

CHAPTER IV

INCOME AND OUTGO

## CHAPTER - IV

INCOME OF LIC

The main ingredients of LIC's income are : premiums<sup>1</sup>, income from investments<sup>2</sup> and miscellaneous income.<sup>3</sup> The relative share of each of the components of income for study period has been shown in Table IV.1. Though the premiums form the most 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, registration 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, actuarial 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	31.85	1854

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

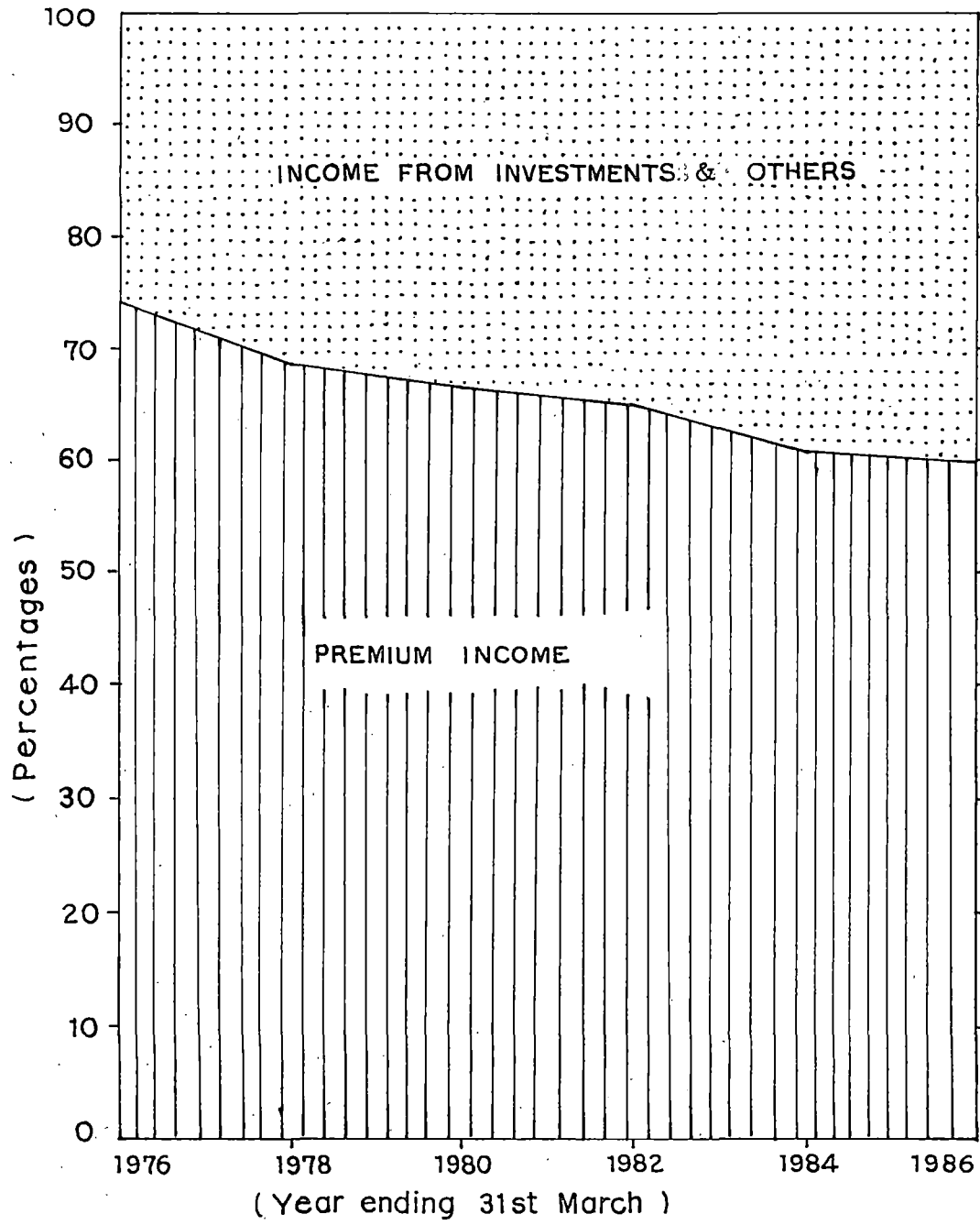
TABLE IV.2

## COMPOSITION OF TOTAL INCOME (IN PER CENTAGE)

Year	Premium as % to total income.	Income from Investments as % to Total income	Miscellaneous a % 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.<sup>1</sup> Further, the increase 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<sup>2</sup> and annuities<sup>3</sup> 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 50% 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.<sup>1</sup>

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 V.11, 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.

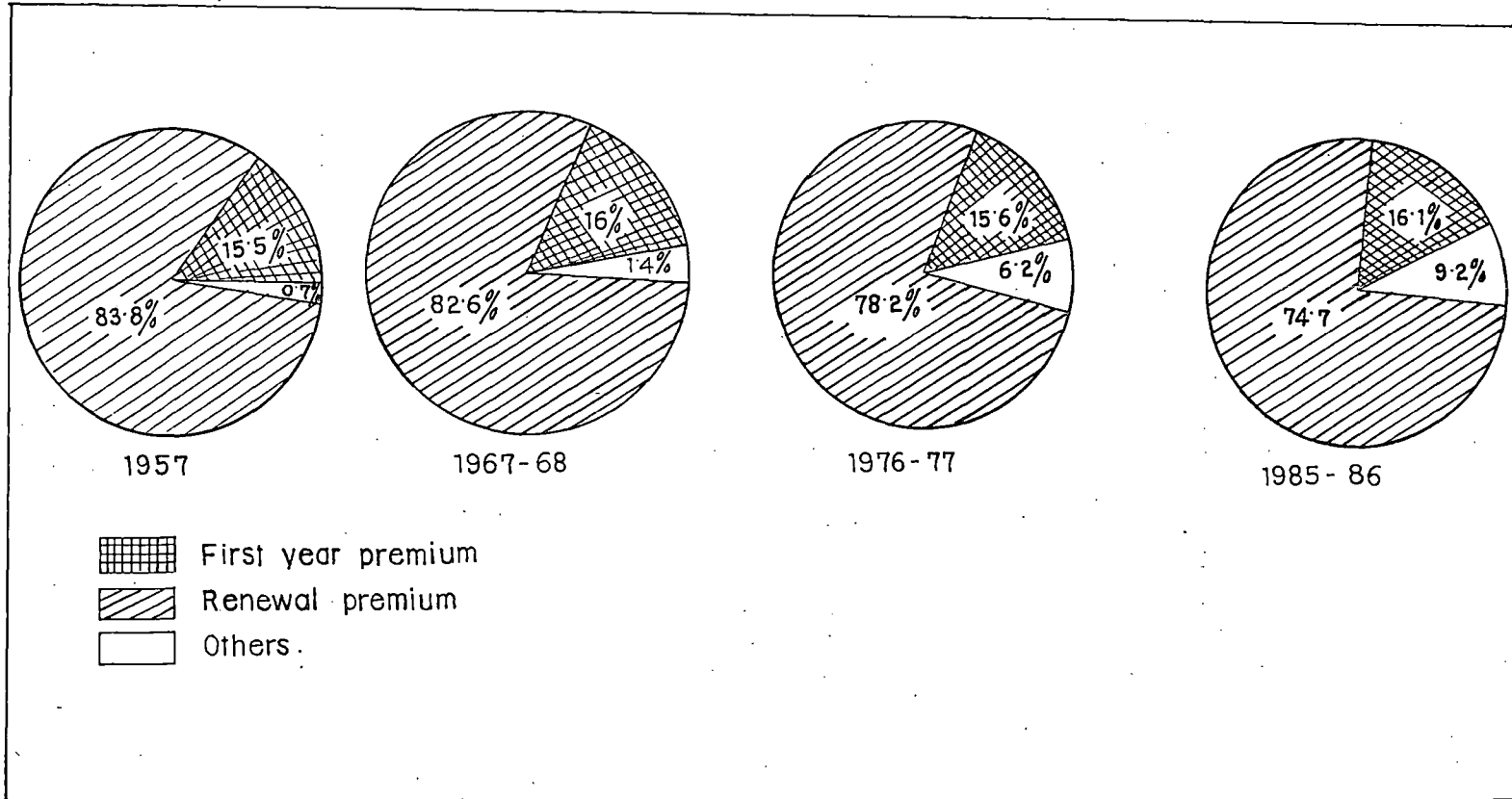
TABLE IV.3  
COMPOSITION OF LIC'S PREMIUM INCOME  
(IN PERCENTAGE)

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 next 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 speedier 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 Expen- ses 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	0.2	754.47	45.0
1982-83	62.4	31.2	6.4	838.23	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 .

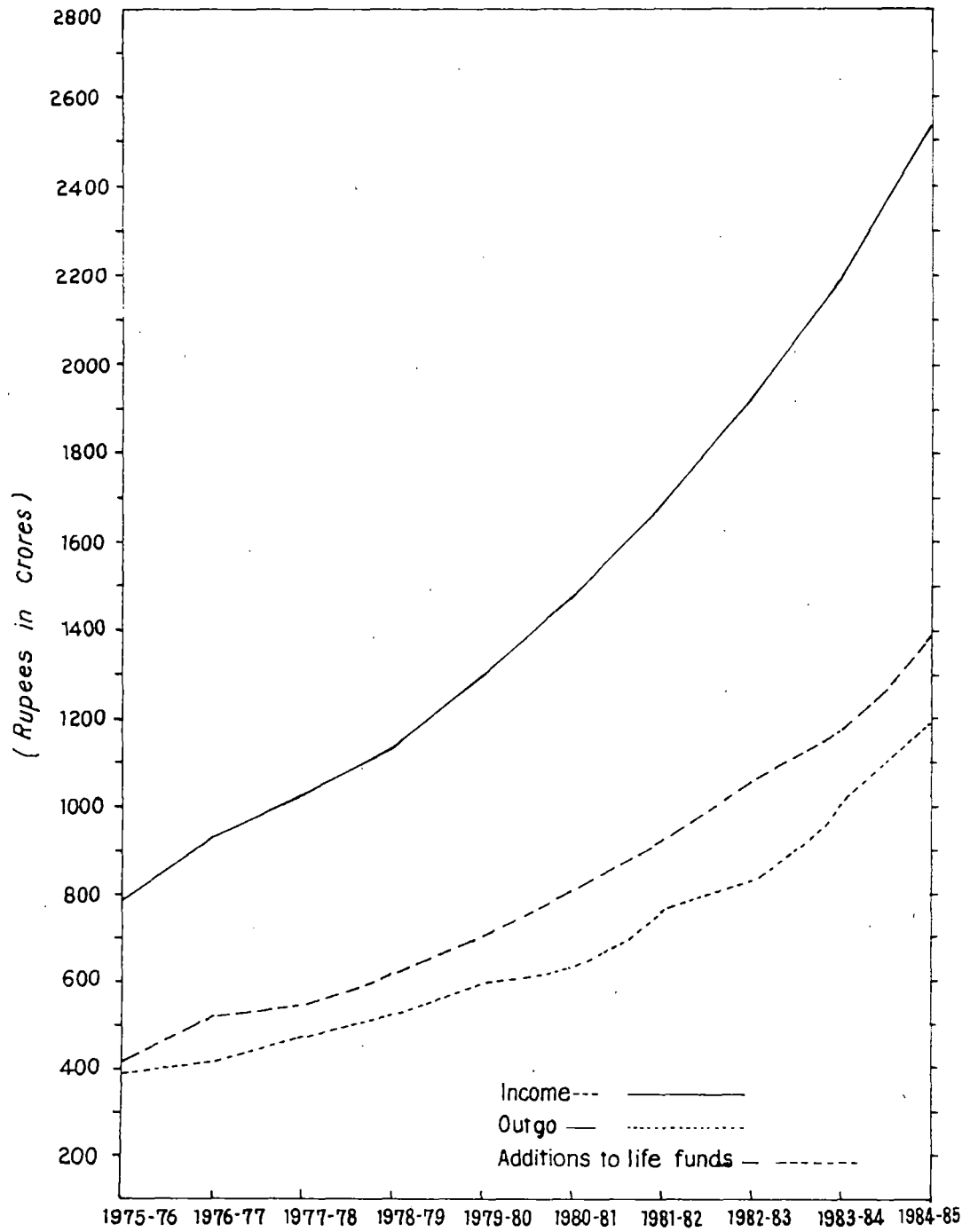
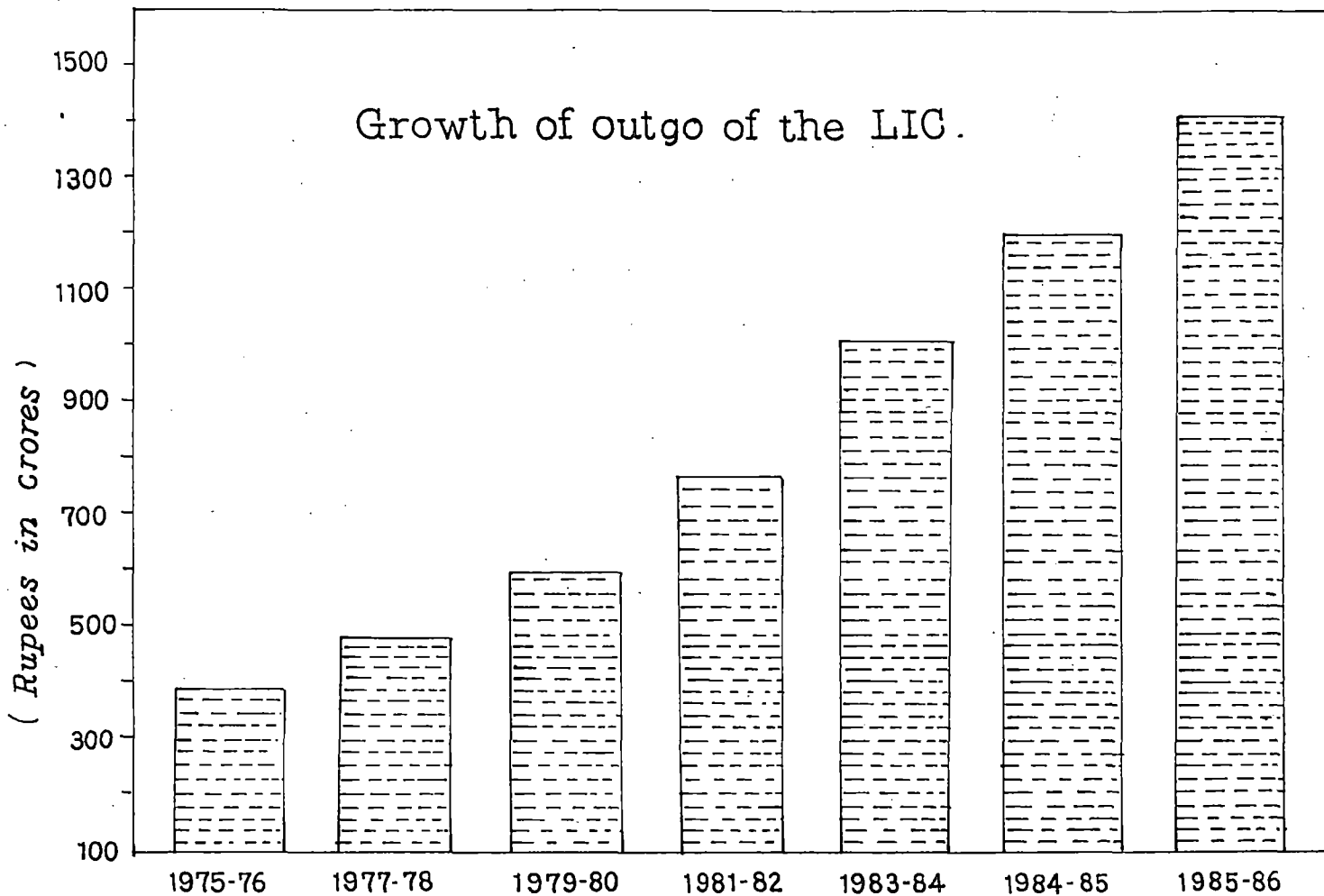


Fig.IV-3 .



( 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 longevity. 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	Naturity Claims % to total payments	Share of Claims in Total pay- ments (2 + 3)	Annuity claims as % to total payments	Surrender payments as % to total pay- ments.
(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	1.3	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

## Sources:-

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 1975-77 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 its 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 1958 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.<sup>1</sup>

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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<sup>1</sup> 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	6.25
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 ex- pense 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	261.59	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) <sup>there has been</sup> 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	0.02	-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 unmistakable 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

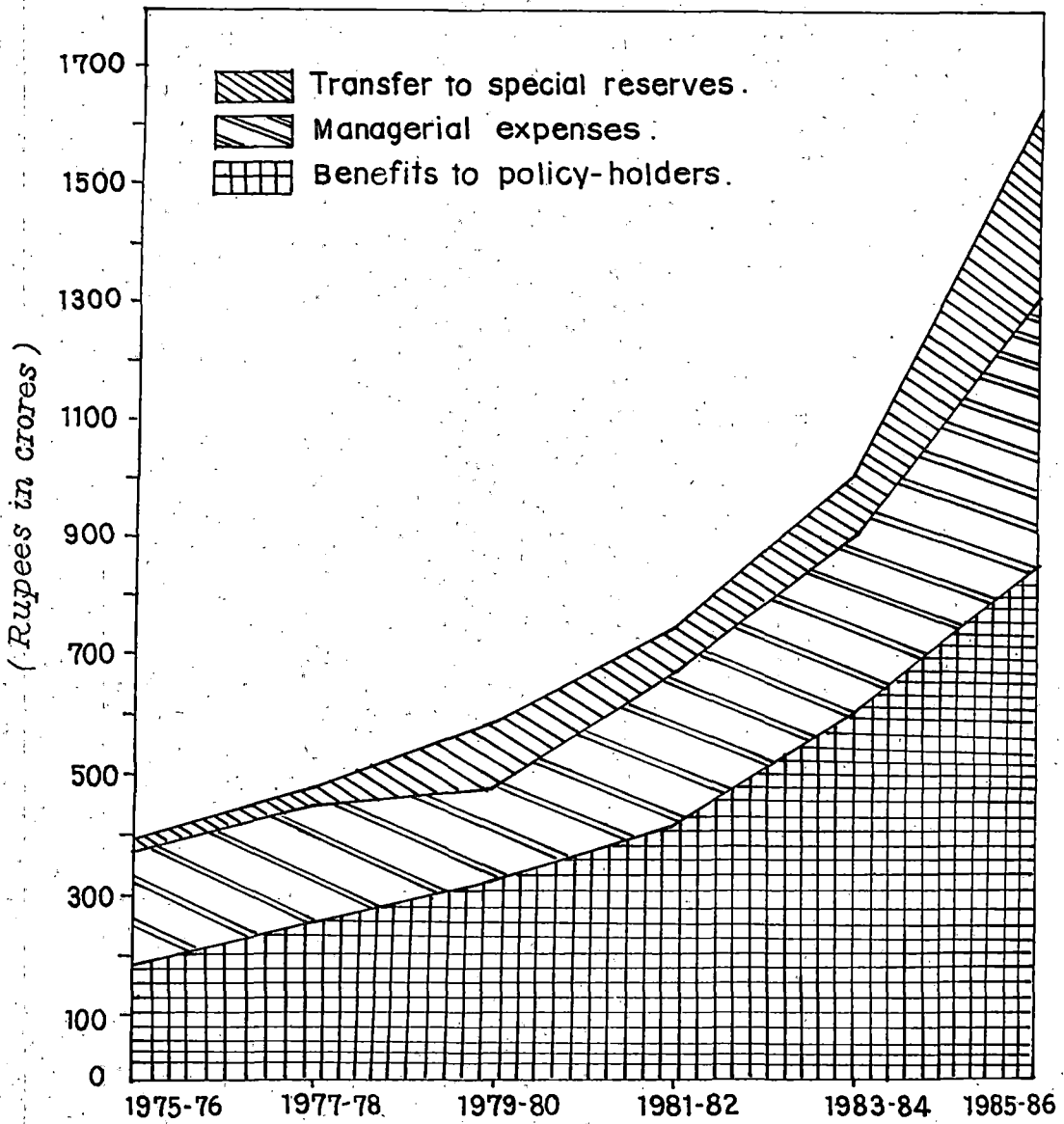
EXPENSES OF MANAGEMENT AS PERCENTAGE TO  
PREMIUM INCOME

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



( Fig. IV-5 )

to day operation of business. Other expenses of the Corporation have risen from Rs.4.35 crores<sup>1</sup> 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. But in 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 prospects, 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 (actuarial provision is made for such expenses in premium calculation also) as generally adopted as a yard stick of economic management of a life office"<sup>1</sup>

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."<sup>2</sup>

We, however, beg to differ and so does researcher community. But for constraints of space it is possible to demolish this misplaced confidence. The Morarka 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 are 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"<sup>1</sup>. Though such 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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<sup>1</sup> 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 actuarial valuations have taken place between the periods 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, <sup>being</sup> 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: (i) 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	59.16	391.60
March 31, 1986	52.75	527.50
Total	188.91	368.75 %
Up to 1986		

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.<sup>1</sup> Perhaps that is why it has been suggested by different committees to reduce the percentage of surplus valuation payable to the government.<sup>2</sup>

### 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"<sup>1</sup> 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 which is 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."<sup>2</sup>

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.

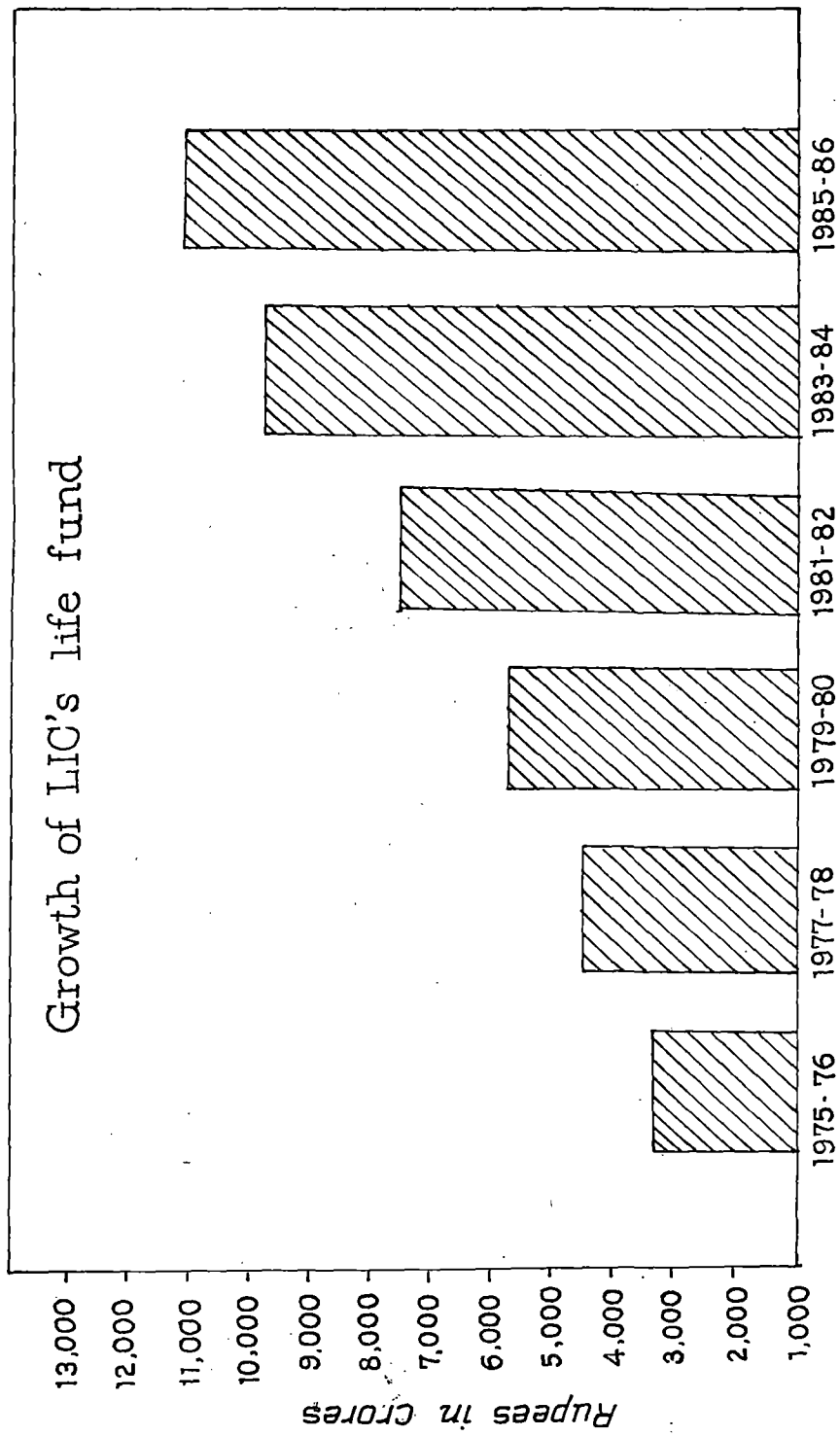
2 Clayton, G. and Osborn, W.T. : Insurance Company Investment. George Allen and Unwin Ltd., 1958, p. 53.

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 previ- ous year)	Rate of interest realised on mean Life fund (Gross)	Percentage Increase of in rate of Interest On Mean Life Fund over pre- vious 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	9.45	2.94
1985-86	12,665.95	13.18	9.87	4.33
1986-87	14,502.20	14.50	10.30	4.36

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



( 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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