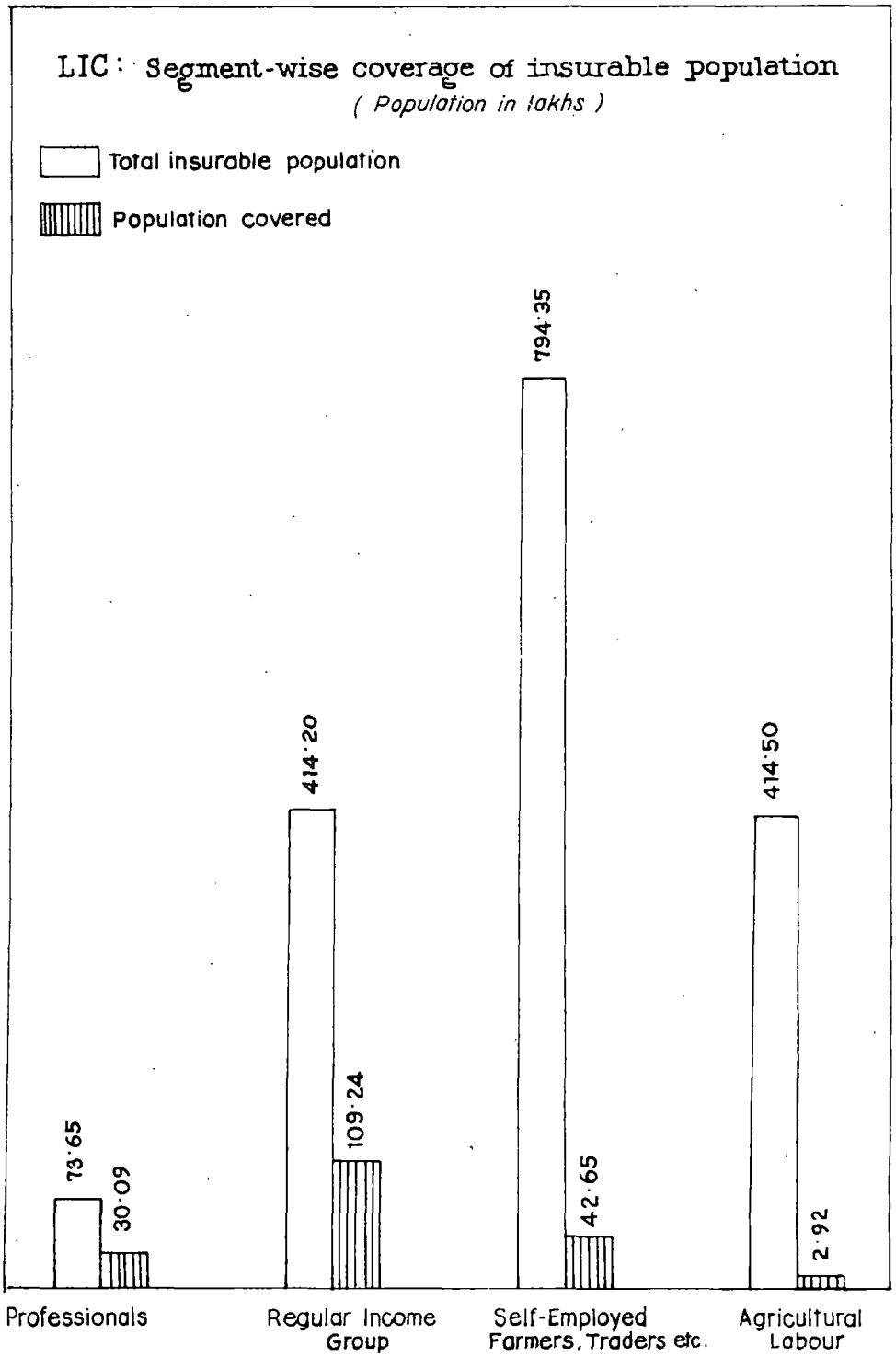

LIC : Segment-wise coverage of insurable population
(Population in lakhs)
Total insurable population
Population covered
73·65
30·09
414·20
109·24
794·35
42·65
414·50
2·92
Professionals
Regular Income Group
Self-Employed Farmers, Traders etc.
Agricultural Labour

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 penetoration 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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CHAPTER III

INSURANCE PLANS AND RELATED MATTERS

CHAPTER - III

IMPORTANT INSURANCE PLANS OF THE LIC AND RELATED MATTERS

Before commencing our appraisal of the plan-wise distribution of new business of the LIC, it is better to have an idea of the different plans (policies) under which it operates its business. The following are the important plans carried on by LIC[1] :

1) Whole-Life : This is a low cost plan of assurance wherein premiums are paid throughout life and the policy money becomes payable only after the death of policy-holder. The advantages of whole-life policy are : i) The rate of premium of this types of policy is lower in comparison to other types of policies, ii) It is eminently suitable for those persons who wish to set aside funds for the payment of Estate Duty (Death Duty) on the property of the deceased, iii) This is considered as the best insurance available for family protection after death.

2) Whole Life Limited Plan : This is another kind of whole life policy under which premiums are payable for a selected number of years, or until death, if earlier. The policy moneys are payable after the death of the assured only. Most of the advantages mentioned in whole life policy are also applicable to this type of policy.

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1 Based on LIC's published information including Diary.

3) Convertible Whole Life : This plan initially provides maximum insurance protection at minimum cost and offers a flexible contract which can be changed at the end of five years from the commencement of the policy to an endowment assurance. If this plan is not converted into endowment assurance at the expiry of five years in that case the assured has no right to change such policy and he has to pay premiums till the age of 70 years. If converted into Endowment Assurance the rate of premium is increased. This policy is suitable for young family man, whose need of protection is substantial but whose income is not high enough in the initial stages of his life as to permit him to offer for endowment policy.

4) Endowment Assurance : This plan provides for payment of sums assured to the Life Assured on survival to the end of the selected term or to his family in case of death before maturity of the policy. Premiums are payable during the selected term or till death if earlier. This is the most popular plan as it serves the dual purpose of family protection and old age provision.

5) Joint Life Endowment : A Joint endowment policy is issued to cover the risk on two lives and is generally available to partners in business. Policies are, however, issued on the lives of husband and wife under certain specified circumstances. The sum assured is payable at the end of the endowment term or on the first death of the either of the two lives assured whichever is earlier.

6) Multipurpose Policy : This policy meets several insurance needs of a person-like provision for himself in old age, income

for his family and provision for education, marriage or the start-in life of his children. It gives maximum protection to the beneficiaries in the event of the early death of the assured, as it provides (i) a regular monthly income during the unexpected term, (ii) an additional monthly income for a period of two years from the date of death, (iii) payment of a part of the sum assured on death and (iv) payment of the balance sum assured at the end of the selected period. On maturity the life assured may get the sum assured in cash, in the form of monthly pension or an increased sum payable on death. Premiums are payable during the selected term or till death, if earlier.

7) Anticipated Whole-Life : This plan combines the benefits of Whole-Life Limited Policy and anticipated payments. It provides in one policy the dual benefits of early return of the policy proceeds and of adequate protection for the family. An amount equal to half the sum assured is paid in equal instalments at five yearly intervals during the premium paying term to help the policyholder meet the various needs of the family. The full sum assured irrespective of the five-yearly instalments is paid on the death of the assured whenever it may occur.

8) Children's Deferred : This plan enables any parent to provide insurance cover to a child on payment of very low rate of premium for an assurance of large sum. Under this plan the risk will commence at a selected age, irrespective of the child's health then.

9) Children's Anticipated Endowment : This plan is similar to 'Children's Deferred' plan with provision for return of the 50% of the premiums paid during deferment period at the selected vesting age.

10) Progressive Protection Policy : This plan provides for automatic increase in sum assured at fixed intervals at premium rates guaranteed in advance. No fresh evidence of health is required at the time of increase in the sum assured.

11) Janraksha Policy : This plan takes care of special needs of the rural population. It has been designed taking into consideration the problem of non payment of premiums in time. This is basically an endowment assurance policy (with profits) with a special facility whereby the policy continues to provide full cover for three years on payment of an initial extra, single premium, after payment of at least two years' premiums.

12) Double Endowment : This plan ensures protection of family in the event of early death and payment of double the sum assured if life assured survives the selected period. This plan is suitable for persons with physical disability who are otherwise not acceptable for other classes of assurance at the nominal tabular rates. Premiums are to be paid for a selected term of years or till prior death.

13) Fixed Term (Marriage) Endowment and Educational Annuity : This is a suitable policy for making provision for the start-in life,

marriage or education of children. Premiums are payable for a selected term of till prior death. The benefits are payable only at the end of selected term. In case of the Marriage Endowment the sum assured is paid in lump sum but under the educational annuity, it is paid in equal half-yearly instalments over a period of five years.

14) Pure Endowment for Adults or Children : This plan is useful to those who do not care to appear for medical examination or for reasons of health, are unacceptable for insurance under other plans. Full sum assured is paid only if the life assured survives the selected term. In the event of death before expiry of terms, premiums paid are refunded with interest at the rate of 2½% p.a. compounded yearly, except in case of death during the first three policy years, when the said benefit will be refunded of all premiums paid.

15) Money Back Policy (Also known as New Money Back Policy) : This plan is suitable for those who besides providing for their old age and family, need lump sum benefits at periodic intervals. The sum assured is paid in suitable instalments. Yet throughout the period of assurance the dependents are guaranteed the benefits of the full sum assured in the event of the death of the assured, irrespective of the instalments that might have been paid.

16) Mortgage Redemption : This plan of assurance suits the requirements of lending institutions and individual borrowers to ensure that the outstanding loan is automatically repaid in the

event of borrower's death.

17) Jeevan Mitra : The Jeevan Mitra is a double benefit endowment plan with profit and is different from usual endowment policy. Under it, besides the benefits of endowment assurance policy, the plan provides additional insurance cover equal to sum assured in the event of death during the term of policy so that the total insurance cover in the event of death is to the extent of double the sum assured.

18) Bima Sandesh : This is a term insurance plan. The benefits under this plan are - (i) payment of full sum insured in the event of death during the term of the policy and (ii) the return of total amount of premiums paid (excluding accident premium) on survival to the end of the term.

19) Bhavishya Jeevan : This is a special endowment plan with profits, specially designed to suit the specific needs of certain categories of persons who have a very high income for a limited span of time during their professional life and thereafter income dwindles.

20) Jeevan Dhara Scheme : This deferred annuity provides for an attractive post-retirement income. It has the advantage of providing guaranteed income at a pre-determined time and are good solution to one of the worst fears of salaried class - outliving one's income. It can be purchased by payment of a single premium in lump sum or by periodical payments for the selected term. At

the end of selected term called 'deferment period' the annuity starts and is payable as long as the person lives. On death, his heirs will get 'GIVE' (give Insurance Value Element) along with additional lump sum payment. If the annuity holder dies during the deferment period, for the first three years, premiums are returned without interest and after first three years period, the premiums will be returned with 6½ per cent interest.

This plan may be said to be one scheme which completes the kit of savings and income planning the Life Insurance Corporation of India has been building over the years.

PLAN-WISE DISTRIBUTION OF NEW BUSINESS

The plan-wise distribution of individual insurance business shows some very unusual trend during the period under review. Out of seventeen insurance plans which were in force during the year 1975-76, two plans (Endowment Assurance and Anticipated Endowment) accounted for about 92 per cent of the total business procured during that year and the remaining fifteen insurance plans accounted for only 8 per cent of the total business. Plans like Whole Life Assurance, Whole Life Limited, Joint Life, Multipurpose policy, Double Endowment, Fixed terms, Educational Annuity, Triple Benefits Policy, Two-year Temporary Assurance, Convertible Terms, Mortgage Redemption contributed individually less than 1 per cent of the total business during the year 1975-76. The most unattractive plan during the years under review has been Double Endowment

whose individual contribution on average did not come under the perview of percentage of total new business. Business under this plan accounted for .01 per cent of the total business only for two years out of ten years under review.

The most attractive and successful individual insurance plan has been 'Endowment Assurance ' Plan (Table 14 of the LIC premium tables). The average annual contribution of Endowment Assurance Plan to total new individual business during the period has been over 46 per cent, the highest being 56.46 per cent in 1975-76 and the lowest being 35.90 per cent in the year 1978-79 (due to long strike of LIC's employees). The main reasons for such a spectacular business under this policy are - (i) This is the cheapest of all the plans; (ii) This is the longest term life assurance. If a young man takes the policy at the age of 18 he can continue his policy upto 70 years of age. Thus risk cover can be more than five decades; (iii) Continuous accrual of bonus for a very long time makes maturity value very high. A fifty year policy at the existing bonus rates would offer a bonus of Rs.2.6 against each rupee of insured sum.

The above advantages, however, are apparent and do not reveal the whole truth. On personal considerations, LIC agents are more interested in selling this policy as they are benefited in two ways - higher commission rate for the first year and renewal premiums for a longer period of time. In spite of its immense popularity, the contribution of this endowment plan has

declined in recent years. The total business transacted under this plan has declined from 56.46 p.c. of the total new individual insurance in 1975-76 to 40.97 p.c. in the year 1985-86.

The second most popular insurance plan during the first 5 years of the decade has been 'Anticipated Endowment' (Tables 24, 25, 26 of the LIC premium tables for 15, 20 and 25 years respectively). The annual average business procured under this plan for the first five years of the decade accounted for about 41 per cent of the total business procured under all individual insurance plans. However, this plan was withdrawn by the LIC in the year 1980-81. The main reason for withdrawing this plan was to reduce the rate of commission payable to agents under this plan and, therefore, secure economy in managerial expenses (The rate of commission payable under this plan was 25 per cent of the first year's premiums plus 10 per cent bonus and thereafter 5% on the renewal premiums). This plan was replaced by the Money Back Policy (old) under Tables 73, 74 and 75 for the terms of 12 years, 15 years and 20 years respectively. The commission payable to agents was reduced from 25% to 15% of the first year's premium under this plan. The rate of bonus and renewal commission, however, remained unchanged at 10 per cent. The Money Back Policy became quite popular in the span of six years. For instance, the total new business under this plan rose from 9.27 per cent of the total new insurance business in the year 1975-76 to 40.11 p.c. in the year 1984-85. The business, however, registered a slight fall

during the next year, 1985-86. Inspite of such a tremendous success of this policy, it was withdrawn by the Corporation in the year 1986. The old Money Back Policy was replaced by the New Money Back Policy (Table 93), Bima Sandesh (Table 94) and Bima Bhavishy Jeevan (Table 95).

Most of the Term Assurance Plans of the LIC have been unattractive and unsuccessful during the entire period of the study. Life Insurance in developing economy like India is sold and not bought by the people. It is a kind of forced selling by the agency force, and unless the agents have better incentive they will not pursue for a particular plan of insurance. They will pursue only those plans where the rate of commission is higher. In case of a Term Assurance plans if the term of insurance is more than 10 years but less than 15 years then the first year's premium commission is 20 per cent plus usual bonus. But if the plan term is 10 years or less than the rate of commission on the first year's premiums is 10 per cent plus bonus. It appears from the above that the most important reason for failure of the Term Assurance plans of the LIC is the lower rate of commission payable to agents. In addition to this, the term of insurance under this class of life insurance is comparatively shorter than the endowment assurance plans. This in turn reduces the span of renewal premium payable to LIC agents; and this for reason the agents are least interested in procuring business under term assurance plans.

It is further observed that the insurance plans with profits are far more popular than without profit plans. There may be many reasons for this one-sided development. Notwithstanding the lower rate of premium on non-participating plans than on participating plans, the later is more popular. This attitude of the insuring population suggests that cover of saving plays more important role than the risk factor and the prospective policyholders compare the amount payable under the two different insurance plans at the time of maturity; the amount payable in case of participating life insurance plans is greater than the amount payable under non-participating policies and hence their preference for participating plans is natural. Alternatively the vested interest of the agents is responsible for this state of affairs as higher the rate of premium higher would be the agents' commission on the first year's as well as renewal premiums. Therefore, they influence the prospective policy-holders to take policies under participating plans so that they can get the benefits of higher commission due to higher rate of premiums on such policies.

The plan-wise distribution of new individual insurance business (According to amount of sum-assured) for the years 1975-76 to 1985-86 has been shown in percentage in Table III.1. It is clear that most of the plans remain practically unsold over years. The reason for their unpopularity lies in the lack of interest on the part of agents. To make plan basket meaningful

TABLE III.1

Plan-wise Distribution of New Business in India (Individual only)

(Percentages according to Sum Assured)

Plans of Insurance	75-76	76-77	77-78	78-78	79-80	80-81	81-82	82-83	83-84	84-85	85-86
1. Whole Life Assurance	0.16	0.17	0.17	0.15	0.14	0.18	0.22	0.27	0.26	0.33	0.19
2. Whole Life Limited	0.44	0.42	0.51	0.55	0.51	0.66	0.72	0.72	0.74	0.66	0.28
3. Endowment Assurance	56.46	44.24	41.19	35.90	32.92	53.44	51.29	50.06	49.69	47.17	40.97
4. Joint Life	0.29	0.26	0.31	0.30	0.22	0.22	0.18	0.18	0.18	0.19	0.12
5. Multiple purpose	0.58	0.48	0.33	0.24	0.16	0.15	0.16	0.13	0.10	0.12	0.08
6. Children's Deferred	6.47	6.17	4.76	3.61	2.72	2.43	3.05	3.20	2.61	2.42	2.58
7. Money Back policy	-	1.61	1.90	9.27	16.76	36.18	37.24	37.62	38.31	40.11	37.26
8. Progressive Protection Policy	-	0.38	0.30	0.19	0.13	0.17	0.14	0.14	0.10	0.09	0.36
9. Children's Anticipated Endowment	-	-	-	1.03	2.34	2.50	2.92	2.79	2.29	2.14	1.24
10. Janaraksha Policy	-	-	-	-	-	-	0.01	0.09	*	0.10	0.50
11. Anticipated Endowment (Table 24,25, 26, Term 15-20-25)	35.20	40.88	44.71	44.17	39.95	0.91	-	-	-	-	-
12. Convertible whole Life	3.79	3.80	3.26	2.72	2.68	1.61	2.63	3.45	4.53	0.46	3.88
13. Double Endowment	*	*	0.01	*	*	*	0.01	*	*	*	*
14. Fixed Terms	0.85	0.64	0.52	0.40	0.31	0.01	0.30	0.28	0.27	0.18	0.05
15. Educational Annuity	0.26	0.21	0.19	0.14	0.11	0.09	0.09	0.07	0.06	0.04	0.40
16. Pure Endowment	1.25	1.00	0.89	0.88	0.70	0.64	0.62	0.63	0.43	0.31	0.06
17. Triple Benefits	0.10	0.07	0.08	0.05	0.05	0.05	0.06	0.07	0.02	0.01	0.01
18. Two-Year Temporary Assurance	0.01	0.01	0.02	0.01	0.01	0.01	0.04	0.01	0.01	*	0.02
19. Convertible Terms	0.01	0.02	0.01	0.02	0.01	0.01	0.06	0.07	0.05	0.07	0.08
20. Anticipated Whole Life	- -	- -	-	—	-	0.33	0.18	0.14	0.12	0.11	0.04
21. Mortgage Redemption	0.04	0.03	0.04	0.04	0.03	0.04	0.02	0.06	0.05	0.08	0.09
22. Jeevan Mitra	-	-	-	-	-	-	-	-	-	—	10.65
23. Jeevan Sathi	-	-	-	-	-	-	-	-	-	—	0.84
24. Others	0.04	*	0.74	0.30	0.21	0.01	0.00	-	-	-	-
Total sum assured (Rs.crores)	2104.00	2095.40	2004.87	2057.40	2732.11	2882.56	3478.75	3974.23	4386.87	5375.64	7056.07

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

Note:- '-' indicates either the policy has not been introduced or withdrawn, by the corporation.

Where the sum assured is less than .01 percent it has been indicated by asterisks.

as well as useful the LIC should persuade agents to achieve a minimum quota of socially required policies. The LIC should also take special publicity drives to make public aware of the unknown policies and their useful features. The T.V. media can be very usefully utilised in this regard.

PLAN-WISE DISTRIBUTION OF NEW BUSINESS

(According to Number of Policies)

An analysis of the plan-wise distribution of number of policies issued during the study period indicates that more than 50 percent (minimum and maximum range varying between 45% and 65%) of the policies were issued under a single insurance plan- namely 'Endowment Assurance.' One more insurance plan accounted for more than 30 percent of policies (the range of policies issued under 'Anticipated Endowment' varied between 28% and 37% and on its discontinuance 'Money Back Policy's' share ranged between 28% and 33%. The remaining individual insurance plans accounted for varying between 6% and 18% of the total number of policies issued during the study period. However, no single policy, other than mentioned above accounted for more than 3% excepting for "Jeevan Mitra" which made maiden appearance during 1985-86 (Table III.2).

The most popular during the entire period of the study was Endowment Assurance. However, the percentage of policies issued under this plan showed a declining trend during the first

TABLE III.2

Plan-wise Distribution of New Business in India (Individual only) (Percentages according to Number of Policies)

Plans of Insurance	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Whole Life Assurance	0.04	0.05	0.05	0.06	0.04	0.10	0.09	0.18	0.12	0.18	0.12
2. Whole Life Limited	0.15	0.15	0.16	0.22	0.19	0.31	0.33	0.36	0.38	0.33	0.15
3. Endowment Assurance	62.79	60.01	54.15	45.51	45.51	65.81	64.52	62.57	61.16	59.46	50.12
4. Joint Life	0.25	0.19	0.21	0.23	0.19	0.15	0.14	0.13	0.12	0.14	0.09
5. Multipurpose	0.45	0.29	0.27	0.17	0.14	0.15	0.14	0.09	0.08	0.07	0.06
6. Children's Deferred	3.03	2.97	2.43	1.94	1.53	1.28	1.47	1.52	1.26	1.29	1.25
7. Money Back Policy	-	0.88	1.08	6.08	11.54	28.11	29.34	30.43	31.78	33.49	32.14
8. Progressive protection policy	-	0.34	0.27	0.17	0.14	0.15	0.14	1.34	0.08	0.07	0.27
9. Children's Anticipated Endowment	-	-	-	0.40	1.00	0.97	1.14	1.12	0.92	0.92	0.64
10. Janaraksha Policy	-	-	-	-	-	-	0.09	0.54	0.67	0.59	1.43
11. Anticipated Endowment	28.08	32.05	36.62	37.09	35.83	0.82	-	-	-	-	-
12. Convertible whole life	2.78	2.73	2.43	1.99	2.00	1.75	1.62	2.06	2.66	2.74	2.22
13. Double Endowment	*	*	*	*	*	*	*	*	*	*	*
14. Fixed Terms	1.09	0.83	0.70	0.51	0.38	0.31	0.33	0.27	0.25	0.18	0.06
15. Educational Annuity	0.35	0.29	0.21	0.17	0.14	0.10	0.09	0.09	0.08	0.03	0.37
16. Pure Endowment	0.80	0.88	0.86	1.34	1.05	0.36	0.38	0.31	0.21	0.18	0.06
17. Triple Benefits	0.10	0.05	0.05	0.05	0.04	0.05	0.04	0.04	*	*	*
18. Two-year Temporary Assurance	*	*	*	*	*	*	*	*	*	*	*
19. Convertible Terms	*	*	*	-	*	*	*	*	*	1	0.03
20. Anticipated whole Life	-	-	-	-	-	*	*	0.04	*	0.03	*
21. Mortgage Redemptions	0.04	0.05	*	*	*	*	*	*	*	0.03	0.03
22. Jeevan Mitra	-	-	-	-	-	-	-	-	-	-	10.26
23. Jeevan Sathi	-	-	-	-	-	-	-	-	-	-	0.27
24. Others	-	-	-	-	0.19	-	-	-	0.08	-	-
Total of Policies (All Plans) (In thousands)	2008	2053	1854	1755	2096	1954	2103	2231	2366	2699	3286

Source: Computed from LIC's Annual Reports and Accounts

Notes: (i) Where the number of policies is less than 500, they are indicated by asterisks.

(ii) - indicates either the policy has not been introduced or withdrawn by the Corpn.

five years of the period under review. It, however, regained its pre-eminence in 1980-81. The introduction of 'Jeevan Mitra' again led to its decline.

The second most important popular plan during the first five years of the period was 'Anticipated Endowment' which accounted for roughly one-third of the policies issued every year. However, this important plan was withdrawn by the Corporation in the year 1980-81. In its twenty-third annual report (1979-80) the Corporation simply notified withdrawal of the plan and did not care to elaborate reasons behind withdrawal of a popular policy.

'Money Back Policy' plan took a long span of about seven years to gain popularity. It may, however, be stated here that this policy gained its immense popularity only after the withdrawal of Anticipated Endowment plan. The percentage of policies issued under Money Back Plan to the total number of policies issued by the Corporation for all the individual insurance plans together was 11.54 p.c. in the year 1979-80 which jumped to 28.11 p.c. in the year 1980-81, the year in which Anticipated Endowment Plan was withdrawn by the LIC. The number of policies, under this plan went on increasing on a very fast rate thereafter. Anticipated Endowment Plan claimed about 36 p.c. of the total new business under individual insurance according to number of policies.

Total number of policies issued during the first six years of the period under review showed declining trend or some-

times stagnant. There was almost no increase in the number of new policies issued under all the individual insurance plans. For instance, the total number of policies issued for all the individual plans was 20.08 lakhs in the year 1975-76 which came down to 17.55 lakhs in the year 1978-79 and 19.54 lakhs in the year 1980-81. Thereafter, however, increasing number of policies have been issued every year.

A comparison between new business according to sum assured and according to number of policies in the plan-wise distribution of new business (Table III.2) indicates some interesting results. For instance, 58.14 p.c. (on average) of business according to number of policies represented only 46.23 per cent (on average) of business according to sum assured. This suggests that the denomination of the policies under this assurance plan is of lower value. However, the trend in the Anticipated Endowment is just opposite. Here average 33.90 per cent of the business according to policies represented 40.62 per cent of the business according to sum assured. This indicates that the denomination of the policies are of higher amount under this plan. It is observed that individual insurance plans like 'Double Endowment', 'Two-year Temporary Assurance', 'Convertible Term plan' and 'mortgage redemption' were the most unattractive individual insurance plans of the Corporation. Most of these insurance plans could not attract even 500 policies annually during the entire period under review. It may, therefore, be suggested that such

unpopular plans should be withdrawn from the 'plans kit' by the Corporation because existence of these policies increases the cost of the corporation. Alternatively the agency force should be motivated to procure business under these policies.

MONTH-WISE VARIANCE IN BUSINESS PROPOSED AND BUSINESS CONVERTED INTO POLICIES :

A month-wise analysis of business proposed and proposals converted into policies indicates that large number of proposals brought in by the agents to the Corporation are not converted into policies within the month of submission of the proposals. This variance in the proposals and their conversion into policies differs from month to month. The first quarter (April-June) of the year has the largest backlog of the proposal, which are not converted into policies. It is also observed that the number of proposals in the month of April is the lowest of all the months in the year.

The overtime working of the entire machinery of the LIC including its agency force during the month of March in reaching the New Business targets make them tired. There is a constant pressure right from the Chairman to the Branch Managers in achieving the New Business targets. The New Business Targets are always fixed at a very high level and since the Branch Managers cannot meet the targets from the normal business activities - within the time schedule they give the New Business Figures to

their higher officers (Branch Manager to Divisional Managers, Divisional Managers to Zonal Managers and Zonal Managers to Chairman and Managing Directors) and ask for the extension of time to complete the targeted Business.[1] "LIC management who knows the game, reciprocates by allowing opening of Duplicate Cash Book known as "DCB II" which is used to collect deposits against New Business proposals"[2]. The accounting year of the Corporation ends at 31st March every year but "the 'DCB' is kept open till the end of April or earlier only if the business figures has been achieved."[3]

Again, the 'DCB II' is opened to receive only the cheques dated 31st March or earlier and no cash deposits are accepted. In actual practice cash amounts are received but the actual accounting is made against third party cheques issued by some one known to the Branch Manager. "The cheques collected under 'DCB' are deposited by the end of April but with the help of Bank Managers the date stamps are given for April 1st or 2nd. Everybody plays the game safe with the knowledge of the management."[4]

In almost all other eleven months of the year, LIC Management fails to complete the proposals submitted by agents by issuing policies for whatever reasons it may be. So after collecting a large number of proposals in the month of March - the

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1 This fact has been communicated to the present investigator by some members of the different clubs of the Agents.
2 LIAFI's Letter to Ministry of Administrative Reforms as published in LIAFI News Letter, Vol.XVI, No.10-12, Jan to March,1980, p.13.
3 Ibid.
4 Ibid p. 13.

management clears the backlog by relaxing the underwriting rules and by extending the period of completion of New Business.[1] The Table III.3 will reveal how in the month of March a huge number of proposals are underwritten clearing up the backlog.

It is observed that substantially a large number of proposals are brought in the month of March than in the remaining months of the year. To illustrate, during March, 1986 alone as much as 23.96% of the proposals (with 34.45% of the value were brought to the LIC. Being the period of financial year ending not only the proposals of the month are converted into policies a large number of backlog is also cleared. For instance, the excess number of proposals converted into policies in March 1976 was 83 thousands which rose to 3.32 lakhs during March 1986. It is also clear from the Table (III.4) that a large number of proposals submitted by the agents during the first eleven months of the year, remain pending till March end. This non completion of proposals within reasonable time leads to termination of some agencies. This act of LIC's Management also causes inconveniences to the proposers.

One of the reasons of the lowest number of proposals submitted by the agents to the LIC administration in the month of April is that the management is busy with clearing the huge number of proposals brought in the month of March along with backlog. They have practically no time to spare for the newpropo-

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1 Ibid., p. 13.

TABLE III.3

Statement Showing Month-wise Variance in The Proposals and Policies Issued
(Individual Business in India) (According to No. of policies)
(No. in thousands)

Month	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
April	-22	-26	-23	-37	-42	-36	-17	-34	-40	-43	-48
May	-14	-17	-13	-12	-17	-30	-37	-32	-28	-52	-47
June	-28	-28	-23	-21	-22	-35	-33	34	-32	-36	-47
July	-40	-18	-24	-26	-18	-04	-22	-14	-21	-26	-38
August	-21	-13	-11	-10	-31	-22	-22	-27	-29	-23	-43
September	-34	-26	-09	-20	-12	-20	-26	-45	-37	-40	-48
October	-13	-14	-18	+01	+04	-10	- 6	-06	-10	- 8	-23
November	-01	+ 22	-03	+ 11	+03	-16	-12	-11	-12	-8	-17
December	+ 4	-22	+ 19	-12	-02	-17	+ 17	-7	-52	-16	-52
January	-14	-22	-27	+ 2	-12	-13	-37	+ 2	+ 7	-16	-0.07
February	-14	-19	-16	-14	-32	-27	-12	-27	-25	-27	-24
March	+ 83	+ 106	+ 94	+ 96	+ 141	+ 183	+ 169	+ 180	+ 229	+ 241	+ 332
Total =	(-) 114	(-) 77	(-)154	(-) 42	(-) 42	(-)64	(-) 39	(-) 57	(-) 48	(-) 54	- 55

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

Notes: (i) - (minus) indicates number of proposals proposed, but not converted into policies during the month of proposals.

(ii) + (Plus) indicates excess of proposals converted into policies within the month of proposals.

TABLE III.4

Statement Showing Month-wise Variance in The Proposals and Sum Assured (Individual Business in India) (According to sum Assured) (Rs. crores).

Months	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)
April	-24.31	-29.25	-33.79	-45.39	-46.68	-48.67	-33.18	-57.30	-39.86	-76.99	-91.80
May	-16.05	-19.61	-18.51	-16.69	-29.22	-51.17	-55.40	-53.77	-55.55	-87.72	-97.21
June	-30.07	-32.77	-27.85	-33.14	-37.06	-60.83	-57.27	-70.49	-66.72	-93.87	-110.97
July	-11.26	-19.87	-35.23	-28.67	-26.72	-20.26	-43.05	-44.98	-51.02	-75.28	-94.21
August	-29.32	-20.65	-14.38	-20.77	-47.80	-49.56	-57.95	-75.41	-71.70	-64.17	-134.60
September	-44.60	-30.70	-13.36	-31.28	-27.41	-37.09	-78.51	-101.51	-94.87	-95.94	-127.59
October	-26.14	-23.81	-23.27	-2.35	+3.47	-18.97	-8.07	-17.62	-33.95	-40.24	-46.58
November	+0.13	-15.16	-5.41	+18.65	+2.71	-27.14	-34.61	-41.30	-41.91	-25.76	-84.93
December	+11.67	+17.75	+21.93	-0.13	+1.04	-35.01	+13.93	-33.34	-121.87	-68.02	-135.18
January	-16.84	-26.09	-37.95	-3.15	-21.44	-38.43	-48.67	-15.24	+30.41	-38.62	-38.65
February	-16.27	-26.57	-28.44	-26.53	-51.60	-39.23	-42.87	-46.24	-57.00	-74.56	-73.29
March	+109.93	+129.81	-129.88	+156.02	+210.55	+306.71	+336.05	+368.62	+ 292.59	+560.40	+856.81
Total =	(-)95.09	(-)96.92	-80.11	-53.88	-76.56	-120.39	-109.72	-158.58	-487.79	(-)180.63	-178.92

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

Notes: (i) - (minus) indicates amount proposed but not converted into policies during the month of proposals.

(ii) + (plus) indicates amount converted into policies in excess than the amount proposed during the month.

sale brought in by the agents in the month of April. Further this is one of the reasons that the agents are after more and more business in the month of March every year because these proposals are cleared easily and within a reasonable time.

Complaining against this sort of affairs, the President of the Life Insurance Agents Federation of India, in his letter to the Minister of State, Ministry of Administrative Reforms, Govt. of India mentioned "It is on record that in the month of April, 1981, the entire Varanasi Division did not or could not underwrite even a single proposal. Again in April, 1983 Asansol Division could underwrite only ten new proposals. But both the Divisional Managers were promoted in the same year as Senior Divisional Managers. These two promotions indicate the attitude of the management towards the efficiency and promptness of services rendered to policyholders and agents. Everyone plays his game for attaining the end result and nothingelse."[1]

LIC does nearly 40 percent of its new business in the month of March itself. This overconcentration of business in the month of March has its impact on the quality of business. And deterioration in the quality of business causes higher lapse ratio. To check this tradition the LIAFI suggested to the government the following remedial measures :

1) The LIC should not open and operate the 'DCB II'.

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1 Ibid. p. 15.

2) To declare 31st March as LIC's Account closing holiday on the pattern of Banks closing on 30th June and 31st December every year.

3) The LIC should deposit all of its collections made in the month of March on 31st March and should close the Books of Accounts, by announcing the last number or Deposit Receipts on 1st April.

4) The LIC should complete all its underwriting operations by the 31st March, when the office will remain closed to public and declare the exact number of policies issued during the year by the afternoon of 1st April.

5) Persons responsible for introduction of policies which lapse before acquiring paid up or surrender value should be asked to give proper explanation for the same.

The month-wise variance in proposals and sum assured (according to sum assured) reflects the same state of affairs (Table III.4).

Lapsation of Business

If premiums under life insurance policy are paid for a specified period and then discontinued, an immediate cash payment, called the Surrender Value, is available under the policy. Alternatively, the policy can be changed into what is called paid up policy under which no further premiums are payable, and a

reduced sum assured is available at the same time and on the same terms and conditions, as the original sum assured. Policies issued by the LIC acquire a paid-up value after two years' premiums have been paid, they acquire surrender value after the payment of two years'premiums or one-tenth of the number of instalment premiums originally stipulated (subject to a minimum of one year's premium). If premiums are discontinued before the policy-holder becomes entitled to a paid-up policy or the surrender value,he gets no benefit involving cash payment either immediately or later.

The LIC describes all policies under which premiums have been discontinued as "lapsed", where the policy has not acquired a paid up value the entire sum assured is taken as lapsed. Where the policy has acquired the paid-up value the difference between the original Sum Assured and paid-up value is taken as the sum lapsed. The term 'lapse' has not been clearly defined in the Insurance Act, 1938. However Section 113(2) refers to 'lapses' and says - ".... policy which has acquired a surrender value shall not lapse by reason of non payment of further premiums but shall be kept alive to the extent of the paid-up sum assured.. ..."

Although the data relating to lapses of policies after the payment of first instalment of premium to new business for recent years are not available, we can well imagine the degree of lapsation after payment of the first premium. On the basis of an investigation made by the Corporation in the mid-sixties.

According to this investigation which included the period 1959 to 1965-66, 18 to 24 per cent of the new policies, in the new business the Corporation secured only one instalment of premium. The percentage based on Sum Assured showed an increase from 18 in 1959 to 23 in 1961, and thereafter decreased to 15 in 1965-66.[1]

According to a Senior Officer of the Corporation one of the factors contributing to such lapses is - "spurious business that is to say, the proposals which are introduced and completed without any real sale having been made and purely with a view to obtain some advantage or other for the agent or the development officer. Practically all policies lapsed after the payment of first premium might be of this category.[2]"

The data in the annual reports of the Corporation is given in such a way that it is difficult to calculate the percentage of lapses after payment of first premium for the years under present study.

High lapsation in the life insurance business is the indicator of unsatisfactory and deplorable service. To reduce the ratio of the lapsation was one of the main reasons behind the nationalisation of the life insurance business, as the lapse ratio in the pre-nationalisation period was quite high due to fierce competitions amongst the private insurers.

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1. Report of the Committee of Enquiry into The Expenses of the LIC, 1969, Part I, p. 243.
2. As quoted in Morarka Committee Report, 1969, Part I, p. 244.

According to the Corporation the lapses vary from region to region due to differences in the literacy standards and economic factors. This may be partially correct but in our opinion poor management means poor business and therefore, high lapses. The Corporation also puts forward an argument that the lapse ratios in the case of divisions which predominantly rural are higher than in other divisions. The Corporation further states that perhaps the most important reason for lapses is the deterioration in the economic condition of the country. This argument of the Corporation cannot be accepted as there has been a continuous increase in the Net National Income and per capita income of the country during the last decade.

While commenting on the high lapsation of LIC policies, the National Federation of Insurance Field Workers of India (NFIFWI) opined,

> "LIC has become a PLUS-MINUS BUSINESS FIGURE CORPORATION. In their mistaken zeal to show to the Government or to the Parliament or the public at large the make-believe success of the LIC, the management has compelled the Development Officers to procure more and more business anyhow and somehow. Huge lapsation of business has, therefore, been the natural outcome of forced sale of business in the market. Service conditions of the Development Officers are so devised that they are compelled to bring in business of doubtful quality in order to justify (as the management puts it) emoluments."[1]

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1 As quoted in A.R.C. Report, 1968, pt.I, pp 55-56

3 The Corporation's attitude to procure the business anyhow or somehow cannot be supported. This reflects the lack of effective business planning of the management. The planning of the new business should be framed in such a way that the target is not unduly high and unrealistic.

It seems that the Corporation has not made any serious endeavour to arrest the high lapse ratio, which is in large measure due to the inefficient and ineffective selling. The re-organisation of the Agency Force of the Corporation may solve many problems including the high lapse ratio. If the Agency Force pursues the policyholders during the first two or three years of getting the policies an automatic conciousness will be aroused among the policy-holders and they will develop their interest in continuation of their policies. It is observed that the maximum number of lapsation takes place during the early years of the policies. Other possible causes for lapses, viz., delay in the deduction and remittance of the premium of the salary savings scheme and errors and delays on account of concentration of new business in the closing months of calender and financial years should be eliminated by an efficient and effective administration having proper co-ordination with the offices under salary savings scheme.

Lapse Ratio

The data pertaining to new business does not make much sense unless the quality of the business is also taken into con-

sideration. The quality of the business can be examined with the help of lapse ratio i.e., the ratio of sum assured lapsed less sum assured received in the year to mean business in force during the year. In terms of percentage the Corporation has done well in this regard as compared to two earlier decades in the post nationalisation period. The average lapse ratio ranged between 6 and 7 per cent during almost two decades of the post nationalisation period which has been brought down to about 4.5 per cent on average during the decade under review. The net lapse ratio of the Corporation is shown in Table XII.5.

Undoubtedly, the Corporation has made a break through in arresting the net lapse ratio, yet much more has to be done in this connection. The lapse ratio of the Corporation is often compared with the lapse ratios of erstwhile insurers in the private sector. This comparision does not appear to be proper because in the pre-nationalisation era there were numerous companies carrying life insurance business and there was cut-throat competition for capturing the business which led to affect the quality of business. Besides there were some very small un-organised life insurers which affected the average more adversely. Even if we compare the present lapse ratio with some of the efficient life insurers of pre-nationalisation period, we come to the conclusion that there is nothing to be complacent on the part of the Corporation keeping in view the monopolistic character of the LIC.

TABLE III.5

Net Lapse Ratios -

Year of New Business	Net Lapse Ratio At Mean Duration				
	0 - year	1st. year	2nd. year	3rd. year	Total
(1)	(2)	(3)	(4)	(5)	(6)
1975-76	0.7	17.7	8.2	3.2	29.8
1976-77	0.9	18.7	8.1	2.9	30.6
1977-78	0.9	16.5	7.4	2.8	27.6
1978-79	0.8	14.9	7.0	3.4	26.1
1979-80	0.6	13.6	8.0	3.1	25.3
1980-81	0.5	14.0	8.3	3.2	26.0
1981-82	0.4	15.5	9.2	3.7	28.8
1982-83	0.4	14.8	8.6	-	-
1983-84	0.5	14.4	-	-	-
1984-85	0.5	14.5	-	-	-
1985-86	0.4	-	-	-	-

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

Note: Mean duration is the year of lapse minus 1 year of New Business.

The main contention of the LIC's management regarding high lapse ratio in the past has been the increase in the price level which reduced the saving capacity of the people. But this argument does not hold good while taking into consideration the decade of seventies. The price has risen sharply during this period and at the same time the lapsation ratio has showed a downward tendency. Therefore, linking of the lapse ratio with the price level does not seem to be a sound logic. Actually high lapse ratio shows that the quality of business done is deteriorating.

Sometimes, especially in the recent years, the lapse ratio of the LIC is being compared with the lapse ratio of the foreign life insurers. But this comparison too is not realistic, insurers in industrially advanced countries - especially the U.K. and the U.S.A., calculate lapse ratio by including the surrenders in the category of lapsation whereas the LIC does not do so. If the surrenders of policies are included in the category of lapse, the lapse ratio of the LIC will be still higher.

The ratio of total policies forfeited during 1975-76 to the total new policies issued during the year was about 31 per cent and that of sum assured was 26 per cent. In absolute terms the total number of policies issued during the year was 20.08 lakhs whereas the total number of policies forfeited during the year 6.25 lakhs. The ratio of forfeited policies to newly issued policies remained more or less the same during entire

period covered under our study. This indicates that the new business of the Corporation was really less by that per cent. This is an injustice against the innocent policy-holders whose hard earned savings are misplaced due to forced selling. A very peculiar trend of the LIC's business is that almost half of its businesses is done in the last quarter of the year. This indicates that to reach the target for the year the Development Officers and army of Agents are busy day and night to procure the business 'anyhow and somehow' which in turn deteriorates the quality of the new business. Quantity and quality both cannot go side by side. This fact was also pointed out by the A.R.C. in the year 1968.[1]

Another method of studying the phenomenon of lapses is to take the new business done during the particular period and follow it during the next few years, and see that how much of itlapsed under the same calender year, how much inthe next and so on. Since lapses are heavier during the early life of policies, lapse ratio calculation on the basis of first method without considering the duration does not provide a reliable index of lapses from year to year. Therefore, lapses can best be studied by analysing lapses according to duration.[2] The Table III.6 gives LIC's duration-wise lapses.

The figures in the above table confirm the presence of poor quality of business. On average 26 to 30 per cent of business acquaired during a particular year lapses within three years' duration. The duration-wise total lapses of the Gresham and

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1 Report of the A.R.C.W. Group on LIC Administration, vol.II,p.6 Serial Number 17.
2 This method has also been used by the Controller of Insurance.

TABLE III.6

Percentages of Net Lapses to Mean Life Insurance Business in Force.

Year	No. of Policies Forfeited (in lakhs)	Sum assured under Forfeited policies (Rs. crores)	Percentages
1975-76	6.25	676.89	5.4
1976-77	7.64	972.79	5.3
1977-78	7.86	1030.59	5.4
1978-79	6.99	972.98	4.6
1979-80	6.16	947.31	3.8
1980-81	6.25	1010.39	3.8
1981-82	6.57	1214.10	4.1
1982-83	7.44	1428.51	4.3
1983-84	7.83	1645.99	4.5
1984-85	8.27	1785.63	4.2
1985-86	9.44	2137.29	4.6

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

Norwich Union as early as 1950 were 12 per cent and 9 per cent respectively. This indicates that the LIC has not been able to achieve even the standard maintained by some better managed private insurers as back as 35 years.[1]

To conclude our discussion on the lapsation, two recent judicial decisions made within a span of a fortnight deserve our attention. Although these judicial decisions are not directly connected with the lapsation of the LIC's policies, they have bearing on the justifiability of lapsation. According to judgement, the Court called for "deletion of the pernicious forfeiture clause from saving schemes"[2] of the Life Insurance Corporation of India.

In another legal decision, the City Civil Court of Ahmedabad ordered the Life Insurance Corporation of India to refund premiums with interest on two lapsed policies to a housewife.

The Court relied on the provisions of Section 65 of the Indian Contract Act to decide whether the amount forfeited for non-payment of premium was legal, and held that when the contract becomes void, the person who has received any advantage is bound to restore to the other party.[3]

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1 Shukla and Srivastava; Life Insurance Corporation - A study of its Life Insurance Business; Indian Journal of Commerce, vol. XXII, pt. I, No. 78, p. 42.

2 The Telegraph, Calcutta, 28th January, 1987, Editorial Comment on Supreme Court Judgement in the Peerless General Finance & Investment Company Ltd under the caption "Peerless Wins a Point."

3 The Telegraph, Calcutta, February 2, 1987, p. 1. p. 174

The above two judicial decisions should act as an eye operator to the Corporation to have a second thought on its present lapsation policy. The lapsation of policy should be reoriented in the interest of the general masses.

COMPLAINTS

Since the monolithic Corporation is not rendering satisfactory services to policyholders, we propose to analyse complaints according to their nature on the basis of data given in annual report. The entire complaints have been divided into seven broad categories for the purpose of our study. They are - claims (both maturity and death), commission, premium receipts, new business, loans and surrenders, transfer of records and other policyholders servicing (P.H.S.) functions.

It is observed that the highest percentage of the complaints are lodged for the settlement of claims. The percentage of complaints in respect of claims to total complaints ranged between 31 per cent and 43 per cent during the years under review. There has been a remarkable fall in the number of complaints in absolute terms during the same period. The total number of complaints during 1975-76 was 18,189 which came down to 8372 in the year 1985-86. Of course, it is very difficult to know the exact number of complaints forwarded to Central Office in Bombay from various branches, divisional and zonal offices. However, it is gratifying to note that the Corporation has taken a number of positive steps to reduce the number of complaints at the different level of its organisation.

During 1975-76 the Corporation appointed Liaison Officers in the three metropolitan cities (Bombay, Delhi and Madras) to render spot service to policyholders and agents. This service was extended to six more Divisional Centres, viz., Calcutta, Patna, Varanasi, Hyderabad, Bangalore and Ahmedabad during the year 1976-77. The public is invited to air its grievances before them. In addition, special arrangements have been made at the Divisional Centres for expeditious disposal of complaints.

The Era Sezhiyan Committee on the Working of the LIC observed, "Though the procedure laid down for dealing with the complaints are generally satisfactory, in actual practice they are not proving effective. The committee recommends that the LIC should find out the reasons for this and take appropriate steps to see the existing machinery is made effective."[1] The Committee further recommended, "... the LIC should pursue its policy of decentralisation of servicing functions to Branch Offices and ensure full coverage of all mofussils and City Branch Offices with a time bond programme."[2]

In pursuance of the above observations and recommendations of the committee there has been a remarkable change in the procedure of dealing with the complaints. Many functions relating to PHS performed by Divisional Offices have been decentralised to Branch Offices thus taking service to door step of the policy-holders. This would enable the better services to the policyholders

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1 Era Sezhiyan Committee on the working of the LIC, 1980. Serial No. 47 of summary & conclusion of the Report.

2 Ibid, Serial No. 56.

in the form of prompt replies to theirqueries, disbursement of loan, payment of survival benefits etc. The Corporation has been brought under the jurisdiction of Central Vigilance Commission from September 1968.

During 1985-86, out of the total 554 vigilance complaints, 128 complaints were closed during the year, there being no prima facie case. In respect of two complaints of 2 employees were criminally prosecuted and as regards 7 other complaints 8 employees were involved all were issued a warning/Censur. Under 74 complaints concerning 118 employees, disciplinary proceedings were initiated during the year. As at the close of the year, 343 vigilance complaints were under investigation.

Out of total 226 cases of disciplinary proceedings, involving 228 employees, 90 cases (102 employees) were disposed of during the year after imposing appropriate penalties. The remaining 126 cases (180 employees) which included 15 criminal cases (15 employees) were pending as on 31st March 1986. The Vigilance Department also dealt with 347 complaints having a vigilance angle against insurance agents, medical examiners, claimants and others. Nature-wise complaints received at the central office during years under review (1975-76 - 1985-86) have been given with their respective percentage to total complaints in Table III.7.

It is more than likely that all persons who are dissatisfied do not put down their complaints in writing and the number of complaints with the Corporation, cannot, therefore, be considered reliable; yet when we see that total number of complaints received

TABLE III.7

Nature-wise Analysis of Complaints received at the Central Office during the year.

Year	NATURE OF COMPLAINTS (Nature of Complaints)							TOTAL	Complaints per thousand mean number of policies in force.
	Claims	Commission	Premium Receipts etc.	New Business	Loans & Surrenders	Transfer of records	Misc. & other PHS Functions		
1975-76	5708	2483	4177	712	2,189	1611	1309	18189	0.94
	(31.4)	(13.6)	(23.0)	(3.9)	(12.0)	(8.9)	(7.2)	(100)	
1976-77	3948	1731	2462	545	1674	940	919	12219	0.61
	(32.3)	(14.2)	(20.1)	(4.5)	(13.7)	(7.7)	(7.5)	(100)	
1977-78	2387	998	1272	458	1545	564	594	7818	0.38
	(30.5)	(12.8)	(16.3)	(5.9)	(19.8)	(7.2)	(7.5)	(100)	
1978-79	3379	1280	1425	689	1639	610	802	9624	0.47
	(34.3)	(13.0)	(14.5)	(7.0)	(16.8)	(6.2)	(8.2)	(100)	
1979-80	3928	1272	1390	606	1591	738	835	10360	0.48
	(37.9)	(12.3)	(13.4)	(5.8)	(15.4)	(7.1)	(8.1)	(100)	
1980-81	4349	1183	1467	813	1620	822	857	11111	0.49
	(39.1)	(10.7)	(13.2)	(7.3)	(14.6)	(7.4)	(7.7)	(100)	
1981-82	4948	1051	1477	708	1555	836	770	11345	0.49
	(43.6)	(9.3)	(13.0)	(6.3)	(13.7)	(7.3)	(6.8)	(100)	
1982-83	3915	977	1393	555	1317	872	682	9711	0.37
	(40.3)	(10.1)	(14.3)	(5.7)	(13.6)	(9.0)	(7.0)	(100)	
1983-84	3862	1061	1251	437	1058	833	780	9282	0.49
	(41.6)	(11.4)	(13.5)	(4.7)	(11.4)	(9.0)	(8.4)	(100)	
1984-85	3568	1059	1164	378	942	861	749	8721	0.40
	(40.9)	(12.2)	(13.3)	(4.3)	(10.8)	(9.9)	(8.6)	(100)	
1985-86	3443	1056	1065	37	867	879	681	8,372	0.31
	(41.1)	(12.6)	(12.7)	(4.4)	(10.4)	(10.5)	(8.3)	(100)	

Source: Compiled from LIC'S Annural Reports and Accounts.

Note: Figures in the brackets indicate percentages to total complaints.

by the central office during the year 1985-86 was only 8372 as against the total number of policies in force about 2.65 crores. We are inclined to take the view that, even if the actual number of complaints had been somewhat larger than the number received by the Corporation, the position is not very unsatisfactory.

Claims Settlement Operations

Quick and prompt settlement of insurance claims by the insurers is a part of security given to the insurer. If the claims are not paid promptly the concept of complete security loses its meaning. This seems to have happened actually in practice. There are numerous complaints of delays in payment of claims. In a country like India where there is a high percentage of illiteracy, complaints are probably made by a fractions of people who have real grounds for complaint. The sufferings of the large number of the people by delays in payment of claims can well be imagined. Settlement of claims is a point on which the Corporation is often criticised by the policyholders. It may be noted that every year the LIC is increasingly writing back outstanding and unclaimed old claims by death and maturity. During 1981-82 the amount of such written back claims were more than double of written back claims in 1980-81 and since then there has been an abnormal rise in outstanding claims written back (Table III.8).

TABLE III.8

Outstanding and Unclaimed old claims by Death and Maturity (Rs. in crores)

Year	Written back during the year (Rs. crores)	Written back previously but paid during the year (Rs. crores)	Net amount credited to Revenue Account (Rs.crores)
(1)	(2)	(3)	(4)
1975-76	2.66	1.01	1.65
1976-77	2.80	1.16	1.64
1977-78	2.32	1.55	0.77
1978-79	1.67	1.29	0.38
1979-80	3.25	1.46	1.79
1980-81	2.39	1.37	1.02
1981-82	4.97	1.66	3.31
1982-83	6.29	1.68	4.61
1983-84	5.25	2.39	2.86
1984-85	6.61	1.96	4.65
1985-86	6.10	2.48	3.62

Source: LIC's Annual Reports and Accounts.

As custodian of public fund, LIC should try to trace the claimants rather than go for a quick write back of such claims. In a country with mass illiteracy LIC should function with sympathy and devotion to return money to them only to whom it belongs. That LIC hardly cares to trace the claimants is clear from the fact that roughly 40% to 50% amount written back during the year is offset by the way of written back previously but paid during the year. Even when LIC is unable to trace the claimants, unclaimed sums should be transferred to an earmarked account and shown on the liabilities side of the balance sheet. The LIC should be asked to credit an interest on this sum for its use. After expiry of 5 years or so it should either be transferred to government for welfare activities or should be distributed amongst the policyholders as a special bonus. In no case such amount should be allowed to retained as income of the Corporation.

A sample study conducted by the Inspecting Officers of the LIC as early 1966-67 revealed that 36% the maturity claims were settled in time and the remainder took an average time of 96 days. Out of the death claims only 3% were paid within a month of the intimation and the remaining claims took an average period of 199 days to 343 days.[1] The A.R.C.'s recommendation in this connection was "the delay caused by the administrative procedures should be eliminated by making the procedures simple and under-

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1 A.R.C. : Report of the Working group of Life Insurance Administration, 1968, p. 37.

standable and providing maximum service to policyholder personally at their door."[1]

The views expressed by the Life Insurance Agents' Federation in connection with the settlement of claims are quite interesting. According to Federation, ".... claims must be settled on the date of maturity or with electric speed after death. Efficiency in this regard decides the future inflow of insurances" the Federation further added," We charge the LIC with the responsibility for lowering its prestige by its witch-hunt in respect of 'premature claims or is it premature deaths".[2] Claims settlement operations have been shown in Table III.9.

The claims settlement operations, as evident from the above tables, have shown an improvement. The amount paid by the LIC towards the settlement of claims in the first two years exceeded the total amount of claims intimated during those years. However, the same trend did not continue during the next four years. The situation showed a sign of improvement during 1981-82 but the same could not be maintained in 1982-83 and 1983-84. During the last two years claims settled exceeded claims intimated during the year. On the other hand, the outstanding claims - both in terms of number as well as amount showed an upward tendency

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1 Ibid.

2 Memorandum of the Life Insurance Agents' Federation to Administrative Reforms Commission 1968, p. 37.

TABLE III.9

CLAIMS SETTLEMENTS OPERATIONS:-

Year	No. of Outstanding claims at the beginning of the year (In lakhs)	No. of claims Intimated during the year (In lakhs)	Total Number of disposable claims (in lakhs)	Claims settled during the year including claims written back (lakhs)	No. of outstanding claims at the end of the year (in lakhs)	Outstanding claims as % of disposable claims
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975-76	1.04	5.25	6.29	5.46	0.83	13.20
1976-77	0.83	5.41	6.24	5.63	0.61	9.78
1977-78	0.61	6.27	6.88	6.05	0.83	12.06
1978-79	0.83	6.91	7.44	6.71	1.03	13.31
1979-80	1.03	7.36	8.39	7.19	1.20	14.30
1980-81	1.20	7.91	9.11	7.14	1.72	18.88
1981-82	1.72	9.18	10.90	9.39	1.51	13.85
1982-83	1.51	10.29	11.80	10.35	1.45	12.29
1983-84	1.45	11.55	13.00	11.46	1.54	11.85
1984-85	1.54	13.14	14.68	13.46	1.22	8.31
1985-86	1.22	13.69	14.85	13.83	1.02	6.87

Source: LIC's Annual Reports and Accounts.

during the entire period of study except 1976-77 and 1985-86 (Table III.10).

Though the disposal of outstanding claims has, however, shown an improvement a lot is to be done in this connection if the LIC has to acquire a reputation among the masses. The outstanding rate has been brought down to a reasonable percentage (5.75%) in terms of number and 4.7% in terms of value) in the case of maturity claims but the position hasnnot so much improved with regard to the settlemnnt of death claims (1985-86 rate being 18.6% in terms of number of claims and 22.6% of the total amount claimed).

No doubt, there are practical difficulties in settlement of death claims but such claims represent dire necessity and should be settled expeditiously. Nothing would contribute more effectively in corporate image building than prompt and sympathetic disposal of death claims. The published figures enable us to go deeper into settlement of claims as it discloses break up of delay period. As shown in Table III.11 there is a definite trend towards improvement. In recent years more than 50% of maturity claims are being settled inless than 3 months, and this percentage is on a consistent increase, as against 40.37% during 1975-76. The percentage of cases settled after more than 2 years has also been brought down from 8.14% in 1975-76 to 5.82% during 1985-86. The trend in number of policies settled is equally

TABLE III.10

Statment Showing Outstanding Claims

Year	Percentage of Outstanding Claims at the end of Financial Year to claims Payable during the year					
	Death Claims		Maturity claims		Total	
	% by Number	% by Amount	% by Numbers	% by Amount	% by Nos.	% by Amount
(1)	(2)	(3)	(4)	(5)	(6)	(70
1975-76	29.28	31.64	10.14	8.01	13.28	14.70
1976-77	24.22	27.05	6.87	5.76	9.74	12.14
1977-78	25.46	27.92	9.74	7.89	12.04	13.50
1978-79	28.11	29.22	11.03	7.58	13.33	13.46
1979-80	28.68	28.56	12.03	9.37	14.27	15.15
1980-81	30.86	32.18	17.12	13.61	18.80	18.49
1981-82	26.61	28.37	12.23	9.66	13.85	14.35
1982-83	22.93	25.29	11.06	9.30	12.30	13.06
1983-84	23.24	25.92	10.66	8.88	11.86	12.64
1984-85	20.48	24.34	7.15	6.69	8.29	10.29
1985-86	18.60	22.60	5.75	4.70	6.86	8.36

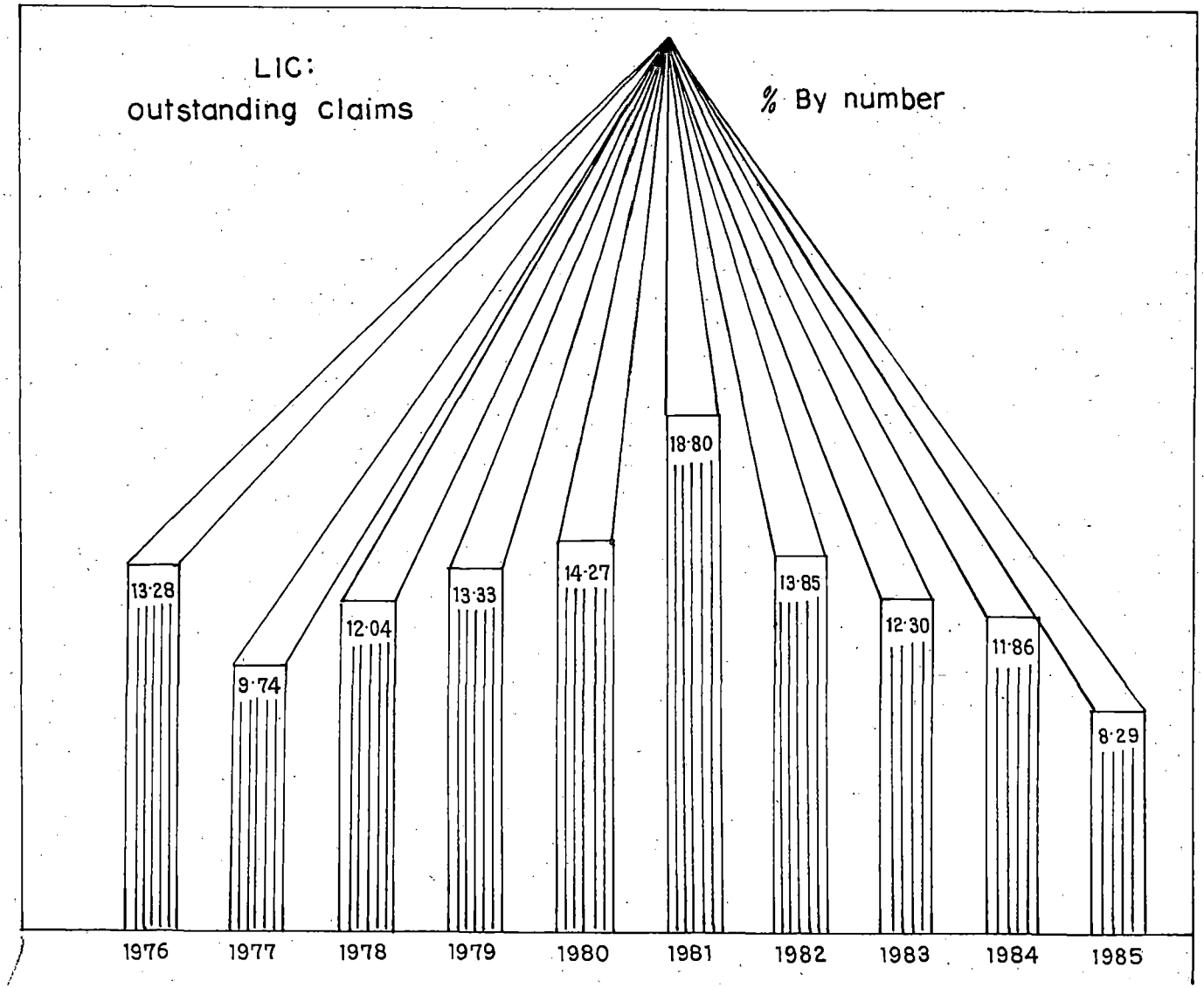
-Source: Complied from LIC's Annual Reports and Accounts

TABLE III.11

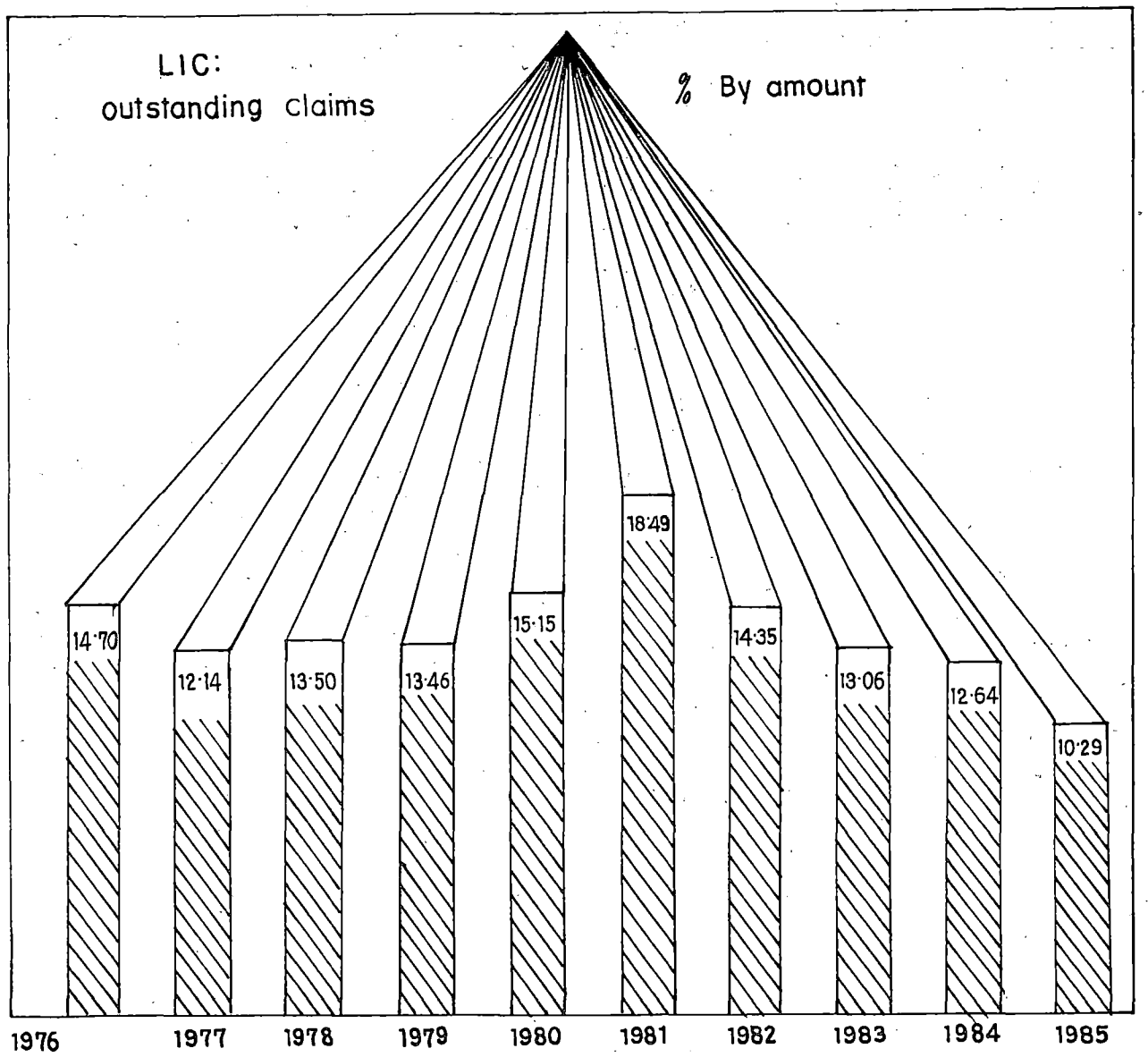
Analysis of Outstanding Claims

Period for which claims remained outstanding	Number (in %)			Amount (in %)		
	1983-1984	1984-1985	1985-1986	1983-1984	1984-1985	1985-1986
Maturity Claims:						
Less than 3 months	51.56	51.74	54.96	58.65	55.49	58.80
More than 3 months but less than 6 months	17.04	18.46	21.22	15.76	16.00	16.71
More than 6 months but less than 1 year	11.84	11.53	10.54	10.81	16.21	11.62
More than 1 year but less than 2 years	11.45	10.30	7.46	8.35	7.22	7.92
More than 2 years	8.11	7.97	5.82	6.43	5.08	4.95
Total (Absolute figures)	1.25 (lakhs)	0.95 (lakhs)	.78 (lakhs)	41.31 (Crores)	37.91 (Crores)	29.74 (Crores)
Death Claims:-						
Less than 3 months	39.64	42.86	48.98	41.15	45.52	47.65
More than 3 months but less than 6 months	14.80	16.52	15.58	14.52	14.51	14.52
More than 6 months but less than 1 year	16.54	14.55	15.37	17.83	16.06	17.05
More than 1 year but less than 2 years	15.18	13.64	11.49	14.66	15.86	12.39
More than 2 years	13.84	12.43	10.58	11.84	10.05	8.39
Total (Absolute figures)	.29 (lakhs)	.25 (lakhs)	.24 (lakhs)	33.31 (Crores)	35.33 (crores)	36.71 (crores)

Source: LIC's Annual Reports and Accounts.


LIC:
outstanding claims
% By number
13·28
9·74
12·04
13·33
14·27
18·80
13·85
12·30
11·86
8·29
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985

(Fig. III·1.)


LIC:
outstanding claims
% By amount
14·70
12·14
13·50
13·46
15·15
18·49
14·35
13·06
12·64
10·29
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985

(Fig. III·2.)

applicable to amount for which claims were settled.

The percentage of death claims settled in less than 3 months did not improve much during 1975-76 and 1983-84. Subsequently, however,it has shown sign of marked improvement. In terms of sum assured position was more encouraging. As against only 37.56% of claims settled in 1975-76, during 1985-86 the percentage rose to 47.65. The percentage of claims taking more than 2 years for settlement presented a disturbing sign as relatively more cases require such unduly long time. (During 1975-76 such cases constituted 9.62% of death claims as against 10.58% to 13.84% in the recent years)

Between death claims and maturity claims the former take longer time in settlement and this is understandable as LIC has to be more cautions in disposing such claims whereas heirs are less equipped to meet the formalities. Grounds of humanity and morality require speediest disposal of death claims. And it is in this context that one should appreciate Administrative Reforms Commission which suggested that the maturity claims should be paid out on the date of maturity and the death claims within a week of the intimation of the death of a policyholder.

The Corporation has, hopefully, made a break-through in reducing the oustanding claims in recent years. Some of the steps taken to reduce percentage of outstanding claims deserve appreciation. It has set targets for settlement of claims for

all Divisional Offices on appropriate criteria. Competitions are floated and the meritorious Divisions are recognised by awarding "shields" for their performance. In addition, operating offices are graded as A, B, C or D depending on their performance and their grades are internally circulated. Thus a spirit of healthy competition has been fostered among LIC's offices in rendering services to policyholders especially claims settlement. Internal procedures, including record keeping and information systems have been streamlined. Decentralisation of claims settlement to branch offices is yet another major factor contributing improvement in the claims settlement.

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C H A P T E R IV

I N C O M E A N D O U T G O

CHAPTER - IV

INCOME OF LIC

The main ingredients of LIC's income are : premiums[1], income from investments[2] and miscellaneous income.[3] The relative share of each of the components of income for study period has been shown in Table IV.1. Though the premiums form themost important item of the total income of the LIC, its relative share in income is on slow and gradual decline. This decline in share, however, does not imply a fall in absolute premium income. On the contrary, it is on rise from Rs.588.25 crores, during 1975-76, the premium income has shot up to the height of Rs.1,782.98 crores (1985-86) - trebling of income with average increase in business being Rs.119.47 crores per annum (Table IV.2). On the other hand, income from investments has witnessed a steady, though slow, upward trend. The turning point was 1975-76 when income from investments, earlier accounting for one-fifth of total income, showed a rise and contributed one-fourth share. In the next years (1976-77 to 1980-81) investment income contributed to the extent of one-third of total income. There has never been a

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1 It includes, first year premiums, renewal premiums and single premium and consideration for annuities.

2 It includes interest, dividend and rental income.

3 It is a residuary head of income and it includes, registeration and other fees, profit on realisation on assets and exchange adjustments, old outstanding and unclaimed claims and deposits written back and refund of income from income-tax authority, transfer of excess money from different reserves, like reserve for loans, bad and doubtful debts, acturial reserves, reserve for net assets in Pakistan and Bangladesh and investment reserve account.

TABLE IV.1

Composition Of The Total Income Of The LIC

Year	Premium Income (Rs.crores)	Index base 1976 = 100	Income from Investment (Rs.crores)	Index base 1976= 100	Misc. Income (Rs.crores)	Index base 1976= 100
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975-76	588.25	100	200.90	100	1.69	100
1976-77	653.30	111	265.85	133	6.55	387
1977-78	709.43	121	305.09	153	3.09	182
1978-79	774.98	132	351.55	176	7.09	418
1979-80	875.37	149	415.08	208	7.33	432
1980-81	964.88	164	492.81	246	3.60	212
1981-82	1092.90	198.6	583.03	292	0.29	17
1982-83	1217.96	207	684.84	342	4.59	270
1983-84	1355.10	230	812.62	406	5.50	324
1984-85	1559.33	265	950.58	475	10.08	596
1985-86	1782.98	303	1126.98	563	31.35	1854

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

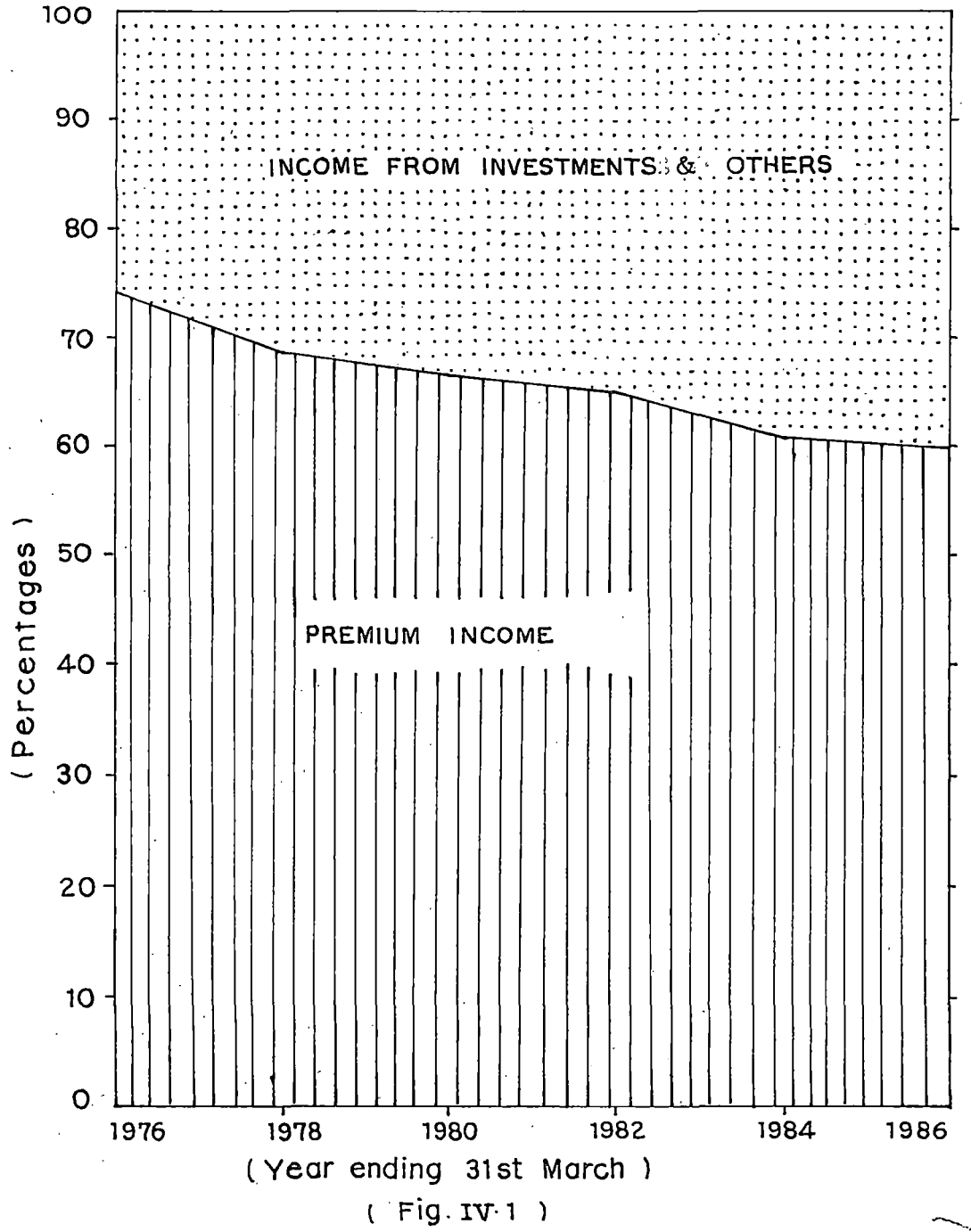
TABLE IV.2

COMPOSITION OF TOTAL INCOME (IN PER CENTAGE)

Year	Premium as % to total income.	Income from Investments as % to total income	Miscellaneous as % to Total income	Total Income (absolute figure)
(1)	(2)	(3)	(4)	(5)
1956	80.0	19.7	0.3	47.52
1965-66	79.9	19.3	0.8	224.55
1975-76	74.4	25.4	0.2	790.84
1976-77	70.6	28.7	0.7	925.70
1977-78	69.7	30.0	0.3	1017.61
1978-79	68.4	31.0	0.6	1133.62
1979-80	67.4	32.0	0.6	1297.78
1980-81	66.0	33.7	0.3	1461.29
1981-82	65.2	34.8	-	1675.64
1982-83	63.9	35.9	0.2	1907.39
1983-84	62.3	37.4	0.3	2173.22
1984-85	61.9	37.7	0.4	2519.99
1985-86	60.6	38.3	1.1	2941.31

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

LIC: Trends in Composition of income



(Fig. IV·1)

decline in relative share; it contributed 38.3% to the total income. In absolute terms during the study period, income shot up more than five and half times, the average rate of increase being Rs.92.61 crores per annum.

The growth in miscellaneous income did not show any trend and this is understandable because it does not include any regular predictable and manageable income. Its share in income, barring 1985-86, was negligible, not even 1%.

1. PREMIUM INCOME

The percentage of the premium income to the total income was as high as 80% during 1956. During the first post-nationalisation decade there was hardly any change-premium income ranged between 82 and 79 percent. It was during the second decade that the process of decline set in motion. The third decade, however, registered an almost uniform rate of decline. From 74.4% in 1975-76, premium income has come down to 60.6% in a time span of ten years. Thus the rate of decline during the study period, has been 1% per annum.

The income from the first year premiums is the barometer for measuring the progress of life insurance business. The position of 'renewal premium income' is secondary in this respect.

The first year premium income, in terms of money, recorded a spectacular growth during the period 1957 and 1976. This period

achieved an increase of 10 times of the first year premium income. First year premium income was Rs.10.31 crores in the year 1957 which rose to Rs.99.60 crores in the year 1975-76.[1] Further, theincrease in this component of income during our period was 188 per cent.

Though the LIC's first year premium income has increased several times, its relative proportion to total income of the Corporation has gone down marginally from about 17 per cent in the year 1975-76 to 16 per cent in the year 1985-86 after remaining stagnant around 14% for a number of years.

Like first year premiums, renewal premiums have also increased consistently from Rs.457.96 crores (1975-76) to Rs. 1,331.31 crores (1985-86) - an increase by more 200%. But its relative share in premium income has declined from 77.85% (1975-76) to 74.67% (1985-86). The trend of falling share is more discernable since 1981-82.

Income from single premium[2] and annuities[3] formed a very insignificant amount during the first fifteen years of the nationalisation. It remained on average about one per cent of premium income. However, thereafter these items have shown a steady rise in its proportion to total premium income over the period under

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1 LIC's Annual Reports and Accounts.

2 The single premium policy is that endowment policy under which the assured is required to pay the entire premium in one instalment at the beginning of the contract.

3 Annuity is contract between assured and insurer which provides a regular income for specified period or throughout the life of the former for consideration of lump sum amount paid by the assured.

review. It was 5.22 per cent of the total premium income in the year 1975-76 and increased to 9.25 per cent in the year 1985-86. This indicates that single premium endowment policy and 'consideration for annuities' are getting more popularity year after year. It may be inferred here that the concession in income-tax is one of the most important reasons for this development as these policies are taken by the people from higher income bracket. Composition of premium income of the LIC has been shown in Table IV.3.

2. INVESTMENT INCOME

The personal savings come to the LIC in the form of premiums and the Corporation transforms them into institutional savings (life insurance savings) after meeting its own operational costs. The average transformation by LIC has been more than 30% since its formation and the co-efficient of correlation between two variables (premium income and LIC's investment) is nearly perfect positive ($r = 0.9$) implying very close movement together.[1]

As policyholders' savings increase in size (represented by the Life Insurance Fund) investment portfolio also grows in size and so grows income from portfolio and its share in total income. As shown in Table IV.4, there is more than 13% annual growth

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1 Bajpai, O.P., Life Insurance Finance in India, p. 53.
According to Sezhiyan Committee Report (1980), p. 58 savings element in endowment premium policies was 55.26% in 15 years policy for a person of 40 years and 57.37% for a person of 30 years. In a 20-years policy savings element was 46.60% for a 40 years old person and 49.91% for a 30 years old person.

TABLE IV.3

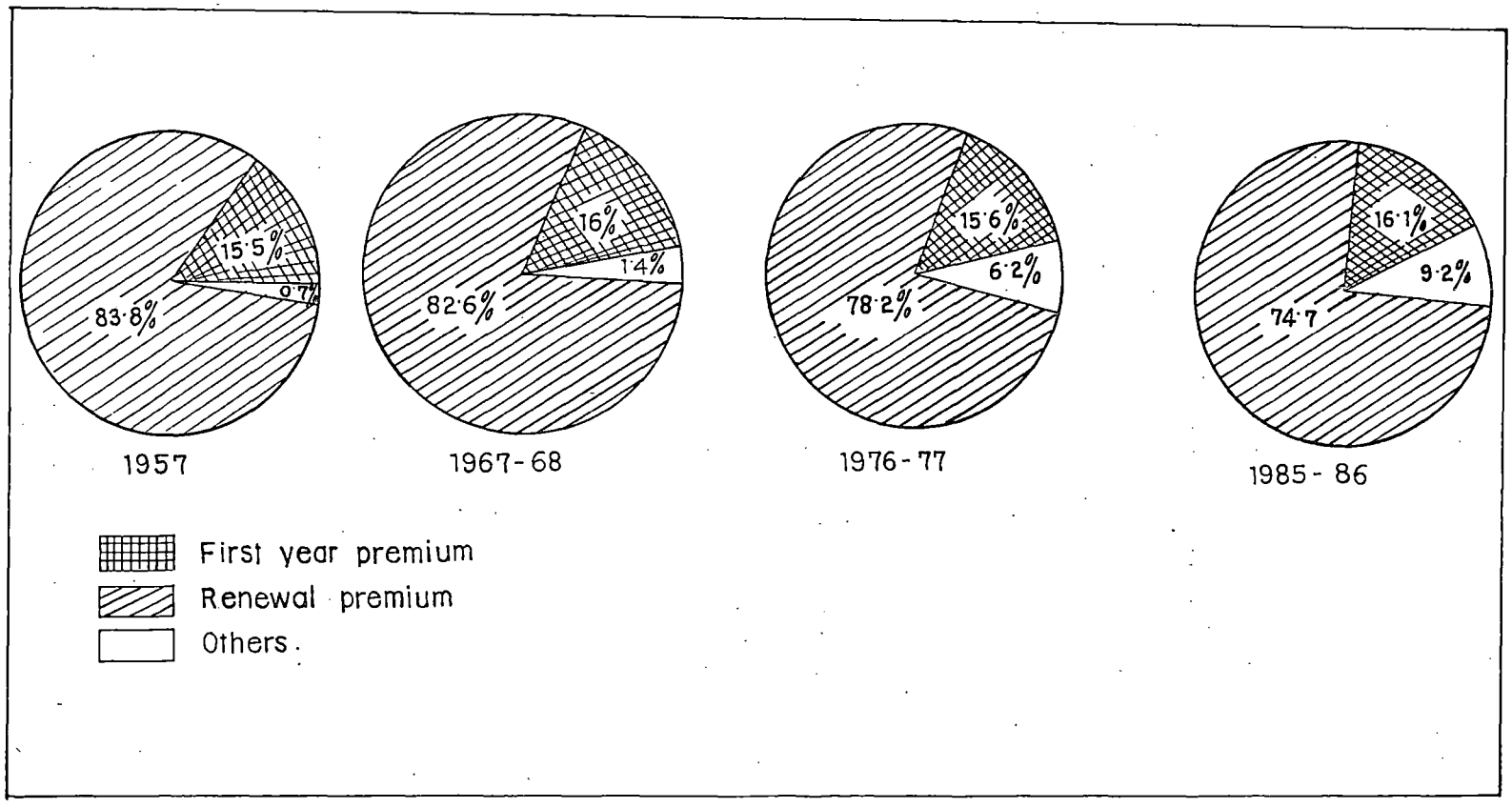
COMPOSITION OF LIC'S PREMIUM INCOME
(IN PERCENTAGE)

Year (1)	First Year Premiums (2)	Renewal & Premiums (3)	Others (4)	Total (Rs.crores) (5)
1975-76	16.93	77.85	5.22	588.25
1976-77	15.60	78.25	6.15	653.30
1977-78	14.39	79.29	6.32	709.43
1978-79	13.99	80.38	5.63	774.98
1979-80	15.43	78.34	5.73	875.37
1980-81	13.99	77.88	7.43	964.88
1981-82	13.49	78.14	7.37	1092.90
1982-83	14.88	76.62	8.50	1217.96
1983-84	14.11	77.09	8.80	1355.10
1984-85	14.47	76.10	9.43	1559.33
1985-86	16.08	74.67	9.25	1782.98

Source:

Compiled and Computed from
LIC's Annual Reports
and Accounts.

LIC: Trends in Composition of Premium income



(Fig. IV·2.)

in life insurance fund and at the same time the rate of interest has grown almost 4% annually. Both factors taken together explain reason behind increasing share of investment income in total income.

3. Miscellaneous Income

Miscellaneous income of the Corporation consists of registration and other fees, refund of income-tax, old claims outstanding and unclaimed written back, other amount written back and the exchange adjustment due to revision in the value of the currencies. The Miscellaneous income not only constitutes a very negligible item of the LIC's income (usually less than 1% of total income) but also lacks consistency in trend. It fluctuates invariably and violently year to year.

OUTGO OF THE LIC

The outgo of the LIC consists of (i) amount paid to policyholders on account of death claims or on maturity of policies, (ii) managerial expenses (commission to agents, management expenses and other expenses) and (iii) transfer to specific reserves under different sections of LIC Act.

The total outgo of the LIC during 1956 (8 months) was Rs. 31.35 crores which constituted about 65.3 per cent of the total income for the year. This was the highest ratio between income and outgo. In the first decade of post-nationalisation period this ratio was brought down to 46.3%. A decade later, i.e., in

1975-76, the total outgo of the Corporation amounted to Rs. 383.66 crores which constituted about 48.51 per cent of the total income of the LIC. Thus, during the second decade of post nationalisation period the outgo percentage showed a rising trend. The ratio of total outgo to total income, however, again showed a downward trend, though with erratic annual fluctuations, between 1975-76 and 1982-83. However, this ratio once again showed a sharp upward trend between 1983-84 and 1985-86 and during 1985-86 it crossed 1975-76 level. At the end of study period total outgo account for half of the total income (Table IV.4). A study of aggregate outgo helps us in understanding pattern of resource generation but, as the sum includes both expenses and repayment of savings claims of the policyholders, further disaggregation of outgo is necessary for analytical purposes.

The payments to the policy holders (claims by maturity, claims by death, annuities and surrenders) constitute the most important part of the outgo. During 1956, these payments accounted for half of the outgo. Their share in outgo went upto 54.8% in the first post-nationalisation decade. The nexr decade registered a fall. But from the year following (1976-77) payments again took a rising look. An increasing life business with a time lag brings increasing outgo under this head and so nothing is wrong with this trend (a speadier settlement of claims also improves slightly this percentage and this is a welcome development).

TABLE IV.4

COMPOSITION OF TOTAL OUTGO OF LIC

Year	Payments to policy-holders as Ratio to Total outgo(%)	Managerial Expenses Ratio to total outgo (%)	Transfers to special ratio to total outgo	Total Outgo	
				Amount (Rs.crore)	Ratio to Total Income(%)
(1)	(2)	(3)	(4)	(5)	(6)
1956(9 months)	50.0	40.3	9.7	31.35	65.3
1965-66	54.8	42.0	0.6	126.05	46.3
1975-76	51.3	46.1	2.6	383.66	48.5
1976-77	54.6	45.0	0.4	413.79	44.7
1977-78	55.3	41.7	3.0	469.79	46.2
1978-79	55.3	42.8	1.9	518.00	45.7
1979-80	56.2	36.0	7.8	596.01	45.9
1980-81	57.7	36.7	5.6	637.94	43.7
1981-82	57.9	33.9	8.2	754.47	45.0
1982-83	62.4	31.2	6.4	838.28	43.9
1983-84	60.8	30.2	9.0	1004.56	46.2
1984-85	62.3	32.2	5.5	1194.56	47.4
1985-86	58.3	31.2	10.5	1466.45	49.9

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

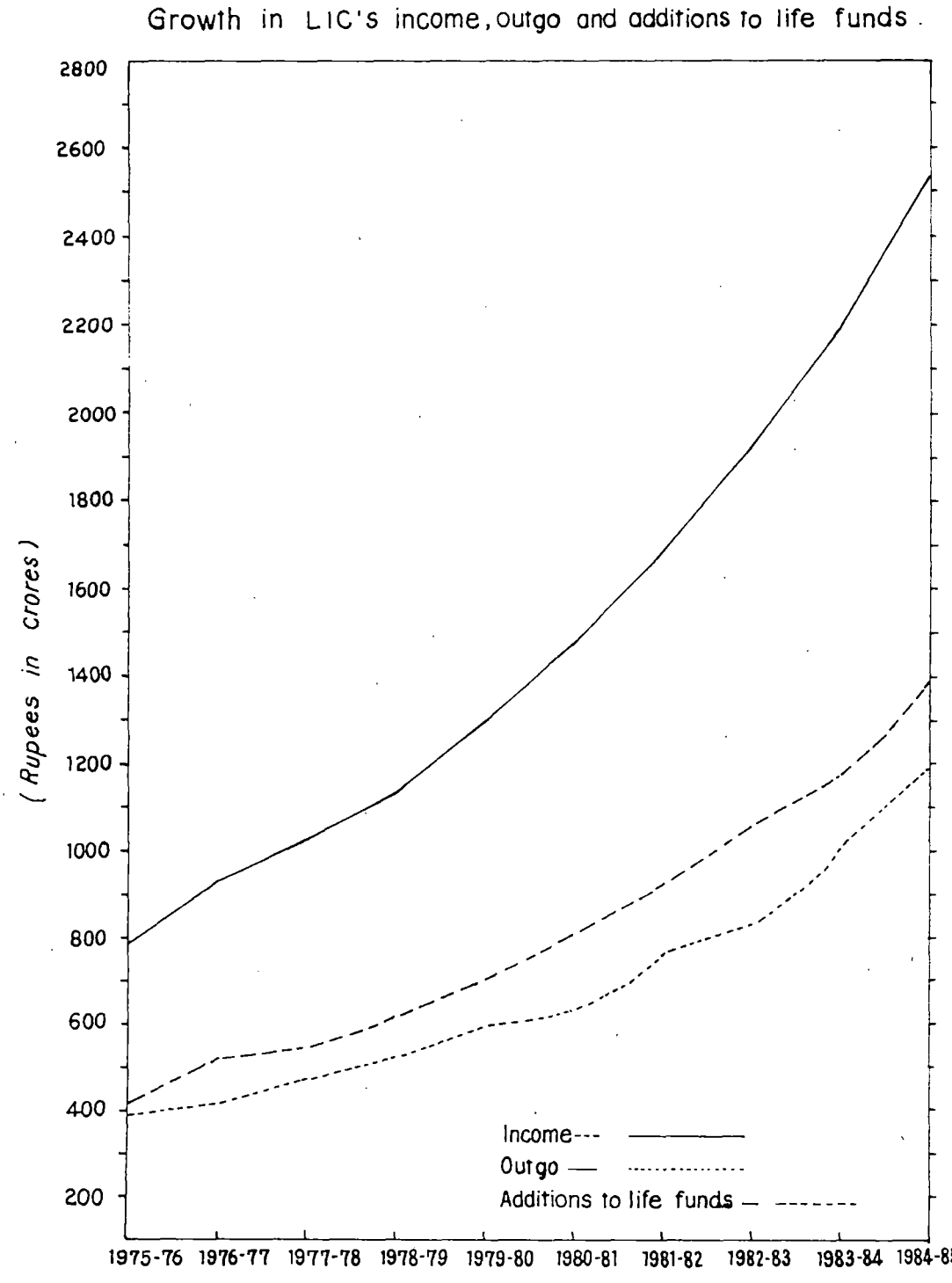
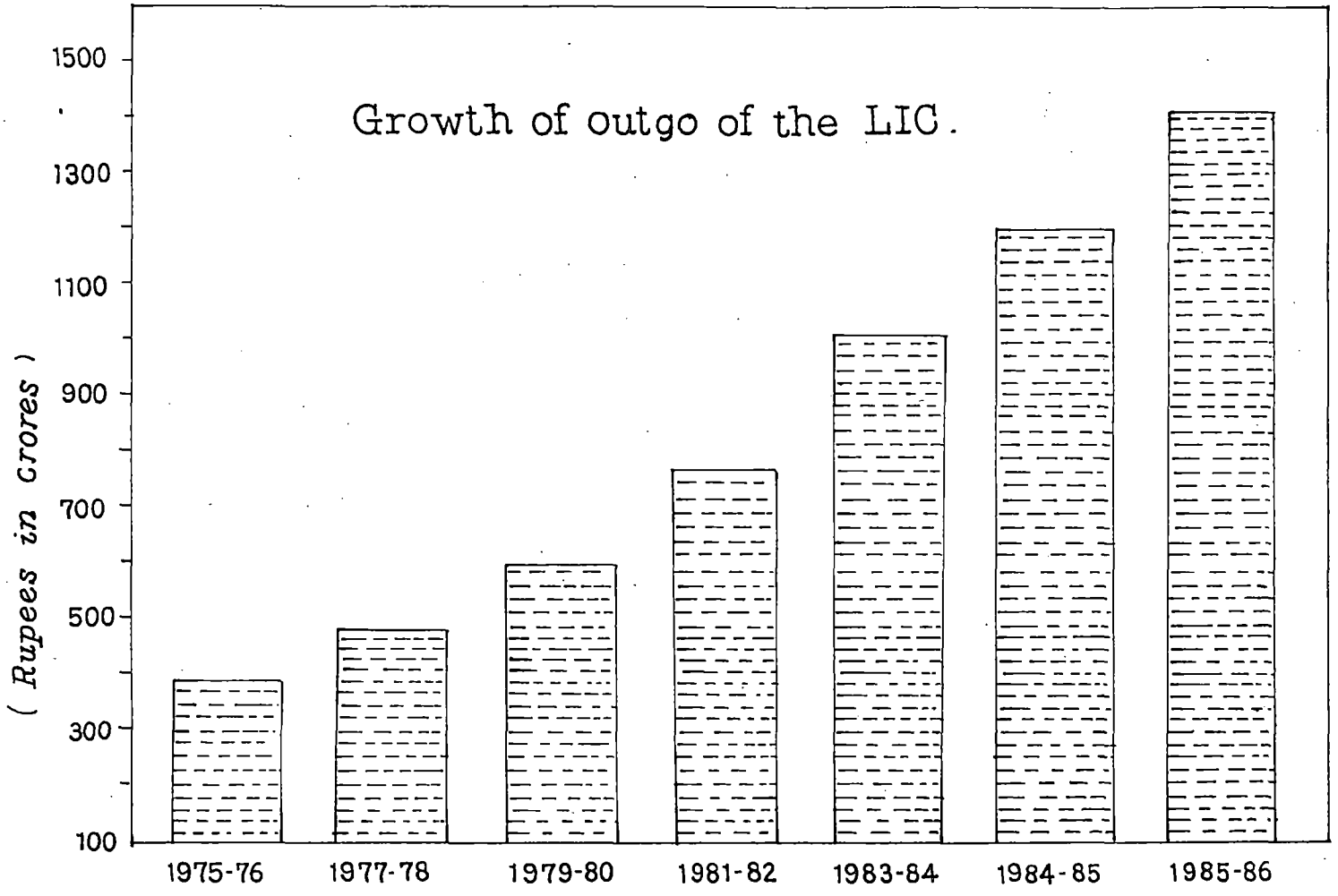

Growth in LIC's income, outgo and additions to life funds.
(Rupees in crores)
2800
2600
2400
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
1975-76
1976-77
1977-78
1978-79
1979-80
1980-81
1981-82
1982-83
1983-84
1984-85
Income---
Outgo —
Additions to life funds —

Fig.IV·3.


Growth of outgo of the LIC.
(Rupees in crores)
1500
1300
1100
900
700
500
300
100
1975-76
1977-78
1979-80
1981-82
1983-84
1984-85
1985-86

(Fig. IV.4)

Now we propose to analyse the individual items of the payments to policyholders to study the trend and their relationship with the total outgo.

(A) Claims

A life insurance claim may arise either by maturity of the policy or by death. In the former case, the insured is required to submit the proof of age, if not submitted earlier, along with the original policy and a discharge slip acknowledging the receipt of the sum assured. In the case of the claims by death, the sum assured will be paid to the beneficiaries after submission of proof of death and the title.

Total claims paid by the LIC during the decade ending 31st March, 1986 and relative changes between claims by death and claims by maturity have been shown in Table IV.5.

It is observed that the majority of payments made to policyholders are on the maturity of policies and their percentage in total payments to policyholders has shown an improvement throughout the study period. The percentage of maturity claims to total payments to policyholders was 63.4% during 1975-76 which rose to 69.4% in the year 1985-86. This welcome trend is understandable in view of increasing longivity. On the other hand, payments towards death claims has shown a declining trend. Benefits paid under death claims have decreased by 25 per cent (from 19.2% in 1975-76 to 14.9% in 1985-86) during the period

TABLE IV.5

COMPOSITION OF PAYMENTS TO POLICYHOLDERS
(PERCENTAGES)

Year	Death Claims % to Total payments	Maturity Claims % to total payments	Share of Claims in Total payments (2 + 3)	Annuity claims as % to total payments	Surrender payments as % to total payments.
(1)	(2)	(3)	(4)	(5)	(6)
1975-76	19.2	63.4	82.6	1.2	16.1
1976-77	19.0	57.7	76.7	1.2	22.0
1977-78	18.6	61.0	79.6	1.2	19.2
1978-79	19.2	63.8	83.0	1.3	17.4
1979-80	19.6	64.9	84.5	1.3	14.3
1980-81	18.7	66.7	85.4	1.4	13.4
1981-82	18.2	67.1	85.3	1.4	13.3
1982-83	16.5	67.0	83.5	1.5	15.0
1983-84	16.2	68.5	84.7	1.6	13.7
1984-85	15.0	70.8	85.8	1.7	12.5
1985-86	14.9	69.4	84.3	1.9	13.2

Source:-

Computed From LIC's Annual Reports and Accounts.

under review.

The growing importance of maturity claims can also be viewed differently. In 1975-76, maturity claims were 3.3 times of the death claims whereas these rose and reached to 4.7 times in 1985-86. A rising trend in maturity claims facilitates early claims disposal because both the policy-holders and LIC anticipate and accordingly prepare for the claim settlement.

(B) Annuities

The payments to policyholders through annuities constitute a very insignificant percentage of the total payments made to policyholders. This item of outgo never crossed even 2 per cent of the total payments to policyholders. In spite of the fact, that the amount of payment increased about 6 times during the period, yet it remained an insignificant segment of payments to policyholders. This indicates that the annuity scheme has not been popularised among the insurable populations as it should be.

(C) Surrenders

In case the assured does not want or is unable to continue the policy for an agreed period of time, he can voluntarily surrender his right,title and interest under the policy. In return, the insurer pays to the assured certain proportion of premiums received till the date of surrender. The amount payable is called the surrender value of policy.

The trend in payment of surrender value, indicates that although the amount of payment in absolute terms has increased three-folds from Rs.31.75 crores in the year 1975-76 to Rs.116.84 crores during 1985-86, its percentage to total payments to policyholders showed a declining trend. The percentage of surrenders payment to total payments to the policy holders came down from 16-13 per cent in the year 1975-76 to 13.71 percent in the year 1985-86 (However, this percentage was abnormally high during 1976-77 and 1977-78 claiming as much as 22.01 per cent and 19.16 per cent respectively of the total payments to policyholders).

However, rate of in surrenders in the life insurance business is indicative of poor quality of business. The performance of the Corporation on this front seems to be satisfactory since the percentage of surrenders is declining year after year. This is a very healthy sign for life insurance business as a policy holder has not to forego protection cover for unforeseen circumstances. But there is hardly any scope for complacency as the surrender rate in this country is still very high in comparison to western life insurance.

(D) Management Expenses

In life insurance management cost includes cost of procuring, maintaining and operating business. It, thus, comprises of the cost of field organisation and of the office organisation. The LIC has spent Rs.456.90 crores in the year 1985-86 out of its premium income of Rs.1,782.98 crores. Management cost is the

second biggest item of outflow, next only to payments to policyholders. As a percentage of this item claims a share of 25.6% and in this respect the LIC has not made much differences during its thirty years of existence as in 1959 it spent 29.2% of its income on management cost. During the intervening years there have been variations : the highest ratio was in 1975-76 at 29.7% and the lowest at 21.5% in 1982-83 (Table IV.7). It will thus be seen that the LIC is spending a big chunk of its income on management and level of reduction is below expectation.

Expenses of management are directly related to premiums. The lower they are the lesser will be the premium chargeable to policyholders. High expenses are, therefore, a cause of concern. It is this concern which caused Government of India, as early as July 1967, to set a committee of Enquiry to look into the expenses of the LIC.[1]

Any meaningful analysis of managerial expenses requires its consideration by components. On the basis of information available it can be disaggregated into three components, viz., commission etc. to Agents, Salary and other benefits to Employees and other expenses of management.

Commission paid to Agents:

This high item of expenditure is necessary for procuring new business. The expenditure under this head is directly linked

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1 Thus runs the resolution appointing the committee "expenses of management of the Life Insurance Corporation of India have been high, particularly recently. In view of the fact that economy in management is of utmost importance in life insurance and government have decided to constitute a committee to investigate this question in all its aspects and suggest measures for achieving economy."

TABLE IV.6

NUMBER OF EMPLOYEES AND THEIR EMOLUMENTS

Year	Class I Officers		Development Officers		Supervisory & Clerical		Subordinate Staff	
	Strength	% share in gross salary	Strength	% share in gross salary	Staff strength	% share in gross salary	Strength	% share in gross salaries
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975-76	4,218	13.99	7,689	15.60	37,365	63.13	8,128	7.28
1976-77	4,086	13.63	7,356	15.92	36,719	63.53	7,997	6.92
1977-78	4,221	14.06	7,102	15.47	36,522	63.69	7,372	6.78
1978-79	4,223	14.78	6,931	16.94	36,220	61.82	7,547	6.36
1979-80	4,251	14.11	6,732	14.45	36,389	64.65	7,757	6.79
1980-81	4,487	14.63	6,382	13.92	36,775	64.70	7,790	6.75
1981-82	4,934	15.20	6,281	13.00	37,530	64.57	7,972	6.23
1982-83	5,207	14.48	6,180	11.36	40,169	67.35	8,128	6.81
1983-84	5,790	14.98	6,649	10.59	40,178	67.19	7,823	7.24
1984-85	6,190	16.15	7,047	11.16	41,563	66.01	8,177	6.57
1985-86	6,693	19.73	8,076	9.79	43,269	63.71	8,438	6.77

Source: LIC's Annual Reports and Accounts.

TABLE IV.7

MANAGERIAL EXPENSES OF THE LIC

Year	Total Amount (Rs.crores)	% to total Outgo	% to total Income	% to premium Income	Renewal expense ratio
(1)	(2)	(3)	(4)	(5)	(6)
1975-76	176.77	46.1	22.3	29.7	18.1
1976-77	186.17	45.0	20.1	28.5	14.9
1977-78	196.08	41.7	19.3	27.6	15.6
1978-79	221.89	42.8	19.6	28.6	15.4
1979-80	214.67	36.0	16.6	24.5	13.0
1980-81	233.88	36.7	16.0	24.2	12.6
1981-82	255.44	33.9	15.2	23.4	11.7
1982-83	261.39	31.2	13.7	21.5	9.2
1983-84	303.11	30.2	14.0	22.4	11.2
1984-85	384.83	32.2	15.3	24.7	13.9
1985-86	456.90	31.2	15.5	25.6	13.5

Source:

Compiled and Computed from LIC's Annual Reports and Accounts for Relevant years.

as percentage to sum assured and, therefore, there is hardly any scope for economy under this head. The slight variations (Table IV.8) in the percentages are result of compositional change in policies sold with the Varying Commission rates. Discontinuance of old plans and introduction of new plans has also caused these minor fluctuations. The commission differential in case of qualified agents also leads to percentage variation.

Salaries to Employees (TABLE IV.6)

The expenditure under this head is the most important component of managerial expenses, at the same time it is also least amenable item to control. No doubt increasing cost of living forces LIC to yield higher emoluments to organised and strong staff union capable of arm twisting. But this does not explain the whole story. Though mechanisation has crept into the LIC in a big way and unions are crying hoarse against it on employment consideration, at every level of staff (excepting Development Officers till 1982-83) there has been addition to the cadre force since 1979-80 as shown below :

(Percentage addition to work force strength)

Year	Class I officers	D.O.'s	Supervisory & clerical staff	Subordinate staff
1979-80	+ .66	-2.87	0.47	2.78
1980-81	+5.55	-5.20	0.01	0.43
1981-82	+9.96	-1.58	2.05	2.28
1982-83	+5.53	-1.61	7.03	1.96

/Contd...

Year	Class I officers	D.O.'s	Supervisory & clerical staff	Subordinate staff
1983-84	+11.20	+ 7.59	0.62	-3.75
1984-85	+ 6.91	+ 5.99	3.45	4.53
1985-86	+ 8.13	+14.60	4.10	3.19
Staff added during study period (1975-76 to 1985-86)	2,475	387	5904	310
Percentage growth during study period	+58.68	+ 5.03	+15.80	+3.81

The increase in workforce is a good indicator to absence of proper staff planning. There is an unmistaken sign of growing top heavy organisation; the largest staff growth has taken place at class I level.

Besides, increased workforce, rising trend in emoluments has also its role in raising the level of expenses. In an inflation ridden economy LIC has a very limited role in controlling wage bill. But, here, militant trade unionism is more effective and even with the state support LIC has not succeeded in arresting wage bill rise at a level prevailing in other areas of organised trade and industry.

(C) Other Expenses

Besides salaries to employees and commission to agents the Corporation has to incur a variety of other expenses in day

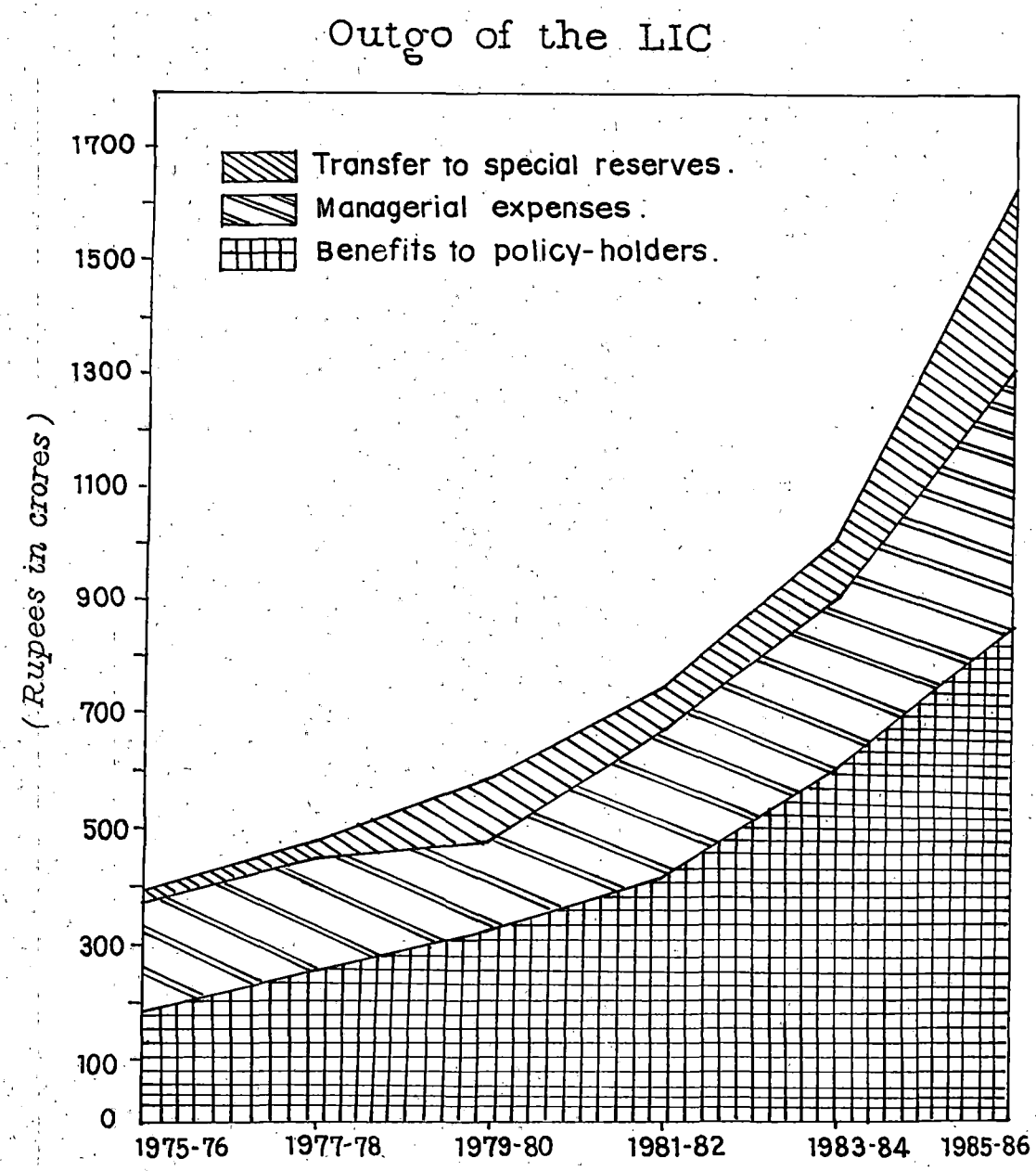
TABLE IV.8

EXPENSES OF MANAGEMENT AS PERCENTAGE TO PREMIUM INCOME

Year	Commission etc. to Agents.	Salaries etc. to employees	Other expenses of Management.
(1)	(2)	(3)	(4)
1975-76	8.96	17.42	3.27
1976-77	8.57	14.53	3.00
1977-78	8.57	15.10	2.80
1978-79	7.83	14.65	2.66
1979-80	8.21	13.64	2.67
1980-81	8.01	13.55	2.68
1981-82	7.81	12.81	2.76
1982-83	8.43	11.68	3.20
1983-84	7.54	11.54	3.29
1984-85	7.52	14.05	3.11
1985-86	8.26	13.82	3.54

Source:

LIC's Annual Reports and Accounts.


Outgo of the LIC
Transfer to special reserves.
Managerial expenses.
Benefits to policy-holders.
(Rupees in crores)
1700
1500
1300
1100
900
700
500
300
100
0
1975-76
1977-78
1979-80
1981-82
1983-84
1985-86

(Fig. IV·5)

to day operation of business. Other expenses of the Corporation have risen from Rs.4.35 crores[1] in 1957 to Rs.63.12 crores in the year 1984-85 a record increase of about fifteen times in 30 years. It went into 'tens' for the first time in 13 years of the LIC's existence but the figure changed to 'twenties' in a little more than half of period to touch 'tens' (i.e. 7 years). And just after the expiry of next three years, other expenses had crossed the limit of Rs.30 crores. The proportion of other expenses to total managerial expenses recorded a very wide fluctuations during the period under review. The analysis of percentage of 'other expenses' to total expenses gives the impression that the share of 'other expenses' has grown more rapidly than salaries & commission etc during the last few years. This development deserves special attention of LIC to initiate a preventive checks. In absence of a reasonable break up no further conclusions can be drawn at this stage.

LIC's Claim to Economic Management

The LIC, it appears, looks to the problem in a different way. According to it "Normally, for most of the business organisations, the ratio of the expenses incurred with certain adjustments like outstanding or prepaid expenses to the total income should serve as a good index of the economy of management. This is known as overall expense ratio. Butin life insurance, the

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1 Mishra & Rai, Indian Journal of Commerce, vol.XXXVIII, Part 3 No.144, July-Sept 1985, p. 85.

expenses are of two types; those incurred for the development of new business and those for administration of existing business. Marketing life insurance needs a good deal of spade work; a vast sales force has to contact a large number of proppects, by undertaking extensive tours, where necessary. Processing of new proposals in the office, preparation and issue of policies with simultaneous certain long-term policy records for servicing aids, all these result in larger expenses in the first year. A straight forward comparison of the overall expenses ratio may put an office, aiming at achieving large scale expansion of business (a desirable goal) in poor light. Therefore, 'renewal expense ratio' which is calculated after making modification for the development expenses for the portion of the first year's premium collected (acturial provision is made for such expenses in premium calculation also) as generally adopted as a yard stick of economic management of a life office"[1]

In assessing its performance vis-a-vis foreign insurers, the Corporation concludes, "on the whole the LIC's performance is commendable if one keeps in mind its efforts in expanding its operation into rural areas which results in cost push."[2]

We, however, beg to differ and so does researcher community. But for constraints of space it is possible to demolish this misplaced confidence. The Morurka Committee Report and Era Seshiyan Committee Report are well known public documents on record

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1 Towards a Secure Future, Life Insurance Corporation of India, September, 1986, pp. 25-26.

2 Ibid, p. 26.

refuting this big claim. Even two decades ago A.R.C. had the following to remark in this connection "the prevailing level of expenses an at a much higher level than warranted and reduction of expenses is a must if life insurance has to survive and thrive in this country"[1]. Though much water has flown down the Ganges, the scenario has not changed with the LIC. It is surviving. Whether it is thriving is an open question.

(d) Transfer to Special Reserves

Transfer to special reserves represent the last item of the utilization of income. The transfers are generally made to capital reserve, general reserve, contingencies reserve, reserve for loans and mortgages, reserve for investments, reserve for house property and transfer under Section 28 of the LIC Act, 1956. Trend in the amount of transfers to different reserves indicates that there has been a phenomenal growth in its amount during the period under review. Transfers to reserve registered an increase of more than 15 times between March 1976 to March 1986. The percentage of reserves formed about 2.6 and 1.3 per cent of the total outgo and total income respectively as on 31st March 1976 which went upto 10.5 and 5.2.per cent as on 31st March, 1986. The growth in the amount of reserves has been more rapid since the beginning of 'eighties.'

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1 Report of the Working Group on Life Insurance Corporation, A.R.C., op.cit., vol.I October, 1968. p. 73.

It is worth mentioning here that 5% of valuation surplus is to be transferred to Central government every alternate year under the provisions of Section 28 of the LIC Act, 1956. This forms the largest items of reserves. Transfers to special reserves for the years 1975-76 to 1985-86 have been shown in Table IV.9.

Surplus Distribution

The government of India is the sole shareholder of the LIC by contributing Rs. 5/- crores towards its share capital. As per the provisions of Life Insurance Corporation of India Act, 1956 (Section 28), 5% of the surplus is to be transferred to Government of India every alternate year. Six acturial valuations have taken place between the period 1975 and 1985. The share of the Central government out of the surpluses between 1975 and 1985 is given in Table IV.10.

It will be observed that the LIC has paid about Rs.189 crores to the Government of India by the end of December, 1985 on the said Rs.5/- crores share capital.Since 1971, the amount so paid has always been above Rs.5/- crores level. In 1985 alone,the Central government received more than Rs.52 crores as return, being the amount equal to 5% of the valuation surplus revealed during that year. In other words, the rate of return on Central government's investment was as high as 1055% for two years (or 527% for one year). This "is something fantastic

TABLE IV.9

STATEMENT SHOWING TRANSFERS TO SPECIAL RESERVES

Year	Amount (Rs.crores)	Ratio to Total outgo (%)	Ratio to Total Income (%)
(1)	(2)	(3)	(4)
1975-76	10.05	2.6	1.3
1976-77	1.55	0.4	0.2
1977-78	13.99	3.0	1.4
1978-79	9.71	1.9	0.4
1979-80	46.34	7.8	3.8
1980-81	36.15	5.6	2.5
1981-82	62.48	8.2	3.7
1982-83	53.83	6.4	2.8
1983-84	90.71	9.0	4.1
1984-85	65.93	5.5	2.6
1985-86	153.99	10.5	5.2

Sources: (1) LIC's Annual Reports and Accounts.

TABLE IV. 10

Statement Showing 5% Valuation Surplus Paid To The Central Government By The LIC.

Year ending as on	Valuation surplus paid (Rs. crores)	Annual Rate of Return on share capital of (Rs.5 crores) (%)
(1)	(2)	(3)
March 31, 1975	9.07	90.70
March 31, 1978	12.69	126.90
March 31, 1980	18.65	186.50
March 31, 1982	26.10	261.00
March 31, 1984	39.16	391.60
March 31, 1986	52.75	527.50
Total Upto 1986	188.91	368.75 %

Sources: (i) LIC's Annual Reports and Accounts.
(ii) Valuation Reports of the LIC.

and abnormal when compared to the performance of 201 public enterprises with Rs.29,896 crores of capital employed as on 31-3-1984 give a dividend of Rs.133 crores only which meant a return of 0.44% only."[1] Perhaps that is why it has been suggested by different committees to reduce the percentage of surplus valuation payable to the government.[2]

Life Fund

The life insurance fund is the accumulation of previous excess of actual total income over the actual total expenditure in respect of the life insurance business. It is shown as the credit balance of the Revenue Account of life insurance company for the period ending at that date. Life Insurance Revenue account begins with a credit balance brought forward from the previous period and is credited with all incomes including premiums, interest, dividends, fees etc and is debited with all expenditure and payments like policy claims, annuities, surrender values, management expenses etc. The balance of the two sides represents the Life Insurance Funds at the end of the period.

LIC attracts personal savings of millions of people in India and abroad in the form of premiums. After meeting the claims and other expenses, the Corporation accumulates a huge amount of net savings every year. There are mainly three methods

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1 Sezhiyan, Era, LIC's Role in National Economy, The Economic Times, New Delhi, May 26, 1985, p.6. p. 174

2 See Report of the Working Group on Life Insurance Administration, A.R.C. op.cit. vol.I October, 1968, p. 201. Also refer to the Report of the Committee to Review the Working of LIC, September, 1980, pp. 132-33.

of computing premiums viz., Assessment plan, Natural plan, and Level Premium plan. The LIC follows Level Premium plan in determining the rate of premiums.

Under Level Premium plan, total premiums payable are divided by the number of years over which a policyholder agrees to pay the premiums. Hence, the premium is always even through the period of policy. "The insurance companies charge greater amount by way of premium during the early years of policy than is really necessary from the insured"[1] The excess payment involved in this is reserved for use in mortality costs in the latter years when the premiums are insufficient for the purpose. This excess amount accumulates whichis called the Life Insurance Fund."

In view of the continuous expansion of its business, a life insurance company will have an ever increasing Life Fund at its command. This fund "must be kept intact and allowed to increase at compound rate of interest."[2]

Thus the Life Fund at the command of the LIC is the excess of accumulated incomes over outgo. The incomes consist of premiums, dividends, interest, rent etc and the expenditure or outgo consisting of claims payments, surrender values, annuities, managerial expenses and contribution to special reserves.

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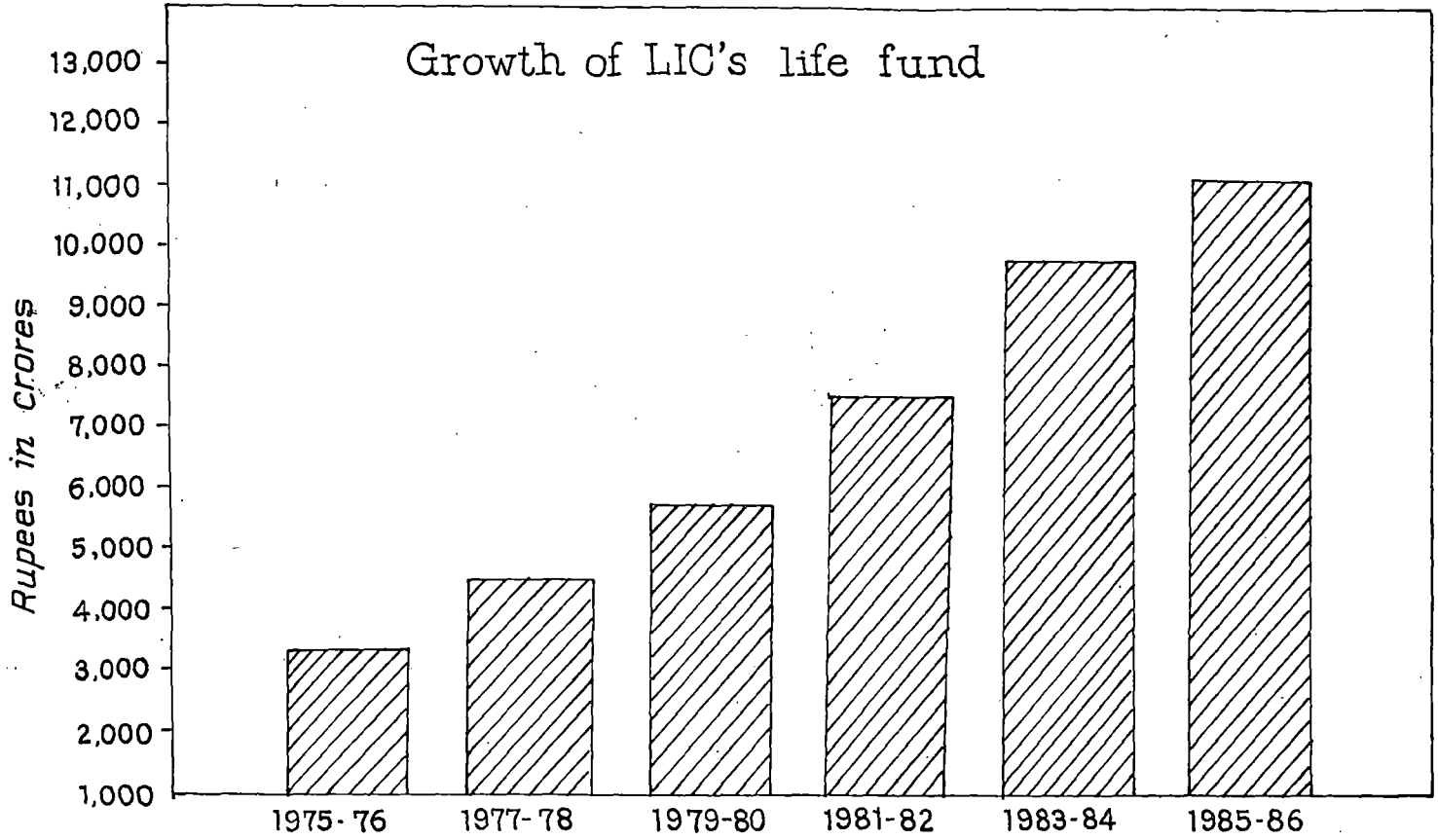
1 Khan, M.A. : Theory and Practice of Insurance, Educational Book House, Aligarh (1977), p.452.
2 Clayton, G. and Osborn, W.T. : Insurance Company Investment, George Allen and Unwin Ltd., 1958, p. 53.

TABLE IV. 11

Statement Showing Growth Of Life Insurance Fund Of The LIC

Year as on 31st. March	Total Life Fund (Rs.crores)	(% increase over previous year)	Rate of interest realised on mean life fund (Gross)	Percentage Increase or in rate of Interest on Mean Life Fund over previous year
(1)	(2)	(3)	(4)	(5)
1975-76	3440.97	13.42	6.45	-6.93
1976-77	3952.88	14.88	7.57	17.36
1977-78	4500.70	13.86	7.49	-1.06
1978-79	5116.32	13.68	7.58	1.20
1979-80	5818.09	13.72	7.89	4.09
1980-81	6641.44	14.15	8.21	4.06
1981-82	7562.61	13.87	8.55	4.14
1982-83	8631.72	14.14	8.81	3.04
1983-84	9800.38	13.54	9.19	4.31
1984-85	11,191.09	14.19	9.46	2.94
1985-86	12,665.95	13.18	9.87	4.33
1986-87	14,502.20	14.50	10.30	4.36

Source: Compiled and computed from LIC's Annual Reports and Accounts for the years 1975-76 through 1986-87.


Growth of LIC's life fund
Rupees in crores
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
1975-76
1977-78
1979-80
1981-82
1983-84
1985-86

(Fig. IV·6)

Analysis of Life Fund

There has been a continued annual accretion to the Life Fund of the LIC since its inception in the year 1956. The average annual accretion to the Life Fund during the first (1956-1966) and second (1966-1976) decades were 59.70 crores and 246.34 crores respectively. However, the average annual accretion to the Life Fund of the LIC during the third (1976-1986) decade has been Rs.922.50 crores.

The decade-wise growth of the Life Fund indicates that growth rate in the third decade (1976-1986) has been faster than the growth rates during the first two decades - the life fund increased 2.57 times and 3.52 times during the first and second decades respectively, whereas the third decade registered a growth of about 3.68 times in the life funds. An increase in rate of interest realised on mean life fund throughout the period has also contributed in raising volume of life fund.

The growth of Life Fund of the LIC during the period under review indicates that the aggregate of the Life Fund as at 31st March, 1976 was Rs.3,440.97 crores which went upto Rs. 12,665.95 crores as on 31st March, 1986. The average growth rate during the period under review has been about 14 percent. The growth profile of Life Fund of the LIC for the years under review has been shown in Table IV.11.

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C H A P T E R V

L I F E I N S U R A N C E C O V E R :
A N I N T E R - I N S T I T U T I O N A L
A S S E S S M E N T

CHAPTER - V

POSTAL LIFE INSURANCE (PLI) AS AN ALTERNATE INSURANCE AGENCY

The Postal Life Insurance (PLI) was introduced by the Government of India on February 1, 1884 as a welfare measure for postal employees. The scheme was later extended to the employees of Telegraph Department and in course of time it was also extended to various departments of the Govt. of India. This process of extension continued over the years and presently, apart from the employees of the Central and State Governments, employees of local bodies, government aided educational institutions, universities, Reserve Bank of India, State Bank of India and its subsidiaries, nationalised banks, autonomous bodies and employees of public sector undertakings are eligible for the benefits of PLI.

The distinctive features of the PLI may briefly be mentioned as follows[1]:

i) The premiums may be deducted at source from the salary according to will of the insurants. If the premiums are not deducted at source, the same may be paid in any post office. A premium Receipt Book is supplied to every policyholder in which all payments of premiums are recorded.

ii) Waiver of premium payments, in the case of whole-life policies, after attainment of the age of 80 years or after pay-

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1 Booklet on Postal Life Insurance for the Guidance of Post Office Staff, published by the Director General, Department of Posts, Teachers' Book Stall, Calcutta, pp 1-2.

07 ment of premia for full 35 years whichever is later.

iii) There is no difference in the rates of premium according to sex and occupation; premiums for all the insurants are uniform.

iv) Physically handicapped persons are eligible to take PLI policy upto Rs.10,000 without any extra premium.

v) Whole-Life policy may be converted into Endowment Assurance Policy.

vi) A policy taken under PLI does not lapse on account of non-payment of premium on account of non drawal of pay due to circumstances beyond an insurant's control.

We cannot compare the performance of LIC with that of the PLI in the spheres like volume of business, investment pattern, etc., since the former is too big an organisation of monolithic and monopolistic character engaged in mobilisation of savings to be compared with Postal Life Insurance whose area of operation is limited to a particular class of salary earning population. On the other hand, the area of operation of LIC is the entire insuring population of India and abroad.

However, premium rates of insurance policies and rate of bonus declared by the LIC and PLI may easily be compared. PLI does not have large varieties of insurance schemes like the LIC. There are only four assurance schemes carried on by the PLI, namely, (i) Whole-Life Insurance, (ii) Endowment

Assurance, (iii) Convertible Whole-Life Assurances and (iv) Anticipated Endowment Assurance. All these schemes are also carried by the LIC. Therefore, we propose to compare these schemes individually and at different age groups and for different terms. Another aspect which may also be well compared is the rate of bonus declared by LIC and PLI to their respective policyholders.

Whole-Life Insurance

The present rate of premium on whole-life limited assurance policy (with profit) is in force in respect of the LIC since 1981 whereas the same is effective from October, 1983 in case of PLI. The comparative annual premium rates of these two insurers for the assurance of Rs.1000/- have been presented in a table (Table V.1).

It is observed that the rate of annual premium is quite higher in the LIC than the PLI. The variance becomes wider with the increase in the age of entry. If a man takes a Whole-Life Limited insurance policy of LIC for a term of 50 years for Rs.1000/- he will have to pay an extra premium of Rs.475 in comparison to the total premium payable under PLI. The variance between annual premium of LIC and PLI for a sum assured of Rs. 1,000 ranged between Rs.3.95 and Rs.4.75 for the terms of 30 years and 50 years respectively. The average premium rate at an entry age of 20 for 30 to 50 years terms is 25 per cent

higher in the LIC than in PLI.

It is further observed that the lowest is the term of insurance under whole-life limited insurance, the largest is the difference in the rate of premium.

The difference in annual premiums between LIC and PLI at the entry age of 50 years for 5 years term is the widest - Rs.18.65 per Rs.1,000 sum assured. In total he has to pay Rs. 92.25 more to the LIC than as compared to the PLI. This variance will be still higher if we take into consideration the PLI rebate on advance payment of premiums.

Endowment Assurance

A comparison of premium rates under Endowment Assurance plan indicates a substantial difference. The variance is the highest for the assurance plan of the lowest term. For instance, if a man takes an Endowment Assurance Policy from the LIC at the age of 25 for a sum of Rs.1,00,000 (The maximum limit of PLI) for five years, he will have to pay an extra amount of Rs.5,100 by way of premiums to the LIC: extra premium burden amount to Rs. 1020 annually. Under Endowment Assurance Policy the difference in the premiums rates vary between Rs.8.55 and Rs.6.30 per annum per thousand sum assured in the age group of 20 to 50 for 10 years Endowment term.

It may, thus, be concluded that Endowment Assurance in PLI is cheaper than that of the LIC: first the rate of premium

is lower, secondly, PLI bonus rate is higher. The difference between annual premium of LIC & PLI under Endowment Assurance (with profits) for sum assured Rs.1000 has been shown in Table V.2.

Convertible Whole-Life Assurance

Convertible whole-Life Assurance is a plan of insurance under which the insurant has two options. Either the policy can be continued as a whole-life assurance plan or the same can be converted into an Endowment plan subject to minimum five years within which the policy cannot be converted into an endowment plan. Hence, there are two separate rates of premium. The first rate is applicable in case "the option is exercised to convert the policy into Endowment Assurance" and the second rate is applicable if the option is not exercised after five years payment of premiums. A comparative statement of annual premium payable under LIC and PLI convertible whole-life assurance for different age groups and different terms have been shown in Table V.3.

It is observed that the difference in the annual premium payable under PLI and the LIC's Whole-Life Convertible Assurance ranged between Rs.3.15 to Rs.3.60 for a policyholder who takes the policy at the age of 20 for terms of 30 to 40 years. The rate of LIC premium is higher than under PLI policy. On average the rate of premium charged by the LIC is about 12 per cent higher than that charged by the PLI. The difference in the

TABLE V.1

DIFFERENCE BETWEEN ANNUAL PREMIUM OF L.I.C. & P.L.I FOR WHOLE-LIFE LIMITED INSURANCE POLICY (WITH PROFITS) FOR SPECIFIED TERMS FOR THE ASSURANCE OF Rs. 1000 TO BE PAID AT DEATH.

Age of Entry	TERM OF YEARS									
	5	10	15	20	25	30	35	40	45	50
	Rs.p.	Rs. p.	Rs. p	Rs. p.	Rs. p.	Rsp.	Rs.p.	Rs. p.	Rs. p.	Rs. p.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
20 LIC						23.75	22.55	21.75	21.25	20.95
PLI						19.80	18.60	17.40	16.20	16.20
25 LIC					28.35	26.40	25.15	24.35	23.85	
PLI					23.40	21.60	20.40		19.20	
30 LIC				35.30	31.80	29.70	28.40	27.65		
PLI				30.00	27.00	24.60		22.20		
35 LIC			46.85	39.85	38.05		32.60			
PLI			40.80	34.20	30.00		26.40			
40 LIC		70.05	53.00	45.35		39.20				
PLI		62.40	46.20	39.00		32.40				
45 LIC	142.83	78.95	60.30	52.15	48.10					
PLI	125.40	70.80	52.80		40.80					
50 LIC	159.65	89.35	69.20	60.75						
PLI	141.00	83.40		52.20						

Source:- Compiled from: (1) LIC's Mannal for Agents, Vol.II, Eighth Edn., Jan., 1981, Tables 5, pp. 9-13
(II) A History of 100 years of service - Postal Life Insurance published by Post-Master General (PLI Section), West Bengal, Circle, Calcutta, Pin 700012, T.I.

*Blanks indicate non-existence of comparable plans.

TABLE V.2

STATEMENT SHOWING DIFFERENCE BETWEEN ANNUAL PREMIUM FOR ENDOWMENT ASSURANCE WITH PROFIT (LIC & PLI) OF Rs. 1000 AT THE END OF SPECIFIED TERMS OF YEARS OR AT DEATH, IF OCCURS EARLIER.

Age of Entry		TERM OF YEARS							
		5	10	15	20	25	30	35	40
	(1)	Rs.p. (2)	Rs.p (3)	Rs. p. (4)	Rs.p. (5)	Rs.p. (6)	Rs.p. (7)	Rs. p. (8)	Rs.p. (9)
20	LIC	217.15	107.10	70.00	50.50	39.65	32.45	27.90	24.65
	PLI	-	100.80	65.40	47.40	37.20	30.00	24.60	21.60
25	LIC	217.20	107.20	70.15	50.80	40.10	33.10	28.80	
	PLI	207.00	100.80	65.40	47.40	37.20	30.00	25.20	
30	LIC	217.35	107.50	70.65	51.50	41.05	34.40		
	PLI	207.00	100.80	65.40	48.00	37.80	31.20		
35	LIC	217.80	108.20	71.65	52.85	42.75			
	BLI	207.00	101.40	66.00	48.60	38.40			
40	LIC	218.60	109.45	73.35	55.05				
	PLI	207.00	102.00	67.20	50.40				
45	LIC	220.00	111.45	78.10					
	PLI	208.00	103.80	69.00					
50	LIC	222.50	114.75						
	PLI	210.60	106.20						

Sources: Compiled from : (i) LIC's Manual for Agents Vol.II, Eighth Edn., Jan., 1981, Table 5, pp. 33-37, and
(ii) A History of 100 years of service Postal Life Insurance - Published by Post Master General (PLI Section) West Bengal Circle, Calcutta 700012, Table II.

'-' indicates non-existence of comparable plans.

TABLE V.3

Annual Premium Payable Under Convertible Whole-Life Assurance For An Assurance Of Rs. 1000 Payable At Death (If Option of Conversion Into Endowment Assurance is Exercised, After Completion of 5 Years).

Age of Entry		Premium payable After First 5 years if option is exercised to convert the policy into endowment assurance		
		Premium payment ceasing at the age of		
		50 years	55 years	60 years
		Rs. P.	Rs. P.	Rs. P.
20	LIC	37.35	31.20	26.90
	PLI	34.20	27.60	23.40
25	LIC	-	-	-
	PLI	45.60	34.80	27.60
30	LIC	-	-	-
	PLI	63.00	45.60	34.80
35	LIC	99.10	64.25	47.55
	PLI	97.20	61.80	44.40

Sources:- (i) LIC's Manual For Agents, Vol.II, Eighth Edition, January, 1981, Table 27, p. 21-23.

(ii) A History of 100 years of Service - Postal Life Insurance, Published by Post Master General, West Bengal Circle, 1984, Calcutta 700 012.

Note: Convertible whole-life policy (with profits) can be issued to a person only upto the age of 35 years in case of the LIC but the same can be issued upto the age of 43 in the Postal Life Insurance (PLI).

'-' indicates non-existence of comparable plans.

premium rate, if the policy is taken at the age of 35, is of about 4 per cent.

Now let us examine the difference in the premium rates of the LIC and PLI for Whole-Life Endowment Assurance Policy if the option is not exercised but the payment of premium ceasing at the age of 70. One thing should be noted here that the PLI does not have any provision for issuing a Whole-Life Convertible policy to the persons beyond the age group of 35, whereas the same can be issued upto the age of 50 by the LIC. The variance in the premium rates of the LIC and PLI under this type of policy ranges between Rs.2.40 to 4.80 (annual premium per thousand), for the age group of 20 to 35. It is interesting to note that the rate of annual premium charged by the PLI if the option is not exercised under Whole-Life Convertible policy is higher than the rate of premium charged by the LIC. This is the only life assurance policy of the PLI's total four assurance plans where the rate of premium is higher than the LIC's premium rates. The difference between annual premium payable under convertible Whole-Life Assurance (LIC & PLI), if option is not excised is presented in Table V.4.

Anticipated Endowment Assurance

Anticipated Endowment Assurance (or money back policy) is the second most popular assurance plan of the LIC. This assurance plan occupies second position in the total new business produced by the LIC year after year. However, the PLI

TABLE V.4

ANNUAL PREMIUM PAYABLE UNDER CONVERTIBLE WHOLE-LIFE ASSURANCE FOR AN ASSURANCE OF RS. 1,000 PAYABLE AT DEATH, IF OPTION IS NOT EXERCISED BUT CEASING AT THE AGE OF 70.

Age of Entry	LIC Rs.p.	PLI Rs. p.	Differences Rs. p.
20	13.80	16.20	2.40
25	15.60	19.20	3.60
30	18.10	22.20	4.10
35	21.60	26.40	4.80
40	-	32.40	-
45	-	40.80	-
50	-	52.20	-

Sources: (i) LIC's Manual for Agents, vol.II, Eighth Edition, January, 1981, Table 27, p.21.

(ii) A History of 100 years of Service - Postal Life Insurance, Post Master General, West Bengal Circle, Cal. 12.

Note: The convertibele whole-life Assurance Policy (with profits) under LIC is not given to the persons exceeding 35 years of age.

'-' indicates non-existence of comparable plan.

introduced this scheme only in the year 1984. The scheme provides full protection throughout its currency and also ensures periodical flow of cash at regular intervals. The scheme operates in two terms (PLI) 15 years term and 20 years term. Therefore, we have decided to compare the premium rates of LIC & PLI for these two terms only (Table V.5).

It is observed that the rate of the LIC premium in respect of 15 and 20 years Anticipated Assurance policies is quite higher than charged by the PLI. The difference under 15 years term ranged between Rs.4.35 to Rs.7.65 for the age groups between 20 and 45. The average extra premium charged by the LIC for 15 years term is about 7 per cent higher than that charged by the PLI. The variance in the premium rates for 20-years term is even higher. The LIC's average premium rate is about 11 per cent higher than that of PLI for 20-year term.

UTI as an Alternate Insurance Agency

Unit Trust of India carried insurance business under its Unit Linked Insurance Plan, 1971 (ULIP) for a limited amount. ULIP is a unique contractual plan offering high returns, maturity bonus, life cover, tax rebate and accident cover. The contractual period is 10 years or 15 years. The minimum and maximum amount of ULIP which a participant of the plan can go for are Rs.3000 and Rs.40,000. Any Indian between 18 and 45

TABLE V.5

ANTICIPATED ENDOWMENT ASSURANCE

Statement Showing the Difference between the LIC's and PLI's for Annual Premium and assurance of Rs. 1000 at maturity or on Death, i earlier.

Age of Entry	15 Year Term Policy			20 Year Term Policy		
	LIC Rs.p.	PLI Rs.p.	Diff. Rs. p.	LIC Rs. p.	PLI Rs. p.	Diff. Rs. p.
20	82.95	78.60	4.35	65.15	59.40	5.75
25	83.30	78.60	4.70	65.70	59.40	6.30
30	84.05	79.20	4.85	66.20	60.00	6.20
35	85.45	79.80	5.65	68.70	61.20	7.50
40	87.85	81.00	6.85	71.85	63.60	8.25
45	91.65	84.00	7.65	76.70	-	-

Sources: (i) LIC's Manual for Agents, vol. II, Eighth Edition, January, 1981, Tables & 74 and 75, pp. 72-73.

(ii) A history of 100 years of service - Postal Life Insurance, Published by Post Master General, West Bengal Circle (PLI Section), Calcutta 12.

Note: This is a comparison between Anticipated Endowment Assurance Policy of Postal Life Insurance and Money Back Policy under Tables 72 & 73 of the Life Insurance Corporation of India.

'-' indicates non-existence of plan.

13 years of age can join this plan.

The participant can contribute his target amount either on half-yearly or on yearly basis according to his convenience. The participant contributes a fixed sum (target amount) during the fixed period of (10 or 15 years) of saving. Out of the contribution of the participant, the UTI pays a small amount to the Life Insurance Corporation of India by way of premium. The balance is invested in Units. The annual dividend payable to the participant is reinvested in Units which, in turn, earn a dividend in future years.[1]

Comparative Analysis of Benefits Payable to Policy-holders under LIC, PLI & ULIP

The comparative analysis of the benefits payable to policyholders for an Endowment Assurance Policy under LIC, PLI and Unit Linked Insurance Plan (ULIP) indicates that the rate of return on every rupees invested in the LIC's premium is the lowest for all age groups and for all the terms of years taken into consideration. The most profitable investment is the ULIP. For instance, if a person takes a policy at the age of 25 for ten years for Rs.10,000 from the LIC and the PLI he gets an amount of Rs.15,200 at maturity whereas the amount receivable under ULIP for the same age and term is Rs.18,024 at the maturity.

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1 ULIP: A Booklet published as guidelines to Agents by Unit Trust of India, Bombay, 1987, pp. 1-2.

Notwithstanding, the total amount receivable under PLI and the LIC is exactly the same, the rate of return on every rupee invested by way of premium differs. The rate of return under PLI is slightly higher than the rate of return on LIC's policy. This variance is mainly due to the higher rate of premium charged by the LIC from its policyholders in comparison to PLI. The rate of return on per rupee premium paid in respect of ULIP is far greater than return on per rupee LIC's premium paid.

As the age of entry and term of assurance moves up the difference in the rate of return on premiums paid on LIC and ULIP policies also goes up. For example, the rate of returns on every rupee of premium paid by an insurant taking policy at the age of 25 for a term of 15 years are Rs.1.69 (LIC) and Rs.2.44 (ULIP). This indicates the better management of investible funds by the Unit Trust of India. In present case the Unit Trust of India is paying 37.26 per cent more than the LIC in addition to giving full life cover to its policyholders.

A comparative analysis of benefits payable to policyholders at the time of maturity along with rate of return on every rupee premium paid under Endowment Assurance for different age groups and for different terms under LIC, PLI and ULIP has been shown in a table (Table V.6).

It is observed that overall benefits payable to the policyholders of different age groups and for two different

TABLE V.6

A Comparative Analysis of Benefits Payable to Policyholders at the Time of Maturity Along with Return on Per Rupee Premium Paid Under Endowment Assurance for Different Age Groups and Different Term of Years for Sum Assured of Rs. 10,000/- in each case.

Age of Entry	Term of Assurance (years)		Total premium payable (Rs. p.)	Sum assured (Rs. p.)	Bonus (Rs. p.)	Total amount Receivable at Maturity (Rs. p.)	Return on per rupee premium paid (Re. p.)
(1)	(2)		(3)	(4)	(5)	(6)	(7)
	LIC	LIC	10,720.00	10,000.00	5,200.00	15,200.00	1.41
25	10	PLI	10,080.00	10,000.00	5,200.00	15,200.00	1.50
		ULIP	10,000.00	10,000.00	8,204.00	18,024.00	1.80
		LIC	10,522.50	10,000.00	7800.00	17,800.00	1.69
25	15	PLI	9,810.00	10,000.00	7,800.00	17,800.00	1.81
		ULPP	10,000.00	10,000.00	14,434.00	24,434.00	2.44
		LIC	10,820.00	10,000.00	5,200.00	15,200.00	1.40
35	10	PLI	10,140.00	10,000.00	5,200.00	15,200.00	1.49
		ULIP	10,000.00	10,000.00	7,892.00	17,892.00	1.78
		LIC	10,002.50	10,000.00	7,800.00	17,800.00	1.61
35	15	PLI	10,080.00	10,000.00	7,800.00	17,800.00	1.76
		ULIP	10,000.00	10,000.00	14,036.00	24,036.00	2.40

Contd.....

Table V.6 (Contd.....)

(1)		(2)	(3)	(4)	(5)	(6)	(7)
		LIC	11,145.00	10,000.00	5,200.00	15,200.00	1.36
45	10	PLI	10,380.00	10,000.00	5,200.00	15,200.00	1.46
		ULIP	10,000.00	10,000.00	7,423.00	17,423.00	1.74
		LIC	11,715.00	10,000.00	7,800.00	17,800.00	1.51
45	15	PLI	10,350.00	10,000.00	7,800.00	17,800.00	1.71
		ULIP	10,000.00	10,000.00	12,840.00	22,840.00	2.28

Sources: (i) LIC's Manual for Agents, Vol.II, Eighth Edition, January, 1981
(ii) LIC's Diary for the year 1987
(iii) A History of 100 years of service - Postal Life Insurance, published by Post-Master General (PLI Section), West Bengal Circle, Calcutta 700 012.
(iv) ULIP - A Leaflet Published by Unit-Trust of India, Bombay.

Notes: (1) Rate of Bonus for LIC is Rs. 52/- per thousand per annum Endowment Assurances for the year 1986-87.
(2) Since the rate of bonus for PLI for the year 1986-87 is not available and since the rate of bonus under PLI has always been higher than LIC, it is assumed that bonus for PLI also be at par with LIC i.e. Rs. 52/- per thousand per annum.

Abbreviations: LIC - Life Insurance Corporation
PLI - Postal Life Insurance
ULIP - Unit Linked Insurance Plan, 1971.

115 terms in respect of LIC's Endowment policies is always lower than the benefits payable under PLI and ULIP policies. The main reason for this lower return seems to be the higher rate of premium charged by the LIC and defective policy of its funds management. The total premiums charged by the LIC from its policyholders under Endowment Assurances is always higher than the sum assured. The excess of total premiums rises with the increase in the age group of the insurant. Total premium charged under PLI Endowment policy is almost equal to the sum assured. Of course, sometimes, it is less than the amount of sum assured. However, the picture is quite different with the ULIP Endowment Policy. But for the recent (1986-87) announcement of raising rate of bonus by the LIC the benefits payable to policyholders would have been even much lower than what we are calculating now.

The LIC is complacent with its present performance mainly because of its enormous army of agency force and due to its monolithic and monopolistic character. The number of prospective policyholders is almost negligible who compares the benefits under PLI and the ULIP. Had the ULIP and the PLI an agency system like that of the LIC, it would have been difficult task for the latter to compete successfully. Not to speak of rural population even among the urban educated class very few have knowledge about the benefits of the PLI and ULIP.

Not taking the advantage of policyholder's ignorance, the LIC should compare the benefits given by the UTI under ULIP scheme with its own and try to deliver the similar benefits to its policyholders. The LIC's bonuses at galloping rates are appreciable. The Corporation should take a more pragmatic approach to reduce premium rates to make the social security cover within the reach of the common man. If it fails in gearing itself it would be soon fighting a losing battle against other savings media such as bank deposits, company deposits, UTI and national savings in an inflationary economy.

Cover of Life Risk (LIC, PLI & ULIP)

The main business of the LIC is to cover the life risk of its policyholders under varieties of insurance plans. In addition to the LIC, two public sector undertakings - the PLI and the UTI (under its ULIP scheme) are also covering the life risk of their respective policyholders. (Of course, the size of life cover given by PLI and ULIP is quite smaller than the LIC[1]).

Since all these public sector institutions engaged in the mobilisation of savings are offering life risk cover to their policyholders to certain amount. We propose to compare the benefits payable to the heirs of a policyholders who meet a

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1 The maximum amount for which the PLI and ULIP extend life cover is Rs.1,00,000 and Rs.40,000 respectively.

117 premature death. The comparison is made for a particular sum assured and for a particular term under LIC, ULIP and PLI (Table V.7).

It is observed (Table V.7) that amount payable to the nominee or assignee of the policyholder of the LIC and the PLI is higher than the amount payable under ULIP scheme if the death occurs within first six years of taking the policy. The benefits payable by the three institutions are more or less the same, if the death occurs in the seventh year. Thereafter, (between eighth and tenth year) the amount payable under ULIP scheme is greater than under LIC, or PLI policy. For instance, if a policy holder dies at the end of the ninth year of the policy his nominee will receive Rs.1,694 more from the ULIP than from LIC and PLI. The difference becomes wider if the premature death takes place in the tenth year of the policy. The nominee of the deceased will receive Rs.2,844 more from the ULIP than from the LIC and ULIP. This variance in the amount of the death claim should act as an eye opener to the LIC and they should ensure that the amount of death claim at any time during the tenure of the policy is not less than ULIP, if not greater. This is because the main function of the LIC is to provide full life cover along with maximum benefits to its policyholders whereas cover of life risk is incidental to the UTI. In no insurance plan the total amount payable on the premature death should be less than the amount payable by

TABLE V.7

Likely Amount Payable on Premature Death of a Person takes the Policy at the age of 25 years with an Endowment Policy of Rs. 10,000/-.

Year in which death occurs (1)	Amount Payable L.I.C. Rs. p. (2)	P. L. I. Rs. p. (3) **	U.L.I.P. Rs. p. (4)
1	10,000	10,000	10,069 (10.057)*
2	10,520	10,520	10,227
3	11,040	11,040	10,524
4	11,560	11,560	10,960
5	12,080	12,080	11,552
6	12,600	12,600	12,315
7	13,120	13,120	13,267
8	13,640	13,640	13,443
9	14,160	14,160	15,854
10	14,680	14,680	17,524

Sources: (i) LIC's Mannual for Agents, vol.II, Eighth Edition, January, 1981.
(ii) LIC's Diary for the year 1987.
(iii) A History of 100 years of service- Postal Life Insurance, Published by Post-Master General (PLI section), West Bengal Circle, Calcutta - 12.
(iv) ULIP - A Leaflet published by the Unit Trust of India, Bombay.

* In case of death due to accident.

** Since the bonus rate for the year 1986-87 in respect of PLI is not available, it is assumed that the bonus rate in PLI is at par with the LIC.

any other savings media carrying on similar business of covering life risk.

Charge for Risk Cover

We often hear that the rates of the LIC premiums are high and capable of substantial reduction. This claim is made on the basis of two factors, viz., improvement in the mortability rate and increase in the rate of interest. It is argued that the benefits of these two factors should be passed on to the policyholders in the form of reduced premium rates. This would make the life insurance cheaper and popular and within the reach of larger number of people.

We propose to examine the rates of premium charged by the LIC from the angle of the charge for covering life risk. For this purpose, we propose to calculate the present value of the premium paid at 12 percent compound rate of interest, (compounded annually) rate of interest offered by the other savings media engaged in mobilisation of domestic savings. The present value of premium paid at the time of maturity will be compared with the total amount receivable from the LIC at the end of a specified term. The difference between the present value of premiums paid at the rate of 12 p.c. compound rate of interest and the total amount payable by the LIC by way of maturity claims after the completion of particular term as per the contract of the policy is the charge for risk cover.

For this purpose we have taken into consideration the most popular assurance plan of the Corporation viz., Endowment Assurance Plan. The present value of premiums paid for endowment terms of 10, 15, 20, and 30 years have been shown in the Table V.8.

It is observed from charges for risk cover of Rs.1,000 for various terms of period presented in Table V.9 that higher the term of the policy greater is the charge for risk cover. Again higher the age group higher the charge. The variance in the amount of risk charge widens very disproportionately from lower to the higher terms of endowment policy. For example, charge for five year's risk is Rs.117 but the same goes on increasing with increase in the term of policy, it comes to Rs.360.00, Rs.835.87, Rs.1,625.68 and Rs.5,449.55 for 10, 15, 20 and 30 years respectively.

It is further observed that people from low income brackets go for a longer terms of insurance plans and people from upper income brackets prefer short term (generally 10 years) insurance plans to get the benefits of income-tax rebate and converting black money into white. In this situation, the question arises that how far the present pattern of charging risk cover by the LIC is justified ? Charging more from lower income group and less from higher income groups is in no way a justified proposition.

TABLE V.8

PRESENT VALUE OF PREMIUMS PAID @ 12% COMPOUND RATE OF INTEREST (UNDER ENDOWMENT ASSURANCE POLICY TABLE 14) FOR SUM ASSURED Rs. 1,000/-
(AGE OF ENTRY 25 YEARS)

P.Y. at the end of (1)	TERM OF ASSURANCE IN YEARS					
	5 Rs.p (2)	10 Rs.p. (3)	15 Rs.p. (4)	20 Rs.p. (5)	25 Rs.p. (6)	30 Rs. p. (7)
1st. year	217.20	107.20	70.15	50.80	40.10	33.10
2nd. year	245.26	120.06	78.53	56.90	44.91	37.07
3rd. year	271.50	134.00	87.69	63.50	50.13	41.38
4th. year	304.08	150.00	98.21	71.12	56.14	41.34
5th. year	341.00	168.30	110.14	79.76	62.96	51.97
6th. year Total =	1,377.04	188.67	123.46	89.41	70.58	58.26
7th. year		211.18	138.20	100.08	79.00	65.21
8th. year		236.91	155.03	112.27	88.62	73.15
9th. year		265.86	173.97	125.95	99.45	82.09
10th. year		298.02	195.02	141.22	111.48	92.02
11th. year Total =		1680.00	218.17	157.99	124.71	102.94
12th. year			244.12	176.78	139.55	115.19
13th. year			273.59	198.12	156.39	129.09
14th. year			306.56	222.00	175.24	144.65

Contd.....

Table V.8 (Contd.....)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
15th. year			343.03	248.41	196.09	161.86
16th. year	Total =		2,615.87	278.38	219.75	181.39
17th. year				311.91	246.21	203.23
18th. year				349.50	275.89	227.73
19th. year				391.67	309.17	255.20
20th. year				438.91	346.46	285.98
21st. year	Total =			2,665.68	388.17	320.41
22nd. year					434.68	358.80
23rd. year					486.81	401.83
24th. year					545.36	450.16
25th. year					610.72	504.11
26th. year	Total =				5,358.57	564.69
27th. year						632.21
28th. year						708.01
29th. year						793.08
30th. year						888.40
	Total =					8,009.55

Source: LIC's Manual For Agents, Vol. II, Eighth Edition, pp. 33-37

Note: Rate of Interest has been assumed at 12% compound.

TABLE V.9

RISK COVER CHARGED BY LIC FOR AN ENDOWMENT ASSURANCE POLICY (With Profits) for sum ASSURED Rs. 1,000. AGE OF ENTRY 25 Years.

	ENDOWMENT TERMS				
	5 years (Rs. p)	10 years (Rs. p)	15 years (Rs. p)	20 years (Rs. p.)	30 years (Rs. p.)
1. Present value of Premiums paid @ 12% compound interest (compound annually)	(217.20) 1,377.04	(107.20) 1,880.00	(70.15) 2,615.87	(50.80) 3,665.68	(33.10) 8009.55
2. Less Amount Receivable from the LIC including bonus at present rate of 52 per thousand per annum.	1,260.00	1,520.00	1,780.00	2,040.00	2,560.00
3. Charge of Risk cover (Difference between items 1 & 2)	117.00	360.00	835.87	1,625.68	5449.55

Sources: (1) LIC's Manual For Agents Vol.II, Eighth Edition, Jan. 1981, pp.33-37
(2) LIC's Diary, 1987.

Notes: (i) Figures in the brackets indicate annual premiums
(ii) Rate of interest has been assumed which is lower than the Rate provided by other media of long term savings.

Risk Charge after Allowing Income-Tax Rebate

If income tax relief is taken into consideration then there is no risk charge for policyholders going for ten years endowment insurance plan of the LIC. In addition to cost free risk cover, the policyholders also gets an additional benefit of income tax deduction from their total income. Since the rates of premium for lower terms of endowment policy is much higher than the longer terms policy, people from lower income group cannot afford to go for lower term policies.

Risk charge after allowing Income-tax rebate for different Income-Groups for a sum assured of Rs.1,000 under Endowment Assurance plan at the entry age of 25 is given in Table V.10. For example, the risk charge for Rs.1,000 of sum assured for 10 years a person whose annual income after standard deductions is upto Rs.19,000 has to sacrifice a sum of Rs.360 as risk charge to the LIC whereas a person having Taxable income (after standard deductions) above Rs.19,000 has to pay nothing to the LIC as risk charge due to income-tax rebate allowed by the Income-Tax Authorities. In contrast, they get additional benefits which increases with the increase in the slab of income. For 20 years term, the policyholders not falling within income-tax assessment group has to sacrifice Rs.1,625.68 as charge of risk cover whereas policyholders having taxable income above Rs.60,000 have to forgo only Rs.139.41 as charge of risk coverage. This variance becomes widest for a policy of 30 years term.

TABLE V.10

RISK CHARGE AFTER ALLOWING INCOME TAX REBATE FOR SUM ASSURED Rs. 1,000/- UNDER ENDOWMENT ASSURANCE PLAN. AGE OF ENTRY 25 Years.

Income after standard deductions.	E N D O W M E N T T E R M S			
	10 years (Rs. p.)	15 years (Rs. p.)	20 years (Rs. p)	31 years (Rs. p.)
Upto Rs. 19,000/-	360.00	835.87	1,625.68	5,449.55
Between Rs. 19,000 and Rs.25000/-	(-) 110.00	181.90	709.25	3,447.16
Rs. 26,000/-	- 125.60	160.19	678.91	3380.68
Rs. 27,000/-	- 141.21	138.48	648.51	3314.20
Rs. 28,000/-	- 157.00	116.51	617.62	3,246.92
Rs. 29,000/-	- 172.60	94.79	587.19	3,180.44
Rs- 30,000/-	- 188.21	73.08	556.77	3,113.97
Rs. 31,000/- to Rs. & 50,000/-	- 204.00	51.11	525.98	3,102.75
Rs. 60,000 and above	- 392.00	- 210.48	159.41	2,245.73

Sources: Same as in the previous Table.

Notes:- (i) (- minus) sign again figures in 10 years term indicates persons w in the income group of Rs. 19,000/- and above have no risk charge. They are getting the benefits of additional income tax deduction equivalent to the amount indicated by (-) sign.

(ii) Persons having income of Rs. 60,000/- and above for 15 years term have also no risk charge for them.

(iii) For the calculation of Income-Tax Rebate 1986-87 has been taken as Income Year for all calculations in this section of our study.

The risk charge for non-taxable group of policyholders in this case is Rs.5207.60 whereas policyholders with taxable income of Rs.60,000 and above have to sacrifice only Rs.2,100.56 only.

On the basis of above deliberations, it is concluded that if creating a socialistic pattern of society is the aim and objective of our government, the present pattern of loading a higher risk charge on non-tax payer insurants should be immediately dispensed with. Moreover, the present wide variance in the risk charge between lower terms and longer terms of policies should also be brought down to the minimum possible limit. The present rate of charge for a risk cover is an example of exploitation of the ignorance of insurants by a public sector monopolistic organisation. Commenting on a recent judgement of the Supreme Court of India in The Peerless General Finance and Investment Company Ltd., the Daily Telegraph in its editorial observed "Ultimately the success of the Peerless and other non-banking finance and investment companies can be traced to the failure of the LIC to give investor a fair deal taking advantage of its government given monopoly status, it has consistently charged out_rageously high premium, particularly when compared with the returns they offer."[1]

The present trend of charging higher risk charge for higher terms of policies and lower for lower terms of policies

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1 Editorial Comment, The Telegraph, Calcutta, Wednesday 28th January, 1987, vol. V, No. 199.

should be reversed and should be made more equitable. Introduction of premium Back Term Insurance plan in September, 1986 by the LIC is a step in the right direction. This is the cheapest of all the insurance plans so far introduced by the LIC during the period of its existence. This is a without profit plan and the amount of risk coverage in this plan for a sum assured for Rs.1,000 for 10 years term is less by Rs.175.51 than similar most popular endowment assurance plan of the LIC for the same amount and term for people under annual income group upto Rs.19,000. This may be made further cheaper if the policymakers of the LIC really wish to do so. It may be suggested that to force the lowering of insurance, their payments should be kept out of purview of Income-Tax rebate.

Comparative Charge for Risk (LIC vs PLI)

Now we propose to examine the comparative charge of risk cover by the LIC and the PLI. The amount payable to the policyholders at the time of maturity is the same both under LIC and PLI due to the same rates of bonus. The variance in the present value of the premiums paid under LIC is due to the higher rates of premium in the LIC than in the PLI endowment assurance policy. This degree of difference becomes narrower with the increase in years of terms - lower the terms of endowment assurance wider is the difference of risk charge and vice versa. A comparative statement of amount charged by the LIC and PLI under Endowment

Assurance for different terms has been shown in a table (Table V.11).

It is observed that the risk cover charge realised by the LIC from its policy holders is always higher than that charged by the Postal Life Insurance (PLI). The variance is the largest for five years term. This is the shortest term of endowment assurance of both the organisations and therefore, the variance is the widest. Risk cover charged by the LIC for this term of assurance is about 78 per cent higher than what is charged by the PLI. In absolute term of amount the risk charge for 5 years for a sum assured of Rs.1,000 is Rs.117.00 in the case of LIC whereas it is only Rs.25.51 for the same period and same amount in the case of PLI. The variance for 10 to 30 years terms ranges between 31.12 per cent and 13.80 per cent respectively.

Comparative Charge for Risk Coverage After Allowing Income-Tax Rebate

A rebate in Income-tax is allowed to the policyholders on the premiums paid for a life insurance cover. We propose to compare the degree of risk charge for covering life risk by the LIC and PLI after allowing income-tax rebate to their respective policyholders. The Income-Tax Department has prescribed different rates of concession for different income groups of policyholders. Again the concession rates

TABLE V.11

Comparative Statement Showing the Charge of Risk by LIC & PLI For a Sum Assured Rs. 1,000/- (Endowment Assurance Policy). Age of Entry 25 years.

Terms of Assurance (1)		10 years (Rs. p.) (2)	15 years (Rs.p) (3)	20 years (Rs. p) (4)	30 years (Rs. p) (5)
1. Present value of Premium paid @12% compound interest.	LIC	1880.00 (107.20)	2615.87 (70.15)	3665.68 (50.80)	8009.55 (33.10)
	PLI	1767.96 (100.80)	2440.64 (65.48)	3460.47 (47.40)	7257.40 (30.00)
2. Less Amount Receivable and including bonus at present rate of Rs. 52/- per thousand p.a.	LIC	1,520.00	1,780.00	2,040.00	2,560.00
	PLI	1,520.00	1,780.00	2,040.00	2,560.00
3. Charge of Risk coverage	LIC	360.00	835.87	1,625.68	5,449.55
	PLI	247.96	660.64	1,420.61	4,697.40

Note: Figures in the brackets indicate annual premium rates.

Sources:- (i) LIC's Hannual For Agents, Vol.II, 8th.Edn., January,1981, pp.33-37
(ii) LIC's Diary, 1987.
(iii) A History of 100 years of PLI, leaflet published by the Post Master General, West Bengal Circle, Calcutta - 12.

TABLE V. 12

COMPARATIVE STATEMENT OF RISK CHARGE AFTER ALLOWING INCOME TAX REBATE

Income After Standard Deductions. (Rupees) (1)		ENDOWMENT TERMS (Endowment Terms) 10 years (Rs. p.) (2)	15 years (Rs. p.) (3)	20 years (Rs. p.) (4)	30 years (Rs. p.) (5)
Upto 19,000/-	LIC	360.00	835.87	1,625.68	5,449.55
	PLI	247.96	660.64	1,420.64	4,697.40
19,000 - 25,000	LIC	-110.00	181.90	709.26	3,447.16
	PLI	-194.03	50.48	555.52	2,883.05
26,000/-	LIC	-125.60	160.19	678.91	3,380.68
	PLI	-208.70	30.32	526.30	2,852.81
27,000	LIC	-141.21	138.48	648.41	3,314.20
	PLI	-223.38	9.97	498.03	2,762.68
28,000	LIC	-157.00	116.51	617.62	3,246.92
	PLI	-238.23	-10.54	469.01	2,701.61
29,000	LIC	-172.60	94.79	587.19	3,180.44
	PLI	-252.90	-30.79	445.95	2,640.80

Contd.....

Table V.12 (Contd....)

(1)		(2)	(3)	(4)	(5)
30,000	LIC	-188.21	73.08	556.77	3,113.97
	PLI	-267.52	-51.05	411.57	2,581.14
31800 - 50000	LIC	-204.00	51.11	525.98	3,102.75
	PLI	-270.05	-54.47	406.72	2,570.98
60,000 & above	LIC	-392.00	-210.00	159.41	2,245.73
	PLI	-459.22	315.62	36.45	1,794.44

Notes:- (i) Sum Assured is Rs. 1,000/- (ii) Age of Entry is 25 years,
(iii) Plan of Assurance is Endowment Assurance Policy
(iv) - (minus) symbol indicates that there is no risk charge and the policyholders receive an extra benefits of that amount which is to be deducted from their total income for the purpose of income-tax calculation.

differ from year to year and we have decided to incorporate in our present study, 1986-87 as income year and 1987-88 as Assessment year.[1] A comparative statement of charge for Risk coverage after allowing Income-tax rebate has been given in the Table V.12.

It is observed that policyholders having income upto Rs.19,000 or below have to bear the highest amount of charge of risk cover both under LIC & PLI. There is no risk charge at all for 10 years policy in respect of policyholders having annual income above Rs.19,000. Not only that there is nothing charged by the LIC and PLI as risk coverage, the policyholders get an extra benefit of income-tax deduction from their total income for the purpose of income-tax assessment.

LIC's and PLI's respective charges for risk coverage in respect of policyholders having income upto Rs.19,000 are Rs.1625.68 and Rs.1,420.64, whereas the policyholders having income Rs.60,000 and above have to bear only Rs.159.49 (LIC) and Rs.36.45 as charge or risk coverage under LIC and PLI policies respectively.

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1 Tax Benefits from Life Insurance, LIC's Diary, 1987.

CHAPTER VI

INVESTMENT OF LIFE INSURANCE FUNDS

General Principles: Investment principles in the case of companies carrying life business is little bit different from the other financial institutions engaged in investment activities. The life insurance companies act as trustees on behalf of millions of policy-holders whose large funds are collected by them by way of premiums. Such large funds mobilised through premiums are not required to meet any liabilities immediately, hence they are invested in certain securities which may give better return on such investment.

The basic principles underlying the investment of life insurance funds may be enumerated as under:

(i) Safety of capital:

The primary duty of the life insurance companies is to pay the claims, as and when they become due. Therefore, safety of capital should receive utmost importance by an insurer while investing life fund. The speculative activities in investing the life insurance fund is not at all desirable and the life insurance companies have to act as conservative investors. The prudent insurers prefer safety of capital even at the cost of yield[1]. Keeping in view the problems of investing life insurance funds, the Government of India, has, therefore, imposed a number of restrictions on the portfolio behaviour of the life insurance funds.

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1. Khan, M.A. : Theory and Practice of Insurance, 1977, Educational Book House, Aligarh, p. 457.

(ii) Sufficiency of yield: The investment policy of a life insurer should maintain a proper co-ordination between safety and yield. The premium rates are fixed taking into account a definite rate of interest on the investment of funds, hence the fund should be invested in such a way that it would get at least that rate of interest which has been assumed in ariving at the premium rate. Earning good profit on investment means decrease in the rate of premium and increase in the rate of bonuses to be paid to the policyholders[1].

The income earned on investment of life funds plays a very important role in determining the rate of premium charged to the policyholders. For instance, an increase in interest yield by 1 to 1.5 percent on its investments reduces the premium rates by 16 to 20 percent on Endowment Assurance, and by about 20 to 30 percent on Whole Life Policies thereby making life insurance cheaper[2].

(iii) Liquidity: Liquidity principle refers to the convertibility of investment into cash without loss of capital and without much difficulties. Notwithstanding, current incomes, from interest, dividend and premiums are sufficient to meet the liabilities arising out of claims, but the current incomes in case of large scale catestrophe may prove insufficient to meet heavy liabilities of surrender values, loans and the claims (death as well as maturity). In such circumstances convertibility becomes indispensible. In principle, however, a case can be made out for the proper scheduling of the maturity of investments so as to coincide with the maturing obligations.

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1. Ibid, p. 458.
2. Govt. of India, Report of the working group on Life Insurance Administration, Vol. I, October, 1968, p.74, para 3.6.2.

(iv) Diversification: The diversification of investment of life funds is a pre-requisite of investment policy of any life insurance company. "Life insurance applies the principles of diversification of investments not only in the number of different investments it holds, but also in geographical distribution of those investments, their distribution by types of enterprise, by types of companies, by types of securities, by maturity dates and by time of purchases"[1]. The diversification of investment should be made on geographical as well as securities pattern. Reliance on a single pattern of securities is not a sound principle of investment for a life insurer. The distribution should be spread with reference to redemption dates, industries, degree of risk involved etc. This necessiates the assistance of financial experts having sound knowledge of stock exchange activities and general economic trend of the country as a whole. The LIC has a separate Investment Department Comprising of persons having profound knowledge in this connection.

Channels of Investments:-

Life insurance companies throughout the world have some definite channels through which they channelise their investible funds. We propose to discuss their relative merit and demirits and their individual importance in the LIC's investment portfolio.

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1. Meher, R.I. Osler, R.W., Modern Life Insurance, The Macmillan Company, U.S.A., 1970, p. 25.

1. Government Securities:

Like many other life insurance companies abroad, LIC also invests its sizeable portion of investment in central and State Government securities. The preference of government securities over other securities is partly due to statutory control imposed by the Government of India over the investment policy of the LIC and, partly due to superiority of government securities over other securities in respect of safety, marketability and freedom of wide diversification, government has unlimited credibility in meeting its obligations due to power of imposing taxes and raising funds from the public. The most important merit of the government securities is that there is no fluctuation in the market value of such securities. In view of its non-fluctuating nature, the Govt. securities are most readily convertible securities. Marketability of such securities becomes easier also due to presence of large number of institutional investors in government securities.

Keeping in view the requirements of institutional investors, the central as well as state governments issue various kinds of securities in a variety of combinations. The number of securities in the investment portfolio of the LIC is increasing year after year. For instance, the number of types of securities of the public sector (including purely government securities) in the portfolio of LIC was 20 as on 31st.March,1976[1] which rose to 34 as on 31st.March,1985[2]. Besides safety of capital, investment in government securities also enhances the volume

1. LIC's Annual Reports and Accounts for the year ended 31st.March, 1976, p. 3.
2. LIC's Annual Reports and Accounts for the year ended 31st.March, 1986, pp. 77-79.

of life insurance business since most of the amount invested in government securities is spent on public welfare programmes which in turn increases the income of the people and their saving capacity.

Inspite of the above mentioned merits of government securities, the main defects of these securities is that they yield lower return on investment. In view of this serious defects, the life insurers abroad invest their major investible funds in securities other than government. However, the LIC's major funds are invested in government securities.

2. Corporate Securities:

The Corporate securities occupy an important position in the investment portfolios of life insurance companies. However, the proportion of corporate securities to total investments of the life insurance companies differs from country to country. The proportion of corporate securities is much higher in the industrially advanced countries than wwhat we find s in the case of LIC. The percentage of LIC's investments in corporate securities has sharply declined since nationalisation of life insurance business. For instance, investment in corporate securities formed about 16.0 percent of the total investments of the Corporation in the year 1962-63[1] which came down to 11.8[2] percent in 1975-76 and further declined to 10.5 percent in the year 1985-86[3]. These corporate

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1. LIC's Annual Reports for the year ended 31st.March,1963.
2. LIC's Annual Reports and Accounts for the year ended 31st.March,1976.
3. LIC's Annual Reports for the year ended 31st.March,1986,p.20.

securities comprise of debentures, preferences shares and equity shares of the public limited companies. Suitability of such corporate securities is briefly discussed as under:

(a) Debentures

Debentures of public limited companies enjoy certain advantages over preference and equity shares as these offer considerable safety of regular income as well as safety of capital. However, these securities are not free from drawbacks. First, they do not guarantee whatsoever safeguard at the time of inflation since the value of money decreases during the inflation but the contractual obligation remains the same. Secondly, most of the debentures of the public limited companies have optional dates of redemption which reduce their attractiveness to longterm investors. Lastly, they are not frequently transacted in the stock exchanges except at the time of their issues[1]. The debentures accounted for only 3.1 percent of LIC's portfolio in the year 1985-86[2]. The percentage was even lower in the earlier years.

(b) Preference shares

The preference shares do not occupy any significant role in the investment portfolio of the LIC as these suffer from a number of disadvantages. They are often called as 'friendless orphans of stock exchange'.

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1. Clayton & Osborn: Insurance Company Investment, Allen and Unwin Co. Ltd., p. 148.
2. LIC's Annual Reports and Accounts for the year ended 31st.March.1986 (computed).

Preference shares are generally undated and often carry no date of redemption which may be utilised to the disadvantage of the investors. This uncertainty combined with narrowness of the market, leads to considerable fluctuations in capital value. At the same time, security of regular income is not so fair as in the case of government securities and debentures of the corporate sector[1]. In light of the above mentioned factors, the LIC does not prefer to invest its funds in this type of corporate securities. The recent trend in the investment policy of the LIC indicates that the Corporation has almost stopped a fresh investment in the preference shares of public limited companies. For instance, total investment in preference shares was Rs. 40.70 crores as on 31st.March,1976 which came down to Rs. 27.56 crores as on 31st.March,1986[2]. Its percentage to total investments is very negligible.

(c) Equity Shares

Notwithstanding, the equity shares of public limited companies are the main commodity of buying and selling in any stock exchange throughout the world, these shares are not free from some inherent drawbacks. The most important demerit of these shares is that there is violent fluctuations in their value. But there is no unfavourable effect of inflation on such shares, as a matter of fact they gain at the cost of contractual income securities. In the investment portfolio of the LIC, equity shares occupy second place among corporate securities, next to debentures. It has shown an increasing

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1. Clayton & Osborn. op.cit. p.120.
2. LIC's 29th. Report and Accounts for the year ended 31st.March, 1986, p. 78.

trend in recent years. The percentage of such shares to total investments of the LIC as on 31st.March,1986 was about 2.0(percent) and about 35 percent of the s total investments, in corporate securities. The LIC's investment in equity shares is both in the interest of policyholders as well as national economic development. However, investment in equities should be made in diversified companies of repute.

(3) Investment in Mortgage Loans

Life insurance companies, throughout the world, keep fair amount of their funds invested into mortgage loans. Investments in mortgages guarantee the safeguard of capital as well as fair return on investment. Diversification of investment becomes easier. In addition, investment in high class securities are always ready for its saketability[1]. They are highly suitable to the investment portfolio of the LIC provided that the properties so mortgaged are kept under constant supervision and continued appraisal. Mortgages are specialised form of investment which demand better skill and experience of investing institutions. Since management of mortgage investments are more expensive than the other investment, a part of interest earned s on such investment should be treated as the management expenses of the investment department.

(4) Loans to Policy Holders

The LIC grants various facilities of loans to its policy-holders on the security of unencumbered policies. These loan facilities fall under to heads viz., general purpose and specifically for housing.

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1. Sharma, R.S; Insurance Principles and Practice, Vora & Co., Bombay, 1960, p. 76.

General Purpose: At present loans are granted on unencumbered policies upto 90 percent of Surrender value under policies which are in force for full sum assured and upto 85 percent of Surrender value on policies which are paid-up for reduced sum assured. The minimum amount for which a loan can now be granted under any policy is Rs. 150. The rate of interest charged at present is 10.5 % per annum and it is payable half yearly. Loans are not granted for a shorter period than six months.

Housing Loan: Any person holding an unencumbered policy or taking out a new policy on his life and who satisfies the LIC about his repaying capacity, is eligible to get the loan subject to certain terms and conditions. Loan is advanced on the First Legal Mortgage by deposit of title deeds of the property to be constructed or purchased with the life insurance policy assigned as collateral security to the extent of the loan amount. Loan is granted to the extent of a minimum Rs. 10,000 and a maximum of Rs. 2,50,000. For those in the service, the period of loan may be extended upto superannuation age but not beyond 65 years of age. For other applicants period shall not be extended beyond, the age of 65 years. However, the repayment terms shall not exceed 30 years in any case.

(5) Investment in Real Estate:

Investment in real estate, which includes land and buildings, requires expert knowledge and skilled supervision and administration. This type of investment involves huge cost of administration and is subject to high depreciation and severe incidence of fluctuations in value. Such investments are the

least liquid and money invested is blocked up due to complete dearth of organised market for such investments. Hence, investment in real estates does not find much favour with the life sin insurance companies. In spite of the above constraints of investment in the real estate, it provides, a good hedge against inflation[1]. Increasing urbanisation and growth of population have pushed up the values of sites in major cities of India to a great extent a and this requires a change in the traditional outlook in the investment policy of the LIC. Investment in real estates has become more profitable, but the LIC, like other life insurance companies, invests in real estates for housing its head office, branches, sub-branches and to some extent residential accomodation for its employees.

It is evident from the above analysis that safety, yield and marketability which are accepted principles of investment of the life insurance funds are not fully and simultaneously satisfied by any one form of investment. Each investment presents a peculiar type of risk. To ensure against the risk-inherent in investment, the LIC has no other alternative except to diversify its investment in fixed earning securities and equity shares so that the mobility of one may be compensated against the xx stability of the other. During the period of inflation, the market value of fixed income investments tend to decline and that of equity shares, to appreciate.

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1. Clayton & Osborn: op.cit. pp. 118-19.

STATUTORY CONTROL ON INVESTMENT OF LIFE INSURANCE FUND

Genesis

The life insurance companies act as trustees of general saving community, desirous of life cover. Hence, safeguarding the interest of the numerous policy-holders is the main motto of imposing legal restrictions on the investment of life insurance funds. If such statutory provisions are not imposed on the life insurance companies, there is always a possibility of the funds being misused by unscruplous companies or used in speculative avenues. The past experiences throughout the world confirm this suspicion. Therefore, "the financial management and condition of a life insurance company are a concern of the law, which not only sets rigid standand for company's investments and disbursements but which also makes its transactions subject to constant review by State regulatory authorities[1].

On the basis of the past experiences and future security of the vast number of policyholders, the governments of different countries have imposed certain legal restrictions on the investment of life insurance funds. However, such statutory control over investment of life funds differs from country to country in degrees and dimensions. The degree of control in relatively free economies is quite lower than the countries following the principles of mixed or semi-regulated economy. The vigilance and control over the investment pattern of life insurance companies have created a fresh confidence in the minds and hearts of millions of small savers throughout the world.

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1. Meher, R.I., Osler, R.W., Modern Life Insurance Macmillan Company, U.S.A., p. 555.

Safety of the policy-holders' funds is not always the only criterion for statutory control over the life funds of the life insurers. Sometimes, the government control is to direct the investment of funds into more desirable channels than to leave it alone to the management of life insurance companies. Such huge funds are mainly channelised into government and semi-government securities for the overall development of the society as a whole. This in turn raises the employment opportunities, production, national income and thereby the standard of living of the people. In such cases, the interest of policy-holders remain secondary, of course their savings remain safe as most of such government or semi-government securities are gilt-edged securities. The salient features of statutory control over the investment policy of the LIC can briefly be discussed as follows:-

Insertion of Sec. 27 of Insurance Act, 1938 in the LIC Act, 1956.

The investment policy of the LIC was to be guided by a special Investment Committee constituted under section 19(2) of the Life Insurance Corporation Act, 1956 at the time of nationalisation which provided that "the Corporation would be following the principles laid down in 1938 Act in respect of its investments till the matter was further examined"[1]. However, the provisions contained in section 27 of Insurance Act, 1938 with regard to investment policy was not given in immediate effect.

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1. Estimate Committee Report (1960-61), 134th., p. 39.

The year 1957 can be regarded as a landmark in the history of life insurance business in India. This was the year in which the government introduced a Bill in the Indian Parliament to formulate a viable investment policy of the Life Insurance Corporation of India and at the same time this was the year of the infanous "MUNDHRA SCANDAL" posing a big question mark on the investment policy of the LIC. The intension of the Bill introduced in Parliament was to provide for "a Board consisting of the Governor of the Reserve Bank of India as its Chairman, the Chairman of the Central Board of State Bank of India and the Chairman of the LIC as its members. The Bill contemplated to take away the function of investment from the Corporation and to entrust that function to a separate body on which the Corporation would have been represented by its Chairman"[1].

However, the 'Mundhra Scandal' shunted this move of the government in cold storage to be freezed forever. This scandal generated an acrimonious debate in the Indian Parliament. The hero of this debate was no less a person than the veteran Parliamentarian, Feroze Gandhi-son-inlaw of the then Prime Minister. On demand of the members of Parliament a Commission of Enquiry was set up under the Chairmanship of Mr. Justice M.C. Chagla of Bombay High Court to look into the affairs of Mundhra Episode. This issue did not remain confined to the walls of the Parliament but it also attracted the comments of leading economists, politicians and academicians throughout the length and bread of the country. This

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1. Ibid, p. 40.

in turn, gave a blow to the government's move to constitute a new "Investment Board" for LIC and instead, the decades old provisions of section 27A of the Insurance Act,1938 was inserted into LIC Act,1956 to guide its investment policy on August 25, 1958 with certain modifications.

The investments of the LIC after insertion of section 27A was broadly divided into three categories[1]. Category one consisting of 'Government and approved securities representing mainly gilt-edged securities, category two comprising of investments approved under section 27A' and third category representing other investments'. According to section 27A at least 50 percent of the total funds should be invested in government and gilt-edged securities and not less than 35 per cent in approved investments while not more than 15 per cent should be held in the other form of investments.

With the pressing need of funds for the development of basic infrastructure of the economy, the government was left with no alternative but to turn towards the giant financial institutions like the L.I.C.

Amended Pattern of Investment

The present statutory framework governing investment pattern of the LIC is based on the recommendation of the S. Jagannathan Committee. Effective from April,1975, the details of the investment pattern runs as follows:[3]

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1. Lok Sabha Debates: Second Series, Vol. XIX, August 25, 1958, Columns 2674 to 2678.
2. Ibid, Column 2675.
3. LIC's Annual Reports and Accounts, 1974-75, para 34, p.7.

Category	'Percentage of accretion x to the controlled fund to be invested in the category mentioned in the first column
(1)	(2)
1. In Government of India marketable securities	Not less than 25%
2. In Government of India and State Government securities including government x guaranteed marketable securities including (i) above and	Not less than 50%
3. In socially-oreinted sector x including public sector, Co-operative sector, House Building by Policyholders, OYK schemes including(ii) above.	Not less than 75%

The balance 25 percent of the accretion to controlled fund, according to government should be invested as follows:-

(a) About 8 percent of the controlled funds to be invested in the loans to policy-holders agaisnts policies within their surrender values.

(b) About 2 percent of the controlled fund to be invested in immovable properties of the Corporation, and

(c) About 10 percent of the accretion to the controlled fund may be invested in private sector industries.

The remaining 5 percent of the controlled fund, may not be available for investment in any form and to remains an reserve fund in the pipline to meet any exigency arising out in future. It may be mentioned here in this connection that at the time of introducing section 27A to Life Insurance Corporation Act,1956, it was felt that the funds left over after investment in government and other approved securities had to be invested in scheduled investments. While investing the LIC's funds in either socially-oriented sector or in the private sector or in the landed properties, the stipulation about scheduled investments should be satisfied subject to relaxation permitted as per main tenets of the investment policy of the LIC as under:-

(a) The keynote of the Corporation's investment policy should be that the funds should be invested in such a manner as to safeguard and promote the maximum extent possible the interest of the policyholders. The larger interest of the country, should not, however, be ignored.

(b) Investment should be dispersed over different classes of securities, industries and regions. The Corporation's policy has been not to acquire more than 30 percent of the outstanding equity shares of the company.

(c) The Corporation should act purely as an investor and not assume the role of an operator or speculator and try to take advantage of temporary fluctuations in the market prices.

(d) The Corporation would underwrite security issues after careful investigation of project from financial, economic, technical, managerial and social angles. Another notable feature of underwriting policy of the LIC is the Corporation's participation in underwriting is in the form of 'firm' underwriting in the sense that it underwrites issues of capital invariably by way of firm commitment. Through underwriting it purchases large bx block of sound securities for its investment portfolios. The approach of LIC in this regard is that of an investor and not that of catalytic agent to generate public subscriptions.

Further, it is the policy of the Corporation to lay relatively more emphasis on senior securities because fixed return and preferential claims on income and assets fit into the cannons of sound investments for an insurance organisation like LIC.

(e) The Corporation should review its investment portfolio from time to time and make changes in its composition as may be warranted under the circumstances.

(f) The Corporation would not acquire control or participate in management of any concern in which it has interest as an investor unless exceptional circumstances warrant such participation.

As regards assistance policy of LIC, the Corporation assists public sector undertakings and public limited companies and abstain from assisting private limited companies.

The Corporation assists industrial enterprises directly by underwriting of capital issues, subscriptions to shares and bonds and long term loans to enterprises. Besides, the Corporation finances the private industries indirectly through subscriptions to the shares and bonds of the special industrial financial institutions such as IDBI, IFCI, SFCs and so on. In sanctioning loans, the Corporation accords priority to generation and transmission of electricity, housing schemes, water supply and drainage system, road transport development and financing of industrial development.

CHAPTER VII

LIC'S INVESTMENTS: GOVERNMENT, APPROVED AND SOCIALLY ORIENTED SCHEMES

CHAPTER VII

VOLUME OF INVESTMENT

There has been a tremendous increase in the volume of investment of the LIC during the period under review. From a sum of Rs. 3,134.64 crores during 1975-76, it has gone upto Rs. 12,264.15 crores a four fold rise. The annual average additional investment during this period has been about Rs. 830 crores (Table VII.1). This compares very favourably with the annual average increase of Rs. 139.30 crores, registered during the first two decades of the nationalisation.

The rapid increase in the volume of investment has tremendously increased the work load of Investment Department. More than half of the total rise in investment during the first two decades (1955-56 and 1975-76) was recorded in a single year i.e., 1985-86. The Corporation invested Rs.4.14 crores per day during the year 1985-86.

Sector-wise Investments

The sector-wise investment of the LIC indicates that the highest percentage of its investment is made in the public sector. Investment in public sector rose from 76.3 percent in the year 1975-76 to 80.3 percent in the year 1985-86. Average annual investment in public sector (including government securities) during the years under review remained at 78.6 per cent of the total investments. The trend in sector-wise distribution of LIC's investment indicates that investment in public sector showed a declining trend during the first five years of the period under review, whereas the second-half of the

TABLE VII.1

Statement Showing Volume of Investments of The LIC For The Years 1975-76 to 1985-86.

Year as on 31st.March.	Total Investment	Index Base 1976 = 100
(1)	(2)	(3)
1975-76	3,134.64	100.0
1976-77	3,552.11	106.8
1977-78	4,106.55	123.2
1978-79	4,683.19	140.5
1979-80	5,747.51	172.4
1980-81	6,554.32	196.0
1981-82	7,473.01	224.2
1982-83	8,498.51	255.0
1983-84	9,613.74	288.4
1984-85	10,752.81	322.6
1985-86	12,264.15	368.0

Source:

Compiled and Computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

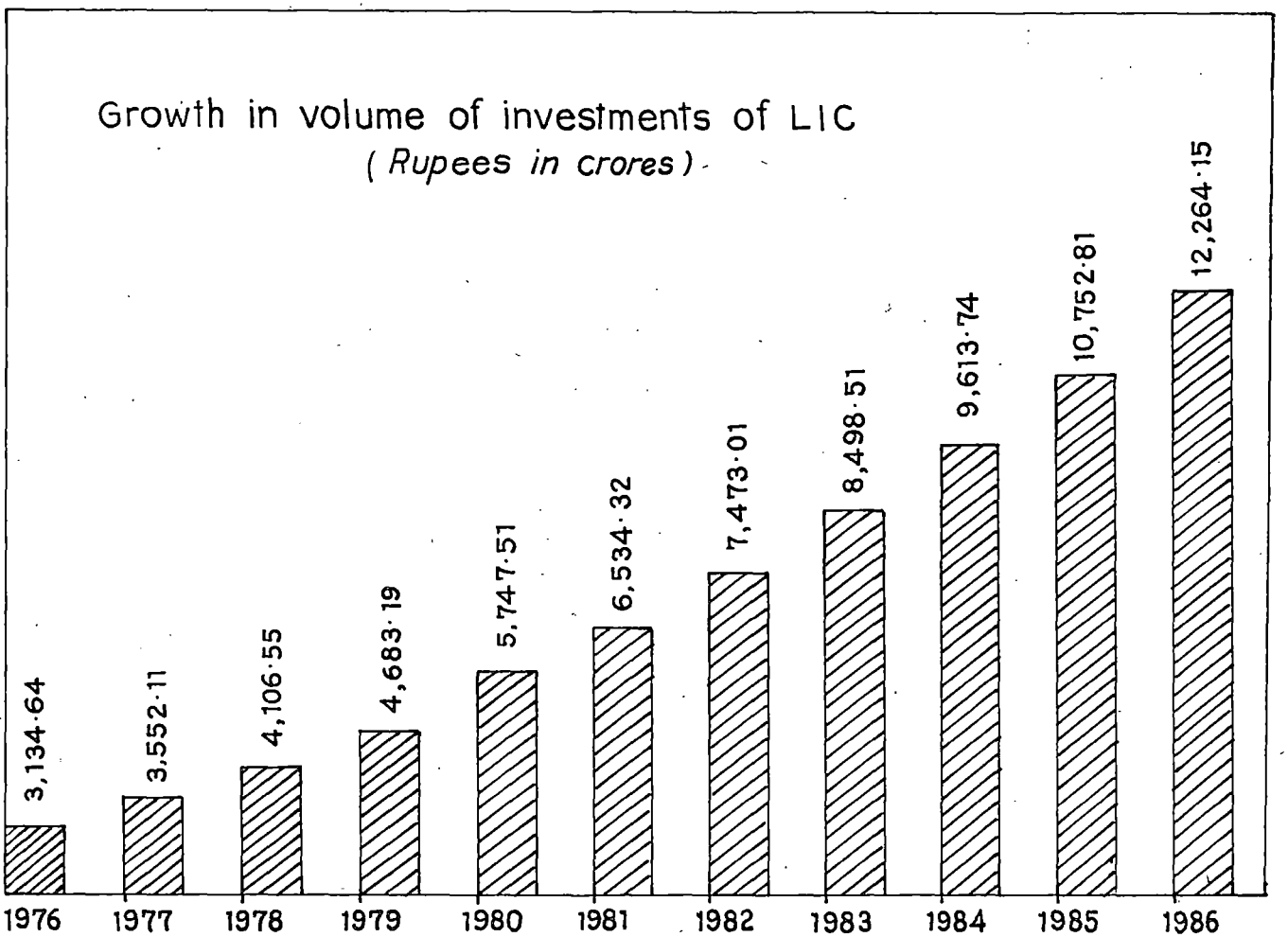

Growth in volume of investments of LIC
(Rupees in crores)
3,134·64
3,552·11
4,106·55
4,683·19
5,747·51
6,534·32
7,473·01
8,498·51
9,613·74
10,752·81
12,264·15
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
(Year ending 31st March)

Fig. VII·1.

TABLE VII.2

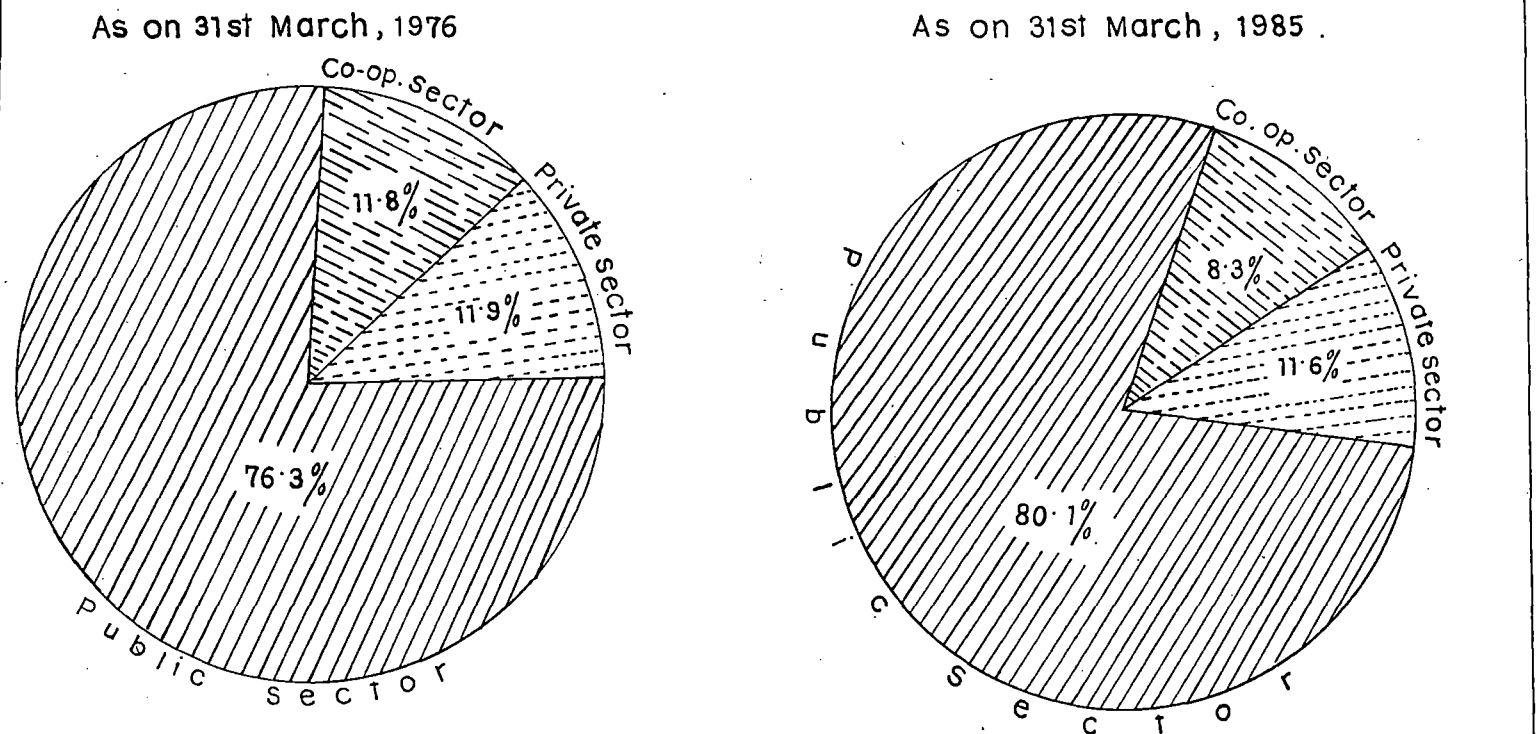
Sector-wise Distribution of LIC's Investments

(Percentages)

As on 31st March	Public Sector	Co-Operative Sector	Private Sector (including Jt. sector)
(1)	(2)	(3)	(4)
1975-76	76.3	11.8	11.9
1976-77	76.6	11.8	11.6
1977-78	75.6	11.6	12.2
1978-79	74.4	11.5	14.1
1979-80	74.0	11.4	14.6
1980-81	78.2	11.0	10.8
1981-82	78.5	10.9	10.6
1982-83	79.0	10.5	10.5
1983-84	79.3	10.2	10.5
1984-85	79.6	9.8	10.6
1985-86	80.3	9.2	10.5

Source: Computed from LIC's Annual Reports for the years 1975-76 through 1985-86.

Sector-wise Investment of LIC



Note: Private sector also includes Joint-sector

(Fig. VII·2.)

study period witnessed a continuous rising trend. In contrast to this, investment in the private sector (including joint sector) exhibited a rising trend in its share during the first-half of the period. Declining trend was noted during the second-half of this period. The Investment in Co-operative sector has shown a consistently declining trend-it declined from 11.8 percent in the year 1975-76 to 9.2 percent in the year 1985-86 (Table VII.2). This change in the investment pattern of the LIC seems to be the result of recommendations of the Era Seshiyan Committee.

INVESTMENT IN GOVERNMENT SECURITIES

The insurers are the trustees of the policy-holders whose moneys they hold for a long term. The investment of life funds should be made in such a way that provides maximum safety of capital and at the same time reasonable rate of return on such investment. In addition, these securities should be easily convertible into cash since unanticipated amount of money may be required to meet liabilities arising out of claims which may come-up at any moment.

The best type of securities suitable for life funds investment are the government securities. These are treated as gilt-edged securities and can be converted into cash at a very short notice. Though the government securities ensure utmost safety of the capital but rate of return consideration these are not as attractive as other forms of investment.

The government securities are of different varieties such as short term, medium term and long term securities. Again, there may be purely government securities (Central Govt. State Government securities and local government).

TABLE VII.3

INVESTMENTS IN GOVERNMENT SECURITIES (OVERALL)

Year As on 31st. March.	Amount Invested (Rs.crores)	Percentage to Life Fund	Percentage to Total Investments.
(1)	(2)	(3)	(4)
1976	1,628.40	47.3	53.4
1977	1,845.10	46.7	52.7
1978	2,124.57	47.2	51.7
1979	2,431.27	47.5	51.9
1980	2,788.08	47.9	52.7
1981	3,189.16	48.0	52.9
1982	3,605.64	47.7	48.3
1983	4,130.47	47.8	48.6
1984	4,694.17	47.9	48.8
1985	5,311.47	47.4	49.0
1986	6,012.81	47.0	49.0

Source:

Compiled and Computed from LIC's Annual Reports and Accounts.

TABLE VII.4

COMPOSITION OF GOVERNMENT SECURITIES.

Year As on 31st. March	Amount Invested (Rs. in Crores)				PER CENTAGES		
	Central Govt. securities	State Govt. securities	Approved and others	Total	Central Govt. securities	State Govt. securities	Approved & others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1976	860.45	407.92	360.03	1,628.40	52.8	25.1	22.1
1977	981.04	428.03	436.03	1,845.10	53.2	23.2	23.6
1978	1,151.48	453.08	520.01	2,124.57	54.2	21.3	24.5
1979	1306.35	473.94	650.98	2431.27	53.7	19.5	26.8
1980	1,523.46	482.95	781.67	2788.08	54.6	17.3	28.1
1981	1787.60	454.07	947.49	3189.16	56.1	14.2	29.7
1982	2010.05	455.66	1139.02	3605.64	55.8	12.6	31.6
1983	2450.05	436.05	1244.37	4130.47	59.3	10.6	30.1
1984	2966.78	371.31	1356.08	4694.17	63.2	7.9	28.9
1985	3446.01	313.76	1571.70	5311.47	64.5	5.9	29.6
1986	4003.13	363.51	1646.17	6012.81	66.5	5.2	27.3

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

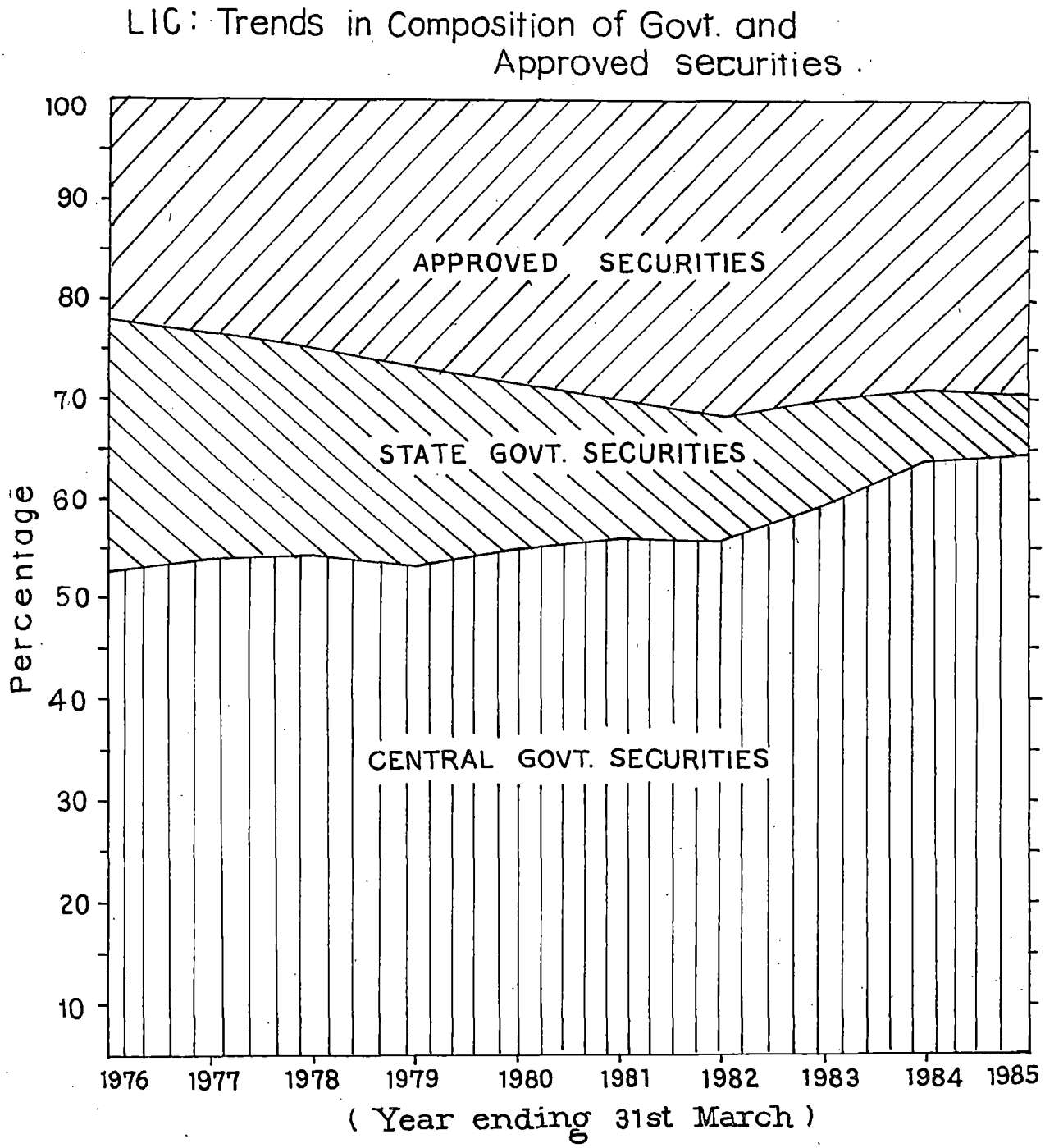

LIC: Trends in Composition of Govt. and Approved securities.
100
90
80
70
60
50
40
30
20
10
Percentage
APPROVED SECURITIES
STATE GOVT. SECURITIES
CENTRAL GOVT. SECURITIES
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
(Year ending 31st March)

Fig. VII·3.

semi-government securities, quasi-government securities and so on. The rate of return on government securities varies both according to its tenure and type-longer the maturity period, higher the rate of return and a higher yield on purely govt. securities and a relatively lower return on semi-government securities. Taking into consideration these factors, the investment portfolio of the life insurance companies, should include various types of government securities, so as to ensure maximum return as well as safety of capital.

The trend of investments of the LIC's funds into government securities has shown a massive growth. The total investment of the LIC in government securities rose from Rs. 1,623.40 crores in 1975-76 to Rs. 6,012.81 crores in the year 1985-86. The annual increase in the government securities centres around Rs. 399 crores. In terms of per centage over the period (1976-86) it comes around 269 percent. The ratio of government securities to total life fund, however, remained stagnant around 47 percent during the same period. The investment in government securities for the period 1975-76 to 1985-86 along with its ratio to total life fund and total investment have been shown in Table VII.3.

The term government securities has been used in collective sense to denote the following:

(a) Central Government Securities;

(b) State Government Securities, and

(c) Approved, Municipal and Foreign Government securities (Table VII.4).

CENTRAL GOVERNMENT SECURITIES:

The Central Government securities can again broadly be divided into three groups, according to the tenure unfunded debts, short dated securities and funded debts. The unfunded debts are very short period obligations. These are some times also called floating debts. (Treasury Bills, Post Office Savings Bank Accounts, and cash certificates are examples of such debts). The short dated securities are generally redeemable within five years. The funded debts, on the other hand, are long period obligations in the form of Govt. securities which may or may not be redeemable. The long-period securities which are redeemable are called 'redeemable longs' and the securities which are not redeemable at all are called 'irredeemable longs'.

Though all these securities provide almost absolute safety to the capital sunk, the LIC has to take into consideration some other factors besides security as safety alone cannot serve the interest of policyholders. Such investments should also yield a reasonable return. From this point of view unfunded debts and short debted securities do not suit well to the investment portfolios of the LIC as the rate of return on such securities is almost negligible. Again, such investments also require quicker diversification which is not possible on the part of the LIC. The funded debts best suit to the LIC's investment portfolio as the rate of return on such securities is quite higher than the first two-securities. The Corporation is more interested in 'irredeemable longs' since they are redeemed after longer period of time and provide comparatively higher rate of returns than other government securities.

The position of LIC's investments in the Central Government securities has been shown in Table VII.5.

The Table VII.5 indicates increasing volume of Central government securities. From Rs. 860.45 crores on March 31,1976, portfolio rose to Rs. 4003.13 crores as on 31st.March,1986. In terms of percentage it accounted for 365 percent rise. The ratio of the Central government securities to total assets, total investments and total investments in Govt. securities also indicate a sharp increase in the Central government securities during the period - increase of 21 percent in total assets, 17 percent in total investment and total government securities.

The Era Seshiyan Committee (1980) has recommended that the LIC's investments in the overall government securities should be drastically reduced - - especially so in the Central government securities. According to the Committee ".....investment in government and other marketable securities should be reduced from 50 percent to 40 percent"[1]. Since independence and especially after the nationalisation of life insurance business there has been a tremendous development in the fields of trade and industries. The aggregate capital of the Corporate sector has increased many times and now there are well established stock exchanges. Hence, argument that there is a complete dearth of "Investible opportunities" is not true now. The govt. should encourage more profitable investments than keeping funds in its own coffers and offering return according to its own

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1. Recommendation of the Era Seshiyan Committee as reported in: Indian Economic Diary, New Delhi, January 8-14, 1981,p.2314.

TABLE VII.5

INVESTMENT IN CENTRAL GOVT. SECURITIES

Year As on 31st. March.	Amount Invested (Rs. crores)	Ratio to Total Assets (%)	Ratio to Total Investments(%)	Ratio to Total Govt. Securities (%)
(1)	(2)	(3)	(4)	(5)
1976	860.15	26.5	28.2	52.8
1977	981.04	23.6	28.23	53.1
1978	1,151.48	25.6	25.0	54.2
1979	1,306.35	25.9	28.0	53.7
1980	1,523.46	24.7	28.8	54.6
1981	1,787.60	27.7	27.4	56.1
1982	2,010.96	26.6	29.2	55.8
1983	2,450.05	28.4	31.3	59.3
1984	2,966.78	30.3	33.5	63.2
1985	3,446.01	30.8	34.6	64.5
1986	4,003.13	32.0	33.0	66.8

Source:

Compiled and Computed from LIC's Annual Reports and Accounts.

sweet will. Alternatively, the government may take as much funds as required at the prevailing market rate of interest.

STATE GOVERNMENT SECURITIES

Like Central government, the State governments also raise funds for their speedy planned development. Such funds are borrowed through issue of securities of various kinds and of different durations. In addition to issues of securities the State governments also take long term loans from financial institutions like the LIC.

This component of government borrowings from the LIC occupied a significant position in the LIC's investment portfolio till the first twenty five years of nationalisation. In terms of values these were nearly half of the Central Govt. securities, whereas they are even less than one - tenth in recent years (Table VII.6).

The decline in holdings of State Govt. securities is both in terms of absolute investment as well as percentage. The total investments in State Govt. securities as at 31st. March, 1976 amounted to Rs. 407.92 crores which came down to Rs. 363.51 crores as on 31st.March,1986.——— a decrease of about 11 percent during the review period[1]. The ratio of State Govt. securities to total government securities in the LIC's investment portfolio has shown a very sharp decline during recent years. The percentage of State Govt. securities to

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1. This is rather an unusual feature. In most of other cases fall in percentage is not accompanied by fall in the absolute value. The slower growth in absolute value leads to fall in the percentage.

TABLE VII.6

Percentage of State Govt. Securities to Total Assets, Total Investments and Total Government Securities.

Year As on	Amount Invested (Rs.Crores)	Percentage to Total Assets	% to Total Investments.	% to Total Govt. Securities
(1)	(2)	(3)	(4)	(5)
31.3.1976	407.92	11.2	13.4	25.0
31.3.1977	428.03	10.3	12.3	23.2
31.3.1978	453.08	10.1	9.8	21.3
31.3.1979	473.94	9.3	10.2	19.5
31.3.1980	482.95	7.8	9.1	17.3
31.3.1981	454.07	6.4	7.5	14.2
31.3.1982	455.66	6.0	6.6	12.6
31.3.1983	436.06	5.1	5.6	13.9
31.3.1984	371.31	3.8	4.2	10.1
31.3.1985	313.76	2.8	3.2	5.9
31.3.1986	363.51	2.8	3.0	6.0

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

total government securities as on 31st. March,1976 was exactly 25 percent which declined to an unbelievable of 6 percent on 31st.March,1986. Similar trends are observed in respect of ratios to total assets and total investments of the LIC.

This tendency of consistent fall in the share of State government's securities is at divergence with share of Central Government securities. During the same period, investment in Central Govt. securities has increased by about 300 percent. The exact reason of such dichotony of increase/ decrease is not known but one point is growing needs of funds of the Central government is not difficult to infer. Perhaps through informal control LIC was compelled to divert its major investible funds into Central Govt. securities.

This policy of the LIC has been subject of sever criticism by several states and has further caused strains to the already stranded Central - State financial relations. It seems strange that inspite of state government's willingness to pay a higher rate of return such securities are not preferred by the LIC. The reason and rationale for this strange behaviour of the LIC portfolio requires an indepth objective analysis.

APPROVED SECURITIES

Section 27A(i) of the Life Insurance Corporation Act, 1956 deals with approved securities. Some of these approved securities within the meaning of the above Section are - securities of or guaranteed by the government of the U.K., debentures issued by municipalities and municipal corporations,

securities of Housing Societies constituted under any Housing scheme, approved by the Central or State Government, improvement trust loans, securities issued by non-banking financial corporations constituted for providing financial assistance to industries in the private sector and so on.

There has been a phenomenal growth in the portfolio of approved securities during the study period. The massive developmental plans of the Central and State government, improvement trusts, housing, generation and transmission of power, rural electrification, transport development etc. have caused this tremendous growth in the volume of approved securities. The investment, in absolute term under approved securities have increased by Rs. 1,286.14 crores between 1976-86. The percentage of approved securities to total assets of the Corporation constituted about 10 percent in the year 1976 which increased to 14.0 percent as at 31st.December,1985. The percentage of approved securities to total government securities moved up from 22 percent in 1976 to 30 percent in the year 1985. The highest ratio of the approved securities to total government securities was in the year 1982-83, when it was as high as 40 percent of the total government securities. The overall increase in the volume of approved securities during the period under review was about 357 percent (Table VII.7).

Composition of Approved Securities

The major heads of approved securities in which the LIC invests its funds are:- municipal securities, Port Trust Debentures, Debentures of Land Development Bonus, Bonds issued by the Electricity Boards and Corporations of different state

TABLE VII.7

Ratio of Approved Securities to Total Assets, Total Govt. Securities and Total Investment.

Year as on 31st. March.	Amount Invested(Rs. crores)	Ratio to Assets (%)	Ratio to Govt.securities(%)	Ratio to Total Investments(%)
(1)	(2)	(3)	(4)	(5)
1975-76	360.03	9.9	22.1	11.8
1976-77	436.03	10.5	23.6	12.6
1977-78	520.01	11.5	24.5	11.3
1978-79	650.98	12.7	26.8	13.9
1979-80	781.67	12.7	28.0	14.8
1980-81	947.49	13.4	30.2	15.7
1981-82	1139.02	13.1	31.6	16.5
1982-83	1244.37	14.4	39.7	15.9
1983-84	1356.08	13.8	36.7	15.3
1984-85	1571.70	14.0	29.6	15.8
1985-86	1646.17	13.0	27.4	13.4

Source: Compiled and computed from LIC's Annual Reports and Accounts from 1976 to 1986.

and Central governments shares and bonds of State Financial Corporations etc.

The analysis of investments in approved securities indicates that share of municipal securities has shown a continuous declining trend. The largest amount of investment has been made in the debentures and bonds issued by the State Electricity Boards and public Corporations. The highest amount was invested in the year 1978-79 which went up as high as 40 percent of the aggregate investments of the Corporations in approved securities. This assistance was provided for meeting the heavy cost of rural electrification in different States and Union Territories as power supply comes within priority sector of Indian Planning.

The second place in approved securities is occupied by debentures and bonds of Land Development Banks. This financial assistance from the LIC is utilised by Land Devpt. Banks for giving financial assistance to the farmers to bring about green revolution. Though the assistance given to Land Development Banks, no doubt, has increased in absolute amount to a great extent its relative percentage in total approved investments has declined by about 42 percent during this period.

The Corporation's investments in shares and debentures of statutory Corporations like Industrial Finance Corporation of India, Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Agricultural Refinance Corporation of India, Unit Trust of India etc.also witnessed a tremendous growth during this period. The aggregate investments in the aforesaid statutory Corporations were a

meagre amount of Rs. 33.61 crores on March 31st, 1976 which went up as high as Rs. 659.94 crores on March 31st, 1986 - an increase of about 20 times. The share of statutory corporations in approved securities was about 10 percent on 31st.March,1976 which enhanced to 40.1 percent on March 31, 1986. Though investments in shares and bonds of State Financial Corporations also went up, the increase was not remarkable (Table VII.8).

The overall investment in approved securities has shown an increase of Rs. 1,256.16 crores during the period under review. In other words, investment in approved securities witnessed a growth of 4.5 times during the study period. These approved securities formed 9.9 percent of the total assets of the Corporation as on 31st.March,1976 which went up to 12.3 as on 31st.March,1986. The ratio of approved securities to total investment in Govt. securities constituted about 29 per cent at the year ending 31st.March,1986. The highest ratio of approved securities to government securities was 40 per cent in the year 1982-83. The proportion of approved securities to total investment of the LIC during the period under review ranged between 11.3 and 16.5 percent.

Analysis of the overall investment in approved securities indicates that these securities have acquired a significant place in the investment portfolios of the Corporation in the recent years. This trend in the portfolio behaviour of the LIC is highly appreciative because most of these investments are made in socially oriented schemes of the country. Such investment is bound to create additional

TABLE VII.8

Statement Showing The Composition of Approved Securities In The Portfolio of LIC. (Rs. in crores)

Year As on 31st.March.	Municipal Securities	Port Trust Debentures	Land Development Banks Debentures.	Electricity Bd. Bonds	State Financial Corpn. shares	State Financial Bonds	Statutory Corporation's shares & Bonds and others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1976	31.46	1.72	140.79	111.97	1.70	38.76	33.61	360.00
	(8.7)	(0.5)	(39.1)	(30.1)	(0.5)	(10.8)	(10.3)	(100.0)
1977	30.36	1.72	154.53	152.57	1.70	49.84	40.31	436.04
	(7.0)	(0.4)	(35.4)	(35.0)	(0.4)	(11.4)	(9.4)	(100.0)
1978	31.51	1.31	174.69	194.05	1.70	60.28	56.47	520.01
	(6.1)	(0.2)	(33.6)	(37.2)	(0.3)	(11.7)	(10.9)	(100.0)
1979	32.97	1.31	203.02	265.19	1.70	67.91	78.89	650.99
	(5.1)	(0.2)	(31.2)	(40.7)	(0.3)	(10.4)	(12.1)	(100.0)
1980	32.21	1.31	232.08	318.98	1.70	73.16	122.23	781.67
	(4.1)	(0.2)	(29.7)	(40.8)	(10.2)	(9.3)	(15.7)	(100.0)
1981	39.73	1.31	267.74	382.30	1.70	77.42	177.29	947.49
	(4.2)	(0.1)	(28.2)	(40.3)	(0.2)	(8.2)	(18.8)	(100.0)
1982	47.07	1.23	291.95	436.48	1.70	86.71	273.88	1139.02
	(4.1)	(0.1)	(25.6)	(38.3)	(0.1)	(7.6)	(24.8)	(100.0)
1983	45.43	1.04	316.29	448.14	1.70	88.91	342.87	1244.38
	(3.7)	(0.1)	(25.4)	(36.0)	(0.1)	(7.1)	(27.6)	(100.0)
1984	38.65	0.86	340.30	455.18	1.70	88.82	430.57	1356.08
	(2.8)	(0.1)	(25.1)	(33.6)	(0.1)	(6.5)	(31.3)	(100.0)
1985	29.29	0.76	340.12	539.13	1.70	91.41	539.30	1561.71
	(1.9)	(0.2)	(22.8)	(34.5)	(0.1)	(5.8)	(34.8)	(100.0)
1986	27.35	0.68	337.73	535.78	1.70	82.98	659.94	1616.16
	(1.7)	(0.1)	(20.5)	(32.6)	(0.1)	(5.0)	(40.1)	(100.0)

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

Note:- (i) Figures in the brackets indicate percentage to the total investments in the Approved securities by the LIC.

employment opportunities, more civic facilities, building infrastructure for industrial and agricultural development. This in turn will increase the national and per capita income thereby raising the standard of living of the people.

State-wise Distribution of Approved Securities

The State-wise distribution of approved securities indicates that there is no even distribution of such securities among the States. About 57.0 percent of the total investments in approved securities were made in the states of Maharastra, West Bengal, U.P., Gujrat, Andhra Pradesh, Tamil Nadu and Bihar and the investments in the remaining states and Union Territories were only 43.0 percent of the total investments in approved securities as on 31st.March,1976. However, the share of seven above mentioned States declined from 57.0 percent in the year 1976-77 to 37.5 percent in the year 1985-86. This territorial diversification in the LIC's investment portfolio is appreciable.

Another noneworthy feature of the LIC's investments in approved securities is that some States and Union Territories are conspicuously absent from the list of investment of the Corporation. These States and Union Territories are - Arunachal Pradesh, Sikkim, Manipur, Nagaland, Tripura, Chandirah, Dadra & Nagar Haveli, Goa, Daman and Diu and Mizoram. There is no investment in these states under approved securities head during the entire period under the study. It is further observed that the share of statutory corporations in the approved securities of the LIC was 7.32 percent as on

March 31st., 1976, thereby leaving the remaining 92.68 percent of the approved securities to be investment in states. But this percentage went up unexpectedly high in the year 1985-86 (32.7 percent of approved securities).

A very huge amount was invested in the shares and debentures of statutory corporations taking their shares upto 35.13 percent of the total approved securities invested in all states and Union Territory together. State-wise distribution of approved securities has been shown in Table VII.9.

Investment in Foreign Government Securities

The amount invested in the securities assumed by the foreign countries is very small; almost negligible if we take into consideration the volume of total investments. (The total investments in foreign government securities is only a few crores). Most of these investments have been made in Commonwealth countries. The investment in foreign Govt. securities has been shown in Table VII.10.

Country-wise Distribution of Foreign Govt. Securities

A country-wise break-up of these securities, shows that the LIC had invested mostly in the securities of the U.K. Govt. and some neighbouring countries. Investments made in the securities of the U.K. and Fiji Governments together accounted for 89.0 percent of the total investments in the foreign countries as on March 31st.,1986. The rest of the countries accounted for the remaining government securities (Table VII.11).

TABLE VII.9

Statement Showing the State-wise Distribution of Approved Securities (other than State Govt. securities) as at on 31st. March. (Rs. in crores)

State/UTs.	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Andhra Pra.	32.33	34.00	35.35	47.21	51.08	59.48	70.52	68.87	69.03	66.63	62.15
2. Assam	8.48	10.94	14.15	18.03	19.52	22.85	23.28	24.62	26.21	31.26	35.19
3. Bihar	17.33	24.49	31.93	49.52	56.96	60.70	63.20	67.63	74.91	80.99	74.87
4. Delhi	1.02	1.14	01.14	01.14	1.14	1.14	0.99	0.99	0.69	0.56	0.22
5. Gujrat	27.25	34.42	37.55	37.78	37.29	38.25	37.27	38.97	38.20	35.06	26.85
6. Haryana	10.09	13.53	17.97	24.49	29.80	37.16	42.18	46.04	50.76	58.55	67.01
7. Himachal Pr.	0.60	0.83	0.83	0.88	1.23	1.56	01.93	02.33	2.33	2.90	3.30
8. Jammu & Kash.	2.76	4.14	5.32	8.78	13.34	15.21	17.43	19.83	21.39	24.85	26.18
9. Karnataka	16.68	18.99	24.37	29.93	37.36	41.86	45.15	45.79	47.99	53.50	54.13
10. Kerala	16.55	23.03	26.53	29.25	33.31	40.28	43.99	47.47	50.43	61.66	66.16
11. Madhya Pr.	15.89	21.71	27.83	33.60	36.65	40.76	51.72	49.57	49.33	50.15	46.23
12. Maharashtra	46.92	51.02	61.66	72.99	84.91	106.45	124.61	132.89	141.92	157.29	179.91
13. Meghalaya	-	0.29	0.79	01.78	2.28	3.59	4.59	4.59	4.99	5.98	7.47
14. Manipur	-	-	-	-	-	-	-	-	-	-	-
15. Orissa	14.36	17.36	21.45	26.40	31.84	35.44	36.63	37.33	36.57	36.58	32.17
16. Pondichery	0.14	0.14	0.14	0.14	0.14	0.14	0.11	0.10	0.08	0.07	0.02
17. Punjab	19.47	22.72	25.16	32.00	39.89	49.77	54.15	57.20	60.13	61.76	59.61
18. Rajasthan	14.93	16.92	21.52	29.39	39.52	57.64	71.20	77.64	82.13	94.14	95.62
19. Tamil Nadu	42.73	46.25	49.98	56.76	60.64	61.82	66.66	68.08	69.22	72.97	78.49
20. Uttar Pr.	29.92	36.84	46.44	61.08	77.00	90.75	104.51	107.36	109.03	106.18	97.43
21. West Bengal	17.54	23.65	31.66	43.20	52.69	63.38	76.65	80.22	81.87	97.62	98.11
22. Statutory Corpns.	24.62	33.62	38.06	46.61	75.06	119.25	202.27	266.88	398.87	541.61	538.31
Total =	359.61	436.13	520.00	650.98	781.65	916.48	1139.02	1284.38	1356.08	1541.71	1646.17

Source: Compiled and computed from LIC's Annual Reports for the years 1975-76 to 1985-86.

Note: The figures in the last horizontal column indicates the amount invested in statutory corporations.

TABLE VII.10

Statement Showing the Investment in Foreign Govt.Securities.

Year as on March 31	Amount (Rs.in crores)	Ratio to Total Assets	Ratio to Government Securities	Ratio to Total investments.
(1)	(2)	(3)	(4)	(5)
1975-76	23.08	0.64	1.42	0.76
1976-77	23.77	0.57	1.29	0.69
1977-78	32.76	0.73	1.54	0.71
1978-79	32.55	0.64	1.34	0.70
1979-80	31.51	0.51	1.13	0.60
1980-81	35.02	0.49	1.10	0.58
1981-82	41.18	0.54	1.14	0.60
1982-83	40.99	0.47	1.31	0.52
1983-84	46.00	0.47	1.25	0.52
1984-85	49.18	0.44	0.93	0.49
1985-86	52.79	0.42	0.88	0.43

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

TABLE VII.11

Statement Showing Country-wise Distribution of Foreign Government Securities of the LIC India (Rs. in Crores)

Year as on 31st. March.	Burma	Fiji	Kenya	Mauritius	Sri Lanka	Uganda	U.K.	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1975-76	0.93	3.23	-	1.80	1.39	0.73	9.82	5.17	23.07
	(4.0)	(14.0)		(8.0)	(6.0)	(3.0)	(43.0)	(22.0)	(100.0)
1976-77	1.01	3.28	-	2.06	0.79	1.03	9.60	6.00	23.77
	(4.3)	(13.8)		(8.7)	(3.3)	(4.3)	(40.4)	(25.2)	(100.0)
1977-78	0.97	5.23	0.16	3.91	3.26	2.10	15.42	1.66	32.72
	(3.0)	(16.0)	(0.5)	(12.0)	(10.0)	(6.4)	(47.1)	(5.1)	(100.0)
1978-79	0.97	6.90	0.00	3.92	-	00.94	18.67	1.95	32.55
	(3.0)	(21.2)	-	(12.0)	-	(2.9)	(57.4)	(3.5)	(100.0)
1979-80	0.88	5.66	0.16	2.29	0.38	1.14	21.02	-	31.53
	(2.8)	(17.9)	(0.5)	(7.3)	(1.2)	(3.6)	(66.7)	-	(100.)
1980-81	0.88	6.33	0.15	2.16	0.33	1.05	24.10	0.02	35.02
	(2.5)	(18.1)	(0.4)	(6.2)	(0.9)	(3.0)	(68.8)	(0.1)	(100.)
1981-82	0.97	10.93	0.21	3.26	0.09	0.08	25.43	3.73	41.80
	(2.3)	(26.2)	(0.5)	(7.8)	(0.2)	(0.2)	(60.8)	(8.9)	(100.0)

Contd.....

Table VII. 11 (Contd.....)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1982-83	1.05	11.95	0.12	3.58	0.06	0.07	24.15	0.01	40.99
	(2.6)	(29.2)	(0.3)	(8.7)	(0.2)	(0.2)	(59.0)	-	(100.0)
1983-84	1.09	11.79	0.12	4.21	0.03	0.01	28.81	0.94	47.00
	(2.3)	(25.1)	(0.3)	(9.0)	(0.1)	-	(61.3)	(2.0)	(100.0)
1984-85	1.27	11.85	-	4.4	0.01	0.01	31.98	0.02	49.18
	(2.5)	(24.1)	-	(8.2)	-	-	(65.0)	-	(100.0)
1985-86	1.31	13.79	-	5.52	0.03	-	39.07	0.01	59.73
	(2.2)	(23.10)	-	(9.2)	(0.00)	-	(65.5)	(0.2)	(100.0)

Source: Compiled from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

Notes: Figures in the brackets indicate percentage to the total investment in the foreign securities.

Investment in Socially-Oriented Schemes

Keeping view the massive funds at the disposal of the LIC its investments in social overheads during the first two decades of nationalisation was very negligible. The various committees and Commissions appointed from time to time, to look into the different aspects of the Corporation's working or to examine development issues relating to the economy, were suggesting increase in investments in schemes benefiting the community. These schemes included housing, generation and transmission of electricity, road transport, water supply, sewerage, agriculture, industry etc.[1]. However, upto early seventies, the percentage of investment in such socially-oriented schemes did not achieve any remarkable proportion.

In view of the reluctance of the LIC to invest more funds in the socially-oriented schemes the Government of India appointed a committee in 1970 under the Chairmanship of Shri S. Jagannathan, the then Governor of Reserve Bank of India to review the investment policy of the LIC. The committee inter alia, recommended that in addition to the public and private sectors, a new sector viz., socially-oriented sector, should be created for the purpose of LIC's investments. The new socially oriented sector, according to the committee was to include - state electricity boards/corporations, state government housing schemes, co-operative housing schemes, municipal committees, Sugar co-operatives, road transport, water-supply for urban and rural areas, sewerage facilities

1. Yogakshema, House Magazine of the LIC, Central Office, Bombay, Januury, 1981, p. 23.

in the urban areas and so on. On the basis of the recommendation of 'Jagannathan Committee', section 27-A of the Life Insurance Corporation Act, 1956 was amended with effect from 22nd. July, 1975. According to this amendment, it was made obligatory on the part of the LIC to invest not less than 25 percent of the total accretion to controlled fund every year in the socially-oriented schemes[1]. This was the beginning of channelising a substantial proportion of LIC's investible funds into this newly created sector. The purpose of this section of the chapter is to make an appraisal of the LIC's investments in socially - oriented schemes during our study period.

As electricity, housing, road transport and urban and rural water supply schemes have been treated as exclusively socially-oriented schemes, we shall analyse the investments of the LIC in such schemes separately.

(i) Investments in State Electricity Boards

The financial assistance to the State electricity board is given in the form of mortgages against land and properties. It is to be noted here that the LIC did not provide any financial assistance in any form to State Electricity Board during first eight years of its existence. But the growing requirement of power and paucity of resources on the part of state electricity boards attracted the attention of

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1. Khan, M.Y., Indian Financial System, 1986, Vikash Publishing House Pvt.Ltd., p. 103.

Indian planners to find out some permanent means of financing generation and transmission of electricity in the country and the LIC was advised to invest its funds in the state electricity Boards. For the first time in the year 1964-65, a modest beginning was made by an investment of Rs. 11 crores in few selected States[1]. This amount increased about 10 times within five years and total outstanding financial assistance to fifteen state electricity boards amounted to Rs. 103.50 crores as at 31st. March,1969[2]. This reflects the degree of importance given by the LIC in its investments in generation and transmission of power.

An analysis of investments in electricity industry during the review period indicates that financial assistance to state electricity Boards occupied most important place in the loans portfolio of the LIC. The total investments in generation and transmission of power increased 2.7 times during the study period, in absolute terms the outstanding amount increased from Rs. 431.51 crores as on 31st.March,1976 to Rs. 1174.57 crores as on 31st.March,1986. However, percentages of investment in electricity to total assets, total investments and total loans have shown a declining trend during the same period (Table VII.12). This seems to be an outcome of the massive growth in LIC's income and investments year after year.

(ii) Investment in Housing

Among the socially-oriented schemes housing occupied second place in the investment portfolios of the LIC for the period under review. The financial assistance given for

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1. LIC's Twelvth Annual Reports and Accounts for the year ended 31st.March,1969, p. 77.
2. Ibid, p. 51.

TABLE VII.12

LIC's Financial Assistance to State Electricity Boards

Year as on 31st.March	Amount (Rs. in crores)	Ratio to Total Assets (%)	Ratio to Total Investment (%)	Ratio to Total Loans (%)
(1)	(2)	(3)	(4)	(5)
1976	431.51	11.9	13.8	37.1
1977	495.79	11.7	13.7	36.2
1978	557.64	12.4	12.1	34.9
1979	622.96	12.2	13.3	33.6
1980	686.29	11.4	13.0	26.1
1981	779.84	11.0	11.9	28.6
1982	865.35	11.4	12.5	28.2
1983	950.45	11.0	12.1	27.7
1984	1043.14	10.6	11.8	27.8
1985	1112.88	9.9	11.2	27.3
1986	1174.57	8.9	10.43	26.2

Source: Compiled and computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

construction of houses is mostly in the form of mortgage loans. Besides, through the Union and State governments, the LIC also extends financial assistance for housing is through Apex-Co-Operative Housing Societies and other Co-operative Organisations financing housing programmes, Housing Boards, HUDCO, Own Your Home (OYH) scheme, public limited companies, Co-operative societies of the LIC's employees and other public limited companies, Own Your Apartment (OYA) scheme etc.

The total outstanding amount under different housing loans as on 31st.March,1976 was Rs. 409.97 crores which rose to Rs. 1,096.61 crores as on 31st.March,1986, an increase by 16.7 percent during review period. The average annual investment in housing formed 10.16 percent of the total assets, 11.25 percent of the total investments and 28.54 percent of total investments in loans during this period. Notwithstanding, the quantum of investment in housing, in absolute figures, increased by 2.6 times during the decade under review, the percentage of investment in housing to total assets, total investments and total investment in loans indicated a declining trend during the study period. The percentages of housing loans to total assets, total investments and total loans as on 31st.March,1976 were - 11.3, 13.1 and 35.2 p.c. respectively. The corresponding figures as on 31st.March,1986 came down to 8.4 p.c., 8.9 p.c. and 24.4 percent. Since various committees and commissions appointed by the Government of India had been suggesting that the investment in housing should be increased by the Corporation, its investments in the housing development may be given a further boost. This really means "people's money for people's welfare". In view of the serious crisis

in the housing sector especially in urban areas, the LIC should devote greater attention to loan requirements.

The Corporation's total contributions to housing development by way of housing loans upto 31st.March,1986 amounted to Rs. 1966.93 crores[1]. The Own Your House (OYH) scheme was in operation at 1056 centres as on 31st.March, 1986. A total number of 31091 loans amounting to Rs. 114.36 crores were sanctioned from inception upto 31st.March,1986[2]. Upto 31st.March,1986, it also sanctioned 44 loans of Rs.6.90 crores to 44 public limited companies covering 4,265 employees under the schemes loans to public limited companies of for their employees[3]. x Apart from this, the Corporation sanctioned Rs. 2.19 crores during this period to 35 co-operative housing societies covering 1,435 members, all of them employees of the public limited companies[4].

Loans on mortgage of immovable property (M-I scheme) is one of the most important housing scheme for which the Corporation extends its financial assistance. The M-I scheme was in operation at 969 centres as on 31st.March,1986, assistance sanctioned to 12,131 loans upto 31st.March,1986 aggregating to Rs. 87.86 crores[5]. The Corporations total housing loans for the period under review has been shown in Table VII.13.

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1. LIC's Twenty Ninth Reports and Accounts for the year ended 31st.March,1986, p. 27, para 74.
2. Ibid, p. 27, para 74.
3. Ibid, para 75.
4. Ibid.
5. Ibid, p. 28, para 78.

TABLE VII.13

Statement Showing Housing Loans of the L.I.C. India.

Year as on 31st. March	Amount (Rs. crores)	Percentage to total assets.	Percentage to total Investments	Percentage to total loans
(1)	(2)	(3)	(4)	(5)
1976	409.47	11.3	13.1	35.2
1977	455.77	11.0	12.8	34.0
1978	524.40	11.1	12.8	32.9
1979	552.55	10.2	11.8	29.8
1980	639.13	10.4	11.1	25.3
1981	700.66	9.9	10.7	25.7
1982	774.92	9.6	10.2	25.6
1983	859.83	9.5	10.1	25.1
1984	959.40	9.4	10.0	25.6
1985	1067.50	9.2	9.9	26.22
1986	1096.61	8.4	8.9	24.4

Sources Compiled and computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

(iii) Loans to Municipal Committees and Zilla Parishads

The Corporation, commenced financing of municipalities and zilla parishad's water supply and other schemes for better civic facilities for the first time in the year 1962-63, with a very small amount of Rs. 161 crores[1] but this amount was substantially stepped up and as at 31st.March,1976 the total amount advanced under this head was Rs. 167 crores. Out of this a sum Rs. 153 crores granted to 813 municipalities (for urban areas) and 48 zilla parishads (for rural areas) was outstanding on that date[2]. With the help of LIC's assistance, Kerala was the first State to provide piped water in every municipal area of the State. In 1975-76, a plan was undertaken by the LIC in collaboration with the World Bank to provide a loan of Rs. 18 crores to improve the water-supply schemes to 'KAVAL' towns(Kanpur, Agara, Varanasi, Allahabad and Lucknow) and some other districts of Hill areas in Uttar Pradesh[3].

Looking back to its modest beginning in the year 1962-63, with a meagre amount of Rs. 1.61 crores, the Corpn. has covered a long distance since then. The total outstanding amount under this head of investment as on 31st.March,1986 stood at Rs. 547.79 crores. Thus the amount invested in urban and rural water-supply and other civic facilities increased by 340 times during twenty three years. The average annual outstanding amount in water-supply schemes of municipalities and Zilla-Parishads during the decade under review stood at Rs. 429.63 crores.

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1. Pradhan, R.B., Chairman, LIC, Capital, Bombay, Feb.9,1977. (Supplement) pp. 137-143.
2. Ibid.
3. Ibid.

In terms of percentage, the LIC's investments in water-supply to municipal committees and Zilla Parishads remained almost constant at around 5 percent of the total investments, and 4.5 percent of the total assets during the entire study period. This indicates that investment in this priority sector has been kept pace with the increase in the volume of investible funds of the Corporation(). These loans to Municipal Committees and Zilla Parishads accounted for 12 percent of the total loans advanced by the LIC. The financial assistance provided by the LIC to Municipal Committees and Zilla Parishads for water-supply schemes have been shown in Table VII.14.

(iv) Loans to Road Transport

For the first time in the year 1979-80 the LIC extended loans to road transport sector and the amount of loans extended during that year was Rs. 29.80 crores. The total outstanding amount invested in Road Transport Corporations as on 31st.March, 1986 was Rs. 109.40 crores. Thus within a short period of seven years investment in Road Transport Corporations increased by more than 3.5 times. The percentage of investment in Road Transport Corporations to total investment in loans by the LIC increased from 1.2 percent in the year 1979-80 to 3.2 percent in the year 1985-86.

Loans to Policy-holders

Policy loans form an important avenue of the LIC's investment. These loans are given to the policy-holders against the security of policies within their surrender values. These loans to policy-holders play an important role in maintaining cordial relations between the LIC and the customers(policy-

TABLE VII.14

LIC's Financial Assistance to Municipal Committees and Zilla Parishads for Water Supply.

Year as on 31st.March.	Amount (Rs. crores)	Ratio to Total Investments (%)	Ratio to Total Asset(%)	Percentage to Total Loans (%)
1976	153.44	4.9	4.2	13.2
1977	185.10	5.2	4.2	13.8
1978	210.00	4.6	4.7	13.2
1979	235.04	5.0	4.0	12.7
1980	275.85	5.4	5.1	12.3
1981	312.09	5.4	5.0	13.1
1982	356.40	5.2	4.7	11.6
1983	414.41	5.3	4.8	12.1
1984	454.94	5.1	4.6	12.1
1985	507.51	5.1	4.5	12.4
1986	547.79	4.1	4.3	12.2

Source:

Compiled and computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

holders) since they prove to be the most beneficial in the hours of need.

The total outstanding loans to policy-holders rose from Rs. 257.76 crores to Rs. 778.66 crores in the year 1985-86. The average annual outstanding loans to policy-holders during the review period amounted to Rs. 575.97 crores. Although the amount of these loans has increased by 3 times the ratio of such loans to total assets, total investment and total investment in loans has showed a declining trend during the same period. For instance, policy loans formed 7.1 percent of total assets and 8.2 percent of total investments as on 31st.March,1976 which came down to 6.1 percent and 6.3 percent respectively as on 31st.March,1986. Another notable trend in the policy loans observed is that percentage of policy loans to total LIC's investment in the loans declined very sharply (22.1 percent to 12.4 percent) during the first half year of the review period, but thereafter, it indicated a slow but steady upward trend.

The sharp decline in the ratio of policy loans to total loans in recent years seems due to diversion of more and more funds to socially oriented schemes. Moreover, policy loans given to policy-holders serves their interest but these loans are regarded as a form of "dis-savings", since most of them are used for unproductive purposes. Loans to policy-holders within surrender value of their policies for the years 1975-76 to 1985-86 with their ratios to total assets, total investments and total investments in loans have been shown in Table VII.15.

TABLE VII.15

Statement Showing Loans to Policy-Holders.

Year as on 31st.March.	Amount (Rs.crores)	Percentage to total Assets.	Percentage to total Investments	Percentage to total Loans.
(1)	(2)	(3)	(4)	(5)
1976	257.05	7.1	8.2	22.1
1977	284.85	6.9	8.0	21.3
1978	305.57	6.5	7.4	19.2
1979	325.48	6.0	7.0	17.6
1980	364.63	5.9	6.3	14.4
1981	403.15	5.7	6.2	14.8
1982	459.74	5.7	6.1	15.2
1983	536.61	5.9	6.3	15.7
1984	608.57	6.0	6.3	16.2
1985	687.24	5.9	6.4	16.9
1986	778.65	6.1	6.3	17.4

Source:

Compiled and computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

Loans to Industrial Estates, Sugar, Co-operative Societies etc.

While the LIC's subscription to shares and bonds of state level development agencies indirectly helps in financing of small scale and medium scale industries, one way by which it makes its direct contribution to such industries is by way of loans for setting up of Industrial Estates. The total outstanding loans extended to companies and industrial estates as on 31st.March,1976 amounted to Rs. 98.16 crores which formed 8.4 percent of the total investments in loans as on that date. The corresponding figures as on 31st.March, 1966 stood at Rs. 485.71 crores forming about 17 percent of the Corporation's total investments in loans. Thus investment in loans to sugar, co-operatives, fertilizers co-operatives, industrial estates increased 4.5 times during the period under review. Out of these items, industrial co-operatives and industrial estates received more financial assistance from the Corporation in comparison to sugar, co-operatives.

Investment in Real Estates

The Insurance Companies, in order to provide residential accomodation to their officer's and staff and also for investment purposes, construct residential buildings and quarters. Such investment in real estates given fair return on capital in comparison to other investments. The investment in real estates by the erstwhile insurers did not play any significant role in the pre-nationalisation period. The investment in real-estates formed 5.5 percent of the total assets in

the year 1914 and 1955[1]. The period between 1914 and 1955 did not show any significant variation in the percentage of investment in real estates[2] to total assets of the insurance companies carrying life insurance business in pre-nationalisation days.

Though owing to acute housing shortage in the country the LIC also decided to build its own officers and staff quarters at different places, the volume of construction was not sufficient to retain existing percentage in ever increasing investible funds and hence the proportion of LIC's investments in the land and house property which was about 5.5 percent of the total assets in the year 1955 came down to 1.5 percent of the total assets in the year 1975-76 and the same further declined to a meagre 0.9 percent of the total assets in the year 1985-86. The percentage of investments in to real estates of the Corporation to total investments indicated a continuous decline during the first half of the period under review and thereafter, the same remained constant at around one percent during the second-half of the period.

The LIC's investments in Land and House Property for the period under study have been shown in Table VII.16. It is abundantly clear from the Table that fall in relative percentages has not been caused by decreases in the absolute amounts, on the contrary the invested amount has more than doubled. The growth rate in other investment opportunities has side tracked growth rate in real estate. This is partly due to administrative complexities of diverse nature.

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1. Agarwalla, A.N., Life Insurance in India, Allahabad Law Journal Press, Allahabad, 1960, p. 332.
2. In terms of Absolute amount, however, a significant growth was noticed in this investment.

TABLE VII.16

LIC's Investment in Land and Building.

Year as on 31st.March	Amount (Rs. crores)	Ratio to Total Investments(%)	Ratio to total Assets (%)
1976	54.99	1.8	1.5
1977	60.18	1.7	1.5
1978	60.67	1.5	1.3
1979	63.00	1.4	1.2
1980	64.72	1.1	1.1
1981	79.79	1.2	1.3
1982	75.26	1.0	1.0
1983	84.22	1.0	1.1
1984	93.90	1.0	1.0
1985	105.27	1.0	0.9
1986	117.33	1.0	0.9

Source: Compiled and computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

C H A P T E R VIII

LIC'S I N V E S T M E N T I N C O R P O R A T E S E C T O R

CHAPTER VIII

LIC'S INVESTMENT IN CORPORATE SECTOR

Genesis

The LIC finances the private corporate enterprises by contributing to their shares and debentures as well as providing financial assistance in the form of long-term and short-term loans. The proportion of industrial securities in the portfolios of life insurance companies in industrially advanced countries of the West is much more higher than what we see in our country. Main reason of such portfolio behaviour is the higher rate of return provided under these securities in comparison to government and other approved securities. Lower return on government and other approved securities is compensated by the higher yield on corporate securities which in turn makes the life insurance cheaper.

In India, however, the investment policy of the life insurance companies has been somewhat different from the life insurers in the Western countries. This variance in the investment policy might have been due to reasons like difference in industrial growth, standard of education, socio-economic conditions etc. prevalent in the societies. Prior to nationalisation of life insurance business in mid fifties all the insurance companies were under the private sector like their counterparts in the western countries. However, the statutory control by the government on the investment policy of erstwhile insurers was very high. This is evident from the Insurance Act, 1938. Under various provisions of the

above Act, the insurance companies carrying life insurance business were directed not to invest more than a certain percentage of their Life Funds in the securities of the corporate sector. This, perhaps had been done to create confidence in the minds of policy-holders.

This is an established convention and tradition that the life insurers invest a certain percentage of their life funds in the government securities irrespective of statutory requirements. This tradition is in vogue since the inception of modern life insurance business throughout the world. Such preference for govt. securities has its own advantages. Government securities are treated as gilt-edged securities and proned to easy convertibility into cash. The nature of business of life insurance deserves such preference for meeting their unforseen liabilities which may occur at any time.

Right from the beginning of insurance business in this country even before passing Insurance Act, 1938, Indian insurers used to invest major portion of their investible funds in the government securities. The success of an insurer in those days was to a great extent depended on the degree of their investment in the government securities. This tendency was partly due to indirect government pressure and partly for fear of losing people's confidence. But one thing should be remembered that those were days when all the insurance companies were run by big business enterprises in the private sector. The situation has completely changed since India gaining her independence and

specially since nationalisation of life insurance business in 1956. There is an overall change in almost every sector of Indian economy. Industrial production has increased many times, appeciable improvement in standard of education, higher growth in national and per capita income, mammoth growth in the number of factories and industries; capital market becoming more organised and so on. In light of the above development and changes, there is almost no change in the investment policy of the LIC in respect of corporate sector. There is no dearth of corporate x securities which may be regarded as inferior to government securities both from the points of view of profitability as well as safety. Return on such corporate securities is much more higher than that of government securities. Such investment policy of the corporation does not stand on the criteria of 'business principles' as provided in the Life Insurance of India Act, 1956.

The present investment policy of the LIC has nothing to do with so called 'business principles'. Actually the f funds of millions of small savers are being placed at the disposal of the government year after year to be utilised by the latter as they wish. Taking into consideration this lopesided investment policy which less w serves the interest of the savers and the more the Government's, interest, some of the leading economists have expressed their opinions that the vast funds at the disposal of the LIC is "an additional source of financing the Five Year Plans by the Govt. of India"[1].

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1. Estimate Committee Report (134) 1960,61.,p.56.

Some of the advocates of so-called socialistic pattern of society has gone to further extent that the entire funds of the LIC should be brought under direct control of the govt. so as to facilitate even larger investment in government securities.

If any single incident is responsible for the present investment policy then it is "Mundhra Episode" which compelled the government to make the statutory control much more harder instead of liberlising it. Mundhra Episode raised the suspicion in the minds of the people that how far their investments was safe. The government came to realise that how investment of LIC's funds in corporate sector securities could be successfully utilised towards distributing favour.

Investments in Corporate Securities

LIC's investment in private sector corporate securities includes investment in equity shares, preference shares and debentures. These securities do not include the amount advanced by the Corporation as long, medium and short term loans. During the first decade of operation (1957-66), the Corporation's "Accent" was on buying equity shares. This is indicated by the fact that such shares aggregating Rs. 84.1 crores, accounted for almost two-thirds of its total securities purchases. The net annual addition to equity holdings averaged Rs. 9.3 crores per annum for this period. A related purchases served to limit the 'destabilising' effect of sudden falls in stock prices"[1].

1. Gupta, L.C., Changing Structure of Industrial Finance, London, Oxford University Press, 1969, Quoted by M.Y.Khan, Industrial Finance, Tata McGraw Hill Publishing Company Ltd., 1982, p. 5.

However, after 1965-66 the net annual addition to its equity portfolio is characterised by sharp fall so that it represented as low as 1/3rd. of the level of preceeding period. Thus, the decline in LIC's portfolio of corporate securities has been mainly in respect of purchases of equity shares. Its operations in this sphere in the post 1966 period, therefore, do not seem to be oriented to lending stability to the share market warding off violet fluctuations particularly during downward phases[1].

One would have thought that the rise of powerful investment institution of the size of LIC would have disciplined the share market and make it more investment oriented. The experience, however, indicates that the present investment structure is in effective from this view point. It seems that monolithic institution with highly centralized investment management is too bureaucratic to engage in active management of investment portfolio[2].

The aggregate amount outstanding in corporate securities as on 31st.March,1976 was Rs. 255.60 crores which went upto Rs. 738.60 crores as on 31st.March,1986. The average annual in terms of absolute amount during the same period amounted to about Rs. 31 crores. The investment in corporate securities during the decade ending 31st.March,1976

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1. Khan, M.Y., Op.cit, quoting Singh, P.(Mrs.), "Life Insurance Corpn. and the Capital Market in India", Unpublished Ph.D. thesis,University of Delhi, 1979, p.117.
2. Gupta, L.C., Rates of Return on Equities - The Indian Experience, Oxford University Press, Bombay,1981,p.140.

remained at the lowest level in comparison to preceeding and succeeding decades. Although the average annual investment during the period under review has increased more than four times in comparison to the second decade (from Rs. 7.20 crores to Rs. 31 crores), the percentage of total investment in the corporate securities to total Life Fund, total assets and total investment has shown a very sharp decline since the inception of the Corporation.

This reverse trend in the investment of corporate securities may be illustrated as : - average annual investment in the corporate securities during the first decade formed 17.0 percent of the Life Funds, 15.3 percent of total assets and 17.2 percent of the total investments, the corresponding figures for the second decade (1966-76) are - 10.8 percent, 10.9 percent, and 12.7 percent (appx.). The percentage of total investment in corporate securities to Life Funds, total assets and total investments of the Corporation remained 5.7%, 5.4% and 5.9% respectively for the third decade.

Thus, the percentage of investment in corporate securities has drastically gone down year after year. The increase in absolute amount every years seems to be the result of massive enhancement in the Corporation's income. Share of corporate securities in the portfolio of the LIC investment registered a decline of about 37.0 percent during the decade under review. The trend of decline which has been unchecked, especially since 1966 onwards continued upto 1975-76. The percentage of corporate securities formed

about 19 percent of the total Life Fund as on 31st.March,1956 which came down to 7.6 percent as on 31st.March,1976. The portfolio behaviour of the LIC indicates that investment in corporate securities have been below the already low statutory provisions of 10% of the total investible funds. X On the other hand, investments in government and other approved securities have always exceeded the statutory limits. LIC's investments in corporate securities for the years 1976-86 has been shown in Table VIII.1.

Analysis of Investments in Corporate Sector

After examining the volume and trend of overall investments in the corporate sector, we may now analyse the composition, net annual increase, purchases in India and abroad etc.

Net Increase in Corporate Securities

First of all let us compare the net increase in total investment and net increase in the investment of corporate securities during the decade under review. It is observed that there has been massive growth in the total investments of the Corporation, the volume of investments went on increasing year after year except in 1978-79 when the increase was not at par with other years. The annual average of net increase in the total investments stood at about Rs. 750 crores. On the other hand, the annual rate of net increase in the corporate securities was only Rs. 31 crores. The trend in percentage of net increase in the corporate securities to net

TABLE VIII.1

LIC's INVESTMENTS IN CORPORATE SECURITIES

Year as on 31st.March	Amount (Rs. crores)	Percentage to Life Fund	% to total Assets	% to total Investments
(1)	(2)	(3)	(4)	(5)
1976	255.60	7.4	7.0	8.4
1977	274.70	8.0	6.6	7.7
1978	288.80	6.4	6.1	6.2
1979	296.70	5.8	5.5	6.3
1980	313.80	5.4	5.0	5.0
1981	328.10	4.9	4.6	5.0
1982	360.10	4.8	4.7	5.2
1983	396.60	4.6	4.6	5.1
1984	466.80	4.8	4.7	5.3
1985	566.50	5.1	5.0	5.7
1986	738.60	5.6	5.8	6.0

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

increase in the total investments showed a downward trend during the first six years of the study period, coming down from 6.0 percent in the year 1976-77 to as low as to 2.0 percent in the year 1980-81. Thereafter, however, in the remaining years the percentage increased to 11.8. The comparative net change in the total investments as well as in the corporate securities has been exhibited in Table VIII.2.

Investment in Corporate Securities in India And Outside of India

The major investments in the corporate securities is done within India. Although, the corporation had been investing its funds in the securities of the corporate sector outside India, the volume of such investment had been very negligible and insignificant. The trend indicates that LIC is not interested in investing its funds in the corporate securities outside of India. On the contrary, the LIC is disposing off its holding of such corporate securities. The percentage of corporate securities invested outside of India was as low as 0.7 percent of the total corporate securities in the year 1975-76. It came down almost to zero percent as at 31st.March.1986. LIC's investment in corporate securities in India and abroad has been shown in Table VIII.3.

Composition of Corporate Securities

As already stated the LIC's investment in corporate securities include preference and equity shares and debentures of the joint stock companies. It is observed that investment in preference shares showed a continuous downward

TABLE VIII.2

Statement Showing Net Changes in Investments of Corporate Securities.

Year	Net increase in Investments (Rs. crores)	Net Increase in Corporate Securities (Rs.crores)	Percentage of column 3 to 2 (%)
(1)	(2)	(3)	(4)
1975-76	314.18	25.1	8.0
1976-77	330.63	19.8	6.0
1977-78	614.28	14.1	2.2
1978-79	481.09	7.9	1.6
1979-80	700.00	17.1	2.4
1980-81	732.84	15.0	2.0
1981-82	873.85	32.0	3.7
1982-83	940.60	36.2	3.9
1983-84	1,022.60	70.2	6.9
1984-85	1,096.62	99.7	9.1
1985-86	1,460.12	172.1	11.8

Source:

Compiled and computed from LIC's Annual Reports and Accounts 1975-76 through 1985-86.

TABLE VIII.3

Statement Showing Corporate Securities of LIC

Invested in India and Outside of India.

Year	Invested in India (Rs. crores)	Invested outside of India (Rs. crores)	Total (Rs. crores)	Percentage of column 3 to 4.
(1)	(2)	(3)	(4)	(5)
1975-76	253.84	1.82	255.66	0.72
1976-77	274.33	0.43	274.76	0.16
1977-78	287.60	0.46	288.06	0.16
1978-79	295.54	0.43	295.97	0.15
1979-80	314.33	0.43	314.76	0.14
1980-81	328.72	0.40	329.12	0.12
1981-82	359.25	0.37	359.62	0.10
1982-83	395.21	0.22	395.43	0.06
1983-84	465.28	0.15	465.43	0.03
1984-85	564.42	0.05	564.47	0.01
1985-86	738.58	0.51	739.39	0.07

Source: Compiled and Computed from LIC's Annual Reports 1975-76 to 1985-86.

trend during the entire study period. It camedown from Rs. 40.70 crores in the year 1975-76 to Rs. 29.41 crores in the year 1984-85. The investment in equity shares rose but at a very low pace in comparison to increase in the total investment in corporate securities. However, investment in debentures increased from Rs. 63.94 crores in the year 1975-76 to Rs. 448.77 crores in the year 1985-86. The break-up of corporate securities held by the corporation has been shown in Table VIII.4.

An analysis of composition of LIC's investments in the corporate securities, in terms of percentages, indicates, some interesting trends. The LIC's investments in equities have shown a sharp decline during our period; ratio of equity shares to total investment in corporate s securities declinedd from 57.0 percent in 1975-76 to 35.0 percent in the year 1984-85.

The percentage of investments in preference shares to total corporate investment also fell down drastically from 16.6 percent in the year 1975-76 to a mere 3.9 percent in the year 1985-86. This indicates unsuitability of preference shares in the investment portfolio of the LIC.

On the other hand, investment in debentures of the companies exhibited a tremendous upward tendency during the entire period. This component of industrial securities increased by about 6 times during this period. The ratio of investment in debentures to total investment in corporate securities was 26.2 percent in the year 1975-76 which jumped upto 64.1 percent in the year 1985-86. Investment in debentures showed an appreciation of about 130 percent whereas ratio of investment in equity and preference shares together,

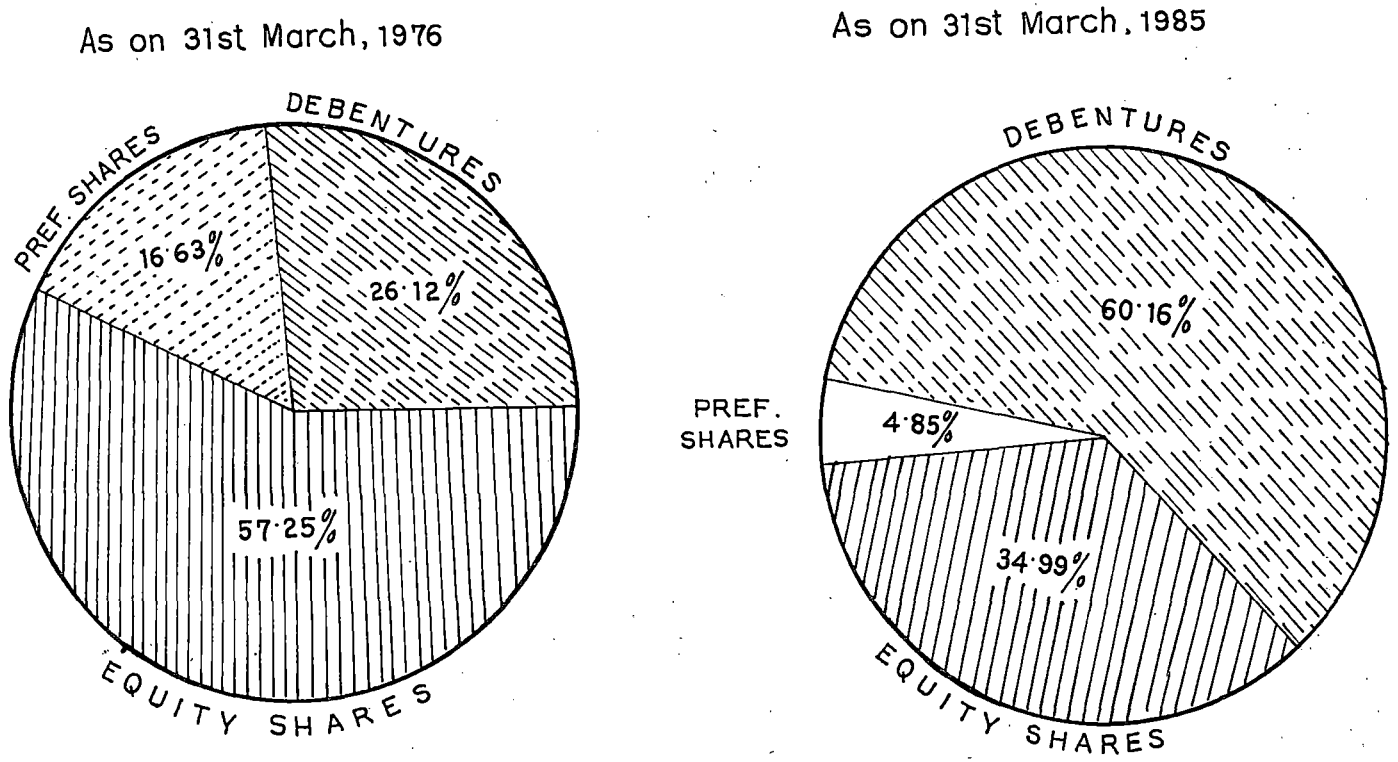
TABLE VIII.4

Statement Showing The Composition of Corporate Securities Held by LIC.

Year as on 31st. March.	Equity share (Rs.crores)	Preference shares (Rs.crores)	Debentures (Rs.crores)	Total (Rs.crores)
(1)	(2)	(3)	(4)	(5)
1976	140.11	40.70	63.94	244.75
1977	144.90	41.49	63.90	250.29
1978	150.43	39.80	77.51	267.74
1979	157.45	40.58	90.90	288.93
1980	171.22	43.40	98.78	313.40
1981	179.61	43.30	104.85	327.76
1982	181.27	39.36	151.75	372.38
1983	193.27	37.39	185.04	415.70
1984	202.17	32.10	254.10	488.37
1985	212.27	29.41	365-05	606.73
1986	223.21	27.56	448.77	699.54

Source: Compiled and computed from (i) LIC's Annual Reports 1975-76 through 1985-86.
(ii) Insurance year Book, 1974-81, Govt. of India, New Delhi, 1983.

Trends in composition of corporate securities held by LIC.



(Fig. VIII·1.)

declined by 46 percent during this period. The trend of investment in preference shares indicates that the LIC has stopped its fresh investment in such securities and is disposing off existing securities in its portfolio either being redeemed by the companies concerned or otherwise. Making an observation on the investment policy of the LIC, the Industrial Licensing Policy Inquiry Committee (1967) said "We do not see any special merit in the investment institutions such as the LIC in getting involved in the grant of term loans to industries. It is appropriate that these institutions should confine themselves in this field to the function of underwriting and investing in shares and debentures of private sector and joint sector industry"[1].

It is observed that over emphasis on debentures of joint stock companies by the LIC might be due to two reasons. First, imposition of statutory restrictions on the rate of dividend reduced the rate of dividend and the companies could not declare dividend over a certain percentage. Secondly, to avoid the complications of direct control in the investee companies, the LIC has decided to invest less amount in equity and preference shares and more in debentures and term loans of the companies. This changing trend has been summed up by a learned author as follows:-

"LIC's investments as reflected in the fresh security purchase as well as corporate shareholdings are characterised by a decline in recent years signifying a marked shift in its

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1. As quoted in committees and commissions in India, Vol. VIII, p. 124.

capital market activities. With a notable fall in its fresh purchases of securities of corporate enterprises, particularly equities, its operation also no longer ~~xxxx~~ seems to be geard to lending stability to the securities market"[1].

The different components of corporate securities, as percentages of total investment is in corporate securities have been shown in Table VIII.5.

Zonal Distribution of Corporate Securities

The Zone-wise distribution of corporate securities indicates that the share of Western zone has been always the highest (ranging between 36.2% and 61.5%), throughout our review period. The highest percentage was in the year 1985-86, (61.5%). The second largest investment has been in the Eastern zone which ranged between 42% and 30% of the total corporate securities during the same period. Thus, the two zones taken together account for a major ~~xx~~ chunk of the investment; it varied between 72.2% and 79% of the total investments. The remaining three zones shared less than 30% of the investment.

It is ironical that the Northern zone representing the highest population of all the zones, could attract the least proportion of investment. For instance, its share in the total investments was only around 4.5% throughout the review period. The other neglected zone has been the Central, where the percentage of investment varied between 5.4% and 8.2% of the total investments in shares and debentures of public limited companies.

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1. Khan, M.Y., Industrial Finance, Tata McGraw Hill Publishing Co. Ltd., Bombay, 1982, p. 30.

TABLE VIII.5

Statement Showing The Components of Corporate Securities as Ratios of Total Corporate Securities.

Year	Equity shares (%)	Preference shares (%)	Debentures (%)	Total (%)
(1)	(2)	(3)	(4)	(5)
1975-76	57.2	16.6	26.2	100.0
1976-77	56.3	15.7	28.0	100.0
1977-78	56.2	14.9	28.9	100.0
1978-79	54.5	14.0	31.5	100.0
1979-80	54.6	13.8	31.6	100.0
1980-81	54.8	13.2	32.0	100.0
1981-82	48.7	10.6	40.7	100.0
1982-83	46.5	9.0	44.5	100.0
1983-84	41.4	6.6	52.0	100.0
1984-85	35.0	4.8	60.2	100.0
1985-86	31.9	3.9	64.1	100.0

Source: Computed from (i) LIC's Annual Reports 1975-76 through 1985-86
(ii) Insurance year book, 1974-81, Govt. of India, New Delhi, 1985.

The Southern zone credited with the highest life business contribution accounts for only 15% of corporate investments. The zone-wise distribution of corporate securities for the year 1975-76 to 1985-86 has been shown in Table VIII.6.

Though the LIC has often been charged of regional discrimination, the charge is not thoroughly baseless; bias for the region locating the headquarters is natural, though not always justifiable. Another ~~xx~~ equally true reason for regional disparity lies in lack of investible opportunities in the under-developed regions.

State-wise Distribution of Corporate Securities

The state-wise distribution of corporate securities shows that on 31.3.76 about 77 percent of the total investments in the corporate securities is cornered by the four states viz., Maharastra (28.4%), West Bengal (28.5%), Bihar (12.4%) and Tamil Nadu (7.3%) and the rest 23 percent of investments were shared by the remaining 22 states and union territories. A decade later, the share of Maharastra increased from 28.4 percent to 32.4 percent whereas the share of West Bengal decreased from 28.5 percent to 18.0 percent during the same period.

In terms of absolute amount the shares of Maharastra and West Bengal, two industrialised states, were almost equal (Rs. 72.52 crores, and Rs. 72.96 crores respectively) as on 31st.December,1976. Whereas the corresponding figure for the states of Maharastra and West Bengal stood at Rs. 195.24 crores and 113.93 crores respectively as on 31st.March,1986.

TABLE VIII.6

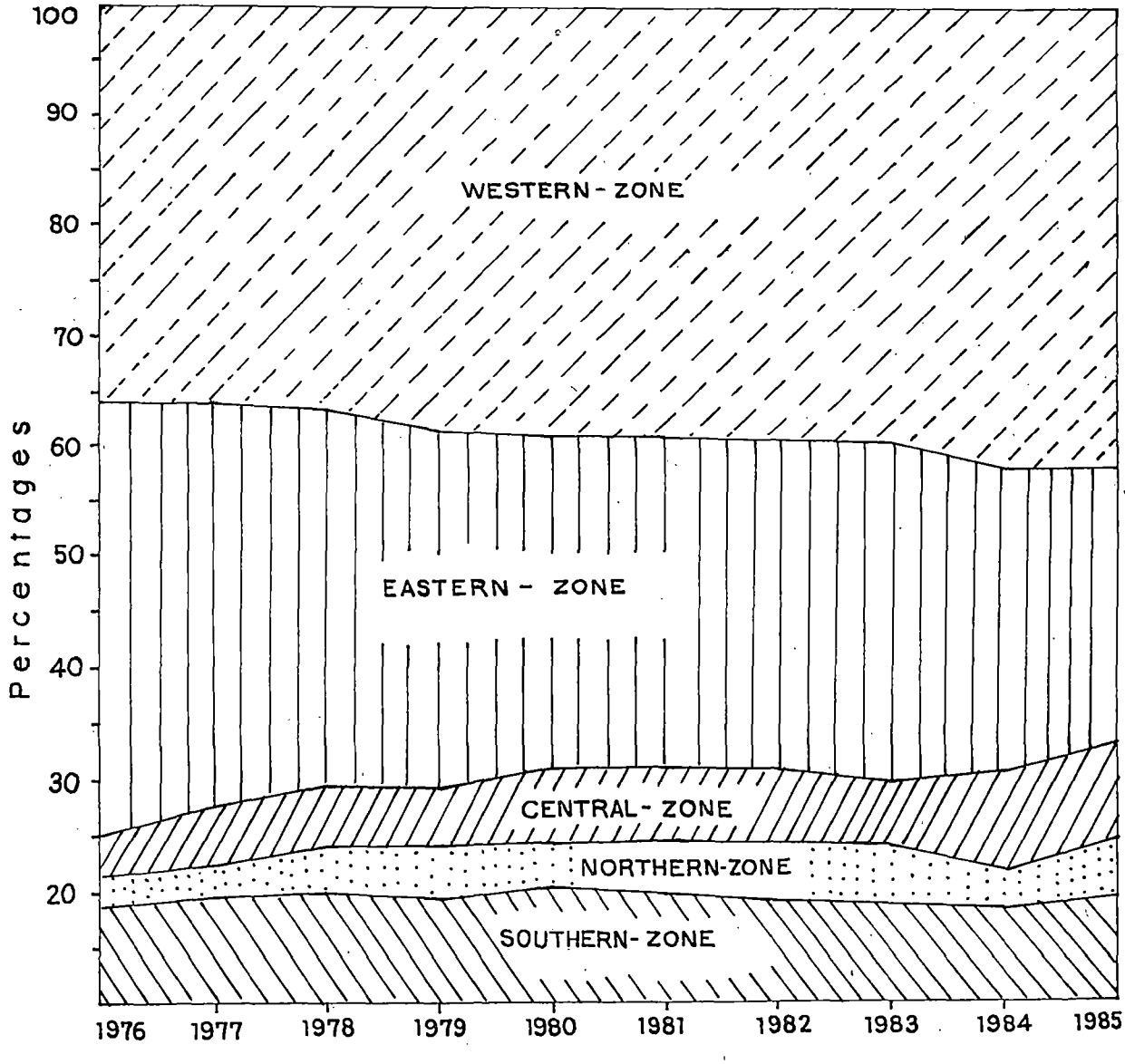
Statement Showing Zone-wise Distribution of Corporate Securities (Rs.incrores)

Year as on March 31st.	Central zone	Eastern zone	Northern zone	Southern zone	Western zone	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975-76	12.92 (5.1)	109.38 (42.8)	6.97 (2.7)	33.76 (13.2)	92.58(36.2)	255.61
1976-77	13.83 (5.0)	112.46 (40.9)	8.64 (3.2)	39.07(14.2)	100.72(36.2)	274.72
1977-78	15.63 (5.4)	112.36 (38.9)	11.39(3.9)	42.91 (14.9)	106.52(36.9)	288.81
1978-79	17.49 (5.9)	109.56 (36.9)	11.49 (3.9)	42.23 (14.2)	112.91 (38.1)	296.68
1979-80	21.12 (6.7)	111.35 (35.4)	11.98 (3.8)	48.28 (15.39)	122.01 (38.8)	314.74
1980-81	21.87 (6.6)	116.58 (35.4)	13.13 (4.0)	49.75 (15.1)	127.77(38.9)	329.10
1981-82	23.52 (6.5)	124.62 (34.6)	17.35 (4.8)	51.41 (14.3)	143.47 (39.8)	360.35
1982-83	22.82 (5.8)	137.93 (34.8)	17.94 (4.5)	57.34 (14.5)	160.29(40.4)	396.32
1983-84	36.95 (7.9)	149.70 (32.1)	19.92 (4.3)	52.58 (13.3)	197.10(42.4)	466.25
1984-85	46.49 (8.2)	168.83 (29.8)	27.06 (4.8)	83.53 (14.8)	240.10(42.4)	566.01
1985-86	58.14 (4.8)	182.09(15.2)	75.49 (6.3)	146.27 (12.2)	738.06(61.5)	1200.05

Source: Compiled and Computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

Note: Figures in brackets indicate percentage to total.

LIC: Zone-wise investments incorporate sector



(Year ending 31st March)

(Fig. VIII·2.)

Corporate investment in Gujrat and Tamil Nadu registered an appreciation during the period whereas Bihar's share slumped from 12.4 percent in 1976 to 7.5 percent in the year 1986. Notwithstanding, that the LIC is trying to maintain regional balance in its investment policy in comparison to other National Financial Institutions, yet the present investment pattern is not free from the bias in favour of industrially developed states. Among the industrialised states again, some are more favourites than the others. Such policies give rise to regional imbalance in the industrial development of the country as a whole. Of course, the investment policy of the LIC, in respect of corporate securities is partly influenced by availability of better securities and partly due to premium income from the states and regions. In the latter case, the share of Tamil Nadu and Southern zone is less incomparison to the business offered by this region. Even after 30 years of nationalisation regional disparities prevail in glaring form. A radical regional diversification in the investment policy of the LIC is urgently called for. The state-wise distribution in corporate securities for the period under review has been shown in Table VIII.7.

Industry-wise Investment

The industry-wise investments of the LIC have not shown any basic change since its inception except that in the beginning securities of cotton textiles industries occupied the first position whereas in mid-sixties securities of engineering industry showed its predominant position. The second and third positions were occupied by the securities of

TABLE VIII.7

Statement Showing The State-wise Distribution of Corporate (Stock Exchange) Securities. As on 31st. March. (Percentage)

States/UTs	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)
1. Andhra Pr.	1.5	2.07	2.5	2.8	2.8	3.4	3.1	3.0	3.0	2.6	2.0
2. Assam	0.6	0.43	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1
3. Bihar	12.4	11.69	11.1	12.6	11.9	11.8	10.8	10.6	10.0	9.9	7.5
4. Delhi	1.5	1.31	2.0	1.9	1.8	1.8	2.0	1.7	1.4	1.6	7.7
5. Goa	0.3	0.27	0.3	0.8	0.7	0.7	0.7	0.6	0.8	0.8	0.6
6. Gujrat	7.6	8.30	8.3	8.4	8.5	8.8	9.1	9.4	9.6	9.2	10.4
7. Haryana	0.2	0.22	0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.3	0.2
8. Hima.Pradesh	0.1	0.07	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
9. J & Kashmir	-	-	-	-	-	-	-	-	-	-	0.0
10. Karnataka	2.7	2.72	3.2	3.4	3.6	3.1	2.8	2.6	2.3	2.2	7.7
11. Kerala	1.7	2.17	2.1	2.2	2.2	2.1	2.0	2.0	1.7	1.5	1.3
12. M.Pradesh	1.7	1.56	2.1	2.1	2.0	1.9	1.7	1.4	4.3	4.0	4.6
13. Manipur	-	-	-	-	-	-	-	-	-	-	0.0
14. Maharashtra	28.4	28.10	28.3	28.9	29.5	29.3	30.1	31.0	31.8	32.4	26.4
15. Meghalaya	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16. Orissa	1.2	1.45	1.4	1.3	1.5	1.4	1.7	1.8	1.6	1.7	1.6
17. Pondichery	-	0.01	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18. Punjab	0.2	0.23	0.4	0.4	0.4	0.5	0.7	0.8	0.8	0.8	0.7
19. Rajasthan	0.7	1.29	1.3	1.3	1.3	1.3	1.7	1.6	1.7	2.0	1.5
20. Tamil Nadu	7.3	7.24	7.1	6.9	6.7	6.4	6.4	7.1	6.4	8.4	8.9
21. Uttar Pr.	3.5	3.48	3.3	3.8	4.7	4.8	4.8	4.4	3.6	4.3	3.3
22. West Bengal	28.5	27.32	26.2	22.6	21.7	21.9	21.9	22.5	20.4	18.0	15.4
Total = (Rs.Crores)	255.58	274.59	288.83	296.70	315.02	329.12	360.35	396.62	466.75	566.54	738.58

Source.: Annual Reports of the LIC from 1976 through 1986

cotton textiles and iron-steel industries respectively.There has been no change in their relative position during the review period. Even the position of other industries financed by the LIC remained more or less the same during study period. Industry-wise break-up of investments for the year 1975-76 to 1985-86 has been shown in Table VIII.8.

Investments in Large Groups of Industrial Undertakings

The investment pattern of the LIC in companies registered under Section 26 of the Monopolies and Restrictive Trade Practices Act indicates that major portion of the Corporation's investments are shared by these groups and single dominant undertakings. Out of total investments (including loans) of Rs. 311.70 crores outstanding as on 31st.March, 1976, the share of these industrial giants was Rs.191.58 crores, 61.5 percent of the total investments in the private sector. The trend of LIC's investments in these big industrial houses has shown a gradual increase-both in terms of amount as well as percentage. For instance, the investment in absolute term in these business houses has increased about 3.4 times during the years under review and, in terms of percentage to total investments in the private sector, it has increased from 61.5 percent in 1975-76 to 80.16 percent in the year 1985-86. The average annual increase in the year quantum of investment during the decade was about Rs.46 crores. The share of M.R.T.P. industrial undertakings has declined from 38.5 percent of the total investment in the private sector in 1975-76 to 19.84 percent in the year 1985-86.

TABLE VIII.8

Statement Showing The Industry-wise Distribution of Corporate Securities (in percentage). As on 31st. March.

Industry	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)
1. Aluminium	3.70	3.74	3.6	3.50	3.35	3.13	3.96	3.44	2.62	2.48	2.06
2. Banks	0.52	0.39	0.37	0.36	0.35	0.33	0.11	0.08	0.03	0.02	0.02
3. Cement	4.28	4.02	3.68	3.32	3.04	3.30	2.85	2.52	3.36	2.98	2.83
4. Coal	1.38	1.28	1.22	1.19	1.12	1.07	0.98	0.89	0.69	0.53	0.40
5. Cotton Textiles	9.31	9.28	9.75	9.47	9.33	9.30	9.83	9.55	9.06	9.03	8.07
6. Dyes, Chemicals, & Pharmaceuticals.	4.85	5.35	5.65	6.37	8.43	8.75	8.48	8.71	9.00	9.03	9.85
7. Electricity	8.57	8.91	8.53	8.34	7.89	7.58	7.33	6.93	6.38	5.12	5.28
8. Electrical Goods	5.27	5.07	6.08	6.22	6.45	7.07	7.03	6.86	10.16	8.42	15.20
9. Engineering	23.88	23.32	23.13	25.79	25.46	25.16	24.78	25.51	25.59	28.25	25.30
10. Food, Tobacco and Drinks	1.28	1.30	1.37	1.46	1.23	1.22	1.66	1.30	1.23	1.27	1.07
11. Investment Trust	2.92	2.76	3.08	3.50	3.31	3.18	3.55	3.70	3.14	2.74	2.36
12. Iron & Steel	9.10	8.72	8.32	5.25	4.94	4.76	4.88	5.22	4.33	5.29	3.95
13. Jute	2.16	2.02	1.59	1.62	1.28	1.27	1.14	1.25	1.21	1.54	1.14
14. Matches	0.36	0.34	0.34	0.34	0.32	0.31	0.70	0.64	0.62	0.51	0.39
15. Mining	0.30	0.26	0.25	0.25	0.23	0.22	0.20	0.18	0.15	0.18	0.09
16. Mineral Oil	0.63	0.45	0.27	0.26	0.30	0.29	0.26	0.24	0.20	0.17	0.13
17. Paper & Boards	3.81	4.20	4.15	4.28	4.12	4.22	3.90	4.00	4.01	4.04	3.45
18. Plantations	1.04	0.95	0.81	0.73	0.97	0.94	0.94	0.88	0.86	0.88	0.94
19. Railways	0.24	0.19	0.19	0.17	0.16	0.15	0.14	0.13	0.11	0.09	0.07
20. Rubber Productrs	3.05	4.17	4.11	4.00	3.79	3.83	3.56	3.86	3.75	3.88	2.76
21. Shipping & Transport	0.51	0.78	1.04	1.05	0.99	0.95	1.02	0.93	0.79	0.77	0.55
22. Sugar & Brewaries	2.98	2.79	2.66	2.61	2.52	2.34	2.14	1.86	1.48	1.34	1.03
23. Textiles(other than cotton)	2.78	2.92	3.08	3.07	3.56	3.94	4.51	4.64	4.73	5.69	6.36
24. Vegetable oil	1.11	1.30	1.26	1.38	1.54	1.58	1.47	1.37	1.35	1.11	0.81
25. Miscellaneous	5.90	5.51	5.46	5.47	5.26	5.08	5.08	5.40	5.19	4.69	5.59
TOTAL(Rs.Crores)	255.66	274.58	288.83	296.70	314.77	329.12	360.35	396.62	466.75	566.54	738.58

Source: Annual Reports of the LIC for the years 1975-76 through 1985-86.

On the basis of the above analysis we can conclude that the LIC's investments are heavily concentrated in large and well established companies. The LIC's Investments in 'Large groups' Large single undertakings and Dominant undertakings s for the year 1975-76 to 1985-86 have been shown in Table VIII.9.

Investments in Big Business Houses

The pattern of LIC's investments in the Big Business Houses indicates that Tata and Birla groups occupied dominant position in the investment portfolio of the LIC since its inception and the same pattern is continuing. The share of Tata group of undertakings, occupying first position as on 31st.March,1976, was 13.65 percent of the total investments in the private sector. The Birla group of undertakings occupied the second position with 7.8 percent of the total investments. The investments in Tata group indicated an upward tendency (went upto 14.85%) during the first three years of our period and thereafter began to decline and came down to 11. 27 percent as on 31st.March,1986. The percentage of investment in Birla group usually moved between 7.10 and 4.99. During 1985-86 it registered an unusual rise and shot upto 10.47% an almost 50% rise in a single year.

Some groups, notably Ashok Leyland, Singhania, Larsen & Toubro, Mahindra and Mahindra and Modi, offered better investment opportunities and LIC's share showed a rise in them. Conversely, Sri Ram, Soorajmull Nagarmull and K Walchand were not considered so good for the investment and registered a fall in their respective shares. The

TABLE VIII.9

Statement Showing The Distribution of LIC's Investments Among 'Large Groups' Large Single Undertakings And Dominant Undertakings.

Year	Total Investments in Pvt. sectors	Large groups (Rs. crores)	Other single large undertakings (Rs.Crs.)	Dominant undertakings Rs.crores	Others	Percentages to Total (Column 2)			
						Large groups	Single large undertakings	Dominant undertakings	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1975-76	311.70	166.07	18.94	6.57	120.12	53.28	6.08	2.11	38.5
1976-77	324.48	184.94	28.94	4.06	107.29	57.00	8.92	1.25	33.07
1977-78	348.98	201.47	32.89	4.45	110.17	57.73	9.43	1.27	31.47
1978-79	373.90	206.80	34.82	5.48	126.80	55.31	9.31	1.47	33.91
1979-80	434.78	229.82	41.48	4.50	158.98	52.86	9.54	1.04	36.57
1980-81	526.77	273.01	45.45	6.42	201.89	51.83	8.63	1.22	38.33
1981-82	667.65	320.58	80.48	6.03	260.56	49.81	12.06	0.90	37.23
1982-83	728.44	373.63	78.83	7.14	268.84	51.35	10.73	0.98	36.94
1983-84	737.57	431.12	100.85	4.78	200.82	58.45	12.67	0.65	27.11
1984-85	875.18	534.40	109.80	6.18	224.80	61.07	12.54	0.81	25.58
1985-86	968.72	673.16	97.11	6.29	192.16	69.49	10.02	0.65	19.84

Source: Compiled from LIC's Annual Reports for the years 1975-76 to 1985-86.

Notes - (i) 'Large Groups' of Industries represent the group Industries shown as 'Part A' in the LIC's Report. These Business Houses have a number of undertakings scattered throughout the country.

(ii) 'Other single undertakings represent the business houses whose assets having Rs. 20 crores or more.

(iii) 'Dominant undertakings' represent the business house which do not fall under the purview of groups.

(iv) Others represent the undertakings which do not figure in (i) to (iii) above.

(v) Items (i) to (iii) above are the groups or undertakings registered under section 26 of the M.R.T.P. Act, 1969.

remaining ten groups did not mark any appreciable variation in their slice of investment. The percentages of investment in Big Business Houses to Total Investments in the private sector (including joint sector) for the years 1975-76 to 1985-86 are given in Table VIII.10.

Composition of Investments in Large Undertakings

The Industrial undertakings registered under sections 26 of the Monopolies and Restricted Trade practices (M.R.T.P.) Act, 1969 receive financial assistance from the LIC through contribution to their equity and preference shares, debentures and extension of long and short-term loans. Composition of investments in large industrial undertakings registered under M.R.T.P. Act, 1969 indicates that debentures and long-term loans are receiving increasing importance in comparison to equity and preference shares in recent years. The total investments of the LIC in debentures and loans of large industrial undertakings as on 31st.March,1976 were Rs. 48.89 crores and Rs. 36.31 crores which rose to Rs.333.32 crores and Rs. 240.40 crores respectively as on 31st.March'86. Their corresponding percentages rose from 25.5 and 18.9 in the year 1975-76 to 42.9 and 31.0 in the year 1985-86.

However, investments in equity shares and preference shares suffered a remarkable setback during the same period. For instance, the total investment in equity shares of these undertakings as on 31st.March,1976 was Rs. 84.79 crores which rose to Rs. 192.02 crores as on 31st.March,1986; but investment in equity shares to total investment in these undertakings slumped from 44.3 percent to 25.4 percent as

TABLE VIII.10

Statement Showing the Percentages of LIC's Investments in Some Big Business Houses As on 31st. March (In percentages).

Name of the Industrial houses	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. A.C.C.	2.96	2.84	2.41	2.01	1.60	1.35	2.24	1.96	2.64	2.86	2.29
2. Ashok Layland	0.73	0.77	0.72	0.67	0.62	0.53	0.49	0.99	0.97	2.25	2.44
3. Birla	7.08	7.00	6.30	5.66	5.03	5.43	4.99	5.16	6.10	7.18	10.47
4. Bangur	1.29	2.10	1.90	0.52	1.71	1.31	0.90	0.84	0.84	0.90	0.98
5. Bird Heilgers	0.09	0.70	0.84	0.38	0.56	0.44	0.33	0.37	0.36	0.30	0.24
6. Dunlop	1.38	1.42	1.35	1.26	1.09	0.99	0.83	1.10	1.01	1.26	1.02
7. Bajaj	0.59	0.52	1.49	0.67	0.48	0.42	0.47	0.38	0.44	0.78	0.69
8. I.C.I.	1.49	1.40	1.44	1.46	1.83	1.52	1.34	1.52	1.38	1.31	1.05
9. J.K.Singhania	1.39	1.80	1.91	1.78	2.03	2.14	2.38	2.13	2.38	2.20	1.93
10. Kirloskar	0.78	0.97	0.95	1.08	1.11	0.89	0.76	0.92	0.91	0.76	0.70
11. Larsen & Toubro	1.03	1.02	1.11	1.10	1.25	1.31	1.73	1.81	1.95	2.88	2.74
12. Mafatlal	1.74	1.66	1.43	1.21	1.30	1.40	1.42	1.36	1.67	2.33	2.05
13. Mahindra & Mahindra	1.10	0.97	1.75	1.51	1.64	1.57	1.22	1.56	1.90	2.21	1.99
14. Modi	0.46	1.24	1.27	1.12	1.05	0.96	0.78	0.68	0.79	1.37	2.87
15. Sahu Jam	-	0.10	0.97	0.08	0.37	0.06	0.12	0.11	0.11	0.04	0.44
16. Sri Ram	1.75	2.02	2.15	1.94	1.76	1.50	1.27	1.09	1.12	1.15	1.17
17. Surajmal Nagurmall	0.38	0.36	0.34	0.31	0.27	0.27	0.24	0.27	0.27	0.02	0.06
18. Tata	13.65	14.77	14.85	14.06	12.06	12.00	10.48	10.11	12.02	11.81	11.27
19. Thapar	0.77	0.83	0.83	0.74	1.42	1.85	1.49	1.41	1.43	1.37	1.31
20. Walchad	1.07	1.04	1.15	1.08	0.90	0.70	0.40	0.08	0.82	0.90	0.51
Total =	39.73	43.73	44.16	39.04	38.14	36.60	33.88	33.85	39.11	43.88	46.22

Source: Compiled from LIC's Annual Reports.

Notes: (i) All the Business Houses are registered under section 26 of the M.R.T.P.Act.,1966.
(ii) They have been selected on the basis of the volume of investment by L.I.C.

on 31st.March,1986. Investments in preference shares declined from 11.3 percent in 1975-76 to more 2.7 percent in the year 1985-86. The composition of total investments in Undertakings registered under section 26 of the M.R.T.P.Act, 1969, for the years under review is given in Table VIII.11.

LIC AND CORPORATE FINANCE:

The purpose of life insurance business is not to finance industry but essentially to invest the savings of policyholders acquired in exchange for promise to pay the policyholders and/or beneficieries a contracted sum either in later's life or upon death or happening of a certain event. The life insurance companies as financial institutions, differ from investment companies and unit trusts in respect of investment of their funds. Investment in case of life insurance companies is incidental to its nature of business to provide protection against risk covered by them whereas investment is the primary objective of investment companies and unit trusts[1]. The operational implication of this feature of insurance companies, is that they are guide d by the consideration for protecting the interest of the enormous policyholders x whose money they hold in trust for which reason their investment policy is closely regulated with reference to eligible investment for their portfolios.

The LIC is basically an investment institution and not a development bank primarily x constituted to provide financial assistance to industries. The primary objective of the

1. Robins, S.M., Managing Securities, Oxford University Press, 1954, p. 426.

TABLE VIII.11

Statement Showing The Composition of Total Investments in Undertakings Registered under M.R.T.P. Act, 1969. (Rs. in crores).

Years as on 31st March	Loans	Debentures	Pref. shares	Equity shares	Total
(1)	(2)	(3)	(4)	(5)	(6)
1976	36.31 (18.9)	48.89 (25.5)	21.60 (11.3)	84.79 (44.3)	191.59 (100.0)
1977	46.38 (21.3)	53.28 (24.5)	23.30 (10.7)	94.97 (43.5)	217.93(100.0)
1978	50.73 (21.2)	58.20 (24.4)	24.32 (10.2)	105.56 (44.2)	238.81(100.0)
1979	44.35 (18.0)	64.16 (26.0)	25.22 (10.2)	113.26 (45.8)	246.99(100.0)
1980	57.31 (20.8)	72.71 (26.4)	28.52 (10.3)	117.25 (42.5)	275.79(100.0)
1981	96.66 (29.7)	75.69 (23.3)	26.50 (8.2)	126.02 (38.8)	324.87(100.0)
1982	152.24 (36.3)	102.86(24.6)	27.64(6.6)	136.35(32.5)	419.09(100.0)
1983	161.23 (35.1)	124.02 (27.0)	26.34 (5.7)	148.02 (32.2)	459.61(100.0)
1984	180.46 (33.6)	173.28 (32.2)	27.82 (5.2)	156.09(29.0)	537.65(100.0)
1985	198.37 (30.5)	263.69 (40.5)	21.05 (3.2)	168.08 (25.8)	651.19(100.0)
1986	240.40 (31.0)	353.32 (42.9)	20.82 (2.7)	182.02 (23.4)	776.56 (100.0)

Source: Compiled and computed from LIC's Annual Reports for the years 1975-76 to 1985-86.

Notes: (i) Figures in the brackets represent percentage of Total Investment.

(ii) Loans include - both terms loans and short loans.

LIC is to spread the message of life insurance and in pursuance of attaining this goal, the LIC has to invest the amount received from policyholders in the form of premiums in the best interest of the latter according to guiding principles provided by the government. The general pattern of the investment of life insurance funds in India has undergone a marked change, particularly in recent years. The investment in corporate securities which presented a consistent improvement from 1.8 per cent in 1914 to 6.7 percent in 1939 and further, to 13.9 percent in 1949. The changes in the general pattern of the LIC investment can be shown in two ways. In the first place, the sector- wise investment of the LIC reveals that the share of the private sector(including the joint-sector)has steeply declined from 22.6 percent in 1956-57 to 18.3 percent in 1968-69 and as low as 11.6 percent in 1976-77. By the end of March,1986 it was 9.3 percent

"The LIC has reported to have been unable to make even the permissible 10 percent of its total investments in the private sector because of the lack of reasonably attractive investment opportunities and not due to statutory restrictions"[1].

The second aspect of the LIC investment pattern relates to its investments in various types of assets. The available data eloquently bear out the statement that the pattern has markedly changed in recent years. The sharp rise in proportion of resources flowing into housing and another welfare schemes of state governments and in electricity boards are

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1. The Statesman, Calcutta, September 5, 1979.

noteworthy. Loans given by the LIC for these purposes formed about a quarter of its total assets in 1973 against only 10 percent in 1966. Loans to state electricity Boards alone amounted to as much as 10.5 percent of its total assets as on 31st.March, 1973. The share of such investments have tremendously increased specially during the period under our review by amendments in section 27-A of Insurance Act on the recommendations of Jagannathan Committee (1970), which inserted a new category of socially oriented sector in the portfolio investment of the LIC.

With higher percentage of resources going into the welfare schemes of the state governments, the proportion of resources going into corporate securities has sharply fallen from 16.5 percent in 1966 to 9.3 percent in 1985-86. The main reason, however, for this decline is modifications in the provisions of the investment policy introduced in 1975.

Capital Market Activity

The LIC extends financial assistance to corporate enterprises in the public and private sectors in the following manner:

(a) Subscribing to the shares and debentures/bonds of specialised financial institutions formed for providing financial assistance to the industries in the private sector.

(b) Providing direct financial assistance to industry through loans, and subscriptions to shares and debentures of such industry or by underwriting operations.

(c) By purchasing shares and debentures of existing joint stock companies through industrial securities markets.

Before commencing our discussion for individual items of industrial finance by the LIC it is worthwhile to have an overall view of its capital market activity in financing the corporate sector. The outstanding investment in financing the industries as on 31st.March,1977 was Rs. 445 crores as compared to Rs. 75.30 crores and Rs. 219.60 crores in 1956-57 and 1966-67 respectively. At the end of March, 1986, the LIC's investment portfolios stood at Rs. 738.58 crores. The relative shares of holdings in the financial institutions was one-fifth of the total in 1976-77, which represented a more than three-fold increase over 1956-57. Similarly, direct loans to companies have recorded, massive increase from less than one percent in the year 1965-66 to 13.46 percent in the year 1985-86.

The corporate securities have declined in its relative importance consistently ever since the inception of the LIC. In 1956-57 as high as 94 percent of the LIC's investment in private sector (including joint-sector) was in the form of stock exchange securities. It came down to about 70 percent in 1975-76 and to 62 percent in 1985-86. It is evident that marked changes occured in modus operandi of the LIC as regards financing of private industry. The portfolios comprised mainly of corporate securities in 1956-57 but since then upto 1965-66, the holdings in form of lending and subscriptions to the securities issued by the financial institutions have gained significant proportion

which brought down the proportion of corporate securities of the private sector to a very low level.

Even within the present statutory control there is scope for the LIC to play a vital role in the Indian capital market. This can be done by establishing a well-knit institutional link between the LIC and other financial institutions engaged in providing financial assistance to industrial enterprises. Since LIC is not primarily an investment institution, it is not supposed to have enough facilities for evaluating and judging the industrial investment. If more funds are provided to the special financial institutions by the LIC, these institutions can perform the work of industrial financing in a better way. At present 4.2 percent (as on 31st.March, 1986) of Life Fund is invested in the securities of financial institutions. If it is increased to 10 to 15 percent the financial institutions will be provided with both more funds and a readier and flexible access to source of finance and this will solve the lack of link between them and ultimate source of savings of the community. This can be done by reducing the percentage of investment in the government securities from 50 percent to 40 percent as recommended by the Era Sezhiyan Committee (1980). Another advantage of such change is that since the securities of term-lending institutions are guaranteed by the government and they carry higher rate of interest they can be proved as alternative of straight govt. securities purchases.

Secondly, the LIC can expand its direct financing of industry through the financing of social overheads capital requirements -- especially housing through mortgage debt.

Regardless of firms' profitability, the rents from the employees would make it possible to assume the mortgage debt and pay it off safely and rapidly over a period of time.

Finally, a broadening of definition of "approved securities" to include loans against policies for industrial purposes might have a stimulating effect on the development of small-scale industries in the country.

Financial Assistance to Special Financial Institutions

Besides direct financing to industry in private sector, the LIC also finances industry indirectly by investing into shares and bonds of special financial institutions - both state level as well as All India. This indirect industrial finance to the private sector was introduced by the LIC from its very inception and State Financial Corporations and Industrial Finance Corporation of India were the main beneficiaries. In 1956-57 the LIC had Rs. 0.76 crore as outstanding investment in the ICICI but from 1958 onwards it had no such holdings. Only after 1977-78, that is, after a gap of complete two decades, the LIC has again started subscribing to debentures issued by ICICI. The initial capital of the Unit Trust of India was subscribed by the LIC in the year 1964-65 when the former came into existence under a special Act passed by the Indian Parliament. LIC's indirect financing of industries broadened since 1974-75 when for the first time it started to subscribe to the bonds issued by the Industrial Development Bank of India. Thus, the LIC, provides funds indirectly for financing private sector industry through three

National Financial Institutions, viz., the Industrial Finance Corporation of India, the Unit Trust of India and the Industrial Development Bank of India and one state-level institutions, that is, the State Financial Corporations.

The aggregate amount invested by the LIC in this category was Rs. 528.24 crores (on 31.3.86) as compared to Rs. 4.6 crores in the year 1956-57. In terms of percentage, whereas in 1956-57, it was about 1.4 percent of the LIC's total investments, it went up gradually and in 1976-77 it almost doubled and reached to 2.6 percent. However, the percentage of investment in securities of financial institutions accounted for 4.3 percent of the total investment during 1985-86. A similar trend may be observed when the amount under this head is compared with the total assets and total Life fund of the Corporation.

A notable feature of the institution-wise break-up of investments is that upto mid-seventies of the total amount invested in the securities of financial institutions about 51.3 percent was in the State Financial Corporation followed by the Industrial Development Bank (40 percent). However, this trend was completely reversed in the first five years of eighties. The position in terms of percentage on 31st.March 1986, was as follows:- Industrial Development Bank of India 73.06% State Financial Corporations 17.7% and Industrial Finance Corporation 9.24%.

Direct Lending to Industry

Term-loan is the most important source of finance through which the LIC extends direct financial assistance to the private sector industry. Such loan-giving operations was introduced by the LIC for the first time in the year 1963-64. The cost escalation, especially in the recent years has put the industrial enterprenuers into a very tight position. It has, really become a formidable task on the part of the promoters/management to raise such huge amount through private source. They, therefore, have been compelled to approach financial institutions including the LIC to raise their pressing needs of huge finance.

The most amount of loans given by the LIC to industry in the private sector is increasing year after year. During the first decade of its involvement in the loan-giving activities, it did not show any appreciable performance. But this gathered immense popularity, in course of time. The percentage of loans to total assets of the LIC was merely 0.2 (percent) in the year 1965-66. It, however, increased to 2.6 percent in 1979-80, an increase of 13 times.

This tremendous rise also seems due to LIC's endeavour to increase its yield on investment since the rate of interest on such loans and long term debenture was higher in comparison to equity dividend due to the then restrictions on equity dividend.

The total amount of outstanding loans and debentures, as on 31st.March,1976, was Rs. 85.20 crores (44.5 percent of the total investments in the private sector including equity

and preference shares) whereas the same amounted to Rs. 376. 19 crores as on March 31, 1986, i.e. an increase of over 4.4 times during the study period. Investments in loans and debentures of companies to total investment in private sector increased from 44.5 percent in the year 1975-76 to 71.6 percent in the year 1984-85. This indicates that the term loans and debentures of public limited companies fit well in the LIC's investment portfolio.

LIC and Underwriting of New Capital Issues

The investments in the new issues, particularly in initial issues of new companies, carry on inherent risk of not yielding any return for a number of years and, in fact, such investments have a tendency to depreciate in value. The approach of the LIC in underwriting is that of an investor and not that of a catalytic agent to generate public subscriptions. It is said that the new issues market is the pasture for the stags who apply for shares in new issues in the expectation that they will be able to obtain a profit on the transactions as soon as the shares are quoted on the stock exchange. This is, however, not the attitude of the LIC, which is a genuine investor. It does not indulge in speculation nor does it take the advantage of temporary fluctuations in the market prices. It invests in long-term basis.

The LIC has become a dominant factor in the underwriting activities of new issues in the Indian Capital Market. The extent of its share in the underwriting of new

issues during the period 1956-57 was about one-sixth of the total. It was certainly the single most important underwriter of corporate issues. During the period 1956-60 LIC's share in the total underwriting declined very sharply and it came down to 5.3%[1]. However, thereafter a marked improvement occured in the role of LIC and during 1961-66 its proportionate share sharply rose to 21.4 percent. This increasing rate of share was maintained during the subsequent period i.e. 1967-71, the actual share being 22.3 percent. However, since 1972 a major shift has come about in the LIC's underwriting operations, and its share in total underwriting came down to a mere 8.9%.

This is obviously the result of a decline in the relative importance of securities in the LIC's investment portfolio[2]. Increasing importance has been given to investment in the socially oriented schemes right from the early seventies. The LIC's underwriting operation is an adjunct to and is largely influence by its investment policy in joint-stock enterprises[3].

The concentration as well as the increasing pressure of continuously massive funds, combined with difficulty of acquiring sound securities in adequately large amount at reasonable prices from the second-hand market has led the LIC to go to new issue market in big way. The purchases of

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1. Khan, M.Y., 'Industrial Underwriting in India', Poona, March, 1977, p.56.
2. Khan, M.Y., Indian Financial System, op.cit.p. 97.
3. Khan, M.Y., New Market and Finance for Industries in India, 1978, p. 78.

new issues by LIC invariably takes the form of underwriting. The LIC, as already stated, always applies for the purchase of securities underwritten by it. From operational view point it implies that LIC would agree to underwrite only such issue which would fit in its portfolio investments. LIC is very selective in the field of underwriting of new issues. The restrictive nature of LIC behaviour also reflected in the small support to issues of new and small companies. The state-wise and industry-wise records are similarly indicative of similar conclusions. With regard to its underwriting operations in "group" issue, LIC's support has been more marked in "group" issues rather than "non-group" issues. In the recent years, however, there has been a change and the LIC is supporting "non-group" issues to a greater extent.

The underwriting operations of the LIC is no doubt, playing an important role in stimulating the industrial development of the country but most of the underwriting performed by it belongs to the financial institutions in the public sector. If we look into the pattern of underwriting operations, it is found that the debentures and bonds of SFCs Central Co-operative Land Development Banks, State Electricity Board/Corporations and bonds of All India Financial institutions dominate the underwriting operations of the LIC. The debentures and bonds of such financial institutions ranged between 43.6% to 65.9% of the total amount underwritten by the LIC during 1977-78.

The proportion of shares and debentures underwritten by the LIC in respect of public limited companies in the private sector was very insignificant; their shares in terms

of percentage were 2 and 6 percent respectively, except in the year 1982 when the shares and debentures of public limited companies claimed as high as 22 percent of the total amount underwriting during that year. The share of the limited companies in the underwriting operations of the LIC during 1984-85 and 1985-86 was nil. Moreover, in most of the cases only debentures of the public limited companies were underwritten. The shares, either preference or equity were underwritten in rare cases. This is done to avoid the risk in the stability of earnings. The composition of underwriting operations of the LIC for the period under review have been shown in Table VIII.12.

Whatever, might be the quantum and areas of underwriting, the LIC has filled up a big vacuum in the field of underwriting. By underwriting the debentures and bonds of state level financial and other institutions, the LIC is playing a vital role in building up the infrastructure of the backward regions for industrial development.

Notwithstanding the above, the LIC is not playing its role in the promotion of corporate private sector directly. But by subscribing to debentures floated by All India Financial Institutions it is indirectly assisting the public limited companies because these in turn promote corporate sector of the Indian economy. The total amount underwritten along with the number of issues underwritten by the LIC during the period 1975-76 and 1985-86 have been shown in Table VIII.13.

TABLE VIII.12

Statement Showing the Composition of Underwriting Operations of The LIC
(Rs. in crores)

Year	Debentures and Bonds of State level institutions @	Bonds of All India Financial Institutions @@	Shares and Debentures of public Ltd.companies	Total
(1)	(2)	(3)	(4)	(5)
1975-76	43.68 (81.6)	5.08 (9.5)	4.77 (8.9)	53.52 (100.0)
1976-77	65.01 (86.0)	8.22 (10.9)	2.37 (3.1)	75.60 (100.0)
1977-78	61.17 (84.2)	8.25 (11.4)	3.22 (4.4)	72.64 (100.0)
1978-79	72.69 (77.0)	16.16 (17.1)	5.51 (5.9)	94.36 (100.0)
1979-80	52.06 (64.8)	26.08 (32.4)	2.30 (2.68)	80.44 (100.0)
1980-81	61.02 (69.5)	33.37 (34.7)	1.68 (1.8)	96.07 (100.0)
1981-82	10.96 (12.0)	60.17 (65.9)	20.20 (22.1)	91.33 (100.0)
1982-83	83.87 (53.5)	68.30 (43.6)	4.55 (2.9)	156.72 (100.0)
1983-84	63.48 (40.1)	89.00 (57.2)	2.90 (2.0)	155.38 (100.0)
1984-85	100.85 (47.5)	111.65 (52.5)	nil	212.50 (100.0)
1985-86	100.03 (44.35)	125.50 (55.65)	nil	225.53 (100.0)

Sources :- LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

Notes:- Figures in the brackets against each amount in columns 2 to 4 indicate percentages of the total amount underwritten by the Corporation for that year.

(2) @ indicate debentures and Bonds of Central Co-Operative Land Devpt.Banks, State Financial Corporations, State Electricity Board/Corpn. and other Approved securities.

(3) @@ include Bonds of All India Financial Institutions, like - IDBI, IFICI, ICICI, etc.

TABLE VIII.13

Underwriting Operations of the LIC

Year	Total Amount underwritten (Rs.crores)	No. of issues written during the year	Placed in the market	
			written during the year	written in the previous year
1975-76	54.02	107	88	19
1976-77	75.60	111	89	22
1977-78	74.33	102	75	27
1978-79	89.80	75	67	8
1979-80	80.44	60	53	7
1980-81	96.07	57	49	8
1981-82	92.46	78	70	8
1982-83	156.72	73	71	2
1983-84	155.38		63	nil
1984-85	212.50	80	80	nil
1985-86	225.53	78	78	nil
Total =	1,313.85	821	783	10

Source: LIC's Annual Reports and Accounts.

LIC'S ROLE IN INVESTEE COMPANIES - A CRITICAL REVIEW

The role of financial institutions providing finance to corporate sector has drawn the attention of the public to a great extent in recent years. This has come to create a lot of confusions and misunderstandings between the management of companies financed on the one hand, and the financial institutions providing such funds on the other. Although this issue does not fall directly within the scope of our present work, yet, the topic has gained an immense importance in the Indian press, it seems pertinent to include the same within the purview of our study. Moreover, this issue is directly connected with the investment policies of the LIC - especially in the corporate sector, the same deserves a mention in any work relating to investment policy.

Traditional Role

Notwithstanding, limitations on the investment of life insurance fund into particular company, the life insurers throughout the world hold a substantial holdings in a particular companies, of course such cases are very limited. In spite of substantial financial stake in the investee companies, the investing life insurance companies do not take same degree of interest in the management of the company as the ordinary shareholders do. According to traditional convention, the insurance companies try to keep themselves aloof from the management of the investee companies. However, in doing so, they indirectly keep close vigilance on the overall performance of the concerned companies. According to Brimmer

"Life insurance Companies have generally preferred to sell their holdings when the corporate performances fall short of expectations rather than engage in extensive efforts to reform or replace the existing management. While this behaviour might have left the less informed investors to bear the consequencies of managerial shortcomings, it has freed the insurance companies of possible investment in struggle for corporate control"[1].

However, at times, such behaviour becomes extremely difficult, if not impossible. "The unloading of any large stock of shares raises practical difficulties. Hence, the option to sell away the holdings may not be always available to institutional holders which will have to exercise willy-nilly effective control over the performance of the companies in order to safeguard its investments. In the new situation, resulting from the changes, the old institutional attitudes of keeping aloof from m management becomes illegical"[2]. Commenting on the passive role of the LIC in the management of the investee companies, the Industrial Licensing Policy Inquiry Committee observed "We do not understand why the government has agreed that inspite of the LIC having a substantial shareholders in the ICICI, it should not participate in the management. All state sponsored institutions should actively participate in the management of the investee ms companies"[3].

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1. Driemer: Life Insurance Companies in Capital Market, Michigan State University, 1962, p. 363.
2. Gupta, L.C., LIC's Ind.Finance and Corf.Cont.Con.Bombay, Annual Number, 1974, p. 190.
3. Committees and Comm. in India, Vol.VIII,p.125,Quoting Indst. Lic.Policy Inquiry Comm.(1967) under the Chairmanship of Prof. Subimal Dutta.

According to M.Y. Khan, "the mere presence of such large institutional shareholder as LIC is bound to have the effect of promoting greater financial discipline among corporate management. Moreover, LIC has been using its voting power in various forms against the 'erring' management of some corporate enterprises, such intervention in corporate management is an integral part of the overall policy of the government of employing equity holdings of all public financial institutions for enlarging the role of state in management and control of corporate industry"[1].

Corporate control by LIC and other financial institutions depends mainly on the quantum of investments in the equity shares of a particular industrial enterprise. Dr.L.C.Gupta had conducted a survey on the pattern of equity holdings in the private sector. According to him, shareholding of companies in India is not widely diffused but is largely concentrated amongst a small group of individuals. Therefore, LIC's equity holdings below the top ten equity holders will be of insignificant size from the point of view of control. On analysis of returns by companies listed on Delhi stock exchange, we have found that more than 70% of the shares are held by the top ten share-holders in the years 1970 and 1974. This is further coroborated by another study covering the companies listed on Madras Stock Exchange"[2]. Though equity holding pattern has changed in recent years, the basic feature remains unchanged.

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1. Khan, M.Y., Industrial Finance, Tata Mcgraw Hill Publishing Company Ltd., 1982, p. 40.

2. Gupta, L.C., Corporate Management and Accountability, Macmillan, Madras, 1974, p. 32.

Role Under Changed Conditions

The role played by the LIC in the investee companies has gained importance in recent years. A tremendous change in the socio-economic conditions, increase in the volume of investments of financial institutions, introduction of converting loans and debentures into equities have necessiated a change in the role of LIC as a shareholder in investee companies. Making an observation on the present role of LIC in the Corporate Control, Dr. Gupta observed, "It is unfortunate that the considerations which have led to creation of such monolith were unrelated to considerations of economic efficiency. The institution itself has come to be viewed as levers of power over private sector firms, making the rate of return earned on investments as irrelevance"[1].

The following main reasons can be attributed to the change in the behaviour of corporate control by the financial institutions.

A substantial increase in the volume of investible funds at the command of LIC has compelled it to invest more and more funds in the public limited companies. Earlier a passive role with indirect control of the management of investee companies was sufficient to safeguard its interest.

Secondly, most of the shareholders of a company are quite unaware and uninterested in its performance[2]. Hence, taking in view the public ownership and size of its holdings,

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1. Gupta, L.C., Rates of Return on Equities - The Indian Experience, Oxford University Press, 1981, p. 141.

2. Bhide, M.R., LIC as Shareholder, Commerce, Bombay, Annual Number, 1969, p. 102.

the LIC has to accept wider responsibility not only towards its own interest but also towards the interest of numerous unaware and scattered shareholders of x such companies. Hence it has to act as a watchdog of the joint-stock enterprise in the country.

Thirdly, when investment turns out to be bad or subsequent discovery of unsound health of the company throws responsibility on the LIC for remedial measures. This can be checked to a great extent by active participation in management.

Fourthly, through instructions the Central Government has directed financial institutions including LIC to take an active part in the management of the financed companies to safeguard its own interest as well as of passive shareholders in general. A radical change took place in the early x seventies in the attitude of public financial institutions in this respect which requires the public financial institutions to take an active part in management.

Fifthly, an active participation in management by the financial institutions like LIC is bound to make the management of the company concerned vigilent and alert. The cases where the management is found lacking in its performance will not be able to survive the heavy pressure exerted by the LIC on such management for safety of the former's capital invested in such companies[1].

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1. Parekh, Future of Joint Stock Enterprise in India, Bombay, 1958, p. 190.

Sixthly, the Industrial Licencing Policy Inquiry Committee (ILPIC) has been very critical of the laissese-faire role of the LIC pursuant to the policy directive of the government that the LIC should not acquire control or participate in the management of any concern in which it has interest unless exceptional circumstances warrant such participation. The Committee stated that the policy of not interefering with the management of the concern in which it holds equity and usually not even appointing directors on the Board, has made the LIC a sleeping partner for the management of the concerns[1].

Emphasising on the effective control by the financial institutions, the Industrial Licensing Policy Inquiry Committee, further pointed out that the idea of non-participation in the management of financed companies by the State and the Financial institutions should be 'firmly' set aside and direct participation should be made by the LIC and the UTI. According to the Committee, "This would ensure that the management of industry is conducted according to the policies laid down by the government and that public interest and not merely private profit would guide the operations of the large industrial undertakings in the private sector[2].

Problems and Complications

The reasons given for active participation in the management are, no doubt, reasonable, logical and impressive. However, certain practical difficulties and complications

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1. G.O.I. Report of the Industrial Licensing Policy Inquiry Committee (Main Report), p. 180.

2. Ibid, p. 187.

arise in the implementation of such high sounding principles and policies due to division of Indian economy into two distinct sectors - public and private). The overall idea behind active participation in management by the institutional investors is no doubt, to create the healthy atmosphere in the joint stock enterprises in India and, to make the management more efficient on the lines of prudent business and commercial policies which in turn will serve the interest of the nation as whole. However, certain difficulties and problems crop-up in implementing of these policies. Some of the practical difficulties faced by the investors may briefly be enumerated as follows:-

1) Lack of Directors:- The LIC has its holdings in several hundred private sector companies. It is, therefore, a formidable task before the LIC to find professionals in such a large number to act on the Boards of the companies concerned. There is almost near-complete dearth of such managerial talents to manage the affairs of large number of existing as well as the forthcoming industrial enterprises under different developmental programmes.

2) Low Remuneration:- The remuneration and other perquisites offered to nominated directors by the LIC (as well as other financial institutions) is comparatively so low that no management specialists is willing to accept such offers.

3) Quality and Integrety of Directors:- Inducting somebody or anybody into directorship of a company will not serve the purpose for which he is appointed. Before appointing a person as director it has to be seen that he is well

conversant and equipped for the job. If this is not done, x the person so appointed, instead of serving the interest of the investor may hold-up important decision and even misutilise his power for his own vested interests[1]. Apart from the personal qualities of the director there is a question of quality of interest of such director which may breed various questions relating to legality and morality especially of trading by 'insiders'[2].

3) Legal Bindings on Directors:- The fiduciary position of such directors raises a basic question that whose interest these directors are supposed to safeguard? Obviously, these directors are supposed to serve the interest of the appointing authority, LIC. However, the companies Act does not make any distinction between one director and the other. Thus, they have to work in the best interest of the company as a whole.

4) Conflict of Interests:- The very formation of two-tier Boards of Directors one group of them elected by the general shareholders of the company and the other nominated by the LIC is bound to bring conflicts between two groups on one issue or the other. The former group will be interested in the overall interest of the company whereas the later group will mainly be interested to protect the interest of their - nominator. This in term will adversely affect the performance of the company. The ESCORTS Ltd.'s

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1. Paranjape, Analysis of Dutt Committee Report, Economic Times, March 4, 1970.
2. LOUIS LOSS, "The Fiduciary concept as Applied to Trading by the Corporate Insiders in the U.S.A. The Modern Law Review, January, 1970.

case is one of the most striking example in recent history where the LIC and the management of the ESCORTS had to fight a legal battle for their own rights in High Court and Supreme Court for about three years jeopardising the interest of the company as a whole.

5) Fear Psychosis of Investee Company:- The management of the companies, in the private sector does not relish even the idea of sharing policy making process with the LIC nominees. They always apprehend intervention and such direct interference, according to them, is a backdoor nationalisation. They are always afraid of leakage of certain important information by nominee directors which may adversely affect the future programmes of the investee companies. Following the Bombay High Court judgement in Escorts VS Union of India (LIC) case, the Escorts and D.C.M. suffered a sharp setback on the Delhi Stock Market on March 15, 1984[1].

Another noteworthy instance of LIC's active intervention in managerial affairs is in the Punjab National Bank Ltd. In this case the LIC forced the management of the company, whose banking business was taken over by the govt. to revise upwards distribution to the shareholders out of the compensation moneys received on nationalisation of the banking business. The LIC's own equity holdings in this particular case was only about 6% of the company's total equity[2].

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1. Data India, March 19-25, 1984, p. 135.
2. Gupta, L.C., LIC's Industrial Finance and Corporate Control Commerce, Bombay, Annual Number, 1974, p. 193.

After going through the prospects and difficulties of direct and active participation some ways and means have to be found out which are acceptable to both - investors and the investee companies. Framing law on the paper is one thing and its implementation in practice is another. Everything enforced by the statute cannot be practicable. Hence, the framers of such laws must have a forehand knowledge about the difficulties which will crop-up in the implementation of such rules. T his short sightedness is the main root of all conflicts going around in almost all affairs of the economy. It is a direct confrontation between the ideologies, the public sector, famous for its inefficiency and private sector known for its profit motive.

A sharp decline in the investment to private sector by the LIC in recent years is mainly due to the conflict of interests on the issue of direct participation. The number of companies financed by the LIC in the private sector did not show any appreciative increase during the period under review. For instance, the total number of companies financed by the Corporation was 249 as on 31st.March,1976 which remained at 315 at the decade ending March, 1985. This indicates that * either the LIC is not willing to invest in larger number of companies to avoid the complications or the industrial interprises are not approaching the Corporation for fear of direct control over their management. Some recent incidents confirm this view. Such attitudes of both the parties are not appreciable at all, in view of the progress of the nation.

Hence, some measures for future action to solve this complication may be suggested. They are: (a) A slow beginning to start with in the companies where the interest of the LIC is not substantial. In such cases instead of direct intervention, the LIC should keep a continued observation and ~~x~~ vigilance on the companie's managerial performance through different reports, returns, frequent supervisnsxx etc. (b) The LIC should maintain a liason with other financial institutions engaged in industrial finance and possibly by forming a consortium with them since these institutions have better appraisal machinery and close contact with companies. (c) the LIC should maintain a continuous contact with the Indian Company Law Board which can according to powers vested in it under section 408 of the Companies Act, 1956, indirectly appoint directors on such erring companies. (d) Instead of taking direct control of the Board, the LIC should take increasing interest in the election of the members of the Board of Directors - especially chairman and Managing Directors. This would help the LIC to have an indirect control over the affairs of the company. (e) In cases, where the LIC's investments is substantial and the performances of the companies are not according to expection inspite of its indirect ~~x~~ endeavour, the LIC should exercise its power of nominating directors on the Boards of such erring companies. (f) Finally, the LIC should pay special attention on the professionalism in the management of companies concerned.

Does the Present Investment Policy of LIC Best Serve The Interests of Policy Holders?

The massive funds under the command of the LIC belong to the policyholders. Therefore, the Corporation, must deal with these accumulated funds in the capacity of a trustee on behalf of its policyholders. This implies that the fundamental objective which should govern the investment policy of such funds be framed in such a manner that it should earn maximum return along with safety of capital. The government and the LIC agree on it by committing that "its primary obligation is x to its policyholders whose money it holds in trust"[1].

The LIC, as a trustee of funds of the policyholders, is supposed not only to guarantee the safety of funds but also to earn maximum return on its investment to reduce the cost of insurance. The effort to increase rate of return becomes all the more important when it is known that an increase in the rate of interest yield by 1 to 1.5 percent on its investment would reduce premium rates by 16 to 20 percent on Endowment Assurance and by 20 to 30 percent on Whole Life Policy. However, the LIC "does not seem to be actually concious of its responsibility to act in the spirit of a trustee for the policyholders and has failed to show the same degree of concern and solicitude for the interest of the policyholders in the management of their funds as a trustee

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1. Finance Minister Statement in Parliament on 25 August, 1958, in the post Mundhra - episode clarifying Govt.'s stand on Investment policy of the LIC.

should normally do"[1]. Unfortunately, the above stricture made by the A.R.C. about 18 years ago still holds good. Our said observation can be proved by comparing the net rate of yield earned by the LIC and other media of savings. The net yield on LIC investments increased from 7.13 per-cent in the year 1976-77 to 9.87 percent in the year 1985-86. These figures are considerably lower as compared to yield on other savings media like U.T.I. postal savings deposits etc.

The importance of adequate yield to policyholders cannot be over-emphasised. With such woefully low return LIC cannot expect to become the most attractive savings medium of the country. This goal can be achieved only by its judicious investment policy which would guarantee maximum yield on its investments.

The LIC is a 'captive investor'. It is, its seems subjected to pressure by the government which takes away a big slice of its assets in addition to that portfolio which it is statutorily required to invest with it. An instance is investment of Rs. 262.56 crores in loans and deposits to/or guaranteed by the government for which there is no statutory obligation at rates of return which are 2 to 3% less than the rates obtainable on other available investments e.g. loans on mortgages and corporate securities. No body would oppose this investment but the loss of interest on it is certainly a matter of concern. Why should the

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1. Administratial Reforms Commission: Working Group on Life Insurance Administration, Report, 1968, p. 83.

Corporation not charge market rate on such loans and deposits when it is expected to function on commercial lines is not quite understandable.

Financing of developmental plans of the country is one of the important objectives of nationalisation. Government would normally require Corporation's finance for various plan schemes but as a consequence it must not allow commercial interests of the organisation to suffer. The Administrative Reforms Commission Working Group was constrained to observe as follows[1].

"We feel that the Corporation should not have been treated by the Government as a milch-cow. . . . . to the detriment of the interests of policyholders".

"To expect the Corporation to secure the best interest of the policyholders primarily and promote life insurance in India and at the same time deprive it of higher income, which it could have otherwise earned had it not been for statutory limitations and/or indirect compulsions is tantamount to starving the hen that is expected to lay golden eggs".

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1. A.R.C. Working Group Report, op. cit., p. 157.

PART - THREE

CHAPTER IX

ORGANISATIONAL STRUCTURE

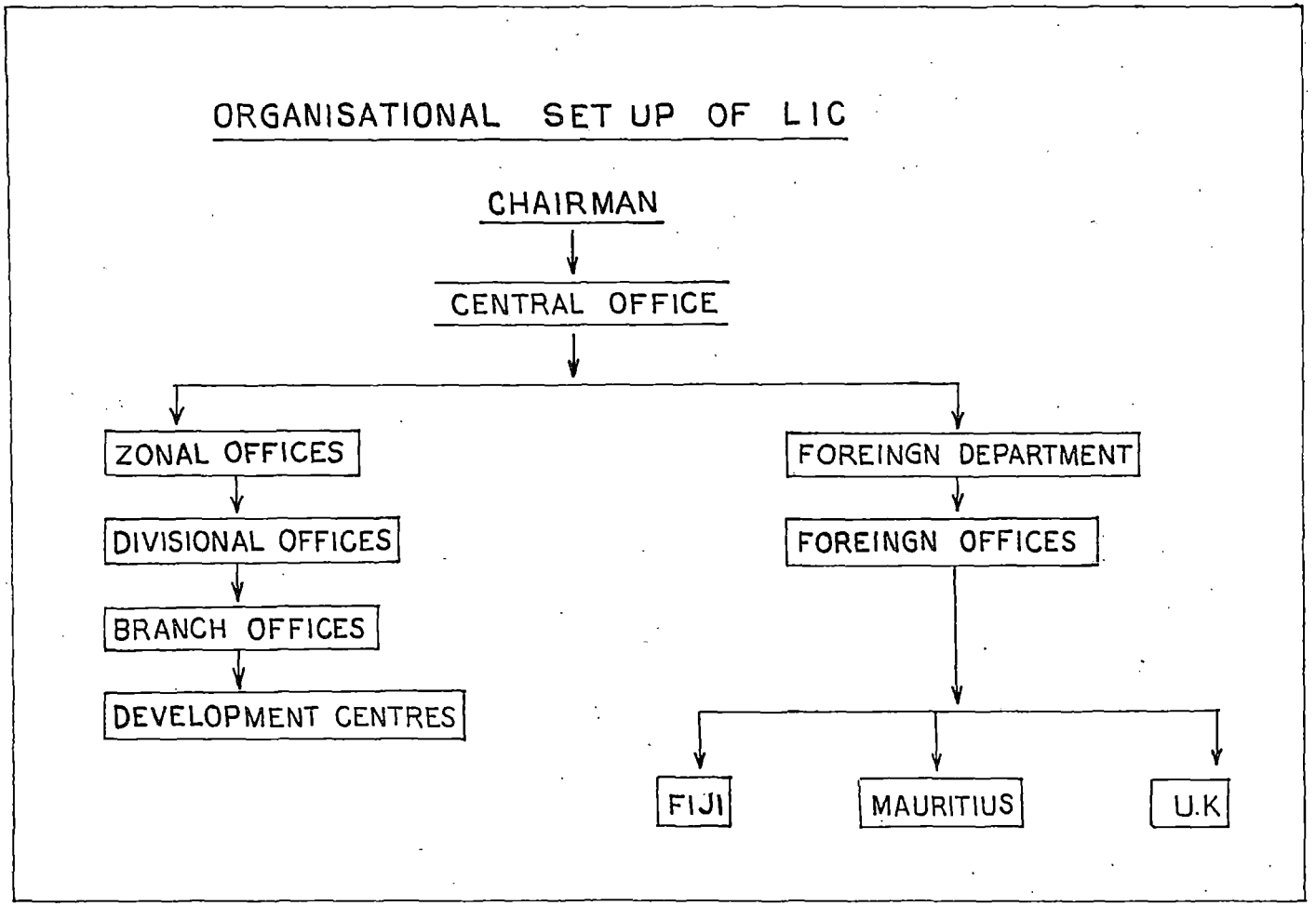
CHAPTER - IX

ORGANISATIONAL STRUCTURE

The administrative set up of the Corporation consists of five tiers. At the top stands the Central Office situated in Bombay. The five Zonal Offices (Northern, Southern, Central, Eastern and Western) cover within themselves the entire geographical distribution of he country. Each zone has under it Divisional Offices, Branch Offices and Sub-offices (Chart IX.1).

The organisation of the Corporation is on the pattern broadly indicated in the Life Insurance Corporation Act, 1956. Divisional Offices, 43 in number and with defined territorial jurisdiction for the development of new business in the respec - tive areas are responsible for complete servicing of new insurance policies from the time of acceptance of proposals to settlement of claims. Coordination and general supervision vest in the five zonal offices, and the Central Office, the latter being responsible for the formation of broad policies and procedures. Investment of funds is the sole responsibility of the Central Office.

The Chairman is the Chief Executive of the Corporation. The affairs of the Corporation is managed by the 15 members constituting the Corporation. The work of the Corporation is conducted through various committees such as Executive Committee, Investment Committee, Services and Budget Committee. In addition,


ORGANISATIONAL SET UP OF LIC
CHAIRMAN
CENTRAL OFFICE
ZONAL OFFICES
DIVISIONAL OFFICES
BRANCH OFFICES
DEVELOPMENT CENTRES
FOREINGN DEPARTMENT
FOREINGN OFFICES
FIJI
MAURITIUS
U.K

(Chart - IX·1 .)

for each zone. Advisory Boards and Employees and Agents' Relations Committee have been constituted and they function in an advisory capacity. Policyholder's Councils have also been constituted in each of the Divisional Offices. The other authorities mentioned in the Act and the Regulations are the Managing Directors, Executive Directors and Zonal Managers.

Functions of Central Office

The Central Office of the Corporation is a policy making and Coordinating body and its direct executive responsibility is only in the very limited field. Mainly it co-ordinates the activities of the various zones and confines itself to giving broad policy direction and decisions on inter-zonal matters. Investment policy and investing of funds, in accordance with it, are the sole responsibility of Central Office. In addition to formulation of underwriting of proposals for large amounts and for sub-standard lives, beyond the authorities delegated to Divisional Offices. Submission of Returns etc in accordance with statutory requirements is the sole authority of the Central Office. Standardisation of procedure and forms, drawing up of prospects, premium rates, policy, conditions and making arrangements with regards to re-insurance are also looked after by the Central Office. It has also been the responsibility of the Central Office to conduct national publicity campaign on a wide scale. Inspection of the various offices of the Corpora-

tion as also the financial internal audit of the branch, divisional and zonal offices have been the responsibility of the Central Office. A Research and Statistics Bureau has been set up, for research on specific lines. In general, the policy decisions are made by the Chairman, the Executive Committee and the various other committees constituted for different purposes. The Central Office x is divided into an impressive array of Departments like Development Department, Integration Department, Organisation and Method Department, Inspection Department, Investment Department, Publicity Department, General Insurance Department, and so on.

Chairman

There have been fourteen Chairmen since its establishment in the year 1957 (Table IX.1). A perusal of the list shows that half of the persons holding the high office were drawn from the Government services and had no previous experience and training in insurance industry. The first seven Chairmen of the LIC were from the Civil Services. The Committee of Enquiry into the expenses of the LIC (Morarka Committee) observed that "the main consideration should be his competence and experience, and we believe that this highest position in the Corporation should, therefore, be open to all those who have grown into requisite stature and competence within the field of the organisation itself."

TABLE IX.1

Chairman of the L.I.C. of India

Sl.No.	Name	Period
1.	Shri H. M. Patel	1.9. 1956 to 5.6.1957
2.	Shri G. R. Khmat	6.6. 1957 to 10.4. 1958
3.	Shri P. A. Gopalkrishnan	10. 4.1958 to 28.2.1962
4.	Shri B. K. Kaul	1.3. 1962 to 28.2. 1965
5.	Shri B. D. Pande	2.3. 1965 to 5. 1. 1967
6.	Shri M. R. Bhide	12. 1. 1967 to 31. 8. 1970
7.	* T.A. Pai	1. 9. 1970 to 26. 3. 1972
8.	* K. R. Puri	27. 3. 1972 to 19.8. 1975
9.	* R. B. Pradhan	20. 8. 1975 to 25. 9. 1977
10.	* S. Rangarajan	26. 9. 1977 to 11. 11.1978
11.	* J. Matthan	12. 11. 1978 to 24. 7. 1980
12.	* J. R. Joshi	25. 7. 1980 to 16. 9. 1982
13.	* A. S. Gupta	17. 9. 1982 to 8. 9. 1985 (Chairman-in-Charge)
14.	* A. S. Gupta	9. 9. 1985 to
15.	* R. Narayanan	upto date.

Sources: (i) Report of the Committee of Enquiry into the Expenses of the Life Insurance Corporation of India, 1969, part I.

(ii) LIC's Annual Reports and Accounts.

Most of the LIC's Chairman, thereafter, have been selected from amongst the Senior Executives of the Corporation. This may be a matter of coincidence of implicit acceptance.

Tenure of Chairman

The duration of the office for the last three decades has been shown in Table IX.2. It is evident from the above that only 3 out of 13 Chairman remained in the office for more than 3 years and the remaining for a shorter period. As many as seven of the Chairmen remained in the office for less than two years. (Two of them held office for less than one year). The other three held office for more than two years but less than three years. Such short durations and frequent changes have not been conducive to the effective functioning and progress of the Corporation. The Chairmen should have a reasonably long tenure to enable him to settle down and show the results. The tenure of the most of the Chairmen has been too short to make a long-term perspective planning and compare the performance with own pre-determined standards. A representative of the Finance Ministry evidenced that a three years' term would be adequate, while to a Chairman of the LIC, the tenure of five years' appeared the minimum. The Morarka Committee also inclined to support the Chairman. It recommended that "while appointing a person as a Chairman of the Corporation, the Govt. should satisfy itself that the person would serve as the Chairman of the Corporation for a minimum five years."[1]

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1 Report of the Morarka Committee, p. 370.

Though this recommendation made in the year 1969, was not accepted by the Govt., the frequency of change has reduced in the Post-Morarka Committee period. It is to be noted here that one of the seniormost Member of the LIC acted as Chairman-in-Charge for almost three years and in the third year only he was appointed as full-fledged Chairman of the Corporation. Taking 30 years period of Corporation's functioning, on average, 9 Chairman has remained in the office for 28 months only.

Duration of Chairman in the office has been shown in the following table:

Table IX.2

Duration	No. of Chairmen
Below 12 months	2
More than 12 months but less than 18 months	2
More than 18 months but less than 24 months	3
More than 24 months but less than 30 months	2
More than 30 months but less than 36 months	1
36 months and above	3

Source: (i) Report of the Committee of Enquiry into the Expenses of the LIC, 1969, part I.

(ii) LIC's Annual Reports and Accounts.

MEMBERS OF THE CORPORATION

According to section 4 of the Life Insurance Corporation Act,1956, the Corporation shall consist of not more than 15 members and these members shall be responsible for efficient functioning of the Corporation. The tenure of the Members of the Corporation who acted as Members during the period under review is given in Table IX.3.

Table IX.3

Statement showing the Tenure of the Members of the LIC(1976-86)

Period of Tenure	No. of Members
Upto 6 months	1
Between 6 and 12 months	1
Between 12 and 18 months	7
Between 18 and 24 months	19
Between 24 and 30 months	5
Between 30 and 36 months	3
Between 36 and 42 months	2
Between 42 and 48 months	3
Between 48 and above months	4

It is evident from the table that about 50 percent of the members appointed during the review period remained in the office between 18 to 24 months. 25 percent of the members remained in the office for a period of less than 18 months. Only 6 percent of the members enjoyed a tenure of 3 years. This tenure pattern of the membership is no where near Morarka Committee's recommended tenure of five years[1].

1. Report of the Morarka Committee (1969), Bl.No.147, para 18, 10.7., p. 415.

The enormous expansion of LIC's operations caused some structural strains and a review of the entire organisational set up became inevitable to ensure that the Corporation's services to the policyholders did not lag behind and interdepartmental co-ordination at various levels continued to be effective. These problems of organisational structure was examined by the Era Seshiyan Committee at full length and recommended that "the LIC should pursue its policy of decentralisation of servicing functions to Branch Offices and ensure full coverage of all mofussil and city Branch Offices with a time bound programme"[1]. The Committee further recommended that "The Committee is of the view that for budgetary control to be really effective, it should start at the Branch level. The committee, therefore, recommends that the LIC should urgently consider making the Branch Office an Accounting unit so that formulation of financial budget at branch level is facilitated"[2].

The committee also expressed its opinion in favour of installation of microprocessor based machines in larger branches and also at Divisional Offices.

The above mentioned recommendations of the Era Seshiyan Committee were accepted by the Corporation and it started their implementation right from the year 1981.

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1. Era Seshiyan Committee, Summary of conclusions para 16.
2. Ibid, para 89.

Process of Reorganisation and its Outcome

"The management of an organisations that grow rapidly in size take special measures in preventing it from drifting. Studies in developing countries confirm the findings in the industrialised countries that more formal system of management and greater emphasis on management processes such as goal format setting, planning, control etc. are necessary as organisation grow in size"[1].

The management of the organisations that becomes large, in most cases are aware of these problems and reorganise the structure of management from time to time as per the demand of situation.

According to Prof. Ishwar Dayal* "the changes were brought about in branches, at the supervisory office such as the divisional and local head office, at the Zonal and Central offices. These changes included the decentralisation of work at all offices, the new difinition and specific areas of work, the new control and supervision method, the new relationships x that the new roles required and intensive multilevel training for performing the emerging roles.

The LIC had undertaken a comprehensive programme of reorganisation in 1980-81. The LIC management identified the areas of concentration in the short run and those in the future programmes of the work. The areas identified by the policy making body of the Corporation in consultation with

1. Dayal, Ishwar, "Change in Organisational Culture", Economic Times, Calcutta, September 1, 1986, p. 14.

* Prof. Dayal was directly involved in the reorganisation programmes of the LIC management.

some outside management experts may briefly be stated as follows:[1].

i) Redefinition of the role of branch offices and their measures of effectiveness;

ii) providing single window servicing to policy-holders which required redefition of the concept of consumer service;

iii) To provide insurance coverage to people in India who are traditionally ignored in several affluent countries by insurance companies;

iv) To revitalise the control systems to provide data to the higher levels of management to know how m well the subordinate offices were working. In this respect two conditions had to be fulfilled (a) management information system (MIS) that could provide data on key areas of operations, and quality of decision making and (b) creating conditions for controls to operate effectively, e.g., the superior and subordinate offices should be clear on what is expected of the subordinate office; and

v) Changes in the role of controlling offices of the Divisional, the Zonal and the Central Offices. Each of these offices, had besides supervisory functions a distinct contribution to make. Better data control by improving the machine support. Accuracy and efficiency of data storage, processing and retrieval is essential for improved policy-holders servicing by service units. Employees satisfaction by direct

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1. Ibid.

contact with customers, greater degree of responsibility, job redesign and consultative practices in the offices.

According to new pattern of management under reorganised conditions the role of each offices and each position were defined and understood by the incumbents. The programme required training of branch managers and heads of department in divisional offices whose job content changed in significant ways. The branch managers became responsible for total results and not sales alone. The content of divisional offices became supervisory analytical providing support to branches to improve quality of their decision making. LIC had to undertake crash programmes of training of managers and clerical staff and programmes of training of the trainees to maintain the quality of training. An idea of this crash training programmes can be had from the number of employees of the Corporation at different levels trained especially after introduction of reorganisation in LIC management since 1980-81. The number of different categories of employees sent to training since 1980-81 is given in table IX.4.

The degree of emphasis laid down by the Corporation on crash training programmes and other reorganisational measures taken by the Corporation is indicative of its total commitment towards realisation of goals expected from this monolith public sector undertaking. In 1985-86 alone Officer's Training College, Borivli undertook 18 training sessions for class I officers and in all 550 officers belonging to different cadres attended the Training courses. The Zonal Training

TABLE IX.4

Statement Showing the Staff of LIC Sent for Training Under Crash Training Programmes for Reorganisation of M Management Structure.

Category of Employees	1980-81 (Nos)	1981-82 (Nos.)	1982-83 (Nos.)	1983-84 (Nos.)	1984 -85 (Nos.)	1985-86 (Nos.)
Class I Officers	439	241	694	424	736	922
Class I Officers sent Abroad	9	2	9	7	14	5
Junior Officers	129	190	236	270	332	1058
Class II & III Employees	-	-	-	153	580	1112
Total =	577	433	939	854	1662	3,097

Notes: The training programmes included given at following centres:-

(i) Different Management Institution in India
(ii) National Insurance Academy, Bombay
(iii) Zonal Training Centres which were started at 5 different zonal centres and started functioning from October/November,1983
(iv) Training and seminars organised at international level.

Source: Compiled from Annual Reports of the LIC from 1980-81 to 1985-86.

Centres conducted 122 sessions in which 922 class I officers, 760 Development officers, 1094 class II employees and 33 selected agents were given reorientation programmes.

During this year 298 class I officers were deputed to attend various training courses/seminars conducted by 44 management training institutions. In addition, 5 class I officers attended training courses/seminars organised in foreign countries[1]. The operational data, in post decentralisation era, show steady improvement in all directions. The following information may be considered by the way of illustration.

	Before Reorganisation	After reorganisation.
Average time for loan	12 days	3 days
Average time for issue of policy	35 days	10 days
Outstanding claims	13%	8%

Source: Economic Times, Sept., 1, 1986, p. 15.

Changing the culture of an organisation of the size and complexity of LIC is however, not an easy phenomenon or nor a speedy one because the change has to be pervasive and contiguous and include all aspects of making from the top levels of the hierarchy to the lowest. The sustained improvement will depend upon continued attention by the top and the senior managers. In public undertakings where decisions

1. LIC's Twenty Ninth Annual Report, 1985-86, p. 33.

on top executive appointments are taken without adequate study of what the particular job requires, the continuity and thrust in certain programmes ~~xxxxxxx~~ is always doubtful. However, it may be expected that the decision makers would give the seriousness that the leadership decision deserves. During the period of this programme LIC has had three Chairmen and several changes at the top and senior levels of management.

Single VS Multiple Corporations

The discussion on organisational set up of the LIC will remain incomplete if we do not consider the question of single VS Multiple Corporations. The matter has been taken up by each committee or Commission established to review the working of the LIC, mention may be made of Administrative Reforms Commission (1968)[1] and the Committee to review the working of the LIC (1980)[2]. While the former opposed the split up, the latter favoured it. Acting upon the recommendations of Mrs Seshiyan Committee, the Govt. brought a Bill in the 7th.Lok Sabha to break up the LIC into 5 independent Corporations. This Bill generated a wide-spread and eloquent protests from within and outside of the insurance community which forced the government to refer the Bill to Joint select committee of Parliament. The 7th.Lok Sabhas has subsiquently dissolved and the present government has not

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1. Report of the working group on Life Insurance Administration, Reforms Commission, (Chairman T.Vishwanathan), Vol.I, October, 1968, pp. 99-105.
2. Report of the Committee to Review the Working of LIC (Chairman: Mrs Seshiyan) Sept., 1980, pp. 124-128.

shown any intention to further proceed with the splitting up of the LIC. x it seems that the status quo will not be disturbed.

If this is indeed be the case, it represents a healthy attitude and warrants for appreciation. For while it is widely acknowledged that the LIC's working needs improvement, it has never been convincingly demonstrated that the break-up of the Corporation would yield even half-way better results. The proposed xky split-up might have brought competition among the different zonal Corporations but would have deprived the insurance community of the advantage of homogeneity and coherent decision - making for which the LIC was established. The argument that LIC has become unweildly on account of its size and unitary character necessiating the break-up is certainly not reflected in facts and numbers. A look at public sector banks like State Bank of India or Central Bank of India will clearly show that these Banks have many times, more branches but still works quite satisfactorily. It is, therefore, better to maintain the existing organisational set up of the LIC. But at the same time the need to delegate more powers specially to the Divisional and the Branch Offices deserves special attention.

AGENCY FORCE OF LIC

Building an effective agency sales organisation in the life insurance business is the whole process of developing a stable sales force. Continuous recruitment is as necessary as the continuous supply of life sustaining blood to the human body. The sales force adequately recruited, carefully selected,

thoroughly trained, properly supervised and appropriately motivated is the keystone to success in the building up of an effective agency sales organisation.

The LIC is not unaware of the important functions discharged by the agents and therefore, it is taking a number of steps in this direction. Instead of making life insurance agency a part time business it is insisting that agents function more or less on full time basis. It has, therefore, systematically tried to weed away dead wood in the agency forces. As shown in Table IX.5, it is terminating non-functioning or poor functioning agents and replaces them by fresh blood. It is significant to note that never more than 77% of the agents were able to continue for at least one year in the agency business. Discontinuance of at least 23% of agents within one year is unfortunate as it represents wastage of time and missed opportunity from the view point of LIC this is vital to keep agency force functioning and efficient.

Till 1979-80 there was a continuous fall in the number of agents on roll as LIC was trying to reduce the burden of dead wood. That the LIC has succeded in its task is evident from average number of agents per branch. From high figure of 233.44 during 1975-76 it has come down to nearly half (144.15) during 1985-86. This trend can also be noticed from a continuous rise in average business which has shot up from Rs. 1.46 lakhs per agent during 1975-76 to Rs. 4.09 lakhs during 1985-86 Table IX.6.

This continuous exercise of terminating existing agents and recruiting new one has been considered differently by Life Insurance Agents Federation of India (LIAFI).

TABLE IX.5

Statement Showing Turnover of Agents of LIC

Year as on 1st.April	Agents on Roll on April	No. of Agents Appointed during the year	No. of Agents Terminated during the year.	Agents on Roll (On March 31)	% of Agents who continued for at least one year.
1975-76	1,55,153	37,360	50,465	1,42,048	73.70
1976-77	1,42,048	31,478	44,533	1,28,993	75.60
1977-78	1,28,993	30,650	42,437	1,17,206	73.85
1978-79	1,17,206	32,983	31,112	1,19,077	70.73
1979-80	1,19,077	28,072	25,892	1,21,257	76.85
1980-81	1,21,257	32,958	29,623	1,24,589	73.55
1981-82	1,24,589	37,381	27,238	1,34,742	72.18
1982-83	1,34,742	42,803	31,072	1,46,473	70.78
1983-84	1,46,473	50,186	34,181	1,62,478	69.11
1984-85	1,62,478	-	-	-	-

Source: LIAFI NEWS LETTER, VOL. XVI, NO.1, APRIL, 1986, P.13.

TABLE IX.6

AGENCY FORCE AND AVERAGE BUSINESS

Year	No. of Agents on Roll (in thousands)	Active Agents No. % of Agents on Roll.	Average No of Agents per Branch	Average Business per Active Agent (Rs.in thousands)
(1)	(2)	(3)	(4)	(5)
1975-76	155	92.90	235.44	146
1976-77	142	92.25	212.33	160
1977-78	129	91.47	190.92	170
1978-79	117	92.31	167.20	191
1979-80	119	92.44	161.49	248
1980-81	121	92.56	146.80	257
1981-82	125	92.80	140.15	300
1982-83	135	91.11	140.65	323
1983-84	146	91.10	143.18	330
1984-85	162	91.36	146.77	364
1985-86	189	91.53	144.15	409

Source: LIC's Annual Reports and Accounts.

According to them it is a chronic affair and they know from experience that LIC Management is keen to continue this process of large turnover of agents with a definite motive behind the same. The management does not like to professionalise the Agency Force and does not want that agents should become stable. More than that, the management wants that most of the agents should remain under qualified, so that, the management need not have to pay the bonus commission on the first year premium to a large section of Life Insurance Agents to show a reduced management expense ratio to the public in general and Parliament in particular"[1].

Qualified Agents

The total agency force of the Corporation has broadly been classified into two categories viz., qualified agents and unqualified agents. This classification has an important impact on the commission payable to the agents on the business procured by them. The agents who procure a minimum new business, as stipulated under Agents Rules are qualified agents and those who fail to procure this minimum new business are termed as unqualified agents. "Only qualified agents are entitled to get a bonus commission @ 40% over basic Commission"[2].

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1. Purakayastha, A.K., LIAFI, News Letter, Vol. XVI, No. 1, p. 11.
2. Ibid, p. 10.

Number of qualified agents and their percentage to total number of agents for the years 1975-76 to 1984-85 is given in Table IX.7. It is observed that only about 55.30 percent of the total agents are qualified to receive the full rate of agency commission (Basic + Bonus) on the First Year's premiums. The First Year's premium is increasing every year but percentage of First Year's premiums paid to the agents is on continuous decline. The savings thus made reflects as "Improved economy" in the LIC's Management expenses on Commission Account. First Year's premium and agency Commission on Individual Business in India is given in Table IX.8.

It is observed that the total of all Commissions paid to agents is much less than 60% of First Year's premium. Normally, an agent should earn, within a period of 5 years, 60% of First Year's premium as per the provision made in the construction of premium Rates which is also sanctioned under Insurance A ct, 1938. It is evident from the above Table that average rate of agency commission paid to agents is going down year after year, while the quantum of premium income going up year after year.

The LIC is aware of this problem of professionalisation. To ensure that the agents become a useful link between the policyholders and the office and services are taken virtually to the door step of the policyholders it has encouraged professionalism through training programmes.

TABLE IX.7

Statement Showing The Number of Qualified Agents of LIC

Year	No. of qualified Agents.	Percentage of qualified Agents to Total Agents on Roll.
(1)	(2)	(3)
1975-76	90,124	58.09
1976-77	72,036	50.71
1977-78	65,089	50.46
1978-79	62,445	55.11
1979-80	71,211	59.80
1980-81	66,968	55.23
1981-82	70,798	56.83
1982-83	76,263	56.60
1983-84	80,957	55.27
1984-85	91,907	56.57

Source:

LIADI News Letter, Vol.XVI,
No. 1, April, 1986, p. 14.

TABLE IX.8

First Year's Premium and Agency Commission on Individual Business in India (Management Expenses)

Year end 31st. March	Individual First Years' Premium (Rs.crores)	First Years' Total commission (Rs.crores)	First Year's commission as % of F.Y.P. (%)	Total Renewal commission (Rs.crores)	Total commission (Rs.crores)	Total commission percentage of F.Y.P. (%)
1976	94.16	29.52	31.35	22.54	52.06	55.29
1977	98.49	31.07	31.53	24.58	55.64	56.40
1978	97.16	29.16	30.02	25.54	54.70	56.31
1979	103.04	32.04	30.99	29.16	61.20	59.18
1980	130.04	38.52	29.62	32.06	70.58	54.28
1981	142.19	40.23	28.30	35.56	75.79	53.30
1982	157.62	41.24	26.17	42.41	83.65	53.07
1983	180.26	47.02	26.09	48.18	95.20	52.81
1984	189.98	47.91	25.22	50.86	99.77	51.99
1985	224.01	54.97	24.54	60.30	115.35	51.49

Source: LIAFI News Letter, Vol. XVI, No. 1, April, 1986, p. 15

It is recruiting agents under Career Agents Scheme in urban areas and giving them specialised training. During 1985-86 as many as 1,795 new trainees were recruited and the total number of trainees as at 31st.March,1986 was 2,010. Similarly, it has initiated Rural Career Agents Scheme and recruited 2,219 new trainees bringing their number on roll to 4,063 as on 31st.January,1986. Training of entire agency force is a giagantic task and would require years to achieve the goal. The LIC has, however, made a modest beginning in this regard.

The LIC is also trying to motivate agency force by highlighting their performance and awarding them title of "millionaire Agent" (Crorepathi). Based on the performance during the year 1985 nine agents qualified and participated in the prestigious "Million Dollar Round Table Conference" at Illinois, U.S.A. Besides, it has introduced various agents membership to clubs- Chairman's Club, Zonal Manager's Club, Divisional Manager's Club and Branch Manager's Club.

The LIC has not yet been able to solve the issue of 'Benami Agents'. It is alleged by LIAFI that it has been insisting to control the number of Benami agents for a long time but the proposal has been unacceptable to the management not because it is impracticable but because it will uncover and undo many corrupt practices - which the management does not want[1].

According to LIAFI the question of 'Benami' or dummy agents becomes more evident if we take into consideration total number of agents of Delhi Division of the LIC which

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1. LIAFI NEWS LETTER, April, 1986, para 12, p. 9.

is a City based Division of the Corporation. "This division had 6560 agents on its roll in the year 1984-85 of which, 3048 or 46.46 percent were women agents. LIC's All India average of women agent was 21.29 percent in that year. If an investigation is made, it will be found that behind most of the individual woman agents there are influential persons who ring up to get the business"[1].

Commenting upon the question of dummy agents, Mr. A.S.Gupta, the then Chairman of LIC said "The dummy agents do exist. There is a concept of centre of influence where an influential person may get the business by ringing up the party and the formalities are completed by someone else. He is the real agents even if the paper work is not done by him . . . . . We are not in favour of dummy agents and do scrutinise and keep a check. But our chief concern is business"[2].

As allegations of Benami agency cast aspersion on those placed in higher echelons of the society, high placed officials of the LIC also fall in the ambit of, if nothing else, mud slinging. The management should, therefore, sort out this problem with the agency force across the table. The need to remove Benami agency force can hardly be over emphasised.

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1. Ibid.
2. Onlooker, April 1-15, 1982, p. 45.

CHAPTER X

CONCLUSIONS AND SUGGESTIONS

Business in Force (individual assurance)

Since nationalisation, there has been a 32.67 fold increase in sum assured and 5.25 fold increase in insurance policies. During our study period sum assured has increased to 3.6 times and number of policies have gone upto 1.5 times. This growth is commendable. However, the goal of providing insurance cover to each bread earner is even now, a stupendous task. As against 32.10 policies (per thousand of population) at the beginning of the study period we have 32.62 policies a marginal improvement on March 31, 1986. The per capita sum assured has also shown a moderate rise. It has gone up from Rs. 134.16 (adjusted to wholesale price base 1970-71) during 1975-76 to Rs. 145.58 during 1985-86.

New Business (individual assurance)

Since April, 1984, new business is recording new heights of growth around 30 percent per annum growth as in sum assured and 20 percent in policies issued, an all time record for LIC. The average sum assured per new policy has doubled during the study period but to a great extent this rise in policies also has been caused by inflationary pressure.

Regional Distribution (individual assurance)

Southern zone accounting for roughly 1/4th. of population contributes 1/3rd. of the new policies and more than 30 percent of the sum assured every year. Throughout our period the Southern zone not only maintained but also increased its lead. The Eastern zone accounting for 14.31 percent of population booked around 1/4th. of business. Although it maintained its position, the lead was reduced. In terms of per capita new business this zone had its pre-eminance throughout the study period (Rs. 160.09 per capita new business as against Rs. 134.02 of the Southern Region). The Eastern zone accounting for more than 1/4th. of the population contributed throughout less than 1/5th. of the new business.

There is a close correspondence between the business performance of zones and its constituent divisions - a business wise poor zone consists of business wise poor divisions and vice-versa. The divisional disparities within a zone are exceptional feature.

First Insurance

The LIC has been successful in casting its net among uninsured people to the extent of roughly 2/3rds of policies issued and sum assured every year. This is an achievement and represents a consistent growth rate of new policyholders though at a low rate. As new policyholders are from relatively lower income bracket, average size of their policies is around 20 percent less than of those going for subsequent policies.

Group Insurance

This class of business has enabled the LIC to protect the weaker sections of the society who were never under insurance cover. On March 31, 1987 it covered 1.03 crores lives with a business of Rs. 12,645 crores. As against this the total individual insurance in force on the same date consisted of 48,151 crores of rupees under policies numbering 2.99 crores. Thus group insurance has succeeded well in reaching to the masses as number of lives covered under group insurance is not far below than under individual insurance[1] though the former came on scene much later. The group insurance scheme for landless agricultural labourers introduced on 15th.August,1987 has s in a single stroke increased the number of lives covered to 4 times (1.03 crores lives under old group schemes and 3 crores lives under this new scheme) under group insurance.

Salary Savings Scheme (SSS)

The salary savings schemes have come handy to the organised salaried class and have become quite popular. The LIC's performance has, however, not been very satisfactory as it has neither been able to retain its share in growing number of salary earners not in the earnings of the salaried class during the review period.

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1. The figure for individual assurance refers to number of policies and not number of lives. As around 40 percent of new policies are subsequent policies of existing policyholders. The number of lives under the individual assurance would be around (2.99 crores minus its 40 percent) to 1.79 crores.

Rural Business

The rural business is a great challenge to the LIC as there is a dearth of effective agency force. The problems associated with collection of renewal premiums further pose a challenge to continuity of insurance cover. With the direction and support of the State, the LIC has come with different types of low cost policies tailored to suit the needs of diverse rural population. A beginning has, thus, already been made to take message of insurance from 'class' to 'mass'.

Different Types of Insurance Plans

The Corporation is adding periodically new plans to meet the needs of different sections of policy-holders. Within a short span of less than two years it has introduced new plans like Jeevan Mitra, Jeevan Sathi, M Bima Sandesh, Bima Bhavishya Jeevan, Jeevan Dhara and Jeevan Akshay the last one launched on February 5, 1988. A continuous exercise is on to bring about new products to meet the needs of different segments of society. With the same objective the existing schemes are reviewed, modified and, if necessary, scrapped.

The promotion of different plans, however, does not find favour with the agency force as it looks to the plans of insurance from commission's angle and therefore, limits its sale compaign to a very selected policy plans. During 1985-86 only two plans (Endowment Assurance and Money Back) accounted for 78 percent of new business. More than fifteen plans individually contributed less than 1 percent of new business, their share aggregated to 3.12 percent of new business. The success of product diversification and up-dating has

to face resistance from the agency force which has the last laugh. In a country with a poor knowledge of insurance plans, it may be aptly remarked, LIC proposes agency force disposes.

Flow of Business Proposed

A substantially large number of proposals are brought and converted into policies during March (year ending). This over concentration of business has its impact on the quality of business and causes higher lapsation.

Lapsation of Business

In its mistaken zeal to show to the government the make believe success of the LIC it has gone all out to procure more and more business anyhow and somehow. Huge temptation has, therefore, been the natural outcome of this forced sale.

The researcher is unable to resist lapsation to quote the Supreme Court's verdict in 'Reserve Bank of India VS. Peerless General Finance and Investment Company Ltd. The verdict inter alia reads, "Since it is the poorer class of policy-holders that may oridinarily be expected to commit default in payment of premiums, the forfeiture clause, in practice, operates harshly specially against that class, the very class which requires greater security and protection..... The number of policies forfieted are roughly 30 percent of the number of new policies issued during a year..... We notice that incidence of lapses or forfietune of policies is the highest in the first three years after the policy is issued. It does not require much imagination to see that the victims of forfeiture clause in the policies are bound to

be persons belonging to the poorer sections of the people. It does not appear that any special efforts are made by the LIC to pursuade the poor policy-holders not to allow their policies to lapse or be forfeited after paying one, two or three premiums. The incentive to agents appeared to be for securing fresh business and not for continuing old policies"[1].

The judiciary is taking a stringent view to the cases of lapsation and relying on provisions of section 65 of the Indian Contract Act to decide whether the amount forfeited for non-payment of premium is legal it held that when the contract becomes void, the person who has received any advantage is bound to restore it to the other party. Accordingly the court ordered the refund of premiums with interest at the rate of 12 percent on policies lapsed prior to insured's death for non-payment of premium even within the grace period[2].

The LIC is thus, facing through poor public and judicial images consequences of its over ambitious social security targets. There is a call to delete the pernicious forfeiture clause from Life Insurance Schemes containing an element of savings.

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1. A.I.R., 1987, Supremem Court, p. 1028. The emphasis has been added by the researcher.
2. The City Civil Court, Ahmedabad in the suit filed by Mrs. Mayana Seth and her two minor children and supported by the City based Consumer Education and Research Centre. The Telegraph, Calcutta, dated 2.2.1987, p. 1.

Complaints

The LIC is pursuing its policy of decentralisation of servicing functions to branch offices but in a giant organisation of the LIC's size a feeling of neglect is bound to remain. What is surprising, however, is that frustration arising out of policy servicing is writ not only on the face of the man in the street but also on the face of the people in the higher echelon of the society. One can imagine the state of affairs in the LIC when the following remarks emerge in a verdict from the mighty pen of a judge of the Supreme Court.

"It has a duty to serve people in the right manner. I am constrained to observe from my experience that I have found the LIC heartless whenever claims are made against it . . . . . I wish only to emphasise that the LIC should at least in future be liberal and generous when claims are made by those unfortunate few, who when robbed of their bread earners claim for insured amount and who are invariably met on technical pleas of concealment of ailment and the like. The LIC does not come out with glory when some of its dealings are considered"[1].

Settlement of claims

Though disposal of outstanding claims has shown an improvement, a lot is yet to be done to build a reputation among the masses. The outstanding rate has been brought down

1. Justice Khalid in 'Reserve Bank of India VS The Peerless General Finance and Investment Company Ltd.' A.I.R., 1987, Supreme Court, p. 1045.

to a reasonable percentage in maturity claims but the same cannot be said with regard to death claims.

Income

The main constituents of the LIC's income are - premiums, income from investments and miscellaneous income. Though the premium income formed the most important item of total income, and its amount is registering a fair growth, its relative share is on slow and gradual decline. On the other hand, income from investments has witnessed a slow but steady growth upward trend both in absolute and relative terms. Since miscellaneous income does not include any regular predictible and manageable income it remains without trend and negligible, not even one percent of the total income.

Premium Income

This income depends on business transacted and it is generally believed that larger the amount for which life has been insured more in the income through premiums from such insurance. The factors like type and span of insured policies, rate of premium and age of insured etc. greatly influence the quantity of premiums and as such in majority of cases the premium income does not keep pace with the amount of business handled. The introduction of Salary Saving Schemes and other low cost schemes has resulted in a situation where premiums incomes are at a lower level than either new business or business in force.

The income from first year's premiums is the barometer for measuring the progress of life insurance business. The renewal premium income is secondary in this regard. Between the two the first year's premium income has shown better growth and this is understandable in light of a marked rate of policy lapsation.

The single premium endowment policies and considerations for annuities are gaining popularity in recent years and their share in total premium has doubled in our study period. Though gaining popularity, such premiums constitute only 1/10th. of the total premium income.

Investment Income

As policy holders' savings increase in size (represented by the life insurance funds) investment portfolio also grows in size and so grows income from portfolio and its share in total income. There has been more than 13 percent annual growth in life insurance fund and at the same the rate of interest has grown almost 4 percent annually. Both factors taking together explain reason behind increasing share of investment income in total income. Though the rate of interest realised on the Mean Life Fund has increased by 0.5 percent and has reached to 10.30 percent during 1986-87, there is scope for further improvement in this yield. Even with the constraints of present statutory structure yield can improve by shifting corporate debentures and preference shares by equity shares. Thus LIC has played safe by not making prudent portfolio substitution.

Outgo

The ratio of total outgo to total income constituted around 50 percent and this is result of growing outgo though at a lower rate. The breakup of outgo is available under three heads, (i) claims payments, (ii) managerial expenses and (iii) transfers to reserves.

(A) Claims Payment

The majority of payments made to policy-holders are on the maturity of policies and their x percentage in total payments to policyholders has shown an improvement throughout the study period. Their percentage to total payments to policy-holders was 63.4 percent at the beginning of our study period and it rose 69.4 percent at the end of the study period. This is a welcome sign of increasing longivity.

Quite understandably payments under death claims have decreased by 25 percent during the review period (from 19.2 percent in 1975-76 to 14.9 percent during 1985-86). The payments through annuties constitute a very insignificant percentage of the total payments made to policy-holders. In course of time with the popularity of Jeevan Dhara and Jeevan Akshay payment through annuities would occupy an important place in total outgo.

Surrenders

The rate of surrenders is indicative of poor quality of business. Though surrender rate has gone down from 16.13 per cent in the year 1975-76 to 13.71 per cent in the year 1985-86 even at the present level it is very much on the high side.

(B) Management Expenses

Management expenses are the second biggest item of the outflow, next only to payments to policy-holders. There are however, basically different in nature from payments to policy-holders in the sense that whereas the former indicate repayment of money held in trust, the latter is a liability on the policy-holders funds. The lesser is the quantum of such liability greater would be the amount of benefits available to the policy-holders. At the beginning of the study period these expenses were 29.7 percent of the premium income and these camedown to 22.4 percent during 1983-84. In subsequent years these expenses have an unfortunate trend of rise - expenses shown were 25.6 percent during the year 1985-86.

The wage ~~w~~ bill constitutes the lion share of managerial expenses. It was at peak during 1975-76 and at the bottom during 1983-84, 17.42 percent and 11.54 percent respectively of the premium income. During 1984-85 this percentage went up considerably (14.05 percent) to register a marginal fall (13.82 percent) during 1985-86. The present level of expenses does not indicate the spirit of trusteeship by the LIC. The introduction of mechanisation and rationalisation of organisational structure was supposed to bring out a higher fall in these expenses but unfortunately the expectation did not materialise.

Commission to Agents

The Commission expense is directly connected with the premium revenue. It is the size of the latter which determines the quantity of the former. It has been noted that first year's commission is highly correlated with first year's premiums, renewal commission with renewal premiums and total commission with total premium income. The increase in the total new business is bound to increase the total first year's commission. As the premium is directly linked with the sum assured, commission to agents have a clear link with the premium income sum assured and not much variations were expected under this head (7.52 percent of premium income during 1984-85 and 8.96 percent during 1975-76). The LIC is, however, trying to impose a cut under this head, by introducing low commission policies, but without much success.

Other Expenses

Since this is a residuary head of expenses in the absence of reasonable back up no conclusions are possible.

Though unable to achieve the goal of economic management, the LIC claims its performance as commendable. This is either a misplaced trust or a deliberate attempt to misguide public at large. In either case it deserves strong condemnation. Comparing own managerial expenses ratio with that of insurance companies in foreign countries (Towards a Secure Future, p. 26) is comparing uncomparables, as while the LIC has not gone for substantial reduction in premium charges the same has been done more than once by the foreign companies.

Transfer to Reserves

A number of transfers are made from income to earmarked reserves under section 28 of the LIC Act, 1956. From a meagre 1.3 percent of total income during 1975-76, these constitute 5.2 percent of the total income during 1985-86. The most significant part of the story is that as the sole share-holder of the LIC, the Government is enjoying 5 percent of the valuation surplus. During our study period it has enjoyed a return of Rs. 184.375 crores (188.91 crores Rs. 4.535 crores, being valuation surplus for the year 1974-75) on a capital employed of Rs. 5 crores! Simple average annual rate of return on capital employed comes to 368.75 percent ! Hardly one will find so lucurative a business other than speculative with the great risk of capital loss. To Era Seshiyan, (the Chairman of legendary committee to Review the Working of LIC, 1980) it was "something fantastic and abnormal when compared to the performance of 201 public enterprises with Rs. 29,896 crores of capital employed as on 31st.March,1984, giving a dividend of Rs. 133 crores only which meant a return of 0.44 percent"[1].

Life Insurance Fund

An increasing size of life insurance fund is a clear indication of progressive business. If the rate of increase of life insurance fund is progressive, it would undoubtedly

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1. Seshiyan, Era, LIC's role in National Economy, Economic Times, New Delhi, May 26, 1985, p. 6.

lead to a significant increase in life insurance business. The life insurance fund witnessed a faster growth during period prior to our study. As against 6.39 times rise in total income, the growth in life insurance fund was 7.39 times, this could be achieved due to slower growth (6.12 times) in total outgo during this period. This was a very encouraging sign which unfortunately, could not be maintained during our study period. Though total income grew 3.72 times the growth, in life insurance fund was only 3.68 times. This slower growth in life insurance fund was caused by more than proportionate growth in total outgo (3.82 times) as compared to growth in total incomes.

Frame Work of Investment

The investment policy of LIC is regulated by a number of financial and economic as considerations; important of them are its obligations to policyholders, maximation of return on investment along with safety of capital and finally, the requirement of liquidity to meet its unseen obligations which may come at any moment.

The most important statutory device of controlling the LIC's investment is the provisions contained in section 27A of the Indian Insurance Act, 1938. The two most important factors that are taken into consideration while investing the LIC's funds are: to protect the interest of the as numerous policyholders scattered throughout the length and breadth of the country and abroad, and secondly the channelise the savings mobilised in the form of premiums

in such a way that will foster the welfare schemes of the Centre, States and local self governments.

Volume of Investment

The total investments have gone upto Rs. 12,264.15 crores as on 31st.March, 1986. This records 3.68 times increase in the funds, when compared with investments at the beginning of our study period.

Investment in Government And Approved Securities

During first six years of our study period more than 50 percent of the total investments (51.7 percent to 53.4 percent) were invested in government securities. In later period of 5 years, these investments accounted for less than 50 percent (48.3 percent to 49.0 percent). Of this, investment in government securities, around 65 percent was made in Central Govt. securities, 30.0 percent in approved securities and 5 percent in State Govt. securities. Our period witnessed a significant decline in State Govt. securities held by the LIC, it came down to 20% of its percentage at the beginning of the study period. The benefit of this decline was shared almost equally by Central Govt. and approved securities. Each of them registered around 26.0 per cent growth in investment over the investment at the beginning of the study period. The fall in holding of State Govt. securites appears to be the result of the informal control exercised by the Central Govt. In approved securities category, the securities of Electricity Boards, Land Development Banks and Statutory Corporations cornered more than 90 percent

of the LIC's investments. The rest 10 percent of the investment was shared by remaining approved securities. During 1975-76 around 57 percent of total investments in approved securities was spread over Maharastra, West Bengal, U.P., Gujrat, Andhra Pradesh, Tamil Nadu and Bihar. Their share, however, came down to 37.5 percent during 1985-86. This shows a significant change in regional distribution of approved securities.

Corporate Financing

Although a small proportion (9.3 percent as on 31.3.86) of its total funds is invested in the industrial sector, the magnitude of the LIC's resources is such that even this small proportion constitutes one of the largest single sources of industrial finance. The LIC supplies funds to corporate sector in three forms, namely, investment in corporate securities, direct lending and subscriptions to shares and bonds of special industrial financing institutions.

Investment in Corporate Securities

LIC's investment comprises of direct purchase of securities in the industrial securities market and underwriting of new securities. The role of the LIC as direct buyer of industrial securities has changed remarkably. Though the Corporation's securities purchases expanded considerably in recent years the role of LIC as buyer has diminished over the years. This becomes more glaring when

the outstanding portfolio of the industrial securities is related to its total funds, total assets and total investments. The reasons responsible for this are: the marked preference of the LIC for financing socially - oriented infrastructure and initiation of new forms of financing of private industries by LIC such as direct lending to industries and entry of UTI in the industrial securities market which has to some extent relieved the LIC of its responsibility to support the industrial securities market.

Another dimension of LIC's investment is nature-wise purchase of securities. Its investment in equities has x shown a sharp decline - it has almost gone down by half in its share in corporate securities portfolio. Though preference shares all along occupied the third place in corporate portfolio, their share in the portfolio has come down to one-fourth of what was at the beginning of the period. And of course, gainers out of this decline are debentures which from modest 26.2 percent of corporate portfolio at the beginning rose to 64.1 percent at the end of the period. ~~X~~ These are now not only leaders but have substituted their place with the equity securities. This definite change in investment pattern is result of playing safe attitude of the LIC.

The LIC has consolidated its underwriting policies and strengthened the mechanism of its underwriting activities. The underwriting by LIC is merely an extension of its investment operations and not a business by itself. Therefore,

when the LIC agrees to underwrite a particular issue, it applies in full for allotment while other institutional underwriters put their applications for deficit in the public subscriptions. The LIC prefers to have a firm allotment because of its large resources while the objective of other institutions is to fill-up the gap in the public response. The LIC has pursued selective approach by according greater weightage to senior securities relative to equities in view of the imperatives of its investment policy in view of the imperatives of its investment policy in which debentures on account of fixed return and prior claims on income and assets fit into the so called cannon of sound investment.

Direct lending to industrial enterprises constitutes the most prominent source of Corporation's financing of private corporate sector. The main factor contributing to the immense popularity of lending is to be found in the Corporation's sincere attempt to improve the yield on investments by taking advantage of higher rates of interest on loans in the context of restrictions on dividend on equity shares following the Dividend Restrictions Ordinances in July, 1974. Dearth of sound securities in the stock market might have also motivated the Corporation to assist the companies by way of lending.

The LIC's indirect financial support to special financial institutions has also increased significantly. During 1985-86 this support amounted to Rs. 528.24 crores accounting for 4.3 percent of the total investments made during the year. Three-fourths of this assistance was bagged by IDBI and the rest by IFCI and SFCs.

Zone-wise Distribution of Assistance

The Western and Eastern Zones taken together account for a major chunk of investments, it varied between 72.2 percent and 79.0 percent of the total investments during the study period. The remaining three zones shared less than 30 percent of the investments. The Southern Zone credited with the highest life business contribution received only 15 percent of LIC's corporate investments. There is a definite bias in granting loans to Western Zone where situates the LIC's head quarters. The regional disparity in granting financial assistance was on decrease.

The State-wise distribution of assistance also shows a definite preference for Maharastra. The preference shown to West Bengal during earlier periods has considerably been eliminated, Kerala, Karnataka and Gujrat have improved their position at the cost of this decline.

The industry-wise distribution of assistance shows that engineering industry has accounted for more than one-fourth of corporate securities, followed by electrical goods industry accounting for 15.20 percent of total securities. Though the share of engineering industry has increased during our study period, the cotton textiles ranking second (accounting for 9.31 percent of securities) slided to fourth position (accounting for 8.07 percent) at the end of study period. Electrical goods industry raised its share from 5.27 percent to 15.2 percent and chemicals industry from 4.85 percent to 9.85 percent.

Investments in Big Business Houses

The LIC's investments are heavily concentrated in large and well established companies. The investments in large groups and single large undertakings have shown an increasing share at the cost of other undertakings. Even among Large Groups, some groups, notably Ashok Leyland, Singhania, Larsen and Toubro, Mahindra and Mahindra and Modi offered better investment opportunities and LIC's share showed a rise in them. Conversely, Sri Ram, Soorajmull Nagarmull and Walchand were not considered so good for the investments and registered a fall in their respective shares. The remaining of the groups did not mark any appreciable variation in their slice of investments.

Investments in Socially-oriented Schemes

With the amendment in section 27-A of LIC Act,1956 requiring LIC to invest around 25 percent of the total accretion to controlled fund every year in the socially-oriented schemes, the LIC entered in a big way in the public welfare investments. Whereas at the end of 1957, LIC's investments in socially-oriented sectors were of the order of Rs. 8 ½ crores only, because of the Statutory efforts, refered to above, such investments as on 31st.March,1986 exceeded Rs. 5780 crores[1]. They now constitute more than 51.20 percent

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1. Such investments rose to Rs. 6,445 crores as on 31st.March,1987, representing annual growth rate on 11.51 percent.

of the total investments. The fund is invested for the benefit of the community, by and large, in the fields of power, housing, water-supply sewerage, agriculture, agro-industries, industrial estates and bonds and shares of various financial corporations at the State as well as all India level. This is in addition to Rs. 4,367 crores invested in the Central and State Government securities which are also utilised for nation building activities.

LIC's Role in Investee Companies

With the recommendation of the Industrial Licensing Policy Inquiry Committee that all State-sponsored financial institutions should actively participate in the management of investee companies, the LIC was asked to make a modest beginning in this regard. The LIC did start using its voting power in various forms against the erring management of some corporate enterprises[1]. Such intervention in corporate management is an integral part of the overall policies of the government of employing equity holdings of all public financial institution for enlarging the role of state in management and control of corporate industry. This role, however, suffered a set back when it was challenged by Escorts Ltd. The Bombay High Court decided, "the provisions of the LIC act do not authorise the taking over of companies only because the LIC by itself or along with other financial institutions happen to invest considerable sums of money for hold

1. Khan, M., by Industrial Finance, Tata McGraw Hill Publishing Company Ltd., 1982, p. 40.

over 50 percent of the shares in the borrowing company, nor does the policy decision of the Union Govt. authorise them to take over the management or do any act which virtually amounts to taking over the management of another company. That can be done only for the purpose of safe-guarding the investment made by it"[1]. Though the decision based on the reasoning of the learned court a was reversed by the Supreme Court[2] as such reasoning was not touched upon and, hence, a doubt lingers as to LIC's role in the investee companies. Further neither the LIC touches upon this point in its annual reports nor has the researcher come across any reference to a published study in this area.

Organisational Structure

The enormous expansion of LIC's operations caused some structural strains and a review of entire organisational set up became necessary to ensure that the Corporation's services to the policy-holders did not lag behind and inter-departmental co-ordination at various levels continued to be effective. According to Ishwar Dayal, who was directly involved in the reorganisation programme, the changes were brought about in branches, at supervisory office such as divisional and local head office, at the zonal and central offices.

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1. Escorts Ltd. and another VS Union of India and others, The Indian Law Reports, Bombay, Series 1985, p. 1140.
2. LIC's of India VS Escorts Ltd., A.I.R., 1986, Supreme Court, p. 1370.

These changes included the decentralisation of work at all offices, the new definition and specific areas of work, the new control and supervision method, the new relationship that the new roles require, an intensive multi-level training for performing the emerging roles. The operational data in post decentralisation era show steady improvement in all directions.

Though LIC has made efforts to provide stability and sense of direction to this monolithic organisation the same outlook is unfortunately missing on the part of the Union Govt. in placing man at the top. More than half of the persons who held the highest office of the Chairman were drawn from the government service and had no previous experience or training in insurance industry. As many as seven of the Chairman remained in the office for less than two years. The other three held office for more than two years but less than three years. One of the incumbents performed as Chairman-in-Charge for about three years and when he was given substantive appointment he was allowed to hold it hardly for a year. The tenure of the Members of the Corporation showed the similar trend. About 50 percent of the members remained in office for a period ranging between 18 to 24 months. One-fourth of the members remained in the office for less than 18 months. Only 6 percent of the members enjoyed a tenure of three years. This tenure patten of membership is no where near Morarka Committee's recommended tenure of five years.

The agency force lack sense of professionalism. Hardly any post-sale service is available to the policyholders. The training efforts of the LIC, considering the magnitude of task involved, are far and few.

Savings through Life Insurance

At the beginning of our study period life insurance fund was 8.5 percent of the savings of the household sector in the form of financial assets. Since then it has decreased in its share and has gone down to 6.9 percent during 1985-86. This fall in share has been gain of other savings media namely currency holdings, loans to companies, corporate securities, etc. Not only life insurance has become unattractive as savings media, it has also become an unattractive media of risk coverage.

LIC VS PLI

For whole life limited insurance policy (with profits), the difference between annual premiums of LIC and PLI at an entry age of 20 years for a sum assured of Rs. 1000 ranged between Rs. 3.95 and Rs. 4.75 for the terms of 30 years and 50 years respectively. The average premium rate at an entry age of 20 for 30 to 50 years terms is 20 percent higher in the LIC than in the PLI. Incase of Endowment Assurance PLI is cheaper than LIC first because the rate of premium is lower and secondly because PLI bonus rate is higher. The premium raten vary between Rs. 6.30 and Rs. 8.55 per annum per thousand sum assured in the age group of 20 to 50 for 10 years endowment term. Under whole-Life Convertible assurance policy for a person of 20 years for terms of 30 to 40 years the premium differential ranges between Rs. 3.15 to Rs. 3.60 per thousand. In case of Anticipated Endowment Assurance the average extra premium charged by the LIC,

as compared to PLI in respect of 15 years and 20 years terms for the age group between 20 and 45 is 7 percent.

To sum up the savings through PLI is all the more attractive. At various ages of entry and for different terms of insurance for each rupee of premium paid LIC returns between Rs. 1.36 and Rs. 1.69 whereas repayment by PLI varies between Rs. 1.46 and Rs. 1.81.

LIC VS ULIP

The savings through ULIP with security cover upto Rs. 40,000 is all the more attractive. At various ages of entry and for different terms of insurance for each rupee of premium paid LIC returns between Rs. 1.36 and Rs. 1.69 whereas repayment by ULIP varies between Rs. 1.74 and Rs. 2.44.

Though the LIC is fighting a losing battle against other savings media it has succeeded in resisting its degree of fall against PLI and ULIP through its enormous army of agency force. Without mending its ways it cannot, however, resist its fall to other media for a long time.

PLI AND ULIP

Discriminatory Charge For Risk Cover

Not only premium rates of LIC are higher than that of PLI and ULIP these become discriminatory betwee a tax-payer insured person and a non-tax payer insured person. For example, a non-tax payer paying annual premium Rs. 1000/- has to bear the full incidence of Rs. 1000/-. A tax-payer

insured person, on the other hand, though pays Rs. 1000/- as premium but ultimate incidence of premium is not more than Rs. 750/- as x for the rest he gets a rebate in income-tax. The quantum of rebate goes on increasing with the tax bracket of the person. In the name of socialism we charge more from those who can hardly afford and less from those who have ability to pay ! Even in fixing rates of premium the long term policies meant for weaker sections of society are economically not so attractive as those tailored for better off sections of society (the benefits offered under Money Back Policy are a pertinent example). Again short term policies combined with money back features are heaven sent gifts to tax evaders.

SUGGESTIONS

The appraisal of performance of LIC leads us to the following humble suggestions:-

(1) The LIC was established as a harbinger of hope to provide social security to the largest number of people at the cheapest cost. The government knowingly or unknowingly has complicated the LIC's operational mechanism in course of time. The Corporation should be allowed to run on purely commercial basis at least for the sake of experiment. This calls for the following steps:

(a) The deductibility of insurance premiums should be taken away from the purview of section 80 (c) of Indian Income-Tax Act. This would make it premium burden uniform to insurable community belonging to different income groups.

(b) Section 27-A of Insurance Act, 1938, LIC Act, 1956, should be amended in such a manner that would give full commercial freedom to LIC to decide its investment policy which should primarily serve the interest of policy-holders. Alternatively, the government should acquire the whole of the Life Fund from the LIC and pay maximum postal savings rate of interest. This would bring people's money for people's use at the disposal of the government but not at the cost of insured population dominated by the weaker sections of society. The latter step can relieve the LIC of its investment exercise burden and it can concentrate on better servicing to policy-holders.

(c) The amount of surplus paid to the Central Govt. is exorbitantly high in terms of rate of return on capital employed. The government should be satisfied by accepting a reasonable return on capital, say at the rate of 15 per cent on capital employed.

(d) Admitedly the government has right to direct LIC to provide social security covers free of cost or below cost because this may be convenient mechanism of subsidising the weaker sections of the society. But it should not ask for cross subsidisation i.e. requiring LIC to charge more than warranted on risk consideration from one section and provide insurance cover free of cost or at below cost price to the other. The LIC should be directed to reflect its cost in premium rates and if any, subsidy is to be given to any section of the society, the differential should be contri-

buted by the government. This would, on one hand, protect commercial freedom. On the other hand, it would enable performance appraisal a less complicated task. The present arrangements hardly enable an objective performance evaluation.

(c) The government should sign a memorandum of understanding with the LIC, as it has done in the case of BHEL, ONGC, NTPC etc. This memorandum should clearly lay down role and responsibilities of the LIC. If the LIC is asked to discharge a social obligation with serious financial implications, suitable mechanism should be devised to compensate for financial losses of these activities.

(2) Though the LIC has reduced the premium rates of a few plans in the past, it has been of minor nature and related with only those policies which are not well popular. The time has come when the LIC has no option to consider whether or not to reduce the premium rates but to seriously examine the extent to which the rates can be brought down. Such step will go a long way to achieve its objectives of spreading of social security cover widely with special attention to rural areas and socially and economically backward classes.

In terms of priority, the goal of premium reduction should not be confused with the goal of maximising return on policy-holders' funds. It would first ensure risk cover at the lowest possible cost so as to ensure social protection to the teeming millions and then go for maximisation

of return on premiums, realised. Need one remind LIC, the following remark of the then Finance Minister at the time of placing the Life Insurance (Emergency Provisions) Bill 1956, before the Lok Sabha on February 29, 1956. "The premium mist be no higher than is warranted by strict noturial considerations".

(3) The LIC's insurance policies are fast losing grounds as an attractive media of savings in comparison to other savings media engaged in the mobilisation of savings. Post Office Recurring and Time Deposits, National Savings Certificates, and Bank Deposits have grown faster than the life insurance deposits in recent years. LIC and UTI are the two keen competitors in the field of mobilisation of savings. The total amount received by way of premiums by the LIC in the year 1983-1984 was Rs. 1,355 crores while the total receipts of UTI during that year remained Rs. 331 crores less than the LIC.

But the LIC was left far behind in the year 1984-85, inspite of its, government given monopoly. Premium income of the LIC increased by 15.06 percent in the year 1984-85 over the previous year whereas the unit income of UTI increased by 115.48 percent during the same period. Therefore, the LIC has to find some ways and means to revitalise itself and stand firmly against already losing battle.

Inflation hits hardest the long term savings like life insurance and that is why life insurance is fast losing ground as an attractive investment of savings. In order to compensate moneytary loss due to fall in money value, the

LIC should issue inflation linked policy, a special feature of competitive insurance companies world over.

(4) The bonus rates, though increased unexpectedly in recent years in comparison to LIC's part records (in case of Endowment Policies, it has gone up from Rs. 17.60 to Rs. 58.00 per thousand and in case of whole life policies from Rs. 22 to Rs. 72.50 per thousand), is even now lower than that paid by PLI. The rate of bonus should be at par with that of its immediate competitor, PLI, if not higher.

(5) Till constraints on LIC's investments are relaxed the LIC should improve return on its investments by raising volume of corporate securities to 10 percent level. Within the corporate securities it should invest in equity shares as good securities are now - available in the capital market. By investing even the whole amount of 10 percent in Corporate equities it would be running no risk of return as the remaining 90 percent is virtually in the form of fixed return investment. Besides, raising rate of return it would also hedge against inflation.

(6) The forfeiture clause of the LIC should be immediately done away with. It is a pernicious clause which inflicts injustice specially to the lower income group of savers. This clause should be amended in such a way that the savings component of premium (money received from the policy-holders less expenses incidental to such lapsed policies) with a reasonable rate of interest thereon is refunded to the unfortunate policy holders.

Since it is the poorer class of policyholders that ordinarily commits default in payment of premiums the forfeiture clause in practice, operates harshly against the very class which requires greater security and protection. It has been alleged that the bonus comes out of the amounts of the forfeited policies and that is really the poorer class of defaulting policyholders whose policies are forfeited that are paying bonus to the class of policyholders who are better off. This is surely not the way to minimise inequalities in income, not among individuals but also amongst groups of people.

If the LIC is really interested in treating poorer policy-holders less harshly and more liberally it should think in the direction of deleting forfeiture clause with some incentive such as reduced premium for continuing to pay premiums regularly. The highest Court of the land was "Sure that with the management expertise at its command the LIC can devise a myriad ways of serving the poorer section of the people of our country as also to tap the huge untapped savings resources".

(7) The poor quality of business is the main cause of high rate of lapsation and surrenders. The Corporation should not be over ambitious in procuring new business 'any how or some how'. The high rate of lapsation can be checked by including it as criterion in evaluating the performance of agency force, development officers and development managers.

First Year's high commission on premium payable to agency force should be spread over first three years in a way that the highest credit for new business is received after three years. Alternatively, for each policy discontinued within the first three years a suitable recovery should be made for already drawn commission on such policies.

This will induce the agency force to procure only sustainable business and to motivate policy-holders to continue their policies. No special efforts are presently made to pursuade the poor policyholders to continue their policies after paying one, two or three premiums. The incentive to agents appears to be for securing fresh business (good, bad or indifferent) and not for continuing old policies.

(8) It is a well known fact that LIC agents do nothing for which they get renewal commission. It is suggested that it should be made binding on them to visit their clients when the premiums are due and remind them to pay the same. In cases where policies, have lapsed the concerned agents should be asked to furnish a detailed report on such lapses. On the other hand, the policy holders should also be advised by the Corporation to lodge complaints against the agents if they (policy holders) are not satisfied by the services of agents. In some selected cases, some of the agents who are attached to the LIC for a long time and have a sound credibility with the LIC, may be authorised to collect premiums from the policy-holders on experimental basis and if this scheme succeeds the same may be widened in phased manner.

(9) The high agency commission policies are the most popular policies, generally the premium rates of such policies are higher. The promising policies with economic premium rates, but with low commission do not hit the market. Some mechanism should be devised by which cheaper policies also marketed by agency force. The LIC should also, independent of agency force, publicise widely attractive features of newly introduced policies.

(10) To reduce the expenses incurred on stationery, printing and manmual labour in respect of issuing premium notices to the policy-holders paying premiums quarterly, half-yearly or annually, the LIC should immediately stop this system. This job of reminding the policy-holders of their due dates should be assigned to the concerned agents. This will at least justify the payment of renewal premiums to them. Further, the LIC should make a thorough analysis of its manmual forms, and registers etc. in order to rationalise them. This action may bring down the management expenses of the LIC to a great extent.

(11) The LIC should introduce a Pass Book System instead of issuing premium receipts. It will be cheaper and convenient both on the part of the LIC and the policy-holders.

(12) To promote the rural business a workable system should be found out in which policyholders would be provided with a Pass Book and the premiums can be deposited with the nearest post office. This would, however, require a service arrangement with postal authorities.

(13) The performance of the LIC in providing rural credit cannot be said satisfactory. The Corporation may well be advised to start "Own Your Farm Scheme" on the pattern of 'Own Your House Scheme'. It can play an important role in the rural branch expansion. The Corporation may also grant loans to farmers for minor irrigation schemes.

(14) Expenses relating to portfolio management should be shown by the LIC to ascertain the real rate of return on its investments.

(15) Notwithstanding, the LIC's annual reports supply detailed classification of investments, the same do not contain information in respect of yield rates on such investments. The LIC should let its policy-holders know the rates of return on each class of investments. Therefore, we suggest for the exhibition of such rates in its annual reports.

(16) The tenure of office of LIC's Chairman and Members is too short to understand the gravity of problems. Therefore, it should be extended to five years.

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