

CHAPTER V

LIFE INSURANCE COVER:
AN INTER - INSTITUTIONAL
ASSESSMENT

CHAPTER - V

POSTAL LIFE INSURANCE (PLI) AS AN ALTERNATE INSURANCE AGENCY

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

The distinctive features of the PLI may briefly be mentioned as follows¹:

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

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

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

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

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

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

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

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

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

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

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

Whole-Life Insurance

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

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

higher in the LIC than in PLI.

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

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

Endowment Assurance

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

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

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

Convertible Whole-Life Assurance

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

It is observed that the difference in the annual premium payable under PLI and the LIC⁵ Whole-life Convertible Assurance ranged between Rs.3.15 to Rs.3.60 for a policyholder who takes the policy at the age of 20 for terms of 30 to 40 years. The rate of LIC premium is higher than under PLI policy. On average the rate of premium charged by the LIC is about 12 per cent higher than that charged by the PLI. The difference in the

TABLE V.1

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

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

Source:- Compiled from: (1) LIC's Manual for Agents, Vol.II, Eighth Edn., Jan., 1981, Tables 5, pp. 9-13

(II) A History of 100 years of service - Postal Life Insurance published by Post-Master General (PLI Section), West Bengal, Circle, Calcutta, Pin 700012, T.I.

*Blanks indicate non-existence of comparable plans.

TABLE V.2

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

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

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

'-' indicates non-existence of comparable plans.

TABLE V.3

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

| Age of Entry | | Premium payable After First 5 years if option is exercised to convert the policy into endowment assurance | | |
|--------------|-----|---|----------|----------|
| | | Premium payment ceasing at the age of | | |
| | | 50 years | 55 years | 60 years |
| | | Rs. p. | Rs. p. | Rs. p. |
| 20 | LIC | 37.35 | 31.20 | 26.90 |
| | PLI | 34.20 | 27.60 | 23.40 |
| 25 | LIC | - | - | - |
| | PLI | 45.60 | 34.80 | 27.60 |
| 30 | LIC | - | - | - |
| | PLI | 63.00 | 45.00 | 34.80 |
| 35 | LIC | 99.10 | 64.25 | 47.55 |
| | PLI | 97.20 | 61.80 | 44.40 |

Sources:- (i) LIC's Manual For Agents, Vol.II, Eighth Edition, January, 1981, Table 27, p. 21-23.
(ii) A History of 100 years of Service - Postal Life Insurance, Published by Post Master General, West Bengal Circle, 1984, Calcutta 700 012.

Note: Convertible whole-life policy (with profits) can be issued to a person only upto the age of 35 years in case of the LIC but the same can be issued upto the age of 45 in the Postal Life Insurance (PLI).

'-' indicates non-existence of comparable plans.

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

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

Anticipated Endowment Assurance

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

TABLE V.4

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

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

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

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

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

'-' indicates non-existence of comparable plan.

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

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

UTI as an Alternate Insurance Agency

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

ANTICIPATED ENDOWMENT ASSURANCE

Statement Showing the Difference between the LIC's and PLI's for Annual Premium¹⁰⁰ and assurance of Rs. 1000 at maturity or on Death, if earlier.

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

Sources: (i) LIC's Manual for Agents, vol. II, Eighth Edition, January, 1981, Tables 674 and 75, pp. 72-73.

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

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

'-' indicates non-existence of plan.

13 years of age can join this plan.

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

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

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

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

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

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

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

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

TABLE V.6

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

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

Contd.....

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

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | |
|-----|-----|------|-----------|-----------|-----------|-----------|------|
| 45 | 10 | LIC | 11,145.00 | 10,000.00 | 5,200.00 | 15,200.00 | 1.36 |
| | | PLI | 10,380.00 | 10,000.00 | 5,200.00 | 15,200.00 | 1.46 |
| | | ULIP | 10,000.00 | 10,000.00 | 7,425.00 | 17,425.00 | 1.74 |
| 45 | 15 | LIC | 11,715.00 | 10,000.00 | 7,800.00 | 17,800.00 | 1.51 |
| | | PLI | 10,350.00 | 10,000.00 | 7,800.00 | 17,800.00 | 1.71 |
| | | ULIP | 10,000.00 | 10,000.00 | 12,840.00 | 22,840.00 | 2.28 |

Sources: (i) LIC's Manual for Agents, Vol.II, Eighth Edition, January, 1981

(ii) LIC's Diary for the year 1987

(iii) A History of 100 years of service - Postal Life Insurance, published by Post-Master General (PLI Section), West Bengal Circle, Calcutta 700 012.

(iv) ULIP - A Leaflet Published by Unit-Trust of India, Bombay.

Notes: (1) Rate of Bonus for LIC is Rs. 52/- per thousand per annum Endowment Assurances for the year 1986-87.

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

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

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

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

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

Cover of Life Risk (LIC, PLI & ULIP)

The main business of the LIC is to cover the life risk of its policyholders under varieties of insurance plans. In addition to the LIC, two public sector undertakings - the PLI and the UTI (under its ULIP scheme) are also covering the life risk of their respective policyholders. (Of course, the size of life cover given by PLI and ULIP is quite smaller than the LIC¹).

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

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

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

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

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

| Year in which death occurs (1) | Amount Payable | | |
|-----------------------------------|-------------------------|------------------------------|---------------------------|
| | L.I.C. Rs. p. (2) | P. L. I. Rs. p. (3) ** | U.L.I.P. Rs. p. (4) |
| 1 | 10,000 | 10,000 | 10,069 (10,057)* |
| 2 | 10,520 | 10,520 | 10,227 |
| 3 | 11,040 | 11,040 | 10,524 |
| 4 | 11,560 | 11,560 | 10,960 |
| 5 | 12,080 | 12,080 | 11,552 |
| 6 | 12,600 | 12,600 | 12,315 |
| 7 | 13,120 | 13,120 | 13,267 |
| 8 | 13,640 | 13,640 | 13,443 |
| 9 | 14,160 | 14,160 | 15,854 |
| 10 | 14,680 | 14,680 | 17,524 |

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

(ii) LIC's Diary for the year 1987.

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

(iv) ULIP - A Leaflet published by the Unit Trust of India, Bombay.

* In case of death due to accident.

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

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

Charge for Risk Cover

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

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

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

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

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

TABLE V.8

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

| P.V. at the end of (1) | TERM OF ASSURANCE IN YEARS | | | | | |
|---------------------------|----------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | 5 Rs.p (2) | 10 Rs.p. (3) | 15 Rs.p. (4) | 20 Rs.p. (5) | 25 Rs.p. (6) | 30 Rs. p. (7) |
| 1st. year | 217.20 | 107.20 | 70.15 | 50.80 | 40.10 | 33.10 |
| 2nd. year | 243.26 | 120.06 | 78.53 | 56.90 | 44.91 | 37.07 |
| 3rd. year | 271.50 | 134.00 | 87.69 | 63.50 | 50.13 | 41.38 |
| 4th. year | 304.08 | 150.00 | 98.21 | 71.12 | 56.14 | 41.34 |
| 5th. year | <u>341.00</u> | 168.30 | 110.14 | 79.76 | 62.96 | 51.97 |
| 6th. year Total = | <u>1,377.04</u> | 188.67 | 123.46 | 89.41 | 70.58 | 58.26 |
| 7th. year | | 211.18 | 138.20 | 100.08 | 79.00 | 65.21 |
| 8th. year | | 236.91 | 155.03 | 112.27 | 88.62 | 73.15 |
| 9th. year | | 265.86 | 173.97 | 125.95 | 99.45 | 82.09 |
| 10th. year | | <u>298.02</u> | 195.02 | 141.22 | 111.48 | 92.02 |
| 11th. year Total = | | <u>1680.00</u> | 218.17 | 157.99 | 124.71 | 102.94 |
| 12th. year | | | 244.12 | 176.78 | 139.55 | 115.19 |
| 13th. year | | | 273.59 | 198.12 | 156.39 | 129.09 |
| 14th. year | | | 306.56 | 222.00 | 175.24 | 144.65 |

Contd.....

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

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

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

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

TABLE V.9

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

| | ENDOWMENT TERM | | | | |
|--|----------------------|----------------------|---------------------|----------------------|----------------------|
| | 5 years (Rs. p) | 10 years (Rs. p) | 15 years (Rs. p) | 20 years (Rs. p.) | 30 years (Rs. p.) |
| 1. Present value of Premiums paid @ 12% compound interest (compound annually) | (217.20) 1,377.04 | (107.20) 1,880.00 | (70.15) 2,615.87 | (50.80) 3,665.68 | (33.10) 8009.55 |
| 2. Less Amount Receivable from the LIC including bonus at present rate of 52 per thousand per annum. | 1,260.00 | 1,820.00 | 1,780.00 | 2,040.00 | 2,560.00 |
| 3. Charge of Risk cover (Difference between items 1 & 2) | 117.00 | 360.00 | 835.87 | 1,625.68 | 5449.55 |

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

(2) LIC's Diary, 1987.

Notes: (i) Figures in the brackets indicate annual premiums

(ii) Rate of interest has been assumed which is lower than the Rate provided by other media of long term savings.

Risk Charge after Allowing Income-Tax Rebate

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

Risk charge after allowing Income-tax rebate for different Income-Groups for a sum assured of Rs.1,000 under Endowment Assurance plan at the entry age of 25 is given in Table V.10. For example, the risk charge for Rs.1,000 of sum assured for 10 years a person whose annual income after standard deductions is upto Rs.19,000 has to sacrifice a sum of Rs.360 as risk charge to the LIC whereas a person having Taxable income (after standard deductions) above Rs.19,000 has to pay nothing to the LIC as risk charge due to income-tax rebate allowed by the Income-Tax Authorities. In contrast, they get additional benefits which increases with the increase in the slab of income. For 20 years term, the policyholders not falling within income-tax assessment group has to sacrifice Rs.1,625.68 as charge of risk cover whereas policyholders having taxable income above Rs.60,000 have to forgo only Rs.159.41 as charge of risk coverage. This variance becomes widest for a policy of 30 years term.

TABLE V.10

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

| Income after standard deductions. | E N D O W M E N T | | T E R M S | |
|--------------------------------------|----------------------|----------------------|---------------------|----------------------|
| | 10 years (Rs. p.) | 15 years (Rs. p.) | 20 years (Rs. p) | 31 years (Rs. p.) |
| Upto Rs. 19,000/- | 360.00 | 835.87 | 1,625.68 | 5,449.55 |
| Between Rs. 19,000 and Rs.25000/- | (-) 110.00 | 181.90 | 709.26 | 3,447.16 |
| Rs. 26,000/- | - 125.60 | 160.19 | 678.91 | 3380.68 |
| Rs. 27,000/- | - 141.24 | 138.48 | 648.51 | 3314.20 |
| Rs. 28,000/- | - 157.00 | 116.51 | 617.62 | 3,246.92 |
| Rs. 29,000/- | - 172.60 | 94.79 | 587.19 | 3,180.44 |
| Rs. 30,000/- | - 188.21 | 73.08 | 556.77 | 3,113.97 |
| Rs. 31,000/- to | - 204.00 | 51.11 | 525.98 | 3,102.75 |
| Rs. & 50,000/- | | | | |
| Rs. 60,000 and above | - 392.00 | - 210.48 | 159.41 | 2,245.73 |

Sources: Same as in the previous Table.

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

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

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

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

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

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

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

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

Comparative Charge for Risk (LIC vs PLI)

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

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

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

Comparative Charge for Risk Coverage After Allowing Income-Tax Rebate

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

TABLE V.11

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

| Terms of Assurance | | 10 years | 15 years | 20 years | 30 years |
|---|-----|---------------------|--------------------|--------------------|--------------------|
| (1) | | (Rs. p.) (2) | (Rs. p.) (3) | (Rs. p.) (4) | (Rs. p.) (5) |
| 1. Present value of Premium paid @12% compound interest. | LIC | 1880.00 (107.20) | 2615.87 (70.15) | 3665.68 (50.80) | 8009.55 (53.10) |
| | PLI | 1767.96 (100.80) | 2440.64 (65.40) | 3460.47 (47.40) | 7257.40 (30.00) |
| 2. Less Amount Receivable and including bonus at present rate of Rs. 52/- per thousand p.a. | LIC | 1,520.00 | 1,780.00 | 2,040.00 | 2,560.00 |
| | PLI | 1,520.00 | 1,780.00 | 2,040.00 | 2,560.00 |
| 3. Charge of Risk coverage | LIC | 360.00 | 835.87 | 1,625.68 | 5,449.55 |
| | PLI | 247.96 | 660.64 | 1,420.61 | 4,697.40 |

Note: Figures in the brackets indicate annual premium rates.

Sources:- (i) LIC's Manual For Agents, Vol.II, 8th.Edn., January, 1981, pp.33-37

(ii) LIC's Diary, 1987.

(iii) A History of 100 years of PLI, leaflet published by the Post Master General, West Bengal Circle, Calcutta - 12.

TABLE V. 12

COMPARATIVE STATEMENT OF RISK CHARGE AFTER ALLOWING INCOME TAX REBATE

| Income After Standard Deductions. (Rupees) (1) | | ENDOWMENT PERIODS (Endowment Terms) | 10 years (Rs. p.) (2) | 15 years (Rs. p.) (3) | 20 years (Rs. p.) (4) | 30 years (Rs. p.) (5) |
|--|-----|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Upto 19,000/- | LIC | | 360.00 | 335.87 | 1,625.68 | 5,449.55 |
| | PBI | | 247.96 | 660.64 | 1,420.64 | 4,697.40 |
| 19,000 - 25,000 | LIC | | -110.00 | 181.90 | 709.26 | 3,447.16 |
| | PBI | | -194.03 | 50.48 | 555.52 | 2,883.05 |
| 26,000/- | LIC | | -125.60 | 160.19 | 678.91 | 3,380.68 |
| | PBI | | -208.70 | 30.32 | 526.30 | 2,852.81 |
| 27,000 | LIC | | -141.21 | 138.48 | 643.41 | 3,314.20 |
| | PBI | | -223.38 | 9.97 | 498.03 | 2,762.68 |
| 28,000 | LIC | | -157.00 | 116.51 | 617.62 | 3,246.92 |
| | PBI | | -238.23 | -10.54 | 469.01 | 2,701.61 |
| 29,000 | LIC | | -172.60 | 94.79 | 587.19 | 3,180.44 |
| | PBI | | -252.90 | -30.79 | 445.95 | 2,640.80 |

Contd.....

Table V.12 (Contd....)

| (1) | | (2) | (3) | (4) | (5) |
|----------------|-----|---------|---------|--------|----------|
| 30,000 | LIC | -188.21 | 73.08 | 556.77 | 3,113.97 |
| | PLI | -267.52 | -51.05 | 411.57 | 2,581.14 |
| 31000 - 50000 | LIC | -204.00 | 51.11 | 525.98 | 3,102.75 |
| | PLI | -270.05 | -54.47 | 406.72 | 2,570.98 |
| 60,000 & above | LIC | -392.00 | -210.00 | 159.41 | 2,245.73 |
| | PLI | -459.22 | 315.62 | 36.45 | 1,794.44 |

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

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

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

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

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