CHAPTER X

CONCLUSIONS AND SUGGESTIONS

Business in Force (individual assurance)

Since nationalisation, there has been a 32.67 fold increase in sum assured and 5.25 fold increase in insurance policies. During our study period sum assured has increased to 3.6 times and number of policies have gone upto 1.5 times. This growth is commendable. However, the goal of providing insurance cover to each bread earner is even now, a stupendous task. As against 32.10 policies (per thousand of population) at the beginning of the study period we have 32.62 policies a marginal improvement on March 31, 1986. The per capita sum assured has also shown a moderate rise. It has gone up from Rs. 134.16 (adjusted to wholesale price base 1970-71) during 1975-76 to Rs. 145.58 during 1985-86.

New Business (individual assurance)

Since April, 1984, new business is recording new heights of growth around 30 percent per annum growth as in sum assured and 20 percent in policies issued, an all time record for LIC. The average sum assured per new policy has doubled during the study period but to a great extent this rise in policies size has been caused by inflationary pressure.

Regional Distribution (individual assurance)

Southern zone accounting for roughly 1/4th. of population contributes 1/3rd. of the new policies and more than 30 percent of the sum assured every year. Throughout our period the Southern zone not only maintained but also increased its lead. The Western zone accounting for 14.31 percent of population booked around 1/4th. of business. Although it maintained its position, the lead was reduced. In terms of per capita new business this zone had its pre-eminence throughout the study period (Rs. 160.09 per capita new business as against Rs. 134.02 of the Southern Region). The Eastern zone accounting for more than 1/4th. of the population contributed throughout less than 1/5th. of the new business.

There is a close correspondence between the business performance of zones and its constituent divisions - a business wise poor zone consists of business wise poor divisions and vice-versa. The divisional disparities within a zone are exceptional feature.

First Insurance

The LIC has been successful in casting its net among uninsured people to the extent of roughly 2/3rds of policies issued and sum assured every year. This is an achievement and represents a consistent growth rate of new policyholders though at a low rate. As new policyholders are from relatively lower income bracket, average size of their policies is around 20 percent less than of those going for subsequent policies.

Group Insurance

This class of business has enabled the LIC to protect the weaker sections of the society who were never under insurance cover. On March 31, 1987 it covered 1.03 crores lives with a business of Rs. 12,645 crores. As against this the total individual insurance in force on the same date consisted of 48,151 crores of rupees under policies numbering 2.99 crores. Thus group insurance has succeeded well in reaching to the masses as number of lives covered under group insurance is not far below than under individual insurance[1] though the former came on scene much later. The group insurance scheme for landless agricultural labourers introduced on 15th.August,1987 has a in a single stroke increased the number of lives covered to 4 times (1.03 crores lives under old group schemes and 3 crores lives under this new scheme) under group insurance.

Salary Savings Scheme (SSS)

The salary savings schemes have come handy to the organised salaried class and have become quite popular. The LIC's performance has, however, not been very satisfactory as it has neither been able to retain its share in growing number of salary earners not in the earnings of the salaried class during the review period.

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1. The figure for individual assurance refers to number of policies and not number of lives. As around 40 percent of new policies are subsequent policies of existing policy-holders. The number of lives under the individual assurance would be around (2.99 crores minus its 40 percent) to 1.79 crores.

Rural Business

The rural business is a great challenge to the LIC as there is a dearth of effective agency force. The problems associated with collection of renewal premiums further pose a challenge to continuity of insurance cover. With the direction and support of the State, the LIC has come with different types of low cost policies tailored to suit the needs of diverse rural population. A beginning has, thus, already been made to take message of insurance from 'class' to 'mass'.

Different Types of Insurance Plans

The Corporation is adding periodically new plans to meet the needs of different sections of policy-holders. Within a short span of less than two years it has introduced new plans like Jeevan Mitra, Jeevan Sathi, M Bima Sandesh, Bima Bhavishya Jeevan, Jeevan Dhara and Jeevan Akshay the last one launched on February 5, 1988. A continuous exercise is on to bring about new products to meet the needs of different segments of society. With the same objective the existing schemes are reviewed, modified and, if necessary, scrapped.

The promotion of different plans, however, does not find favour with the agency force as it looks to the plans of insurance from commission's angle and therefore, limits its sale compaign to a very selected policy plans. During 1985-86 only two plans (Endowment Assurance and Money Back) accounted for 78 percent of new business. More than fifteen plans individually contributed less then 1 percent of new business, their share aggregated to 3.12 percent of new business. The success of product diversification and up-dating has to face resistance from the agency force which has the last laugh. In a country with a poor knowledge of insurance plans, it may be aptly remarked, LIC proposes agency force disposes.

Flow of Business Proposed

A substantially large number of proposals are brought and converted into policies during March (year ending). This over concentration of business has its impact on the quality of business and causes higher lapsation.

Lapsation of Business

In its mistaken jeal to show to the government the make believe success of the LIC it has gone all out to procure more and more business anyhow and somehow. Huge temptation has, therefore, been the natural outcome of this forced sale.

The researcher is unable to resist lapsation to quote the Supreme Court's verdict in 'Reserve Bank of India VS. Peerless General Finance and Investment Company Ltd. The verdict inter alia reads, "Since it is the poorer class of policy-holders that may oridinarily be expected to commit default in payment of premiums, the forfeiture clause, in practice, operates harshly specially against that class, the very class which requires greater security and protection......
The number of policies forfieted are roughly 30 percent of the number of new policies issued during a year......
We notice that incidence of lapses or forfietune of policies is the highest in the first three years after the policy is issued. It does not require much imagination to see that the victims of forfeiture clause in the policies are bound to

be persons belonging to the poorer sections of the people. It does not appear that any special efforts are made by the LIC to pursuade the poor policy-holders not to allow their policies to lapse or be forfeited after paying one, two or three premiums. The incentive to agents appeared to be for securing fresh business and not for continuing old policies"[1].

The judiciary is taking a stringent view to the cases of lapsation and relying on provisions of section 65 of the Indian Contract Act to decide whether the amount forfeited for non-payment of premium is legal it held that when the contract becomes void, the person who has received any advantage is bound to restore it to the other party. Accordingly the court ordered the refund of premiums with interest at the rate of 12 percent on policies lapsed prior to insured's death for non-payment of premium even within the grace period[2].

The LIC is thus, facing through poor public and judicial images consequences of its over ambitious social security targets. There is a call to delete the pernicious forfeiture clause from Life Insurance Schemes containing an element of savings.

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1. A.I.R., 1987, Supremem Court, p. 1028. The emphasis has been added by the researcher.
2. The City Civil Court, Ahmedabad in the suit filed by Mrs. Nayana Seth and her two minor children and supported by the City based Consumer Education and Research Centre. The Telegraph, Calcutta, dated 2.2.1987, p. 1.

Complaints

The LIC is pursuing its policy of decentralisation of servicing functions to branch offices but in a giant organisation of the LIC's size a feeling of neglect is bound to remain. What is surprising, however, is that frustration arising out of policy servicing is writ not only on the face of the man in the street but also on the face of the people in the higher echelon of the society. One can imagine the state of affairs in the LIC when the following remarks emerge in a verdict from the mighty pen of a judge of the Supreme Court.

"It has a duty to serve people in the right manner. I am constrained to observe from my experience that I have found the LIC heartless whenever claims are made against it . . . . I wish only to emphasise that the LIC should at least in future be liberal and generous when claims are made by those unfortunate few, who when robbed of their bread earners claim for insured amount and who are invariably met on technical pleas of concealment of ailment and the like. The LIC does not come out with glory when some of its dealings are considered"[1].

Settlement of claims

Though disposal of outstanding claims has shown an improvement, a lot is yet to be done to build a reputation among the masses. The outstanding rate has been brought down

1. Justice Khalid in 'Reserve Bank of India VS The Peerless General Finance and Investment Company Ltd.' A.I.R., 1987, Supreme Court, p. 1045.

to a reasonable percentage in maturity claims but the same cannot be said with regard to death claims.

Income

The main constituents of the LIC's income are - premiums, income from investments and miscellaneous income. Though the premium income formed the most important item of total income, and its amount is registering a fair growth, its relative share is on slow and gradual decline. On the other hand, income from investments has witnessed a slow but steady growth upward trend both in absolute and relative terms. Since miscellaneous income does not include any regular predictible and manageable income it remains without trend and negligible, not even one percent of the total income.

Premium Income

This income depends on business transacted and it is generally believed that larger the amount for which life has been insured more is the income through premiums from such insurance. The factors like type and span of insured policies, rate of premium and age of insured etc. greatly influence the quantity of premiums and as such in majority of cases the premium income does not keep pace with the amount of business handled. The introduction of Salary Saving Schemes and other low cost schemes has resulted in a situation where premiums incomes are at a lower level than either new business or business in foce.

The income from first year's premiums is the barometer for measuring the progress of life insurance business. The renewal premium income is secondary in this regard. Between the two the first year's premium income has shown better growth and this is understandable in light of a marked rate of policy lapsation.

The single premium endowment policies and considerations for annuities are gaining popularity in recent years and their share in total premium has doubled in our study period. Though gaining popularity, such premiums constitute only 1/10th. of the total premium income.

Investment Income

As policy holders' savings increase in size (represented by the life insurance funds) investment portfolio also grows in size and so grows income from portfolio and its share in total income. There has been more than 13 percent annual growth in life insurance fund and at the same the rate of interest has grown almost 4 percent annually. Both factors taking together explain reason behind increasing share of investment income in total income. Though the rate of interest realised on the Mean Life Fund has increased by 0.5 percent and has reached to 10.30 percent during 1986-87, there is scope for further improvement in this yield. Even with the constraints of present statutory structure yield can improve by shifting corporate debentures and preference shares by equity shares. Thus LIC has played safe by not making prudent portfolio substitution.

Outgo

The ratio of total outgo to total income constituted around 50 percent and this is result of growing outgo though at a lower rate. The breakup of outgo is available under three heads, (i) claims payments, (ii) managerial expenses and (iii) transfers to reserves.

(A) Claims Payment

The majority of payments made to policy-holders are on the maturity of policies and their x percentage in total payments to policyholders has shown an improvement throughout the study period. Their percentage to total payments to policy-holders was 63.4 percent at the beginning of our study period and it rose 69.4 percent at the end of the study period. This is a welcome sign of increasing longivity.

Quite understandably payments under death claims have decreased by 25 percent during the review period (from 19.2 percent in 1975-76 to 14.9 percent during 1985-86). The payments through annuties constitute a very insignificant percentage of the total payments made to policy-holders. In course of time with the popularity of Jeevan Dhara and Jeevan Akshay payment through annuities would occupy an important place in total outgo.

Surrenders

The rate of surrenders is indicative of poor quality of business. Though surrender rate has gone down from 16.13 per cent in the year 1975-76 to 13.71 per cent in the year 1985-86 even at the present level it is very much on the high side.

(B) Management Expenses

Management expenses are the second biggest item of the outflow, next only to payments to policy-holders. There are however, basically different in nature from payments to policy-holders in the sense that whereas the former indicate repayment of money held in trust, the latter is a liability on the policy-holders funds. The lesser is the quantum of such liability greater would be the amount of benefits available to the policy-holders. At the beginning of the study period these expenses were 29.7 percent of the premium income and these camedown to 22.4 percent during 1983-84. In subsequent years these expenses have an unfortunate trend of rise - expenses shown were 25.6 percent during the year 1985-86.

The wage * bill constitutes the lion share of managerial expenses. It was at peak during 1975-76 and at the bottom during 1983-84, 17.42 percent and 11.54 percent respectively of the premium income. During 1984-85 this percentage went up considerably (14.05 percent) to register a marginal fall (13.82 percent) during 1985-86. The present level of expenses does not indicate the spirit of trusteeship by the LIC. The introduction of mechanisation and rationalisation of organisational structure was supposed to bring out a higher fall in these expenses but unfortunately the expectation did not materialise.

Commission to Agents

The Commission expense is directly connected with the premium revenue. It is the size of the latter which determines the quantity of the former. It has been noted that first year's commission is highly correlated with first year's premiums, renewal commission with renewal premiums and total commission with total premium income. The increase in the total new business is bound to increase the total first year's commission. As the premium is directly linked with the sum assured, commission to agents have a clear link with the premium income sum assured and not much variations were expected under this head (7.52 percent of premium income during 1984-85 and 8.96 percent during 1975-76). The LIC is, however, trying to impose a cut under this head, by introducing low commission policies, but without much success.

Other Expenses

Since this is a residuary head of expenses in the absence of reasonable back up no conclusions are possible.

Though unable to achieve the goal of economic management, the LIC claims its performance as commendable. This is either a misplaced trust or a deliberate attempt to misguide public at large. In either case it deserves strong condemnation. Comparing own managerial expenses ratio with that of insurance companies in foreign countries (Towards a Secure Future, p. 26) is comparing uncomparables, as while the LIC has not gone for substantial reduction in premium charges the same has been done more than once by the foreign companies.

Transfer to Reserves

A number of transfers are made from income to earmarked reserves under section 28 of the LIC Act, 1956. From a meagre 1.3 percent of total income during 1975-76, these constitute 5.2 percent of the total income during 1985-86. The most significant part of the story is that as the sole share-holder of the LIC, the Government is enjoying 5 percent of the valuation surplus. During our study period it has enjoyed a return of Rs. 184.375 crores (188.91 crores Rs. 4.535 crores, being valuation surplus for the year 1974-75) on a capital employed of Rs. 5 crores! Simple average annual rate of return on capital employed comes to 368.75 percent ! Hardly one will find so lucurative a business other than speculative with the great risk of capital loss. To Era Sezhiyan, (the Chairman of legendary committee to Review the Working of LIC, 1980) it was "something fantastic and abnormal when compared to the performance of 201 public enterprises with Rs. 29,896 crores of capital employed as on 31st.March,1984, giving a dividend of Rs. 133 crores only which meant a return of 0.44 percent"[1].

Life Insurance Fund

An increasing size of life insurance fund is a clear indication of progressive business. If the rate of increase of life insurance fund is progressive, it would undoubtedly

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

lead to a significant increase in life insurance business. The life insurance fund witnessed a faster growth during period prior to our study. As against 6.39 times rise in total income, the growth in life insurance fund was 7.39 times, this could be achieved due to slower growth (6.12 times) in total outgo during this period. This was a very encouraging sign which unfortunately, could not be maintained during our study period. Though total income grew 3.72 times the growth, in life insurance fund was only 3.68 times. This slower growth in life insurance fund was caused by more than proportionate growth in total outgo (3.82 times) as compared to growth in total incomes.

Frame Work of Investment

The investment policy of LIC is regulated by a number of financial and economic considerations; important of them are its obligations to policyholders, maximisation of return on investment along with safety of capital and finally, the requirement of liquidity to meet its unseen obligations which may come at any moment.

The most important statutory device of controlling the LIC's investment is the provisions contained in section 27A of the Indian Insurance Act, 1938. The two most important factors that are taken into consideration while investing the LIC's funds are: to protect the interest of the numerous policyholders scattered throughout the length and breadth of the country and abroad, and secondly the channelise the savings mobilised in the form of premiums in such a way that will foster the welfare schemes of the Centre, States and local self governments.

Volume of Investment

The total investments have gone upto Rs. 12,264.15 crores as on 31st.March, 1986. This records 3.68 times increase in the funds, when compared with investments at the beginning of our study period.

Investment in Government And Approved Securities

During first six years of our study period more than 50 percent of the total investments (51.7 percent to 53.4 percent) were invested in government securities. In later period of 5 years, those investments accounted for less than 50 percent (48.3 percent to 49.0 percent). Of this, investment in government securities, around 65 percent was made in Central Govt. securities, 30.0 percent in approved securities and 5 percent in State Govt. securities. Our period witnessed a significant decline in State Govt. securities held by the LIC, it came down to 20% of its percentage at the beginning of the study period. The benefit of this decline was shared almost equally by Central Govt. and approved securities. Each of them registered around 26.0 per cent growth in investment over the investment at the beginning of the study period. The fall in holding of State Govt. securites appears to be the result of the informal control exercised by the Central Govt. In approved securities category, the securities of Electricity Boards, Land Development Banks and Statutory Corporations cornered more than 90 percent of the LIC's investments. The rest 10 percent of the investment was shared by remaining approved securities. During 1975-76 around 57 percent of total investments in approved securities was spread over Maharastra, West Bengal, U.P., Gujrat, Andhra Pradesh, Tamil Nadu and Bihar. Their share, however, came down to 37.5 percent during 1985-86. This shows a significant change in regional distribution of approved securities.

Corporate Financing

Although a small proportion (9.3 percent as on 31.3.86) of its total funds is invested in the industrial sector, the magnitude of the LIC's resources is such that even this small proportion constitutes one of the largest single sources of industrial finance. The LIC supplies funds to corporate sector in three forms, namely, investment in corporate securities, direct lending and subscriptions to shares and bonds of special industrial financing institutions.

Investment in Corporate Securities

LIC's investment comprises of direct purchase of securities in the industrial securities market and underwriting of new securities. The role of the LIC as direct buyer of industrial securities has changed remarkably. Though the Corporation's securities purchases expanded considerably in recent years the role of LIC as buyer has diminished over the years. This becomes more glaring when the outstanding portfolio of the industrial securities is related to its total funds, total assets and total investments. The reasons responsible for this are: the marked preference of the LIC for financing socially - oriented infrastructure and initiation of new forms of financing of private industries by LIC such as direct lending to industries and entry of UTI in the industrial securities market which has to some extent relieved the LIC of its responsibility to support the industrial securities market.

Another dimension of LIC's investment is nature-wise purchase of securities. Its investment in equities has x shown a sharp decline - it has almost gone down by half in its share in corporate securities portfolio. Though preference shares all along occupied the third place in corporate portfolio, their share in the portfolio has come down to one-fourth of what was at the beginning of the period. And of course, gainers out of this decline are debentures which from modest 26.2 percent of corporate portfolio at the beginning rose to 64.1 percent at the end of the period. Tk These are now not only leaders but have substituted their place with the equity securities. This definite change in investment pattern is result of playing safe attitude of the LIC.

The LIC has consolidated its underwriting policies and strengthened the mechanism of its underwriting activities. The underwriting by LIC is merely an extension of its investment operations and not a business by itself. Therefore, when the LIC agrees to underwrite a particular issue, it applies in full for allotment while other institutional underwriters put their applications for deficit in the public subscriptions. The LIC prefers to have a firm allotment because of its large resources while the objective of other institutions is to fill-up the gap in the public response. The LIC has pursued selective approach by according greater weightage to senior securities relative to equities in view of the impernatives of its investment policy in view of tho imperatives of its investment policy in which debentures on account of fixed return and prior claims on income and assets fit into the so called cannon of sound investment.

Direct lending to industrial enterprises constitutes the most prominent source of Corporation's financing of private corporate sector. The main factor contributing to the immense popularity of lending is to be found in the Corporation's sincere attempt to improve the yield on investments by taking advantage of higher rates of interest on loans in the context of restrictions on dividend on equity shares following the Dividend Restrictions Ordinances in July, 1974. Dearth of sound securities in the stock market might have also motivated the Corporation to assist the companies by way of lending.

The LIC's indirect financial support to special financial institutions has also increased significantly. During 1985-86 this support amounted to Rs. 528.24 crores accounting for 4.3 percent of the total investments made during the year. Three-fourths of this assistance was bagged by IDBI and the rest by IFCI and SFCs.

Zone-wise Distribution of Assistance

The Western and Eastern Zones taken together account for a major chunk of investments, it varied between 72.2 percent and 79.0 percent of the total investments during the study period. The remaining three zones shared less than 30 percent of the investments. The Southern Zone credited with the highest life business contribution received only 15 percent of LIC's corporate investments. There is a definite bias in granting loans to Western Zone where situates the LIC's head quarters. The regional disparity in granting financial assistance was on decrease.

The State-wise distribution of assistance also shows a definite preference for Maharastra. The preference shown to West Bengal during earlier periods has considerably been eliminated, Kerala, Karnataka and Gujrat have improved their position at the cost of this decline.

The industry-wise distribution of assistance shows that engineering industry has accounted for more than one-fourth of corporate securities, followed by electrical goods industry accounting for 15.20 percent of total securities. Though the share of engineering industry has increased during x our study period, the cotton textiles ranking second (accounting for 9.31 percent of securities) slided to fourth position (accounting for 8.07 percent) at the end of study period. Electrical goods industry raised its share from 5.27 percent to 15.2 percent and chemicals industry from 4.85 percent to 9.85 percent.

Investments in Big Business Houses

The LIC's investments are heavily concentrated in large and well established companies. The investments in large groups and single large undertakings have shown an increasing share at the cost of other undertakings. Even among Large Groups, some groups, notably Ashok Leyland, Singhania, Larsen and Toubro, Mahindra and Mahindra and Modi offered better investment opportunities and LIC's share showed a rise in them. Conversely, Sri Ram, Soorajmull Nagarmull and Walchand were not considered so good for the investments and registered a fall in their respective shares. The remaining of the groups did not mark any appreciable variation in their slice of investments.

Investments in Socially-oriented Schemes

With the amendment in section 27-A of LIC Act, 1956 requiring LIC to invest around 25 percent of the total accretion to controlled fund every year in the socially-oriented schemes, the LIC entered in a big way in the public welfare investments. Whereas at the end of 1957, LIC's investments in socially-oriented sectors were of the order of Rs. 8 ~~Rs~~ crores only, because of the Statutory efforts, refered to above, such investments as on 31st.March, 1986 exceeded Rs. 5780 crores[1]. They now constitute more than 51.20 percent

1. Such investments rose to Rs. 6,445 crores as on 31st.March, 1987, representing annual growth rate on 11.51 percent.

of the total investments. The fund is invested for the benefit of the community, by and large, in the fields of power, housing, water-supply sewverage, agriculture, agro-industries, industrial estates and bonds and shares of various financial corporations at the State as well as all India level. This is in addition to Rs. 4,367 crores invested in the Central and State Government securities which are also utilised for nation building activities.

LIC's Role in Investee Companies

With the recommendation of the Industrial Licensing Policy Inquiry Committee that all State-sponsored financial institutions should actively participate in the management of investee companies, the LIC was asked to make a modest beginning in this regard. The LIC did start using its voting power in various forms against the erring management of some corporate enterprises[1]. Such intervention in corporate management is an integural part of the overall policies of the government of employing equity holdings of all public financial institution for enlarging the role of state in management and control of corporate industry. This role, however, suffered a set back when it was challenged by Escorts Ltd. The Bombay High court decided, "the provisions of the LIC act do not authorise the taking over of companies only because the LIC by itself or along with other financial institutions happen to invest considerable sums of money for hold

1. Khan, M., by Industrial Finance, Tata McGraw Hill Publishing Company Ltd., 1982, p. 40.

over 50 percent of the shares in the borrowing company, nor does the policy decision of the Union Govt. authorise them to take over the management or do any act which virtually amounts to taking over the management of another company. That can be done only for the purpose of safe-guarding the investment made by it"[1]. Though the decision based on the reasoning of the learned court x was reversed by the Supreme Court[2] as such reasoning was not touched upon and, hence, a doubt lingers as to LIC's role in the investee companies. Further neither the LIC touches upon this point in its annual reports nor has the researcher come across any reference to a published study in this area.

Organisational Structure

The enormous expansion of LIC's operations caused some structural strains and a review of entire organisational set up became necessary to ensure that the Corporation's services to the policy-holders did not lag behind and inter-departmental co-ordination at various levels continued to be effective. According to Ishwar Dayal, who was directly involved in the reorganisation programme, the changes were brought about in branches, at supervisory office such as divisional and local head office, at the zonal and central offices.

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1. Escorts Ltd. and another VS Union of India and others, The Indian Law Reports, Bombay, Series 1985, p. 1140.
2. LIC's of India VS Escorts Ltd., A.I.R., 1986, Supreme Court, p. 1370.

These changes included the decentralisation of work at all offices, the new definition and specific areas of work, the new control and supervision method, the new relationship that the new roles require, an intensive multi-level training for performing the emerging roles. The operational data in post decentralisation era show steady improvement in all directions.

Though LIC has made efforts to provide stability and sense of direction to this monolithic organisation the same outlook is unfortunately missing on the part of the Union Govt. in placing man at the top. More than half of the persons who held the highest office of the Chairman were drawn from the government service and had no previous experience or training in insurance industry. As many as seven of the Chairman remained in the office for less than two years. The other three held office for more than two years but less than three years. One of the incumbents performed as Chairman-in-Charge for about three years and when he was given substantive appointment he was allowed to hold it hardly for a year. The tenure of the Members of the Corporation showed the similar trend. About 50 percent of the members remained in office for a period ranging between 18 to 24 months. One-fourth of the members remained in the office for less than 18 months. Only 6 percent of the members enjoyed a tenure of three years. This tenure patten of membership is no where near Morarka Committee's recommended tenure of five years.

The agency force lack sense of professionalism. Hardly any post-sale service is available to the policyholders. The training efforts of the LIC, considering the magnitude of task involved, are far and few.

Savings through Life Insurance

At the beginning of our study period life insurance fund was 8.5 percent of the savings of the household sector in the form of financial assets. Since then it has decreased in its share and has gone down to 6.9 percent during 1985-86. This fall in share has been gain of other savings media namely currency holdings, loans to companies, corporate securities, etc. Not only life insurance has become unattractive as savings media, it has also become an unattractive media of risk coverage.

LIC VS PLI

For whole life limited insurance policy (with profits), the difference between annual premiums of LIC and PLI at an entry age of 20 years for a sum assured of Rs. 1000 ranged between Rs. 3.95 and Rs. 4.75 for the terms of 30 years and 50 years respectively. The average premium rate at an entry age of 20 for 30 to 50 years terms is 20 percent higher in the LIC than in the PLI. Incase of Endowment Assurance PLI is cheaper than LIC first because the rate of premium is lower and secondly because PLI bonus rate is higher. The premium rates vary between Rs. 6.30 and Rs. 8.55 per annum per thousand sum assured in the age group of 20 to 50 for 10 years endowment term. Under whole-Life Convertible assurance policy for a person of 20 years for terms of 30 to 40 years the premium differential ranges between Rs. 3.15 to Rs. 3.60 per thousand. In case of Anticipated Endowment Assurance the average extra premium charged by the LIC, as compared to PLI in respect of 15 years and 20 years terms for the age group between 20 and 45 is 7 percent.

To sum up the savings through PLI is all the more attractive. At various ages of entry and for different terms of insurance for each rupee of premium paid LIC returns between Rs. 1.36 and Rs. 1.69 whereas repayment by PLI varies between Rs. 1.46 and Rs. 1.81.

LIC VS ULIP

The savings through ULIP with security cover upto Rs. 40,000 is all the more attractive. At various ages of entry and for different terms of insurance for each rupee of premium paid LIC returns between Rs. 1.36 and Rs. 1.69 whereas repayment by ULIP varies between Rs. 1.74 and Rs. 2.44.

Though the LIC is fighting a losing battle against other savings media it has succeeded in resisting its degree of fall against PLI and ULIP through its enormous army of agency force. Without mending its ways it cannot, however, resist its fall to other media for a long time.

PLI AND ULIP

Discriminatory Charge For Risk Cover

Not only premium rates of LIC are higher than that of PLI and ULIP these become discriminatory betwee a tax-payer insured person and a non-tax payer insured person. For example, a non-tax payer paying annual premium Rs. 1000/- has to bear the full incidence of Rs. 1000/-. A tax-payer insured person, on the other hand, though pays Rs. 1000/- as premium but ultimate incidence of premium is not more than Rs. 750/- as x for the rest he gets a rebate in income-tax. The quantum of rebate goes on increasing with the tax bracket of the person. In the name of socialism we charge more from those who can hardly afford and less from those who have ability to pay ! Even in fixing rates of premium the long term policies meant for weaker sections of society are economically not so attractive as those tailored for better off sections of society (the benefits offered under Money Back Policy are a pertinent example). Again short term policies combined with money back features are heaven sent gifts to tax evaders.

SUGGESTIONS

The appraisal of performance of LIC leads us to the following humble suggestions:-

(1) The LIC was established as a harbinger of hope to provide social security to the largest number of people at the cheapest cost. The government knowingly or unknowingly has complicated the LIC's operational mechanism in course of time. The Corporation should be allowed to run on purely commercial basis at least for the sake of experiment. This calls for the following steps:

(a) The deductibility of insurance premiums should be taken away from the purview of section 80 (c) of Indian Income-Tax Act. This would make it premium burden uniform to insurable community belonging to different income groups.

(b) Section 27-A of Insurance Act, 1938, LIC Act, 1956, should be ammended in such a manner that would give full commercial freedom to LIC to decide its investment policy which should primarily serve the interest of policy-holders. Alternatively, the government should acquire the whole of the Life Fund from the LIC and pay maximum postal savings rate of interest. This would bring people's money for people's use at the disposal of the government but not at the cost of insured population dominated by the weaker sections of society. The latter step can relieve the LIC of its investment exercise burden and it can concentrate on better servicing to policy-holders.

(c) The amount of surplus paid to the Central Govt. is exorbitantly high in terms of rate of return on capital employed. The government should be satisfied by accepting a reasonable return on capital, say at the rate of 15 per cent on capital employed.

(d) Admitedly the government has right to direct LIC to provide social security covers free of cost or below cost because this may be convenient mechanism of subsidising the weaker sections of the society. But it should not ask for cross subsidisation i.e. requiring LIC to charge more than warranted on risk consideration from one section and provide insurance cover free of cost or at below cost price to the other. The LIC should be directed to reflect its cost in premium rates and if any, subsidy is to be given to any section of the society, the differential should be contributed by the government. This would, on one hand, protect commercial freedom. On the other hand, it would enable performance appraisal a less complicated task. The present arrangements hardly enable an objective performance evaluation.

(e) The government should sign a memorandum of understanding with the LIC, as it has done in the case of BHEL, ONGC, NTPC etc. This memorandum should clearly lay down role and responsibilities of the LIC. If the LIC is asked to discharge a social obligation with serious financial implications, suitable mechanism should be devised to compensate for financial losses of these activities.

(2) Though the LIC has reduced the premium rates of a few plans in the past, it has been of minor nature and related with only those policies which are not well popular. The time has come when the LIC has no option to consider whether or not to reduce the premium rates but to seriously examine the extent to which the rates can be brought down. Such step will go a long way to achieve its objectives of spreading of social security cover widely with special attention to rural areas and socially and economically backward classes.

In terms of priority, the goal of premium reduction should not be confused with the goal of maximising return on policy-holders' funds. It would first ensure risk cover at the lowest possible cost so as to ensure social protection to the teeming millions and then go for maximisation of return on premiums, realised. Need one remind LIC, the following remark of the then Finance Minister at the time of placing the Life Insurance (Emergency Provisions) Bill 1956, before the Lok Sabha on February 29, 1956. "The premium mist be no higher than is warranted by strict acturial considerations".

(3) The LIC's insurance policies are fast losing grounds as an attractive media of savings in comparison to other savings media engaged in the mobilisation of savings. Post Office Recurring and Time Deposits, National Savings Certificates, and Bank Deposits have grown faster than the life insurance deposits in recent years. LIC and UTI are the two keen competitors in the field of mobilisation of savings. The total amount received by way of premiums by the LIC in the year 1983-1984 was Rs. 1,355 crores while the total receipts of UTI during that year remained Rs. 331 crores less than the LIC.

But the LIC was left far behind in the year 1984-85, inspite of its, government given monopoly. Premium income of the LIC increased by 19.06 percent in the year 1984-85 over the previous year whereas the unit income of UTI increased by 115.48 percent during the same period. Therefore, the LIC has to find some ways and means to revitalise itself and stand firmly against already losing battle.

Inflation hits hardest the long term savings like life insurance and that is why life insurance is fast losing ground as an attractive investment of savings. In order to compensate moneytary loss due to fall in money value, the

LIC should issue inflation linked policy, a special feature of competitive insurance companies world over.

(4) The bonus rates, though increased unexpectedly in recent years in comparison to LIC's part records (in case of Endowment Policies, it has gone up from Rs. 17.60 to Rs. 58.00 per thousand and in case of whole life policies from Rs. 22 to Rs. 72.50 per thousand), is even now lowgr than that paid by PLI. The rate of bonus should be at par with that of its immediate competitor, PLI, if not higher.

(5) Till constraints on LIC's investments are relaxed the LIC should improve return on its investments by raising volume of corporate securities to 10 percent level. Within the corporate securities it should invest in equity shares as good securities are now - available in the capital market. By investing even the whole amount of 10 percent in Corporate equities it would be running no risk of return as the remaining 90 percent is virtually in the form of fixed return investment. Besides, raising rate of return it would also hedge against inflation.

(6) The forfeiture clause of the LIC should be immediately done away with. It is a pernicious clause which inflicts injustice specially to the lower income group of savers. This clause should be amended in such a way that the savings component of premium (money received from the policy-holders less expenses incidental to such lapsed policies) with a reasonable rate of interest thereon is refunded to the unfortunate policy holders.

Since it is the poorer class of policyholders that ordinarily commits default in payment of premiums the forfeiture clause in practice, operates harshly against the very class which requires greater security and protection. It has been alleged that the bonus comes out of the amounts of the forfeited policies and that is really the poorer class of defaulting policyholders whose policies are forfeited that are paying bonus to the class of policyholders who are better off. This is surely not the way to minimise inequalities in income, not among individuals but also amongst groups of people.

If the LIC is really interested in treating poorer policy-holders less harshly and more liberally it should think in the direction of deleting forfeiture clause with some incentive such as reduced premium for continuing to pay premiums regularly. The highest Court of the land was "Sure that with the management expertise at its command the LIC can devise a myriad ways of serving the poorer section of the people of our country as also to tap the huge untapped savings resources".

(7) The poor quality of business is the main cause of high rate of lapsation and surrenders. The Corporation should not be over ambitious in procuring new business 'any how or some how'. The high rate of lapsation can be checked by including it as criterion in evaluating the performance of agency force, development officers and development managers.

First Year's high commission on premium payabke to agency force should be spread over first three years in a way that the highest credit for new business is received after three years. Alternatively, for each policy discontinued within the first three years a suitable recovery should be made for already drawn commission on such policies.

This will induce the agency force to procure only sustainable business and to motivate policy-holders to continue their policies. No special efforts are presently made to pursuade the poor policyholders to continue their policies after paying one, two or three premiums. The incentive to agents appears to be for securing fresh business (good, bad or indifferent) and not for continuing old policies.

(8) It is a well known fact that LIC agents do nothing for which they get renewal commission. It is suggested that it should be made binding on them to visit their clients when the premiums are due and remind them to pay the same. In cases where policies, have lapsed the concerned agents should be asked to furnish a detailed report on such lapses. On the other hand, the policy holders should also be advised by the Corporation to lodge complaints against the agents if they (policy holders) are not satisfied by the services of agents. In some selected cases, some of the agents who are attached to the LIC for a long time and have a sound credibility with the LIC, may be authorised to collect premiums from the policy-holders on experimental basis and if this scheme succeeds the same may be widened in phased manner.

(9) The high agency commission policies are the most popular policies, generally the premium rates of such policies are higher. The promising policies with economic premium rates, but with low commission do not hit the market. Some mechanism should be devised by which cheapter policies also marketed by agency force. The LIC should also, independent of agency force, publicise widely attractive features of newly introduced policies.

(10) To reduce the expenses incurred on stationery, printing and mannual labour in respect of issuing premium notices to the policy-holders paying premiums quarterly, half-yearly or annually, the LIC should immediately stop this system. This job of reminding the policy-holders of their due dates should be assigned to the concerned agents. This will at least justify the payment of renewal premiums to them. Further, the LIC should make a thorough analysis of its mannual forms, and registers etc. in order to rationalise them. This action may bring down the management expenses of the LIC to a great extent.

(11) The LIC should introduce a Pass Book System instead of issuing premium receipts. It will be cheaper and convenient both on the part of the LIC and the policy-holders.

(12) To promote the rural business a workable system should be found out in which policyholders would be provided with a Pass Book and the premiums can be deposited with the nearest post office. This would, however, require a service arrangement with postal authorities.

(13) The performance of the LIC in providing rural credit cannot be said satisfactory. The Corporation may well be advised to start "Own Your Farm Scheme" on the pattern of 'Own Your House Scheme'. It can play an important role in the rural branch expansion. The Corporation may also grant loans to farmers for minor irrigation schemes.

(14) Expenses relating to portfolio management should be shown by the LIC to ascertain the real rate of return on its investments.

(15) Notwithstanding, the LIC's annual reports supply detailed classification of investments, the same do not contain information in respect of yield rates on such investments. The LIC should let its policy-holders know the rates of return on each class of investments. Therefore, we suggest for the exhibition of such rates in its annual reports.

(16) The tenure of office of LIC's Chairman and Members is too short to understand the gravity of problems. Therefore, it should be extended to five years.