

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 LIC¹ :

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.

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 sum 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 or 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 purview 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. In spite 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 premium 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^{is} 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	78-79	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	0.56
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 Gathi	-	-	-	-	-	-	-	-	-	-	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 astericks.

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 Sathi 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: (1) 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 40.82 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

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-

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

(11) + (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-	1977-	1978-	1979-	1980-	1981-	1982-	1983-	1984-	1985-
	1976	1978	1978	1979	1980	1981	1982	1983	1984	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.

sales 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 nothing else."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'.

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.

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

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 consciousness 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 calendar and financial years should be eliminated by an efficient and effective administration having proper co-ordination with the offices under salary savings schemes.

Lapse Ratio

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

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 comparison 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 unorganised 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.5Net Lapse Ratios -

Year of New Busi- ness	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	19.5	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.

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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 it lapsed under the same calendar year, how much in the 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 acquired during a particular year lapses within three years' duration. The duration-wise total lapses of the Gresham and

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)	Percentage
1975-76	6.25	876.89	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

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, 26th 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.

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 Bra 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 decentralization 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 policyholders. This would enable the better services to the policyholders

1 Bra 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 their queries, 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	Commi- ssion	Premium Receipts etc.	New Busi- ness	Loans & Surren- ders	Transfer of re- cords	Misc. & other PHS Fun- ctions		
1975-76	5708 (31.4)	2483 (13.6)	4177 (23.0)	712 (3.9)	2,189 (12.0)	1611 (8.9)	1309 (7.2)	18189 (100)	0.94
1976-77	3948 (32.3)	1731 (14.2)	2462 (20.1)	545 (4.5)	1674 (13.7)	940 (7.7)	919 (7.5)	12219 (100)	0.61
1977-78	2387 (30.5)	998 (12.8)	1272 (16.3)	458 (5.9)	1545 (19.8)	564 (7.2)	594 (7.5)	7818 (100)	0.38
1978-79	3379 (34.3)	1280 (13.0)	1425 (13.5)	689 (7.0)	1639 (16.8)	610 (6.2)	802 (8.2)	9824 (100)	0.47
1979-80	3928 (37.9)	1272 (12.3)	1390 (13.4)	606 (5.8)	1591 (15.4)	738 (7.1)	835 (8.1)	10360 (100)	0.48
1980-81	4349 (39.1)	1183 (10.7)	1467 (13.2)	813 (7.3)	1620 (14.6)	822 (7.4)	857 (7.7)	11111 (100)	0.49
1981-82	4948 (43.6)	1051 (9.3)	1477 (13.0)	708 (6.3)	1555 (13.7)	836 (7.3)	770 (6.8)	11345 (100)	0.49
1982-83	3915 (40.3)	977 (10.1)	1393 (14.3)	555 (5.7)	1317 (13.6)	872 (9.0)	682 (7.0)	9711 (100)	0.37
1983-84	3862 (41.6)	1061 (11.4)	1251 (13.5)	437 (4.7)	1058 (11.4)	833 (9.0)	780 (8.4)	9282 (100)	0.49
1984-85	3568 (40.9)	1059 (12.2)	1164 (13.3)	378 (4.3)	942 (10.8)	861 (9.9)	749 (8.6)	8721 (100)	0.40
1985-86	3443 (41.1)	1056 (12.6)	1065 (12.7)	37 (4.4)	867 (10.4)	879 (10.5)	681 (8.3)	8,372 (100)	0.31

Source: Compiled from LIC'S Annual 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.B

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-

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

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 Intimated claims 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	0.85	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 has not so much improved with regard to the settlement 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 in less 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 8.44% in 1975-76 to 5.62% during 1985-86. The trend in number of policies settled is equally

TABLE III.10

Statement 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)
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

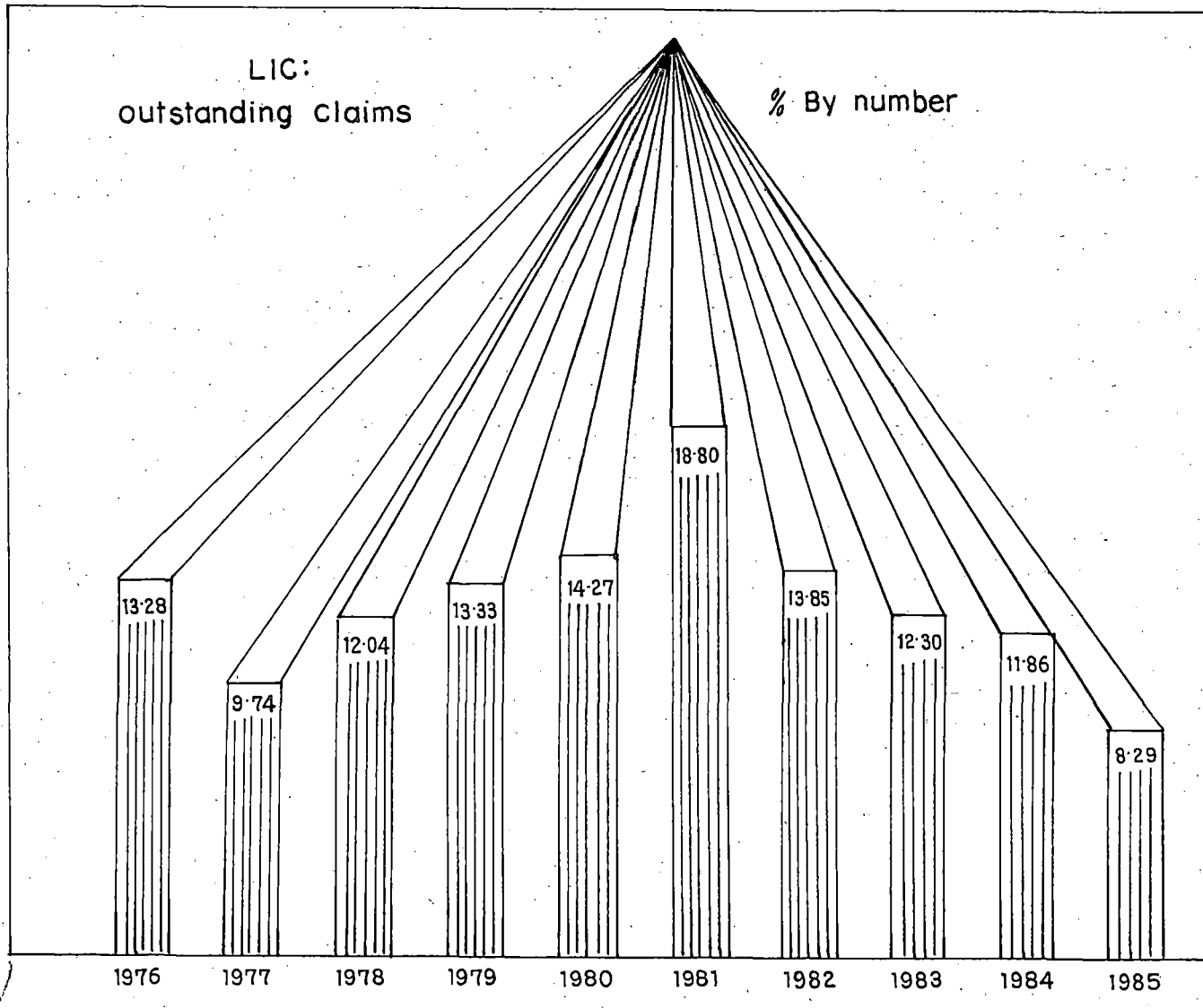
-Source: Compiled from LIC's Annual Reports and Accounts

TABLE III.11

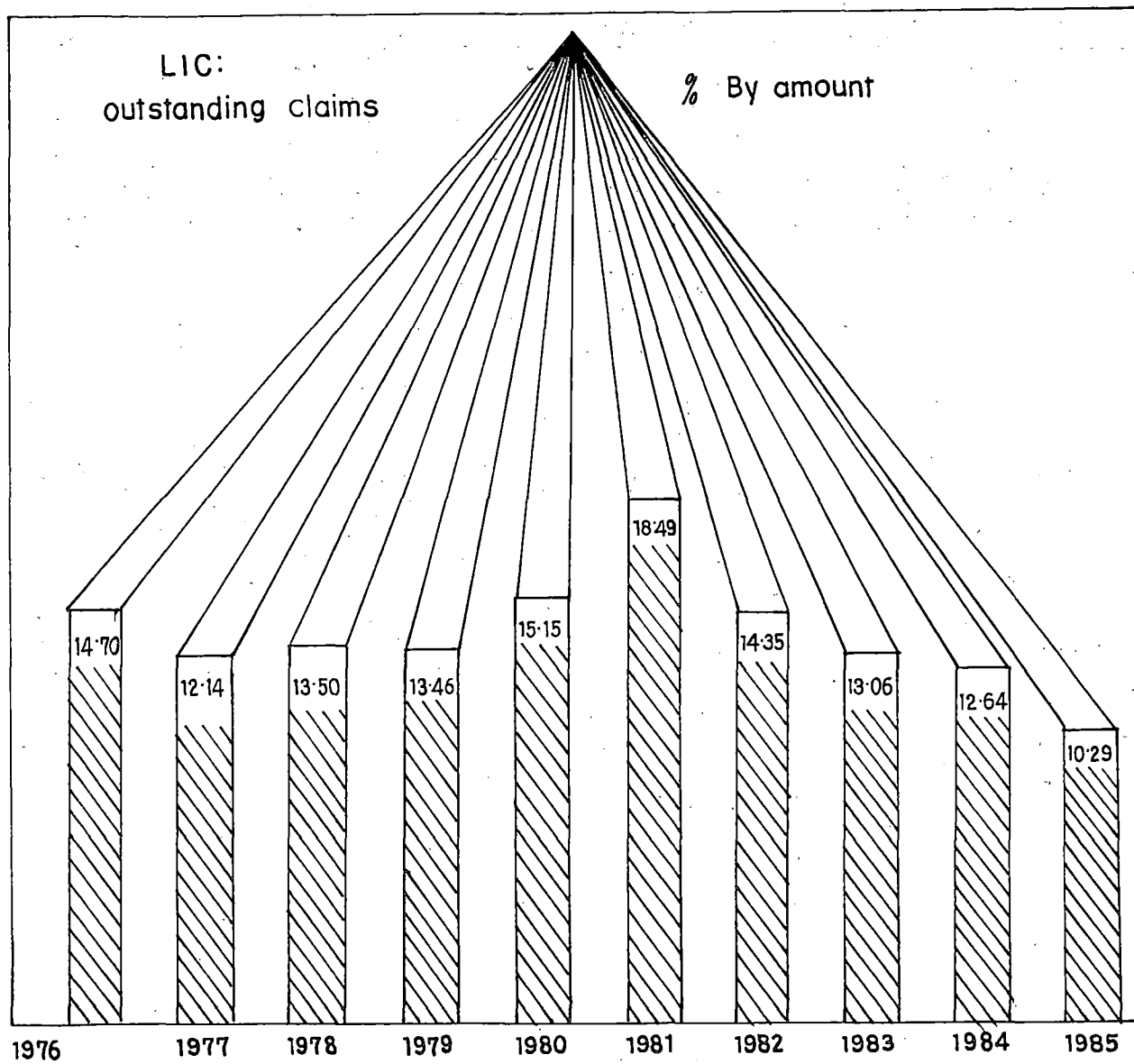
Analysis of Outstanding Claims

Period for which claims remained outstanding	Number (in %)			Amount (in %)		
	1983- 1984	1984- 1985	1985- 1986	1983- 1984	1984- 1985	1985- 1986
<u>Maturity Claims:</u>						
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	<u>8.11</u>	<u>7.97</u>	<u>5.82</u>	<u>6.43</u>	<u>5.08</u>	<u>4.95</u>
Total (Absolute figures)	1.25 (lakhs)	0.95 (lakhs)	.78 (lakhs)	41.31 (Crores)	37.91 (Crores)	29.74 (Crores)
<u>Death Claims:-</u>						
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	13.58	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	<u>13.84</u>	<u>12.43</u>	<u>10.58</u>	<u>11.84</u>	<u>10.05</u>	<u>6.39</u>
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.



(Fig. III.1.)



(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 cautious 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 outstanding 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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